# INVESTIGATION OF ECONOMIC PROBLEMS

# HEARINGS

BEFORE THE

## COMMITTEE ON FINANCE
## UNITED STATES SENATE

SEVENTY-SECOND CONGRESS

SECOND SESSION

PURSUANT TO

## S. Res. 315

AUTHORIZING AND DIRECTING THE FINANCE COMMITTEE TO MAKE AN INVESTIGATION AND STUDY OF THE PRESENT ECONOMIC PROBLEMS OF THE UNITED STATES WITH A VIEW TO SECURING CONSTRUCTIVE SUGGESTIONS WITH RESPECT TO THE SOLUTION OF SUCH PROBLEMS

FEBRUARY 13 TO 28, 1933

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# INVESTIGATION OF ECONOMIC PROBLEMS

**MONDAY, FEBRUARY 13, 1933**

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
*Washington, D. C.*

The committee met at 10 o'clock a. m., pursuant to call, in Room 335 Senate Office Building, Senator Reed Smoot presiding.

Present: Senators Smoot (chairman), Watson, Reed, Shortridge, Couzens, Keyes, Bingham, La Follette, Thomas of Idaho, Harrison, King, George, Walsh of Massachusetts, Barkley, Connally, Gore, and Costigan.

The CHAIRMAN. The committee will come to order. The committee have met this morning for consideration of S. Res. 315, introduced by Senator Harrison on January 4, 1933. At this point I shall ask that the resolution be placed in the record:

*Resolved,* That the Committee on Finance, or any duly authorized subcommittee thereof, is authorized and directed to make an investigation and study of the present economic problems of the United States with the particular object of obtaining the views of such economists, financiers, and other persons as in the opinion of the committee may be able to offer constructive suggestions with respect to the solution of such problems.

We have with us as our first witness Hon. B. M. Baruch, of New York. The committee will be pleased to hear Mr. Baruch.

## STATEMENT OF HON. B. M. BARUCH, NEW YORK CITY

Mr. BARUCH. Mr. Chairman, may I say that I have placed at the disposal of each member of the committee a copy of my remarks, and I should like very much if I would not be interrupted in the midst of the story, but that each member of the committee should mark the place at which he would like to ask questions, and I will be pleased to submit to any examination or questions any member of the committee may feel like asking at the conclusion of my statement.

The CHAIRMAN. That request will be granted.

### I. FOUR CAUSES OF DEPRESSION

Mr. BARUCH. The objective in the mind of every thoughtful man is to restore to distressed humanity the opportunity to earn its daily bread—to get people back to work again. We wish this for the whole world, but our primary duty is to put our own house in order. Our troubles come from four effects of war: Inflation, debt and taxes, national self-containment, and excess productive capacity.

#### (1) POSTWAR AND WAR INFLATION

The war cost the belligerents about $147,000,000,000—but in the purchasing power of 1913, to which level the dollar has about returned, that cost would have been $46,000,000,000. Thus, more than $100,000,000,000 was pure "inflation," due to the destructive demands of war. It tripled the terrible aftermath which we now suffer. I have proposed a prevention of future recurrence of this evil which your War Policies Commission has recommended to the Congress.

Inflation did not end with the war. The peak of prices came later and only now, 14 years after the war, wholesale prices are reaching what appears to be a normal or at least a long-time pre-war level. As a result of both the Civil and the Napoleonic Wars similar inflations occurred. It took about 14 years in each case for prices to recede to former levels, which they did as surely as water runs downhill. The wreckage due to these inflationary illusions had to be cleared away before normal processes appeared. It is so with us now and the chief barrier to returning prosperity now is the débris of World War inflation. We must courageously clear it away and stop our vain attempts to restore or preserve vanished values. That is the first step to recovery.

### (2) DEBTS AND TAXES

The bulk of the vast war cost (tripled by inflation) was paid in money borrowed from the people. It left a colossal load of public debt. Government costs rise during inflation and are hard to get down. Both of these causes produced high taxes. No matter what may be said in politics, taxes are paid in the sweat of every man who labors and in no other way. The farmer or the worker may never see a tax collector, but, either by deduction from his receipts or by increase in his expenses, the producer pays the cost of government. Prosperity only exists when all who work can freely and fairly exchange the products of their labor for the products of others. It seems to be agreed that costs of government have risen to about 33⅓ per cent of national income; in other words, that one-third of what our people now produce goes, not to exchange for the fruits of each other's labor, but to divide with nonproducers and thus to curtail the producing and consuming capacity of the country. That is the second principal cause of continuing distress.

Nearly every time a legislature votes an appropriation, or refuses to vote an economy, it is adding a new brick in the barrier against prosperity. Every debt we forgive to other nations lifts a burden from their distressed business and adds it to our more distressed business, thus doubling our handicap. Surely, it would be a fair rule to refuse relief unless the burden of a debtor's taxes on his income is as heavy as our own. It is a difficult figure to determine and it may be in error but I am told that this test would rule out every present claim on us for debt revision. So much for public debt. Reduction in public expense is indispensable to recovery.

Business is also borne down by private debts contracted at high prices which must be paid in low prices. But the decline in prices of itself is not the trouble. It makes little difference whether prices are high or low if they would only rise and fall together. It is profits, not prices, which make prosperity. The real troubles are that prices do not fall uniformly and that debt and taxes do not seem to fall at all. For example: It is the disparity (not the lowness) of farm prices which almost destroys the consuming power of the agrarian half of our population. And thus, because the burdens of debt and taxes are higher and higher while incomes are cut in half, there is little left to any man to buy the necessaries of life. These disparities are a third cause of continued distress.

### (3) NATIONAL SELF-CONTAINMENT

Before 1914, nations were content to rely on other countries for things which could be produced better and cheaper abroad. This mutual exchange constituted the commerce of the world. But the World War was an economic war. The Central Powers, ringed by fire and steel, turned perforce to self-containment. England and France, threatened with starvation by the submarine, learned the fear of economic strangulation. It was thus that the world became honeycombed into trade-tight economic compartments. Everywhere nations are now arming, but because of the lessons of the war they now arm on two fronts—military and economic. Tariffs, import quotas, domestic subsidies, and other trade barriers are symptoms of a universal fear of the imminence of war. They are ultramodern bulwarks of national defense, and the quicker we recognize that, the more competent we shall be to deal with them.

National defense is a first duty of government. It rises in direct ratio with the sense of danger. It is difficult for us, in our geographical isolation, to comprehend the thoughts of a nation such as France, which lives athwart a path of conquest like the defile of Verdun and the plains of Picardy, where millions have fallen in a series of struggles that began before history.

As long as the causes of conflict survive, we shall not be able to "buy" these barriers down by debt or any other economic concession. The movement toward national self-containment is defensive and not retaliatory. To the extent that we depend on world trade, it is a continuing cause of our depression. We must recognize its true nature to the end that, even if we can not wholly control it, at least we can shape our own economic policy to avoid deluding ourselves into making further vain sacrifices at the expense of our people.

### (4) OVERCAPACITY TO PRODUCE

During the World War we learned to produce more things with fewer men. It was as much a war of materials as a war of men, and its capacious maw gaped for all that the nations could produce. Labor-saving machinery was only one of many expedients. We transformed our country into a unitary production machine. The whole of our industry was mobilized. The lessons learned in war were not forgotten in peace and they have changed the essential character of our economics. So engrossed were we on production that we neglected altogether the problems of distribution, especially the maintenance of equally distributed buying power throughout our own population. We must recognize, also, that demoralization of national currencies (whether forced or voluntary) have an effect, just now, to intensify the race for self-containment.

I am not speaking of "overproduction" which is a mere corelative of "underconsumption." I mean excess productive capacity. I mean the vast plants which, though idle now, sometimes seem to me like masked batteries of machine guns waiting to lay down a new barrage of production whenever buying reappears. We must find means to control production, especially of farm and mineral output. It is a stupendous development throughout the whole world—sugar, silk, rayon, wheat, rubber, coffee, tin, iron, and copper. I know of no exception.

### (5) THE GREAT DELUSION

The world seems to be subject to curious brainstorms—the crusades, the Mississippi scheme, and the south sea bubble, are examples. Let me quote from Mackay's Popular Delusions, referring to what he calls the Tulipomania of the seventeenth century:

> Everyone imagined that the passion for tulips would last forever. * * * The riches of Europe would be concentrated on the shores of the Zuyder Zee, and poverty banished from the favored clime of Holland. People of all grades converted their property into cash and invested it in flowers. Foreigners became smitten with the same frenzy and money poured into Holland from all directions. * * * Holland seemed the very antechamber of Plutus.

You will recognize some of these expressions. It seems incredible that so solid a nation as the Dutch should nearly ruin itself on such a thought, but is it any more credible than that we would go into debt to pay thirty times earning power, and even more, for common stocks of the "New Economic Era" on the theory that we also were going to "banish" poverty by selling billions in manufactures to an almost bankrupt world by the expedient of continually lending our customers more money?

We built up a tinsel tower of paper prosperity out of debts and speculative hopes and such other things as dreams are made of. It lies in ruins, but the debts remain. What shall we do? Are we to try to put, or keep, substance in things which had no substance in the beginning, or shall we clear away the wreck? I think our duty is clear, and that in taking it we must remember that delusions swing between extremes, like pendulums. Delusions of grandeur and unending wealth give place to delusions of unending gloom. One is as unreal as the other.

## II. General Policy of Legislative Aid

We can not oppose legislation to natural laws. But legislation can aid and hasten and guide their effect. In this crisis, the golden rule should be:

Reject all plans which oppose or postpone the working of natural processes. Aid and accelerate the effect of curative economic influence. It is a simple rule, but it is a right one. We have overlooked simple things too long. The artificialities of the great delusion were plain. We closed our eyes and went on loaning two billion dollars a year to finance sales to "crippled" countries, because we were persuaded to disregard arithmetic. On this artificial expansion of our world trade we built a dream of boundless wealth. Based on that alone, individuals, in seven years increased their debts by 50 per cent, and corporations by 75 per cent—all to build that tinsel structure. Nothing had happened to lift real values to such dizzy heights above the slow sweep of progress. The collapse of 1929 was inevitable. No return to normal living is possible until we clear away the vestiges of that wreck. Natural processes are working to cure every evil, but what have done to aid that cure?

For four years we have treated the inevitable collapse of our folly as a mere interruption of a dream. We have maintained the boom-time costs of Government and incurred destructive deficits solely on the argument that the dream would come again. No other assumption could justify our policy. We have set every legislative force against the economics of cure. We have used Federal credit in a vain attempt to reconstruct or preserve the ruins of phantom values. We have tried to avoid paying for our folly. We have not yet taken one really constructive step. I doubt if we have even recognized the true evils.

And what is now proposed? The farm crisis comes from overproduction. Yet we propose to reward production by a billion-dollar bounty. The only remaining safeguard is the Federal credit. Yet it is slowly being undermined by deficits and recent methods of Federal financing and we are preparing to assault it now by many inventions. There are before the Congress a dozen projects that might involve it in repudiation and ruin, but I know of none that can be relied upon to preserve it.

This is not progress. This is opposition to progress. The single project to aid, and not to oppose, natural cure is to be found in the principles of the LaGuardia bankruptcy bill. It is high time that our affairs should by taking an upward turn, and I believe that we are delaying rather than advancing it.

I hasten to add that I blame nobody. Congress reflects a public opinion which is leaderless, bewildered, and confused. But fundamentals are becoming clearer with experience and it is time to state right principles.

There are many who say that there can be no hope until world distress is cured. There is, of course, an interdependence of nations. But ours is a country of boundless resources and of continental dimensions, extending across half of the temperate zone and providing a unitary market of 125,000,000 people, and the world's most advanced economic development. Surely we have within ourselves the materials for at least a moderate prosperity. The most important retarding influences are within our own control.

There is but a limited human capacity of both time and ability. As we had to do in the war, let us give "priority" to a definite few of the most effective forces at our own command in a limited program and then let us concentrate on that plan, leaving to one side action which depends on agreements with other nations and plans of a longer range. Some of these, like war debts, will intrude in spite of our plans, but let us take them in our stride.

If I were writing such a program it would be: First and foremost, make adequate provision against human suffering; second, put Federal credit beyond peradventure of doubt; third, aids to rapid liquidation of debt; fourth, plans to encourage rapid consumption of commodity surpluses and to control productive capacity; fifth determination of policy on world economics, disarmament and debt.

## III. The Credit of the United States

I wish I could make clear to our millions of sufferers their absolute dependence on the Federal credit. If our people only knew the dangers which our present inertia incurs, there would be a demand for instant action so great that no one could resist it. It takes money to relieve suffering, and we shall need billions. We think of money as coin and bills. But there are less than six billions of that kind of money in the country. The Federal Government alone has spent more than that in a single year. Most of our money is what the man in the street calls "money in the bank." But the banks do not keep coin and bills to pay their depositors. They keep securities, issued for goods or some other form of wealth, which they can sell to pay depositors. But securities of that kind are growing scarce and doubtful. The only kind of securities in which we have absolute confidence are the obligations of the United States Government. In the Federal reserve and so-called "reporting member banks" alone there are about 17 billion dollars of this "money in the bank," and more than one-third of it is backed by Government securities. These securities have no specific goods or wealth behind them. The only worth they have is the world's belief that this Government, at all times, can and will keep the letter of its promise instantly. If anything happens to shake our confidence in these, the loss will fall immediately on this "money in the bank." The only defenses between this country and ruin are these Government securities.

More than 90 per cent of our business is done, not in coins or bills, but in "money in the bank" (depositors check-book balances). You may own other securities or wheat or land, but when you want to sell these things to pay your taxes or your grocery bill, the buyer will give you this kind of "money in the bank" in the form of a check. But every bit of it depends for its value on the Federal credit because so much of it is backed by the banks' ownership of Government securities. We do not have accurate figures on the total of bank deposits but it is probably about $45,000,000,000. Newspapers recently quoted the Assistant Secretary of the Treasury as saying that all banks owned about ten billion dollars in Government obligations. Every bank, every insurance policy, the solvency and continued operation of every corporation, employing men, the wages of labor, the wherewithal to pay the farmer, and, above all, the resources to feed the hungry and relieve distress, they all hang by a single thread, the credit of the United States.

We have kept that credit above reproach for so long that people think it can stand any abuse. But this is an era of broken precedents. It is too painful to relate all those things which we are accustoned to say "could never happen" but which, unfortunately, are happening before our very eyes. We are witnessing the disintegration of the institutions of an era.

What maintains the credit of any government? It always stands on two supports; its gold reserve, and its power to meet its current obligations through taxes. Of these two, the essential one is the latter. Gold is only a sort of conventional restriction on the temptation of governments to extravagance. The real test of government credit is the same as the test of individual credit. Is it living within its income with something left over to pay its debt? When, as in the Confederacy, or in the revolted American colonies, or in Germany, or Russia, a nation loses both these props, the value of its money and its bonds goes down to absolute zero and nothing can restore it except to recreate one or both of these supports of national credit.

There are intermediate cases, such as that of England. Her gold reserve is so scant that she suspends specie payments, but her revenue is near enough in balance with her expenses to give a fairly stable, if, considerably reduced, value to the pound. Even without much gold England's credit is maintained by a balanced budget. France was in an intermediate case when she was devaluating the franc. Her gold reserve was not sufficient and she had a large deficit. The value of the franc went from 20 cents to less than two. The French credit stood on half a leg, but both by accumulating gold, and by bringing her budget into balance, France stabilized the franc.

In what category do we fall? We present a unique case because we have the largest deficit and the largest gold reserve in peace-time history. Decidedly, we rely on only one support, our gold reserve. But suppose we should lose that. Because of our monstrous deficit, we would be in a worse case than England and nearly as badly off as Germany or Russia when the basis of the wealth of these countries vanished like a drop of water on a red hot stove. Do we dare continue in such danger? There is one way out, and every day's delay invites sudden consequences which I hesitate even to mention.

Our fiscal circumstances are unpleasantly like those preceding a run on a bank. Our "cash money" is redeemable in gold on demand. Also, the entire pool of "money in the bank" is convertible into money redeemable in gold. The total of potential demands is many times the gold reserve and could exhaust it in 24 hours. If we resolutely balance the budget, there will not be the slightest danger of this and even if it happened we would be in no worse fix than England is to-day. But we now have a deficit of over two billions a year and the suspicion is growing that we do not really intend to balance it.

With the gold reserve gone, this Government would have no recourse except the issue of irredeemable currency, money unsupported by any value, not even by the prospect of revenue. We would not be as strong as many contemporary nations which are off the gold standard because no nation ever dared to incur deficits as large as ours. The demands on our Government for all forms of relief are stupendous. In event of such a collapse, we would be helpless to aid our people at the very moment when the need for aid is greatest. It is the weak who need a solvent government most. The strong are better able to take care of themselves.

Between our present status and the disaster just described, there is only a thin veil of popular complacency and there are projects before you now which might destroy that slender protection in one day. The most dangerous are the projects to inflate the currency.

## IV. Monetary Inflation

There are many people who earnestly believe that we can make commodity prices higher by the simple process of issuing more money. It is a complex question but what does our experience show? In December, 1932, we had outstanding nearly 5.7 billions of money and Dun's Commodity Index stood at 133.9. The highest commodity prices since 1921 were in May, 1928. Dun's price index then stood at 199.2, but the amount of issued money was then only 4.7 billions. Since September, 1930, the amount of money issued has risen about $1,000,000,000 while commodity prices have steadily fallen. There is no such thing as arithmetically relating prices as to the quantity of issued money.

Quite apart from any figures, the fact that the great bulk of our business is not done in issued money but in "money in the bank" should be enough to suggest that an increase in "cash money" alone could produce no such effect. The fact is that there is no lack of money—either of "money in the bank" or "cash money." In other words, all the money of both classes in 1932 would have financed much more business at prices current then, than all the money of both classes in 1928 would have financed at the height of 1928 activity at prices current then. Yet, in spite of all this excess stagnant pool of money in 1932, business activity was about half what it was in 1928.

For three years we have conducted a vast but vain experiment in inflation. Not being willing to sacrifice for a balanced budget, we have been selling Uncle Sam's duebills—not to people who have "money in the bank" which already exists and is backed by securities representing economic goods—but mostly to the banks themselves. The Government was saying in effect to a bank: Put this Treasury duebill for $1,000,000 in your vault and write on your books a credit to the Government of $1,000,000. After this transaction, the Government wrote checks for its expenses for that $1,000,000 and, by that process, without anything representing economic wealth having been deposited in that bank, but only a Treasury promise representing a deficit, the Government added $1,000,000 to the sum of all the "money in the bank."

We have coined our deficit to pay our expenses. I can see no fundamental difference between what we have done and the proposal to issue Federal reserve notes or other currency to pay for our deficits, which our inflationists now propose as a sure-fire method of raising prices, except that the inflationists do not propose to go half as far as our Treasury has already gone.

Out of more than five and one-half billions of dollars of deficit which we have piled up during the depression, nearly five billions is represented by increases in the holdings of Government securities by Federal reserve and member banks alone, and, as I read the news reports, the Assistant Secretary of the Treasury thinks total holdings of Government securities by all banks is as much as ten billions of dollars. Be that as it may, Government has added at least five billions and probably the whole deficit to "money in the bank." But it has produced no such beneficent effect on prices as the inflationists think would come from issuing a much lesser amount in Federal reserve notes to pay expenses.

Those notes, if issued, would be "money in the bank" just as quick as the recipients could deposit them in their bank accounts. Both plans come to the same thing in the end, but I fear that we have gone to the limits of prudence already in this method of Federal financing, and I doubt if we can continue to get money in that way. It has clogged our pools of bank credit. It has obscured the whole question of Federal credit by creating an artificial market for Federal securities. It is this method of financing that has lulled the country into complacency on the effects of deficits. Nobody can say with confidence that, in this condition, we can borrow in the ordinary way by selling long-term bonds. The outgoing administration will leave the cash balances at a low point and present us with a dangerous and totally obscure fiscal problem at the very outset. Delay in balancing the Budget is trifling with disaster.

I note that the Secretary of the Treasury said on Saturday:

> Ultimately the point might be reached where central bank credit has to be invoked to support the credit of the Government, and when that point is reached we have entered the field of destructive inflation.

You gentlemen know that we long ago reached the point where central bank credit was invoked to support the credit of the Government.

What is the matter with this theory that more money will make prices go up? To answer that you must ask: What is it that makes the prices of things go up? It is the fact that a prospective buyer would rather have the thing than the money. In booms, people prefer things to money because they hope the price of things will go up and they know that the price of money will not. If, at such a time as that, we make credit easy or issue more money, people will borrow to buy. So many people do that at the same time that their buying makes things scarce and sends prices higher. The higher prices go, the more people are able to borrow on the collateral of things, to buy more things and to send prices still higher. At such a time, if the Federal reserve "buys Government bonds" (which is what I think the Secretary of the Treasury means when he speaks about invoking central bank credit), or if the Government issues still more money and does other things to make speculative buying easier, it can precipitate a boom as it did in 1920.

But when nobody has confidence, nobody wants to buy things, which fall in price. Everybody wants to sell things to get money, which does not fall in price. In the scramble to exchange things for money, prices drop and that restricts credit still more because it reduces the collateral of loans. That forces more selling to protect loans and that forced selling sends prices still lower. At such a time, government can not force prices up by issuing more money because nobody will use credit to buy things because nobody wants to buy anything.

In other words, confidence is the basis of higher prices. If there is no confidence, no amount of tinkering with the currency can raise the price level. On the contrary, and this is the very heart of the whole problem of the depression, deficits and the financing of them by "bank money" inflation (or even the mere talk of monetary inflation) impair confidence still more and drive money deeper into hiding.

I am aware of the rejoinder: "If you think inflation will have no effect on prices, why do you object to trying it?" The first answer is one I have just made, that the mere talk about proposals of inflation prevents confidence and bars recovery. That is the essence of our present trouble. It is not lack of money or credit. Men can not go back to work until money goes back to work. Men risk their money in commerce because they expect to get it back with a profit, but nobody will risk dollars which the Government threatens to devaluate. Business moves on faith in promises. Money itself is a promise. Every sale and every employment is a promise to do something and to pay something. Money will not go to work in the presence of any such desperately dangerous fiscal policy as we have pursued and are still pursuing—much less in an atmosphere full of talk of the repudiation of money and debts by both men and governments. That is why I say with such confidence, that until we make the money and the credit of the United States safe beyond peradventure no amount of economic mustard plasters will cure our pains. That is why the Reconstruction Finance Corporation plan has failed of full effect, and that is why other Federal aids to business are frustrated.

I am not given to prophecy but I am willing to hazard on this subject. From the moment that we honestly balance the Federal Budget and return to an orthodox Treasury policy, money will flow here from all the world and out of every cautious domestic hoard, seeking safety and employment, and we shall have reached the end of out downward path. There will be more sound money available than all the inflationists propose to print. That is the only way to restore to our people the means to earn their daily bread, and that will do it, in my opinion, with great rapidity. There is no magic in this conclusion. It is the simple arithmetic of the oldest axioms in the world.

Men who oppose this step are unwittingly opposing recovery. But men who insist on inflation are courting a greater danger. There is a way to inflate prices. It is possible to make people prefer things to money, not by increasing their confidence in things but by absolutely destroying their confidence in money so that they will "flee from the dollar" to buy things because they fear the future of money. The vast "bank money" inflation of the past two or three years has failed to frighten people to this extent for three reasons: The size of the gold reserve, their failure to understand what was going on, and the constant promise of our Government that it was about to balance the Budget. If you want to raise prices by destroying the Federal credit, you must go further than this. You must cast actual and widespread doubt on the Government's ability to perform its promises or on its good faith in making them.

The danger of this in our country is that when you have raised a sufficient doubt, people may not scramble to buy things. If a sufficient number got the same ide at the same time, the gold reserve would vanish overnight and then this Government would be helpless to do anything for anybody. That would make prices rise instantly and like a sky-rocket. It would do as it did in Germany when it took a valise full of paper marks to buy a sack of flour. With our present hordes of people out of employment, it would precipitate general starvation. The most enthusiastic inflationist contemplates no such result as this, but they do not see that we have reached a stage where any further tinkering with fundamentals is playing with dynamite at the heart of human welfare.

I want to talk at length about inflation and I ask for your patience because there is so much confusion. I shall use the project to cut the gold content of the dollar for illustration because, while other plans are admittedly indefinite, this one is specific. There are now approximately 26 grains of gold in the dollar. If we cut that by 25 per cent to about 20 grains, we at least have a mathematical formula. Other plans present some differences in result, but, so far as their effect on prices is concerned, they all propose similar results. To whatever extent other plans prove to be effective, all that I shall say about this plan applies to the others.

If the public foresaw the move, there would be an instant rush to redeem present money in gold, and the whole project would fail because there would be no gold left in the reserve. This is certain because, if we put the plan into effect to-morrow, every man who redeems to-day would be 33⅓ per cent richer to-morrow than the man who did not, as I have shown.

But let us suppose that by some magic, we could get by this danger, and that to-morrow, with $4,000,000,000 of gold, we should have reduced the redeemable value of the dollar 25 per cent. Will that inflate domestic prices? Not unless the move causes people to prefer things to dollars because their confidence in dollars has been destroyed. The new dollars would have more than 100 per cent gold coverage because of reduction in the redeemable value of all the dollars now issued. It seems extremely doubtful that there would be any domestic effect to raise prices. Of course, there would be a tremendous shock to confidence in such a wholesale act of outright repudiation and the feeling that it might be repeated at any time. But, passing over these conjectures and assuming that the attempt would act as its proponents hope, there are some probable results.

The domestic prices of surplus export commodities are made abroad by world competition. To make it simple, let us suppose that a shilling is now worth 25 cents and that the Liverpool price of wheat is $1 a bushel. An Englishman must spend four of his shillings to buy a bushel of wheat. But after a dollar is worth only about 20, and not 26, grains of gold, his shilling would exchange for 33⅓ cents of the new money instead of 25 cents of the old. While it would still take 4s. to buy a bushel of wheat, when these shillings were changed into dollars to pay the American farmer, they would be $1.33 in the new money. In other words, theoretically, the price of wheat at Liverpool, expressed in sterling, would still be 4s., but expressed in dollars, it would increase 33⅓ per cent. And since the Chicago price generally follows Liverpool the argument is that the domestic price of wheat would also rise, and so, theoretically, would the price of cotton and other export products.

It is wrong to suppose that this would increase the buying power of foreign countries for our surplus export commodities. It would still take 4s. to buy a bushel of wheat, because the price of wheat is made abroad in shillings and by world competition. Devaluation of the dollar would not change these competitive conditions.

But there would certainly be a decrease in our buying power abroad. For example, the British price of smoked rubber sheets would remain the same in shillings and pence. But it would take 33⅓ per cent more of the new dollars to buy rubber. In other words, this is a proposal (without any compensation to him whatever) to increase to the American consumer by 33⅓ per cent the cost of his sugar, coffee, tea, rubber, silk, imported wools, and other imported commodities, and also the price of his cotton and wheat, and all other export commodities, of which the price is made in foreign markets.

There would be an instantaneous harmful effect on our international creditor position. The world owes us upwards of $20,000,000,000 on which the interest payment of more than $1,000,000,000 is one of the strongest elements of our economy. Foreign debtors pay that charge in enough of their money to buy 26 grains of gold to the dollar or the equivalent of that in goods. After a 25 per cent devaluation they would pay only enough to buy 20 grains of gold. For instance, a present debt charge of 25 francs would be reduced to less than 19 francs. In other words, this proposal would certainly and instantly reduce all debt payments to us by 25 per cent. But our citizens owe billions abroad. If we suppose that $1 will now buy 4s. with which to pay an obligation due in English currency, instantly, after a 25 per cent devaluation, it will take $1.33⅓ to pay the same debt. In other words, this proposal would certainly and instantly increase the cost of American debts due in foreign currencies by 33⅓ per cent.

The Department of Commerce reports, for 1930, American receipts of $838,000,000 and expenditures of $227,000,000 on long-term international investment account, a net balance of $611,000,000. We do not know how much of the sums sent abroad were for debts in foreign currencies, but, if all were, and if devaluation were in effect, that net balance would reduce to $325,000,000. It seems a shocking proposal, to the benefit of nobody but foreign nations.

In the case of American manufactures where the price is made in this country, as distinguished from export commodities where the price is made abroad, there is an apparent benefit in export trade. If an American plow is made to sell to the Argentine for $100 and it now requires ₱400 to pay for it in New York, then after a 25 per cent devaluation it will take ₱300 and the Argentine can buy more plows. Why is this true? Starting from the raw material, the bulk of cost of that plow is the wages of labor and the reason it can be sold for fewer pesos is that such devaluation has an insidious but instant effect to cut those wages 25 per cent. To whatever degree inflation by any plan increases export trade, it does so by the sacrifice of our labor conditions and dissipation overseas of American assets. A country can continue this sort of thing for only a limited time. I cite the case of Russia, which has recently conscripted thousands of working men to the northern forests for the purpose of producing lumber to sell abroad to create export credit out of the very lives of her people.

But the effect of devaluation to reduce our creditor position is urged as relief to foreign customers to permit them to buy more of our goods. It is true that a creditor nation, especially one who declines imports, can not expect continued vast export expansion. For 10 years we neglected this fundamental and staged a fantastic boom on the basis of an increased export financed entirely by unwise foreign loans. The present argument for increasing exports by relieving burdens on debtors at the expense of American labor is a repetition of the same blind folly in a different guise. It would be far better to cultivate our domestic market by increasing the buying power of our own people.

So much for the wholly destructive effect of inflation on our international relations. Let us examine the effect at home. The producers of surplus export commodities would probably receive a higher price in a lower dollar, and the price of imported products, principally food, clothing, and other necessaries, would rise. But the price of other things would not rise nearly so fast nor so far. Indeed, it is not certain that they would rise at all, except in the panic event I have discussed. When England went off the gold standard and the pound declined more than 25 per cent, prices rose very little, and promptly declined again and after nearly two years there is no marked effect on domestic prices. Even suppose prices went up exactly as the inflationists hope, who would be affected? Only a relatively small part would at once feel any benefit. Some, but by no means all, farmers would get a benefit and also some manufacturers. But wages are fixed by contract and not in the open market. They would rise slowly if at all. The laborer's dollar, which yesterday bought 26 gold grains' worth of necessaries, would to-day buy only 20 grains' worth. Labor, which has already suffered a 40 per cent to 50 per cent reduction in income, would suddenly find itself the victim of a new and greater cut, not by its employers, but by the very Government upon which it relies for protection. And not labor alone. The same thing would happen to every man who works for a salary, every professional man, and the whole "white-collar" class, and also to every insurance policy, savings and bank account, investment, trust fund and endowment of colleges, hospitals, and other public institutions. If a man has a $3,000 life insurance policy which promises his widow about 78,000 grains of gold, instantly about $750 of this protection would be whisked away as effectively as though purloined from his widow's pocketbook.

It is said that the effect would be to lighten debt and taxes by 25 per cent. But, with the exception of a very limited class, the effect would be greatly to increase the burden of both. Thus, while the farmer might be able to pay taxes with fewer pounds of wheat, the wage or salary earner would have to pay a greater share of his wages for necessaries and would have less to pay rent, debts, and taxes.

These things are true of every one of the inflation plans to whatever extent they prove effective. They pass a plane of cleavage through our population and oppose class against class on the most vital issue of present human existence—the wherewithal to live and support a family. On one side of that plane are the beneficiaries—chiefly foreign nations (for whom alone is the benefit certain), and the producers of some export products. But on the other side are all those who work for wages and salaries, all pensioners, public servants and employees, professional men and all those who still retain any money or fixed-income securities from the wreckage of this four years of national blundering.

It is said that this is a capital levy to redistribute wealth. Until we can get buying power into the hands of our people we can not expect recovery. But this proposal, by inflation, to clip salaries and wages wherever they can be found will greatly curtail buying power. It is not a levy at all because it does not appropriate anything to the Government or to anybody else. It merely destroys whatever it touches and puts it to no new ownership or use.

I regard the condition of this country as the most serious in its history. It has been said to be like war. It is worse than war. In war there is a definite enemy. We know what and where he is and how to fight him. We can measure the necessary sacrifices and make them with certainty in their effect. But this enemy wears no uniform and takes no position on any front. He is everywhere, even within us. So far as I am concerned, there is no sacrifice I would not be willing to make to fight this terror, no plan, however revolutionary and bold, that I would not try if I could see in it an even chance of success. If I did not know that there was nothing but destruction to be derived from the project of inflation, I would be the first to advocate its trial. But I am as certain as that we are sitting here that the path proposed is the road to ruin.

## V. The Fundamental of Recovery—Balanced Budgets

What are we then to do? To my mind the road is wide and certain. There is one essential thing—to get people back to work. To do that, we must make money work. To make money work, we must balance the Budget. That should be accomplished first by reducing expenses. If we can bring the expenditures in our National Budget under $3,000,000,000 that in itself would result in a return of confidence and therefore an increase in business and employment. That increase of business would bring the Budget into full balance without further taxation. A balanced budget and a sound money policy go hand in hand. If those two things are done, there would be more sound money flowing into activity than all the unsound money our inflationist friends propose to coin.

Immediately the Government would be able to fund its already unwieldy short-term obligations into long-term investments, which would free the banks to take care of the business that must increase.

Balancing the Budget does not mean that there will not be plenty of money for relief purposes of all kinds. Indeed, it means there will be more money available. The credit of the Government would be increased and bonds could be issued and sold to almost any reasonable extent for the purposes of relief for the needy and such public works as would be deemed wise to undertake. But accompanying the issue of those bonds there must be assessed sufficient taxation to take care of the interest and amortization of the bonds issued for the above purposes.

As a part of the general tax system, I think the "beer tax" should be included in order to bring the Budget nearer balance before you assess new taxes for relief purposes. We should move immediately toward repeal of the eighteenth amendment, not alone for relief of its abuses but for the purpose of obtaining taxation which can be substituted for more onerous levies. The people of the country will bear any tax burdens provided they can see hope of relief from them in the future. We must preserve personal initiative. Taxation should not be levied beyond the point where men will cease to work because the tolls become too great and the profits too little.

With the Budget balanced, we can approach other problems with more assurance of success. Without it, all must fail. That has been, in my opinion, the reason why beneficent results have not flowed from the Reconstruction Finance Corporation. We must realize that, if our Budget had been balanced in the last three years, the Government of the United States would not have accumulated a deficit of five and one-half billion dollars, the interest upon which, at 4 per cent, is $220,000,000 per year, and with a sinking fund of 1 per cent is two hundred and seventy-five millions—a very large proportion of our total cost of government. This can not go on, because there is a limit even to the credit of the United States.

Finally, I think the Government should stop advancing money to pay interest and principal on private debts of a doubtful nature. It is a postponement and frustration of economic cure. I realize the danger of wholesale receiverships and crash sales on sterile markets but the way to avoid that is being blazed by the principles of the La Guardia bill. After debts and capital structures are scaled down to a realistic basis, I think the Government could aid—not by itself assuming direct liability and not on any plan that requires it to raise money, but by assuming only a contingent liability in guarantees of interest to support the value of reorganized and scaled-down securities in a manner which I shall definitely explain in the discussion of farm debt. I have not yet worked out the extension of this plan to other debts and do not know that I can do so, but I am quite sure that this principle marks the limit to which we should go in the use of Government credit in this field.

To sum up this suggestion of fiscal policy: (a) $800,000,000 of actual and certain saving; (b) $150,000,000 of new revenue from beer; (c) all emergency appropriations to be covered by new revenue sufficient for sinking fund and interest thereon; (d) abandonment of the present Treasury method of financing the deficit; (e) restriction of Government aid to debtors to immediate revision of the bankruptcy act and to a contingent liability on a guarantee of interest on scaled-down debts to be applied only on prudent risks.

## VI. Farm Relief

I began the study of the farm price problem in 1921 and have devoted my thought and attention to this serious difficulty ever since. I have studied every project that I have heard of for the stabilization of farm prices because I regard the effect of our tariff system on our agriculture as one of the most serious lapses in our domestic economy.

While I am in the fullest sympathy with the purposes of the farm bill now before Congress, I believe that there is a better way to get at them which I shall propose later. In order to discuss that way, it will be necessary to criticize this bill. I always dislike very much to criticize anybody unless I have something to offer. In doing that I shall try, in what I shall propose, to offer a constructive suggestion for every critcism.

The plan seeks to reduce production by curtailing acreage. Yet, instead of subsidizing nonproduction, it pays a bounty on a certain percentage of all included products which are marketed. This will increase production per acre. The methods for doing this are many and effective and unless the actual curtailment of acreage is both drastic and certain, these methods could frustrate the plan. The incentive created by the bill is also to overstate the acreage previously planted—and thus to upset the mathematical basis of curtailment—and also to understate the acreage harvested and thus to avoid curtailment. Since the bounty is to be paid on a percentage of each man's marketing, and since price plus bounty is nearly double price alone and bounty is paid regardless of grade, the result will be to bring in all seed and feed and farm-consumed product and also waste grades even if farm requirements are at once repurchased. On wheat alone this might be sufficient to frustrate the purpose of curtailment. No matter what may be the price on grades full of sand, dirt, chaff, stalks, and defects, the bounty is the same.

The plan assumes that the fund collected from the tax will be the exact equivalent of the amounts earlier paid out as bounty. Every human incentive of the taxed is to pay less—of the recipient of the bounty to get more. The result will be a deficit charged to the Treasury and it could run to very large figures. The percentage of each farmer's marketed production, which is to receive bounty, is the ratio of the estimated domestic consumption to the estimated total crop. But because of all the reasons just stated, the sum of the parts of each farmer's crop on which bounty is paid is sure to be larger than the estimated total domestic consumption of the whole crop. Also, the higher price of the favored crop will reduce the experienced domestic consumption of it.

The plan is not self-policing because there is no quota to be apportioned among each group. After the domestic percentage is once estimated, every farmer gets a bounty on that percentage of all that he sells. The incentive is not for the members of a community to police each other; it is to abet each other.

Blanket authority is given the Secretary of Agriculture to set up an organization and we can not say what the cost will be because the bill does not visualize what the action will be. The plan also proposes to put determination of a tax in the aggregate of nearly $1,000,000,000—or perhaps 40 per cent as much as the entire present Federal revenue—in the discretion of a single administrative officer, and it is a sales tax of as much as 100 per cent on necessaries of life. Finally, it does not sufficiently consider the harm it will do to certain established industries.

I shall submit my constructive suggestions at the end of my statement.

## VII. World Economic and Disarmament Conferences

Out of the depths of this gloom the hope of humanity is being beckoned by two great councils of the coming year—on world economics and disarmament. Though disillusioned by repeated failure and bewildered by obscurity of purpose and principle, people will still take from them the eternal human comfort that "all may yet be well." The current talk of agenda and protocol and similar abracadabra may savor of priestly mummery, but the proper purpose here is as plain as a pikestaff and the controlling principle is clear. With these attained, all things are possible. Trifle with them, obscure them, try to get by without them, and the world would better save its breath to cool its scanty porridge.

What is it that men hope? A chance to earn their daily bread? The commerce of the world is dying. The hope is to revive it. Problems of prices, debts, employment, prosperity, and of stark existence for some great governments all come to this—that the nations shall trade again. This and nothing else is the proper purpose in both of these conventions.

The controlling principle is no less clear. Why does commerce languish? Notwithstanding a vast and dreary literature, there is not a multifiplicity of reasons, there are not six nor two—there is only one. You can't buy goods with chaff.

Much of the money now proffered in the world's markets in exchange for things is like the fairy gold in children's books—it may be coin to-night and a handful of autumn leaves to-morrow. That is the malign center of this blight. Economic barriers and armaments and debts—all these are surface stigmata. Unsound money is the evil to be crushed.

When is a nation's money unsound? Is a great deal of gold a guaranty of soundness? There is not a tithe enough gold above ground to support the monies of the world on that theory. There is no mystery. A nation's money is unsound when it continually spends much more than it receives in revenue and makes up the difference by using its debts for money—no matter how adroitly. This has been true since the world began—not some of the time, not now and then, not here and there, but everywhere, and all of the time, and without one single exception.

We have reached a perilous point where triflers with these verities in every nation have become enemies of their people. We can not escape by palliatives. A nation's money is simply its promise to pay. No sophistry can change the rule that neither the paper promise of a repudiator, nor the note-of-hand of a spendthrift living beyond his means, nor sophisticated entries showing credits on the self-kept ledgers of a desperate debtor, will ever pass at par in the markets of the world.

No nation is living within its income now and the money of all is unsound or suspect. That is the effective cause of continued misery, and cure of that is the controlling principle for any council among nations. There is no need for long agenda or complicated plans. The program for both talk and action can be written on a calling card. "Balance the budgets of the world." That is the bed-rock purpose of these councils. The economic conference will say that commerce is the exchange of money for goods. But sound commerce can never be restored on unsound money. Why should we talk there of forcing up commodity prices when the money to pay for them remains unstable? Why should we then consider trade barriers when, as obstacles to commerce, the most formidable of them compare as molehills to mountains against the present demoralization of exchange? Money is the medium of trade and the very essence of the economic problem is to make it usable again. If that is omitted, all else is wasted effort. If that prevails, little more is needed.

At Geneva, men will talk of clipping the power of offensive armament, of limiting the calibre of movable guns and the tonnage of air-bombs, thus hoping to aggrandize defensive works. Geographically we are not in a position of offense. We have no aggressive arms to lay down. The chief reason we confer is our hope that there may be a greater tendency toward peace and less toward war and thus Europe may spend less on armament. Here again the avowed purpose—at least it should be—is to persuade frugality in aid of balanced budgets.

Finally the debts: As I have said before, if we reduce every single substantial argument for modification to its essence, we find it running not to the injustice or even the expediency of the long-time burden, but solely to the present difficulty in the transfer of funds, which is to say to the unsoundness of the money of the debtor nations.

Thus at the heart of every subject for world conference, no matter what form the surface takes, we find one single evil—that governments refuse to balance budgets, and, as I have tried to show, it is no less true with us.

Until these causes are frankly addressed and fairly settled, the nations will arm on both the military and economic fronts and nothing that we can do by way of debt concessions or sacrifices of the best interests of our people will change the essential result. We may get some superficial change in form but whenever I hear talk of a reduction in the size of bombing planes or the calibre of a mobile gun, on the theory that thus the power of the offensive may be reduced and defensive arms lightened, I recall how we mounted heavy naval and even seacoast artillery on railroad cars in preparation for the bombardment of Metz. Nobody can foresee the kind of armament in the next war any more than anybody foresaw the tanks and flames and mines and gas and stabilized trench fighting of the World War.

Napoleon Bonaparte attempted to disarm Prussia and thought he had done so but, by the simple expedient of running classes of recruits rapidly through the skeletonized standing army, Scharnhorst and Stein created the legions which overwhelmed and sent the Emperor to St. Helena.

You can not disarm a nation by shortening the length of its sword. The real power of a nation is its resources of men, materials, money, and morale. Armament is merely a facility for mobilization. Its reduction is a worthy expedient for the reduction of expenses, but it is not a means of reducing the probability of war or of making war less horrible. The only way you can do that is to remove the case of war. We should concentrate our infleunce on that. For disarmament plus amelioration of the cause of war we could afford great sacrifice but we would be foolish to make any sacrifice at all for promises of disarmament alone.

There is one alternative to world disaster. The nations must live within their income. That achieved, all conferences may succeed brilliantly. That failing, no amount of scenic bargaining and solemn parley on superficial projects will avail. With the monotony and persistence of old Cato, we should make one single and invariable dictum the theme of every discourse:

"Balance budgets. Stop spending money we haven't got. Sacrifice for frugality and revenue. Cut governmental spending—cut it as rations are cut in a siege. Tax—tax everybody for everything. But take hungry men off the world's pavements and let people smile again."

If we can not enter these discussions with that as our purpose and our guiding principle, we ought not to enter them at all.

In the economic conference there is only one other subject worth considering—some international agreement on silver.

As to disarmament, both military and economic, the sole constructive possibility seems to me to be the removal of the age-old causes for world conflict. The Peace of Versailles was a peace dictated at the point of a gun. Its sanctions are failing. The questions of the Silesian Frontier, the Polish Corridor, the Saar, the Cordon Sanitaire which France has negotiated around Germany, and many boundary and ethnic questions left unsettled or badly settled at Versailles are the real cause of the heavy armament under which the world is groaning and, in my judgment, they are also the cause of most of the artificial trade barriers about which so much has been said.

I divide the farm problem into two things. One, the relief of the huge debt that is crushing the workers on the farm and depriving them of their homes, and the other is some definite, long-range plan that will give them a larger profit in the production from their farms.

I proceed first to the farm debt relief. I understand that a bill something similar to this is now under discussion. I do not know in what committee.

Let me say this, that in every suggestion that I have seen, no matter from what source it has come, it always has led back to the public treasury—and a burden upon the taxpayer. Even the suggested plan was made in New York to put up $10,000,000 on which it was proposed to borrow $100,000,000 from the Reconstruction Finance Corporation, and that goes back to the Government. And one of the ablest Senators has just introduced a bill for $500,000,000 from the Government. And so have many other bills made such proposals. I am prefacing my remarks because I propose to use the credit of the Government because I think we have to, because everything leads back to that. If these farmers are permitted to lose their farms and go upon the highways of the country they become charges upon the people and the States can not help them. We must help them—the public treasury.

Another thing I think is important, not alone for the great social question involved, of which you gentlemen all know better than I, but I think it is important that we should keep a satisfied agriculture, because every country which has permitted that to die has died itself. And there may come a time, not far distant, if you permit the laissez faire policy to go too far, as some want it to, when this country might be faced with an under production—I mean the nation might be in a position where it would have less to live on and less with which to clothe itself.

POSTSCRIPT NO. 1.—FARM DEBT RELIEF

We have between nine and ten billions of farm mortgages, created largely on the land values of the Great Delusion. It is a waste of money (which we do not have) to undertake the payment by Government of interest or maturities on existing mortgages. There must be a realistic reorganization of this structure. The principles of the LaGuardia bill are the first step but that alone will not solve this problem.

Let us create a corporation which shall be authorized to issue its 3 per cent tax-exempt, 30-year sinking fund bonds, callable by lot at par. The interest only on these bonds will be unconditionally guaranteed by the Government. This corporation will then offer to exchange its bonds for existing farm mortgages at not to exceed 60 per cent of the par of such mortgages and for as much less than 60 per cent as the circumstances of individual cases seem to require. It will then proceed to reform all the mortgages thus received in exchange for its bonds on a basis of 3¼ per cent interest on the scaled-down principal, plus a graduated amortization charge which starts at zero the first year, one-fourth of 1 per cent the second year, one-half of 1 per cent the third year, 1½ of 1 per cent the fourth year, and 2 per cent for the fifth year.

The effect of this plan will be to write down existing farm mortgages by a minimum of 40 per cent or an average of perhaps 50 per cent. It will write down the interest by a probable minimum of about 66⅔ per cent. Farmers receiving this very great aid should be willing to agree in the new mortgage contract to comply with such requirements of reduction in croppage as may from time to time be prescribed by the government until their mortgage is repaid.

As a means of offsetting the possibility of loss to the Government, I propose that there be collected under the provisions of the farm price relief plan (which I am about to propose) an annual fund of $30,000,000, which shall be paid into this corporation and any amount not needed to offset the guaranty allowed to accumulate together with the profits which I think will accrue for the purpose of the purchase of marginal and other farm lands and their retirement from production as may from time to time be required in the working out of a permanent agrarian policy for the United States.

This plan should be limited to present, not future mortgages. This plan does not mean that mortgages will be forced to take this new bond. It is only a way out for the unsalable mortgages. Nothing connected with this plan should infringe the right of foreclosure.

I am going into a little more detail here while we are on the subject. The way this would work would be this. Just as a convenient form we will say that the farmer had a mortgage for $10,000. Upon that now he probably pays not less than $800 a year. The man who has that mortgage can not sell it; even if he wants to foreclose it he can not get any money for it, because nobody wants to buy the farm. So he has got a dead asset on his hands, or it is held up by some governmental action to suspend foreclosure, but he has got a dead asset on his hands.

Now, if we could use this as, if I may use the term, as a kind of currency whereby negotiations depending upon the particular instance, the assessed value of the land, the condition of the mortgage, we could negotiate with the mortgagee $5,000 of these bonds. That would clear him out. The farm mortgage would then be $5,000. His other $5,000 was wiped off. Upon that $5,000 he pays 3 per cent. It is really 3½ per cent, but for the purpose of convenience of figuring it mathematically let us use the figure 3 per cent. We will say he would pay 3 per cent on that, plus an amortization charge, which would be, of course, lessening the principal amount of his debt which has been cut in half—an amortization charge of 2½ per cent, making 5½ per cent on $5,000. That makes $275 a year against $800 a year.

Now, that is a use of the Government credit, but the Government does not go out and unbalance its budget by selling a bond against current issues in the market. What it is doing is, it is replacing an inflated mortgage with this deflated mortgage, which goes to the benefit of the mortgagor. It benefits the mortgagee also because he has got something, whereas before he had nothing.

Now that is in essence the plan, and we will come back to that later for such questions as you wish to ask.

I want to add to the top of this first paragraph of postscript No. 2, farm surplus control, at the beginning of the paragraph, the following: "If it is deemed absolutely necessary for the Government to curtail surplus," and then proceed with the paragraph, "I propose," and so forth. And I must say I have taken the idea from the allotment plan and rather made it different or reversed its proposals, and no doubt there are many objections can be made to this plan, but I give it to you for what it is worth.

## POSTSCRIPT NO. 2.—FARM-SURPLUS CONTROL

If it is deemed absolutely essential for the Government to curtail surplus, I propose that the Secretary of Agriculture shall determine the amount by which total acreage of corn, cotton, wheat, and tobacco shall be reduced, and, for the first year that the reduction be drastic to consume the present overwhelming surplus.

Quotas of reduction should be allotted to States and then to counties and greater reductions should be made in surplus-producing States than in States where production is not equal to the State consumption.

Then the Government should actually lease, from each farmer who wishes to participate in the plan, not to exceed the percentage of his acreage which has been allotted to his county, on condition that he does not crop more than his now planted or last harvested acreage, minus the total acreage reduced from each crop in respect of which acreage is to be reduced. This is for the purpose of insuring that production of substitute crops is not increased. The rental to be paid should be an amount slightly larger than the profit that could be made on the reduced crops at farm prices in their pre-war relations to general commodity prices. Rough computations indicate that the average rental would be somewhere around $3 an acre, being higher near primary markets and lower in more distant places.

The cost of this plan has been estimated at around $160,000,000, but in order to provide the $30,000,000 I have mentioned as a guaranty fund in the farm mortgage plan, we should figure on raising about $200,000,000. That amount can be raised by a tax on the processing not of wheat alone but on all processed cereals, not on cotton alone but on all textiles, not on hogs alone but on all meat products. Unless this is done we will reduce the consumption of the particular product and frustrate the plan.

By substituting this plan for the plan now before Congress, which I understand has been changed, the tax would be reduced from the present project to tax wheat 100 per cent of the present price to a tax between 6 and 7 cents on all processed cereals, the tax on pork would be reduced from about 3½ cents to about one-half a cent on meats, and the tax on cotton cloth from 6 cents a pound to about one-half a cent on textiles. Such taxation is bearable and, if assessed in this way, will not disturb the present relation of consumption of the various commodities. From such conversations as I have had with leading processors, we can get their cooperation rather than their opposition. They recognize, as well as any of the rest of us, the absolute necessity of affirmative action.

From the farmer's standpoint, while the initial distribution of money may be smaller, undoubtedly will be, it is the opinion of commodity experts whom I have consulted that such a plan would be really effective in reducing production. While I do not wish to conjecture a definite result, it seems to be quite generally believed that the effect would be very promptly to raise the price of the managed crops to the prewar level and to carry other farm prices up sympathetically. There are obvious objections that may be made to any plan but in this emergency which is like the emergency of war, we must take some chances and while I deplore all statutory artificialities, I think we should make this attempt. Many think that all raw materials can be produced here by American labor and exported in the shape of manufactured goods, but I have not been able to see that through to its end.

Gentlemen, I would like to add this statement. I do not know whether the picture that I presented to you was a gloomy one or not, but I would like to say this, after most definite thought on this subject, if we but do these things there will lie before us opportunities for service, for fame, for fortune, and for the younger and coming generations, who are more interested in this than they think, such as have not existed at least in my lifetime, and that covers 60 years—I can not speak before my time—I believe there are great opportunities, and that this is not a time for gloom, if we will but see the stark necessities and face them.

Now I will be glad to submit to questions, and when we get into the details of the farm problem I am going to ask General Johnson here who has been trying to put it down on a drawing board, and who is more familiar with it than I am, to answer it with respect to the details.

The CHAIRMAN. Perhaps it would be just as well to have Mr. Johnson submit what he has to submit at this time.

Mr. BARUCH. If it is not clear, why we will clarify it.

General JOHNSON. There is not anything more to submit.

The CHAIRMAN. Any questions that may be asked or may b submitted at this time then.

Senator CONNALLY. Let us take one witness at the time, before we forget what he says.

The CHAIRMAN. That is what I say; if you have any questions to ask the present witness.

Senator CONNALLY. Being a junior member of the committee I will wait until the senior members have interrogated him.

The CHAIRMAN. You may proceed, Senator.

Senator CONNALLY. May I proceed?

The CHAIRMAN. Certainly.

Senator CONNALLY. Mr. Baruch, I want to ask you a few questions about your views on the so-called inflation, particularly with reference to the gold content of the dollar. You stated, I believe, that if they reduced the amount of the gold in the dollar it would not have any appreciable effect on raising prices, did you not?

Mr. BARUCH. It would have the effect of cutting the price in the new dollars, and there would be a flight from the dollar if there was a loss of confidence.

Senator CONNALLY. What is that?

Mr. BARUCH. It would have an effect in cutting the price in the new dollars, and it would also have an effect of raising it very, very high if there was a reduction in the amount of gold in the dollar and confidence in the new dollar was lost, because there would be a flight from the dollar.

Senator CONNALLY. If you are going to predicate everything back on the confidence, why I can not get very far.

Mr. BARUCH. What page are you now on?

Senator CONNALLY. I am on page 17. You say: "There are now approximately 26 grains of gold in the dollar. If we cut that by 25 per cent to about 20 grains, we at least have a mathematical formula," and so on. A little later you say that there would be a rush for gold. Of course, if the Government suspended payment in gold there would probably be a rush for the actual gold. But now you state down below: "It seems extremely doubtful that there would be any domestic effect to raise prices." Is that your attitude?

Mr. BARUCH. I have not followed you, Senator.

Senator CONNALLY. I followed you, and I think you ought to follow me a little.

Mr. BARUCH. I am trying to do it, Senator.

Senator CONNALLY. Page 17, about two-thirds down the page.

Mr. BARUCH. Yes, sir. "It seems extremely doubtful that there would be any domestic effect to raise prices."

Senator CONNALLY. "It seems extremely doubtful that there would be any domestic effect to raise prices." Is that correct?

Mr. BARUCH. Yes, sir.

Senator CONNALLY. All right. Why do you say a little later that salaries would fall and wages would fall, if prices do not rise? How would wages fall and salaries fall?

Mr. BARUCH. Because we are talking in new dollars.

Senator CONNALLY. Oh, I know.

Mr. BARUCH. And the new dollars would not buy as much as they did before. The prices of products would go up to the percentage of 33⅓ per cent.

Senator CONNALLY. Well, they would go up then, would they not?

Mr. BARUCH. Yes, they would.

Senator CONNALLY. Well then, your statement that there would not be any influence in raising prices is not correct, is it?

Mr. BARUCH. Well, it is doubtful, because it did not happen in England, but as an arithmetical proposition you are right.

Senator CONNALLY. Well, that is what we are talking about.

Mr. BARUCH. But it is doubtful from the results; that it has not occurred.

Senator CONNALLY. Wait a minute. You say it has not raised prices in England?

Mr. BARUCH. Yes, sir.

Senator CONNALLY. And that is because England is on the pound basis, which is paper money, is it not?

Mr. BARUCH. Yes, sir. It takes more shillings to buy gold.

Senator CONNALLY. To buy gold.

Mr. BARUCH. Yes.

Senator CONNALLY. Certainly. And in the world market the English prices of production have gone down, and the result is that she is out-selling us all over the world?

Mr. BARUCH. That is quite true in the export markets of the world.

Senator CONNALLY. In the export markets of the world. If England, instead of being on the paper standard had devaluated her pound at the present paper value of the pound, prices would have risen in the world markets, would they not?

Mr. BARUCH. If they had done what, Senator?

Senator CONNALLY. If England were now in the gold basis but had devaluated her pound at the same price that the pound is selling for, the paper pound is selling for, prices would increase in England?

Mr. BARUCH. Prices would be the same in gold value that they are to-day.

Senator CONNALLY. And the price would be in gold, the pound?

Mr. BARUCH. Yes.

Senator CONNALLY. The same would be true in our country?

Mr. BARUCH. We would have a better result in our country if we balanced our budget and had a gold standard.

Senator CONNALLY. Devaluating the gold dollar keeps you on the gold standard, no question about that.

Mr. BARUCH. Do you mean it keeps you on the gold standard if you devaluate the gold dollar?

Senator CONNALLY. We can take that up when we get to it. We can certainly suspend gold payments.

Mr. BARUCH. If you start talking about that you would not have a nickel's worth of gold in the Federal reserve system day after to-morrow.

Senator CONNALLY. If the Government did not pay it out it would.

Mr. BARUCH. It would have to pay that on demand.

Senator CONNALLY. Of course we have to pay it on demand.

Mr. BARUCH. If you start to tak about it or there is any threat to do so that would be the result.

Senator CONNALLY. Let us get back to these propositions about value.

Mr. BARUCH. Yes.

Senator CONNALLY. You say it would then raise the values 33⅓ per cent in dollars all over the country? Would it not?

Mr. BARUCH. Are you talking now about internal prices?

Senator CONNALLY. Yes.

Mr. BARUCH. Well, export prices in the new dollars would rise, and domestic prices are doubtful. It might have the effect that you say.

Senator CONNALLY. Well, do you not think that it would?

Mr. BARUCH. I have my doubts about it.

Senator CONNALLY. If the export prices would rise why would not the domestic prices rise?

Mr. BARUCH. No, these are export prices in new dollars.

Senator CONNALLY. I know. I am talking about export prices in new dollars.

Mr. BARUCH. And if they took enough out they would have that tendency to raise prices internally. And even, if they took enough out, Senator, they would rise above present gold prices.

Senator CONNALLY. All right. No matter what we take out, they will rise in proportion to what we take out, will they not?

Mr. BARUCH. Not unless you take no more out than you are taking out now.

Senator CONNALLY. All right. If export prices rise domestic prices will have to rise with them, will they not?

Mr. BARUCH. Only if you took enough. Yes; export prices.

Senator CONNALLY. I mean——

Mr. BARUCH. I see what you mean. If export prices rise in the new dollars they will rise inside?

Senator CONNALLY. Certainly.

Mr. BARUCH. I think that is probable; yes.

Senator CONNALLY. Is it not true?

Mr. BARUCH. They may not rise a great deal, Senator, but they may rise some.

Senator CONNALLY. If a man can get more abroad for a bale of cotton he is going to ship his cotton abroad, unless somebody paid him an equal price internally?

Mr. BARUCH. Yes.

Senator CONNALLY. So they will rise domestically and abroad, will they not?

Mr. BARUCH. Yes.

Senator CONNALLY. All right. You say among the results that we ought to obtain are those that would be obtained through the LaGuardia bill.

Mr. BARUCH. Through what?

Senator CONNALLY. The LaGuardia bill; that is a bankruptcy bill.

Mr. BARUCH. Well, I am talking about the principle of the LaGuardia bill, yes.

Senator CONNALLY. All right. Your plan there is to devaluate all these people that are owed money through the process of bankruptcy, is it not?

Mr. BARUCH. Yes.

Senator CONNALLY. What is the difference in devaluating them through the courts and devaluating the money in which they are to be paid? The effect is the same, is it not?

Mr. BARUCH. I do not know. I think it is very different, sir.

Senator CONNALLY. Very different?

Mr. BARUCH. Yes.

Senator CONNALLY. Well, you are depriving the creditor of something when you let the corporation——

Mr. BARUCH (interposing). I am depriving the creditor of something that he can not get anyhow.

Senator CONNALLY. Certainly. And that is what you are trying to do. The LaGuardia bill would authorize these big corporations and industrial concerns to seek refuge in the Federal courts and hold their creditors off their backs until they could effect a reorganization and a scaling down of their indebtedness. That is what is back of the LaGuardia bill, is it not?

Mr. BARUCH. It is a quickening of a process that is going to take place anyhow.

Senator CONNALLY. Well, is not that process going to take place with everybody if we do not do something?

Mr. BARUCH. If you want to go on the road to a place you had better go there right away.

Senator CONNALLY. I agree with you.

Mr. BARUCH. But the history of the world has shown this, that whenever we have taken that road we have had to come back and retrace our steps. I will admit, Senator, we have already gone very far on it, and the methods that have been adopted and carried on by the Treasury are not very different from those that have been already suggested.

Senator CONNALLY. All right. But the process that you propose now is to let corporations and industrial concerns scale their debts by taking refuge in the Federal courts and effecting reorganizations and pay less on the dollar that they owe. That is right, is it not? But you object to giving the benefit of that to everybody by devaluating the dollar and letting everybody have the advantage of that?

Mr. BARUCH. You are doing it by a different method.

Senator CONNALLY. Certainly, but it has the same result, has it not?

Mr. BARUCH. Well, there would be the same result, but not to everybody. The only person you are benefiting is the man that has a mortgage; he can not possibly get it and he is not entitled to it.

Senator CONNALLY. Why is he not? He has got a farm.

Mr. BARUCH. Well, yes; because he has bought something, a mortgage or loan, at an unwise time and at a price that is not fair.

Senator CONNALLY. That is why I say that it is fair to put this dollar down back to the commodity level and let the debtor pay that creditor in the same relative values as the debt was incurred, and that is your proposition, is it not?

Mr. BARUCH. My proposition under this natural process, yes.

Senator KING. Senator, will you pardon me just a moment?

Senator CONNALLY. Yes.

Senator KING. Is the LaGuardia bill limited to corporations?

Senator CONNALLY. No, I do not think so.

Senator KING. I think it is extended to farmers as well as the individuals, so it is not for the benefit of corporations only, but it is for the liquidation, according to the plan of the bill, of the indebtedness of individuals as well as corporations.

Senator CONNALLY. Well, everybody knows, of course, that they would put a little tail on for individuals, but you know an individual when he goes bankrupt comes out with nothing. A corporation that goes into bankruptcy and reorganizes and scales down its debts, its stockholders have something left.

Mr. BARUCH. I do not know the details. I am talking of the principle of it, and that is to permit debtors and creditors to get together quickly on some agreement.

Senator CONNALLY. You and I are not really in disagreement as to results, but we are favoring different methods of reaching the results. In the farm mortgage situation you say that your plan would be to make them take 60 per cent?

Mr. BARUCH. No, not make them.

Senator CONNALLY. Well, but you are going to persuade them?

Mr. BARUCH. Here is what I meant by this. That a mortgagee has got a mortgage for $10,000. He can not foreclose it. If he does go through and forecloses or sells out he is in the farming business and the farmers are out on the highway. So I propose that, and I put a imit of 60 per cent, that if the Government's credit is going to be used you are going to give the mortgagee something that he can not get now, and he can put in his books, and have a value.

Senator CONNALLY. You propose that the Government will issue its own bonds and take up farm mortgages at 60 per cent of their value?

Mr. BARUCH. I am just taking that as a figure.

Senator CONNALLY. What is the difference between doing that and revaluing the dollar at 60 per cent and letting them pay their mortgages?

Mr. BARUCH. This is a voluntary agreement between the debtor and the creditor, and the other is not, when you begin to revalue the dollar.

Senator CONNALLY. Your plan would work this way: A man that had a gold mortgage that was worth 100 per cent would not agree to this, and he would get his 100 per cent. The fellow that had a mortgage that was not worth 100 per cent would agree, and get the benefit of this.

Mr. BARUCH. The man that was running the thing would use wisdom in running it. I would assume some intelligence would be used.

Senator CONNALLY. But a man that had a bond worth 100 per cent would not take 60 per cent?

Mr. BARUCH. No.

Senator CONNALLY. Or a mortgage?

Mr. BARUCH. No.

Senator CONNALLY. He would get his 100 per cent?

Mr. BARUCH. Yes.

Senator CONNALLY. A man that had a bond worth 20 per cent would be glad to exchange it for a Government bond and get 60 per cent?

Mr. BARUCH. Or whatever it would be worth. I am sure, Senator, if anybody of intelligence were running that they would use wisdom in running it.

Senator CONNALLY. You have already indicated that the Reconstruction Finance Corporation has made a fizzle and used a lot of guesswork, and it is supposed to have intelligence.

I say, in your statement, Mr. Baruch——

Mr. BARUCH. I heard you the first time, Senator.

Senator CONNALLY. You heard me the first time?

Mr. BARUCH. It is not necessary for you to make a comment upon that, I do not think.

Senator CONNALLY. Well, good natured.

Mr. BARUCH. Certainly; I understand that, Senator.

Senator CONNALLY. You talked about revaluation of the dollar, cutting down the value of it, would ruin all the insurance companies, the policies, did you not, a while ago?

Mr. BARUCH. I said that it would affect the holdings of every one of them, yes.

Senator CONNALLY. How about your cutting down farm mortgages 60 per cent, in which all the life insurance companies have got their money invested?

Mr. BARUCH. There is a very great difference, Senator.

Senator CONNALLY. Would that not impair them——

Mr. BARUCH. There is a loss there already in that farm mortgage.

Senator CONNALLY. To be sure, but if the farm mortgage holder has got a mortgage that he can not collect for 100 per cent, and by devaluating the dollar you let the debtor pay 60 cents on the dollar, what is the difference between that and your plan?

Mr. BARUCH. I will tell you exactly. It is just as plain to me as it can be, Senator. It apparently is not plain to you.

Senator CONNALLY. No. I am pretty dumb.

Mr. BARUCH. No, you are not. We will take an insurance company which has got a mortgage now of $10,000, and it is an unwise one; they can keep it if they want to, but if they go to sell out they will be in the farm business. We will provide a currency in the form of all these mortgages, something that they can not possibly get themselves, and it is a voluntary thing with them, and they are only taking something which is already wiped off from the market. Insurance companies have got those loans, whatever they are, and we can talk about them as much as we want, they will only buy just so much in the markets of the world. But those who own the things will buy less in the markets of the world.

Senator CONNALLY. Well, an ounce of gold has an international value, has it not?

Mr. BARUCH. Yes, sir.

Senator CONNALLY. And it means the same everywhere?

Mr. BARUCH. Yes, sir.

Senator CONNALLY. Well, if you cut down the content of the gold dollar by two-thirds inevitably in gold the values would have to rise, would they not?

Mr. BARUCH. Yes; but you are only going to get two-thirds in the value of the things that you buy.

Senator CONNALLY. That is true, but answer my question: Will it rise or go down? Will the prices rise? They will rise, will they not?

Mr. BARUCH. Yes; they will rise, but they will rise to the extent so that that new dollar will not buy any more things than it did before.

Senator CONNALLY. It will pay more on your farm mortgages and more on your debts, will it not?

Mr. BARUCH. That it will do.

Senator CONNALLY. Yes.

Mr. BARUCH. Senator, without a doubt a farmer who owes money and has got something to sell will be advantaged.

Senator CONNALLY. Certainly.

Mr. BARUCH. In the selling side. There is no doubt about that. You can do even better for him by printing paper.

Senator CONNALLY. Well, let us stay on the gold a while now.

Mr. BARUCH. All right.

Senator CONNALLY. I am not advocating paper.

Mr. BARUCH. I understand that.

Senator CONNALLY. I am talking about gold.

Mr. BARUCH. Yes.

Senator CONNALLY. I am talking about something that you folks understand in New York—gold.

Senator KING. Well, Senator, does not your proposition contemplate that notwithstanding an obligation may be to pay so many grains of gold according to the present weight and fineness, that Congress would have the power to modify or rescind that contract and compel the contracting parties to change the contract and accept less grains of gold?

Mr. BARUCH. Well, that is a legal question.

Senator KING. Well, it is a constitutional question.

Senator CONNALLY. Mr. Baruch is not a lawyer and I do not want to get into a legal discussion with him.

Mr. BARUCH. I think I can answer that.

Senator CONNALLY. All right.

Mr. BARUCH. The question is this: If you could find a legal method or a scheme whereby if a man demanded payment under a contract which was payable in gold, to tax him a certain percentage. In that way you could wipe off that debt.

Senator CONNALLY. Your idea then is that by the taxing power we could stop that?

Mr. BARUCH. I do not know whether it is constitutional or not, but you could do that.

Senator CONNALLY. I submit that to the Senator from Utah.

Senator GORE. You have to do it by the rule of apportionment.

Mr. BARUCH. I say that is the scheme. I do not know whether it is constitutional or not.

Senator CONNALLY. Senator Gore, you wish to ask something?

Senator GORE. I just remarked that it would have to be done by the rule of apportionment, if done.

Senator CONNALLY. But we would treat them all alike, of course.

Senator GORE. It would have to be apportioned among the States.

Senator CONNALLY. Let us stay on this gold question, Mr. Baruch. You are talking about gold. And you know all about it, I understand.

Senator REED. Mr. chairman, lest that suggestion go by unchallenged—it seems to me very clear that the Supreme Court has held that our taxing power can not be used to take away from a vested right of that sort. They held it in the case of the application of income tax to judicial salaries, for example. I am quite sure that they would hold the same thing if we tried to tax these gold-standard contracts.

Senator CONNALLY. Mr. chairman, I am not suggesting that. I am not going to argue it with Mr. Baruch or the Senator from Pennsylvania either at this time. We are trying to find out the economic effects of this thing right now, and of course if it comes up to the legal question that is another proposition. I might suggest, however, that Senators who are interested might read the legal tender cases in which the Supreme Court held that contracts made payable in dollars at the time when there were no other kinds of dollars except gold and silver dollars, were subsequently under acts of Congress made payable in paper money that had no redeemability whatever, but were merely a promise of the Government to pay some time in the future. That might be persuasive.

Senator BARKLEY. But that would not have any bearing on the actual value of a smaller gold dollar in comparison with one bigger.

Senator GORE. The Supreme Court held that contracts made payable in gold dollars are payable in gold dollars.

Senator CONNALLY. It does not say how big.

Senator GORE. Of the same standard weight and fineness.

Mr. BARUCH. Gold dollars of the present weight and fineness, I believe.

Senator CONNALLY. That is why I did not want to discuss this point at this time, because I knew it would provoke a good deal of discussion among us, and I did not want to talk about the legal part of it at this time because I did not think Mr. Baruch cared to engage in that. That can be raised when we come to it. There is no case in which the Supreme Court has ever handed down a decision where Congress undertook to fix or regulate the weight of money. Consequently the cases that the Senators are referring to are purely dicta.

You said a while ago in your statement, Mr. Baruch, that reducing the value, or reducing the amount of gold in the dollar would not increase the buying power of our people. It would in the terms of new dollars, would it not?

Mr. BARUCH. Well, you would have more dollars to buy things with, and if the things did not rise why you would be able to buy more things. If they rose in proportion you would be only able to buy the same amount of things, with the exception of one man, the farmer who has a debt, or any man who has a debt and produces something to sell.

Senator CONNALLY. Certainly. That is the fellow I am looking at now.

Mr. BARUCH. I believe you are right.

Senator CONNALLY. But it is not confined to the farmer. It applies to the gentlemen in New York that owe debts too, who would have the advantage of it.

Mr. BARUCH. If they owe money they would be in clover.

Senator CONNALLY. Everybody owes debts, do they not?

Mr. BARUCH. Or the fellow who has many obligations.

Senator CONNALLY. Do you know anybody that has got any actual gold now?

Mr. BARUCH. Somebody must have it.

Senator CONNALLY. But you do not know where it is?

Mr. BARUCH. No.

Senator CONNALLY. Let me ask you this, Mr. Baruch: You talk about salaries and wages. Salaries are not fixed by law, are they?

Mr. BARUCH. No, sir.

Senator CONNALLY. They go up or down according to prosperity, do they not?

Mr. BARUCH. They go up slower and down faster.

Senator CONNALLY. Well, do they go up or not with prosperity?

Mr. BARUCH. They do, sir.

Senator CONNALLY. They go up with prosperity and come down with hard times, do they not?

Mr. BARUCH. Yes, sir.

Senator CONNALLY. During this depression salaries of all kinds have been radically decreased, have they not?

Mr. BARUCH. Right, sir.

Senator CONNALLY. Why? Not because we passed any law, but because times were hard and people could not make it. Now anything that will have a tendency to improve business and improve activity will have a tendency to raise wages and raise salaries, will it not?

Mr. BARUCH. Unquestionably.

Senator CONNALLY. All right.

Mr. BARUCH. If there is enough confidence it will improve things.

Senator CONNALLY. Did you see a statement a few days ago by a professor of McGill University advocating the revaluation of the Canadian dollar, which is exactly our dollar, to 70 cents in the dollar? Have you had that called to your attention?

Mr. BARUCH. No, sir.

Senator CONNALLY. He is the economist in McGill University. I do not recall his name for the moment. I have his name in my office.

Mr. BARUCH. There is a heap of them around, Senator.

Senator CONNALLY. What is that?

Mr. BARUCH. There is a heap of them around. I do not mean to detract from this gentelman, nor do I want to put my judgment up against his.

Senator CONNALLY. You said in your testimony here that we had to scale down debts to get back to prosperity.

Mr. BARUCH. Yes.

Senator CONNALLY. How are you going to scale them down any better way than to get money so people can pay them? How are you going to force people to scale debt?

Mr. BARUCH. They will come down themselves, Senator. They are coming down every day. And all that I am suggesting is not to interfere with them by any process of law, but in anything that is done a machinery set up that will aid them and accelerate them, not extend them.

Senator CONNALLY. You will admit that since 1929 the price of practically every commodity in the United States measured in terms of gold has declined radically, will you not? That is true of your securities in New York, is it not?

Mr. BARUCH. Yes, sir.

Senator CONNALLY. That is true of your farm mortgages, is it not?

Mr. BARUCH. Yes, sir.

Senator CONNALLY. That is true of railroads, is it not?

Mr. BARUCH. Yes, sir.

Senator CONNALLY. That is true of the farmers' prices, is it not?

Mr. BARUCH. Yes, sir. I think the farmers started before that, but they did decline since 1929; that is quite correct, yes, sir.

Senator CONNALLY. Is it not true that the effect of what you advocate and most other people advocate is to devise some legislative process whereby you lift these values back up into the neighborhood of where they were on a gold basis? If that be true, why would it not be fairer and more reasonable instead of a dozen processes of raising up the railroads, of raising up the farmer and raising up everybody—why would it not be better to have one process, to bring the gold dollar down and put it on a commodity level with other commodities?

Mr. BARUCH. If I thought you could do it that way I would say "God bless you; go to it!"

Senator CONNALLY. If it can be done that way will you favor it?

Mr. BARUCH. Oh, yes; if it can be done that way, yes.

Senator CONNALLY. Well, if we can work out a plan then whereby we can actually devaluate the dollar and make it level with other commodities you would favor it?

Mr. BARUCH. Yes; if you can do it I certainly would.

Senator CONNALLY. Well, we can not do it unless we try, can we?

Mr. BARUCH. No, sir.

Senator REED. Will you permit me to ask a question here?

Mr. BARUCH. Yes, sir.

Senator REED. Mr. Baruch, England made her decision to go off the gold standard between Saturday afternoon and Monday morning in September, 1931. The people woke up on Monday morning to find that they were off the gold standard. There was not an opportunity for a panic. But in this country we would require congressional action to authorize such a step to be taken. And that congressional action could scarcely be accomplished in less than a week. What would happen in commerce during that week?

Mr. BARUCH. Well, what would happen is there would not be a nickel's worth of gold left in the Federal reserve system to get behind the devalued dollar. I said to the Senator if he could do it it is all right, but I think that if this were discussed, if it was even thought—I mean if there were discussions today about doing it, that you would have a run on the gold. Of course if there were such a power somewhere to say this afternoon that before the opening of the Federal reserve system they would take that gold and impound it and get this thing rearranged as the Senator suggests, that might be another thing. But the mere discussion of it I think would destroy the possibility of anything being accomplished.

Senator REED. In other words, we would have a panic and an outburst of hoarding that might take every particle of gold available?

Mr. BARUCH. Yes; or as an old negro is said to have remarked on an occasion: If you do that you aint seen nothing yet.

Senator CONNALLY. Senator Reed, are you going to examine Mr. Baruch at length? I was just about through with my questions.

Senator REED. I beg pardon, Senator Connally. You may go ahead. But I am not able to come back this afternoon, and I have one or two questions I should like to put to Mr. Baruch. However, I won't do it if you desire to go ahead.

Senator CONNALLY. Oh, no; I just thought if you had a number of questions to propound maybe I had better conclude mine first.

Senator REED. Certainly.

Senator LA FOLLETTE. Might I ask you, Senator Reed, whether you do not overlook certain wartime statutes, enacted to protect certain gold reserves of the United States, which have not been repealed so far as I know.

Senator REED. Oh, so far as that is concerned, under the wartime laws we could prohibit the export of gold. But I do not believe they gave anyone power to suspend specie payment.

Senator LA FOLLETTE. I have not looked at it recently. And it is only a vague recollection I have, that there were certain broad statutory powers given to the President during the World War, which even went so far as to forbid the issuance of gold, to prohibit transactions in gold, without a license issued by the executive branch of the Government. I may be wrong about that, but I wanted to inject that thought into the discussion.

Mr. BARUCH. To carry out that thought, we also made it so we could not export gold during war time. But I do not know whether that could be done in peace time.

Senator REED. One more question—and I am responsible for the unfinished business on the floor, and we are in recess, so that I must be in the Senate at 12 o'clock. Mr. Baruch, there would be a row between lawyers, evidently, as to whether gold-standard contracts were or were not subject to impairment by congressional action. In other words, there would likely be a lawsuit as to whether the Government's promise in its bonds to pay in gold coin of the present standard of value could be changed, whether that obliged the Federal Government to pay, as its certificates come due, in dollars of the present value or in dollars of depreciated value. And it might take two or three years to settle that litigation finally. What would happen to Government credit in the meantime?

Mr. BARUCH. I do not want to say, Senator Reed. You know what would happen.

Senator REED. Well, I think that is a factor that ought to be borne in mind.

Mr. BARUCH. In other words, your credit would disappear.

Senator REED. So that we have these two perils to apprehend: First, an instant hoarding of gold the moment the country thought Congress was seriously considering this scheme; and, second, a disappearance of Government credit, certainly during that period when the value of its promise remained in doubt.

Mr. BARUCH. Unquestionably.

Senator REED. I thank you.

Senator WATSON (presiding). Senator King, and other members of the committee, do you want to continue longer? It is now 12 o'clock.

Senator CONNALLY. I will be through in a minute.

Senator WATSON (presiding). All right.

Senator CONNALLY. Nobody is proposing, so far as I know at least, repudiating the Federal debt, I will say to the Senator from Pennsylvania. In discussing this matter in the Senate I distinctly said I had no disposition to interfere with Government bonds already contracted; in fact, I doubt if we could do it legally because it is the Government's own act. But——

Mr. BARUCH (interposing). Your idea, Senator Connally, as I understand——

Senator CONNALLY. How is that?

Mr. BARUCH. Let me get that clear, because it has a bearing upon the whole situation. And I will say that——

Senator CONNALLY (continuing). As to the outstanding Government bonds, payable in gold at the present standard of weight and fineness, I would not advocate repudiating those bonds.

Mr. BARUCH. But what would happen to corporation bonds which have the equivalent provision written into them, of being payable in gold coin of the then standard of weight and fineness?

Senator CONNALLY. That is what I waived a while ago. I do not want to get into that legal discussion. But the contention is that under the constitutional power of Congress to coin mere money and to regulate the value thereof.

Mr. BARUCH. They have that right.

Senator CONNALLY. And what does that power mean but to move the value of the dollar? It does not mean to stand still forever. It means to regulate it and change it from time to time. My contention is that any contract that calls for dollars as such can not be qualified by any such clause as present weight and fineness, because you are dealing in dollars and the Congress has the right to make those payable in gold dollars of a new value. As to commodity contracts, if you have a contract calling for so many ounces of gold it is like so many bales of cotton. But I do not want to argue that.

Mr. BARUCH. That is a very important part of it.

Senator CONNALLY. To be sure, that is an important part. But you are not an attorney, Mr. Baruch, and I am a very poor one, so I do not think we could get very far on that. But you are afraid somebody will withdraw all the gold, that they will hoard gold. As far as that is concerned they are hoarding gold to-day, aren't they?

Mr. BARUCH. Hoarding money and credit.

Senator CONNELLY. It could not be hoarded much more than is being done now, could it?

Mr. BARUCH. Oh, yes.

Senator CONNALLY. It could?

Mr. BARUCH. Yes, sir.

Senator CONNALLY. All right. The Secretary of the Treasury is a member of the President's Cabinet, and is subject to the President's orders, is he not?

Mr. BARUCH. Yes, sir.

Senator CONNALLY. If the President ordered the Secretary of the Treasury, as has been done in similar cases in the past, to suspend paying any gold out of the Treasury, do you suppose it would so happen that he could not stop it instantly?

Mr. BARUCH. If he were bold enough to try to do that, and could get the Congress to back him up.

Senator CONNALLY. But you say the present is an emergency that is greater than war. I do not expect to see it cured by Christian Science or pink pills. But the President could stop the payment over night of gold dollars; the Secretary of the Treasury could suspend the paying of gold dollars over night. And you say that something radical must be done.

Mr. BARUCH. Yes, sir; but——

Senator CONNALLY (continuing). That is all that I am proposing. One other question and I am through: Mr. Baruch, you are talking about reducing farm mortgages 60 per cent voluntarily. I just want to emphasize what I said a while ago: Under that plan a man who had a farm mortgage that is worth 100 cents would get it all.

Mr. BARUCH. But it is not worth 100 cents, and——

Senator CONNALLY (continuing). It may be. But to put a hypothetical case, if a man had a farm mortgage that was worth 100 cents on the dollar he would get it all.

Mr. BARUCH. Yes, sir.

Senator CONNALLY. And if it was worth only 60 cents he might not get more.

Mr. BARUCH. He might not get even that much. He might only get 10 cents on the dollar, and in some cases even less than that.

Senator CONNALLY. That would all have to be voluntary.

Mr. BARUCH. Yes, sir.

Senator CONNALLY. That is the case now, and we don't need any law to do that.

Mr. BARUCH. You do not need any law, but I am trying to show you——

Senator CONNALLY (continuing). If you have a compromise that can be done now.

Mr. BARUCH. But I am trying to provide something that will induce mortgagees to take a new amount of money.

Senator CONNALLY. I believe that is all.

Senator BARKLEY. I should like to ask a question or two along the line of this gold content proposition.

Senator WALSH of Massachusetts. I do not believe we can conclude with Mr. Baruch this morning.

Senator WATSON (presiding). Is it the desire of the committee to recess at this time?

Mr. BARUCH. Might I make one statement before you recess, and that is this: I think too much emphasis on the gold standard is laid upon its value, and not enough on what I think is the more important one, and that is the restraining influence it has upon the issuing of money and of credit.

Senator CONNALLY. My plan is just as much a gold standard as yours. The only difference is in the amount of gold content, isn't it?

Mr. BARUCH. If you can approach this proposition——

Senator WATSON. (presiding). Well, the committee desires to rise at this time. Mr. Baruch, we will ask you to come back this afternoon. The committee will now rise until 2 o'clock this afternoon.

(Thereupon, at 12.03 p. m., Monday, February 13, 1933, the committee recessed until 2 o'clock p. m., the same day.)

AFTER RECESS

The committee resumed at 2 o'clock p. m. at the expiration of the recess.

The CHAIRMAN. The committee will resume. I was not here at the recess, Mr. Baruch. Had you concluded your statement?

Mr. BARUCH. Oh, yes; Mr. Chairman. But I understood some Senators wished to ask me some questions.

The CHAIRMAN. All right.

**STATEMENT OF HON. B. M. BARUCH, NEW YORK CITY—Resumed**

Senator SHORTRIDGE. Mr. Baruch, I did not have the benefit of hearing your testimony given this morning. You may have covered and considered this thought. I will put the question in this form: In seeking for a solution of what might be called the farm problem may we assume that you have had in mind the debtor as well as the creditor

Mr. BARUCH. Are you talking now about the matter of debt?

Senator SHORTRIDGE. Certainly.

Mr. BARUCH. Yes; I did.

Senator SHORTRIDGE. The thought has been suggested to me many times that a local savings bank may be the debtor, and, we will say, a farmer is the creditor.

Mr. BARUCH. Certainly.

Senator SHORTRIDGE. And we must consider the rights and the necessities of both.

Mr. BARUCH. That is quite right, sir.

Senator SHORTRIDGE. Both the debtor and the creditor must be considered.

Mr. BARUCH. Yes, sir. But the only thing I suggested this morning, Senator Shortridge, was this: That to try to anticipate the inevitable we must have in mind that the value of the mortgage has lessened. There is no salability for it. And I suggested a new form of security, guaranteed by the Government, should be exchanged, on some basis satisfactory to mortgagor and mortgagee. It does not remove the man's right to foreclose, and if he wants to foreclose, if he wants to take the property, he can do so.

Senator SHORTRIDGE. Of course, it is the depressed price of farm products that has caused the depression, so to speak, in the value of a given mortgage.

Mr. BARUCH. Quite right, sir.

Senator SHORTRIDGE. And a rise in farm products, a return to prosperity in the matter of farm prices, would of course restore the mortgage, or presumably might do so.

Mr. BARUCH. It would have that tendency at least.

Senator SHORTRIDGE. The savings bank I take it generally speaking contains the moneys of the people roundabout.

Mr. BARUCH. Of you and I and everybody.

Senator SHORTRIDGE. Yes. Very little from me, but that is all that I wished to ask. I merely wanted to bring that out.

The CHAIRMAN. Mr. Baruch, I left before you got through at the morning session. Taking those farm mortgages, or home mortgages, and having the Government of the United States advance 60 per cent of the mortgage, would the Government's mortgage be a first lien as against the original holder's 40 per cent?

Mr. BARUCH. Yes, sir.

The CHAIRMAN. You did not say so in your testimony this morning, and I merely wanted to bring that out.

Mr. BARUCH. All right.

Senator HARRISON. Mr. Baruch, you laid great stress on this country balancing its budget.

Mr. BARUCH. Yes, sir.

Senator HARRISON. And stated, of course, the best way to do it is by cutting down expenditures and coming within a $3,000,000,000 range if possible. Then in further speaking of the matter you talked of balancing the budgets of other countries, and of stabilizing currencies, exchange, and so forth. Is it your opinion that if England, France, and other countries, that are not to-day upon balanced budgets, or maybe not to the extent that we are, should really soundly balance their budgets, that that would have any very appreciable effect upon the stabilization of exchanges?

Mr. BARUCH. Unquestionably, provided they would continue to be balanced.

Senator HARRISON. Yes.

Mr. BARUCH. But that is the foundation stone of the stabilization of exchanges, that the money of any particular country can only remain good as long as it takes in more than it spends, or it has the credit to go out and borrow the difference. When that ceases and the budget becomes unbalanced, then much of the coin of to-day becomes the chaff of to-morrow.

The CHAIRMAN. Mr. Baruch, the answer you have just given to the Senator from Mississippi, does that take into consideration the fact that some countries are off the gold standard?

Mr. BARUCH. Well, the only way that they could get back on the gold standard would be to balance their budgets.

The CHAIRMAN. Yes. But I wanted to know your views on this. Unless they get back on the gold standard could they arrive at the conclusions that you suggested in your answer to the Senator from Mississippi.

Mr. BARUCH. No, sir.

Senator SHORTRIDGE. Frankly, I do not understand that answer. Suppose a given nation is on a silver basis, or on a bimetal basis, couldn't they balance their budget? Couldn't such a nation balance its budget if it used both gold and silver at a certain ratio?

Mr. BARUCH. I do not believe any particular nation can have both, because history has shown that the Gresham law works to the end that cheap money drives out sound money.

Senator SHORTRIDGE. What is the current money of India to-day?

Mr. BARUCH. India is supposed to be on the gold basis.

Senator KING. On a gold exchange basis to-day.

Mr. BARUCH. Yes. And you doubtless know what the situation is there.

The CHAIRMAN. India uses more silver for ordinary circulation than any other country according to population.

Mr. BARUCH. I think that India's position is a little different in this respect. It is hard to get them gold-minded after all the centuries of having been silver-minded. It is a rather difficult problem. I think it is not quite on all fours with other white races. For instance, your question, and I do not know whether I made myself clear on this question or not, assumes that you propose the Government will advance 60 per cent of the money, yes. But what I meant was mortgages. My idea is to prevent the Government going out and selling anything, but just exchanging this new bond for the old mortgage. You have that quite clear, have you?

The CHAIRMAN. Yes.

Senator KING. Mr. Baruch, in your testimony this morning you incidentally mentioned silver. Have you any suggestions to make as to the course which might safely and wisely be taken with respect to the rehabilitation of silver other than an international agreement, which might result in the stabilization of silver at a certain ratio with reference to gold?

Mr. BARUCH. My theory is that it ought to be done, but I do not consider myself an expert on the subject; I think it ought to be done through some international agreement, especially if you were to take some particular basis like has been discussed.

Senator KING. What do you think would be the effect of a measure something like this: Authorizing the Secretary of the Treasury to purchase, say, 5 per cent of our gold reserves in silver. That is to say, in its present value, going into the market and buying silver up to the amount of 5 per cent of our gold reserves held by the Federal reserve banks, and then for a law to be enacted authorizing the utilization of that 5 per cent as a part of our metallic reserves. So that silver might be given a sort of primary monetary status to the extent of 5 per cent of our reserves. And may I say before you answer that question, if you will permit me, the view of some persons who have given attention to this subject is that it would, first, relieve the tension of gold; and, secondly, that it would direct attention to the importance of silver as an accretion to our gold reserve' to our metallic or primary basis; and, third, that it would invite other nations to give it consideration, or that the psychological effect would be important in that other nations would say: If the United States as a gold-standard nation is willing to use silver as a part of her metallic reserves may we not also do so, and thus relieve the tension on gold in other countries, increase the demand for silver, and thus increase the price of silver, until as it goes higher and higher, it would lead to a period when the nations of the world would with greater willingness establish a ratio and make silver a primary money.

Mr. BARUCH. I should like to answer those questions seriatim if I may.

Senator KING. All right.

Mr. BARUCH. Your first question would be, what would be the effect of a purchase of 5 per cent of our gold reserves in silver?

Senator KING. Issuing silver certificates for the purchase, of course.

Mr. BARUCH. But not at a ratio, but at whatever the price may be.

Senator KING. Yes.

Mr. BARUCH. Of course, that is sounder than some ratio. Then it would always depend on how far you would go. It is just like the other things we are discussing, the trouble is when you start out on the road they never stop. And it would depend upon the condition of our Federal Treasury more than anything else. When in sound condition it could stand almost anything, or at least could stand a good deal. It is just like the edging of the camel's nose into the door; if a small amount it would probably have no effect, but at the present I think it would have a bad effect. My thoughts have always been running along the line that we ought to do it through some international agreement. I think we ought to go at it very gently and wisely, because with the great hoards of silver, and every Chinaman has a shoe of silver, when we come to the place where there is no international proportionate share we might became the international fat boy.

Senator KING. There is one other question I should like to ask you in view of your testimony of this morning: Do you see any real ground for analogy or comparison in the matter of issuing bonds, between the condition during the World War and the present time? You will recall that when we issued enormous quantities of bonds and unloaded them upon the public. They were used as the basis of paper credit or of bank credits, and billions of dollars of bank credit were thus made available for everyone. That resulted in increased prices of all commodities, labor, and so forth. Suppose the same policy were pursued now, what about it?

Mr. BARUCH. Well, I think I referred to what I called the evils of that inflationary method. But you had something then that we do not have now. The condition of war meant that there was a demand for everything. You had a buyer for everything. There was no question then of how much there was but how little there was.

Senator KING. What I wanted you to explain, Mr. Baruch, is this: That there could not be a perfect comparison between the situation then and now.

Mr. BARUCH. No, sir.

Senator SHORTRIDGE. But the bonds that were issued during the war period are good to-day.

Mr. BARUCH. Yes, sir.

Senator SHORTRIDGE. Uncle Sam isn't talking about repudiating those bonds.

Mr. BARUCH. Not that I have heard.

Senator SHORTRIDGE. Nor of canceling them.

Mr. BARUCH. No, sir.

Senator KING. But the Government could issue too many bonds.

Mr. BARUCH. But the Senator did not ask me that question. I kept off that question. I wanted to stick to the question in making my answer.

Senator KING. This morning you made that very clear. But there might come a time when a superabundant issue of bonds might mean a different condition.

Mr. BARUCH. Yes; and I think Secretary of the Treasury Mills made that clear.

Senator BARKLEY. Mr. Baruch, I should like to get back to your discussion of this morning of the so-called inflation, with special reference to the revaluation of gold. My association with money has not been sufficient to make me very intimate with it except theoretically. But somebody is responsible for the fact that I am getting about a hundred letters a day, and I think in the last two weeks I have received about 1,200 letters, almost all from one community, urging a revaluation of the gold ounce, the gold dollar, and so forth. It has rather whetted my appetite to learn more about this so-called remedy, if it is that, and I am not using the term "so-called" as any reflection on it. I want to find out if it is to be wisely considered for the purpose of helping us. I understand that we have now in circulation about a billion dollars more than we had in 1929, in money. Theoretically it is in circulation, although as a matter of fact it is not. But the total amount of money outstanding——

Mr. BARUCH (interposing). Do you mean, Senator Barkley——

The CHAIRMAN (interposing). Senator Barkley, do you mean gold?

Senator BARKLEY. No. I am talking about money now.

Mr. BARUCH. Do you men Federal reserve and bank notes?

Senator BARKLEY. I mean all kinds of circulation at this time amounts to about $5,700,000,000, and in 1929 I think it was about $4,700,000,000.

Mr. BARUCH. Yes, sir.

Senator BARKLEY. So that we have now a billion dollars more in circulation than we had in 1929. Of course, that money is not actually in circulation in the sense that it is working all the time, and working as you call it. There is a lot of it in banks, and some of it is hoarded in lock boxes and one place and another. I saw the other day where more than 50 per cent of all the bank deposits, outside of savings banks, was now in the vaults of 100 banks of the United States. If we were to take all the gold that we have, including all the gold dollars, the gold eagles and $20 gold pieces and all the bullion that we have, and coin it into money, it would amount to about $4,000,000,000 under the present valuation and the present size of the gold dollar. If we were to revalue that gold, to evaluate it or revaluate it, so as to coin about a fourth as much more——

Mr. BARUCH. About a third as much more.

Senator BARKLEY. Well, if you reduce it 25 per cent.

Mr. BARUCH. You would then have 1.33.

Senator BARKLEY. So that instead of having $4,000,000,000 gold actually now in the present gold dollar, say, we would have $5,000,000,000.

Mr. BARUCH. It would then be $5,300,000,000.

Senator BARKLEY. And if everybody who had any gold dollars would have to turn them in to the mint and have them melted into bullion and recoined into this new dollar, we would have a billion dollars more of them after we got them out than we have now. But we would not have any more gold. We would have the same amount of gold that we have now. Under the Federal reserve act and under the Glass-Steagall bill which we passed a year or so ago, I am informed there is already the basis for an increase in our circulating medium of about $4,000,000,000 which is not used now, or is not called for because of lack of demand, the banks won't loan money in the present state of confidence. Now, if we were to take all this gold and reduce the size of the dollar, and coin out of the present supply a billion dollars more than we have now, would the tendency be, so long as there is the same lack of confidence and the same lack of business demand that there is at present, is it probable that that extra billion dollars would find its way to the same place where the money now is, in hiding, either in banks or in vaults or in socks or wherever it is, or would there be an increase in the amount of money actually in circulation?

Mr. BARUCH. Your question is, whether if instead of a reserve of $4,000,000,000 we would have a reserve of $5,300,000,000 against currency, and therefore really a larger percentage of gold against the circulating medium, that would have an effect upon prices?

Senator BARKLEY. What effect would it have upon the workability of the money, the actual circulation of the money in business, which is necessary in order to expand business?

Mr. BARUCH. It would depend first of all whether people would have confidence then in the dollar and in the Government. If they have confidence, they will proceed to invest it in some enterprise; but if they haven't got any more confidence then than they have now, they wouldn't invest it. A mere increase of the medium in my opinion won't do anything.

Senator BARKLEY. That is the thing that has worried me about all these remedies. If we have a billion dollars more in circulation now than in 1929, when everything was booming, but the most of that money has been withdrawn from actual use because of lack of confidence, won't the same thing happen to any additional amount that we might either coin or print?

Mr. BARUCH. Well, certain things will take place. For instance, as Senator Connally brought out this morning, a man who is in debt, like the farmer, and has something to sell, he will benefit. But you must remember ——

Senator BARKLEY (interposing). He will benefit in the sale of his wheat, for instance.

Mr. BARUCH. Yes. And he can pay off his mortgage, perhaps, and he will then be free of his mortgage.

Senator BARKLEY. Well, let us assume that a farmer has 1,000 bushels of wheat now, and that it is worth a dollar a bushel, which it is not, but let us, for the sake of the argument consider that price. He will sell that 1,000 bushels of wheat and get $1,000 in the shape of the present dollar. But suppose we reduce the amount of gold in a dollar, so that instead of getting $1,000, he will get $1,250. When he turns around to use that $1,250, instead of $1,000, to buy machinery or fertilizer or anything else for which he must pay money, has he obtained really any benefit from the transaction? Doesn't he have to pay more dollars for what he buys than under the present situation? So in the long run has he really been benefited?

Mr. BARUCH. I think in the long run he will be benefited if he gets more dollars for his stuff, unless his mortgage is made payable in gold of the present weight and fineness and that can be enforced. But answering the other part of your question, the trouble is that it will not take effect and cause the rise in prices hoped for, unless there is a loss of confidence in the dollar, and then you get all the evils——

Senator BARKLEY (interposing). I know, but suppose there is no loss of confidence in the dollar. This remedy has got to work both ways if it works at all.

Mr. BARUCH. If people will believe that they won't repeat this performance, and if you still have your gold reserve, which we take for granted, I can not see any great evil effect from it. But I think you will be ruined before you get into it.

Senator BARKLEY. Probably you did not get my point. Leave out the question of debt for the moment. I realize if a farmer has 1,000 bushels of wheat, and instead of getting $1,000 for it he can get $1,250, and he can pay off $1,250 of debts with that $1,250, whereas he could only have paid $1,000 of his $1,250 debt before, he would be benefited. But laying aside any question of debt, and assuming that he is going to take these new dollars and exchange them for something that he has to buy, what about that?

Mr. BARUCH. If his wheat goes up then other things will go up.

Senator BARKLEY. Exactly. He does not get any more if he takes his $1,250 and buys something that the original $1,000 would buy.

Mr. BARUCH. No. The only question is, if they can go up together, then all right. But if they do not, and for instance take the matter of wages, then he is in a bad way.

Senator BARKLEY. But you can not figure that a change in the value of the dollar would produce an increase in the price of two or three things without going all the way along the line.

Mr. BARUCH. No, sir.

Senator BARKLEY. So that the question is whether after the transaction has occurred, on the theory as they say on the stock market, for the long pull, the people at large have been benefited.

Mr. BARUCH. I do not think so.

The CHAIRMAN. And if it would work with 10 per cent it ought to work with 50 per cent.

Senator BARKLEY. Mr. Baruch, in your suggestion of a farm bill a while ago I think you said, and we were talking about a so-called moratorium or stopping of foreclosures as I believe it was under your suggestion, would there be any encouragement in your plan if it were carried out, to those who now hold mortgages and are not foreclosing because there is nobody to buy, and because they do not want themselves to buy and take over land, would your scheme produce such a situation as would make a lot of mortgagees feel that it might run the value of land up and therefore they would go ahead and foreclose and buy the land in during this 2-year period or any other period, in the hope that they might sell at a profit later on?

Mr. BARUCH. I think it would have a tendency to stabilize farm values because there would be some value placed upon it. But it would not be all of one value, but a value depending upon the assessed valuation at the time, and other things that would come into the revaluation of that mortgage.

Senator BARKLEY. Of course, an eagerness of somebody to buy that farm, even the mortgagee, might tend to elevate prices generally above the present value or present level, I might say, for farm land.

Mr. BARUCH. Well, it might have that tendency. I know it would have a tendency to stabilize it. But I think the net result of it would be that it would help many farmers to retain their farms under less onerous conditions than they have now. That was the idea I had back of it. Of course, there are a lot of men who if they have a good mortgage would not take the new obligation but would take the land.

Senator BARKLEY. Mr. Baruch, with reference to your emphasis on the question of balancing the budget, which has been, as I happen to know, one of your themes for some time.

Mr. BARUCH. And always will be, Senator Barkley, until it is done.

Senator BARKLEY. Yes.

Mr. BARUCH. And I think you have taken too much time to do it.

Senator BARKLEY. Let us take the situation as it is. We have about $1,250,000,000 of annual charge on account of the public debt, interest, and annual payments to the sinking fund. The only way we can reduce that is to reduce the interest on these outstanding Liberty bonds, which might be done to the extent of a couple of hundred million dollars if the bond market were favorable, but under present conditions we may not be able to do that. So we will put that $1,250,000,000 on the shelf for the moment. Then we have about $900,000,000 as a charge at the present for veterans, hospitalization, benefits, and all that. That, we will say, is $2,150,000,000. Then we have the Army and the Navy costing another $700,000,000. There you have about $2,800,000,000, leaving, out of a possible $4,000,000,000 annual expenditures, about $1,200,000,000 for the ordinary running expenses of the Government out of which we can effect any economies. Are you prepared to make specific recommendations as to how to get the annual expenditures of the Federal

Government down below the $3,000,000,000 that you suggested this morning?

Mr. BARUCH. Yes, sir. I will say that I have had some figures made down here at Washington and I have not had time to go over them in detail. I had them prepared by I think a very able man, with the idea of showing what we would do if we had to do it. And you gentlemen understand it is not a question of what we want to do. Nobody wants to cut down any Government expenditure, and I myself do not want to do it, but they have got to be cut down unless we are to have other conditions. If the budget remains unbalanced we can not pay, and that is all there is to it. If you put down 2,800,000,000 dollars as sacrosanct, and say that you can not touch that—and I do not care to assume that——

Senator BARKLEY (interposing). Well, that is for illustrative purposes.

Mr. BARUCH. When you do that, and then say that we can not touch the Army or the Navy, or the veterans, and all these other things, and then if you go on with the fact that on account of this unbalanced budget we have already accumulated 4 per cent and 1 per cent amortization, or if you say 3 per cent and 1 per cent amortization, over $100,000,000 a year that we have to look after, and if you keep on with that, why, it can not be done. And if you go on with another $1,000,000,000 or $2,000,000,000, then you will get another million dollars at 4 per cent. Well, I feel that in this veterans' drive that we have, to cut out what are generally called the abuses of the Veterans' Bureau, I think we are laying too much emphasis on that alone. There are other things that could be done. There are a lot of other things hiding behind that citadel of letting the veterans make the fight. Take the Army and the Navy, and the comparisons of the sums of money, that if given a dollar to-day it would certainly be more than the dollar last year. But I know the difficulties of the situation, and when you lay aside certain amounts as sacrosanct then you are up against it and the only time when you will change it is when you go into bankruptcy, if you say: "We can not get our Government expenditures down below a certain amount." Last year I thought we ought not to have had more than $3,500,000,000 and I do not think this Government can vote more than $3,000,000,000 now. We just haven't got the money.

Senator BARKLEY. I appreciate fully that situation, Mr. Baruch. The other day I offered a few figures over there on the floor, figures that startled me when one compares them. We have in this country in the last three years reduced our total net income from about $85,000,000,000 to $40,000,000,000.

Senator KING. It is less than that, really.

Senator BARKLEY. Well, I will use $40,000,000,000 as it is an easy figure to remember. The total cost of government in this country is $15,000,000,000. That includes all kinds of government—State, county, city, and national. The total interest charge on what we owe in this country is $8,000,000,000, and out of $40,000,000,000 we are spending $23,000,000,000 for government raised by way of taxes, leaving about $17,000,000,000 to operate business and agriculture and the corporate and individual activities of all the people. It is perfectly apparent that we can not stand that sort of basis. We can not spend more than 50 per cent of our annual income in unproductive enter-

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prises, which we might say is represented roughly by government and interest on what we owe. Now, assume that we balance the Budget of the National Government by lopping off a billion dollars of the $23,000,000,000 that we are paying out now for government and interest, how far is that really going toward solving the economic problem which confronts the whole country?

Mr. BARUCH. In my opinion it goes right to the root of it. I hear this question asked so many times, not by one person, nor 20 persons, but by all of the innumerable persons in all walks of life in which I move: I have some money. What shall I do with it?

Senator BARKLEY. And what do you tell them?

Mr. BARUCH. I say, I don't know. That is the answer. Some fellow may say: If you don't know what can I know? I reply: I am serious, I don't know what to do with it. Then I say: If I could get everybody who has money—and somebody owns all this money in the banks, and I do not know what the deposits are—but I say: Our objective ought to be to get that money to work, and by doing that we will get people back to work, and then you will have a money turnover, and then with the turnover, and even with the enormous debt and taxes, if we can get activity in business, say, of 20 per cent, we will be over the top of the hill. Therefore, I say confidence goes to the root of the thing. If you can get the man who has money to say: I am going to put it into this venture or that venture, I am going to lend it, I am going to do something because I know my money is all right, you will have started the wheels going. Things are going down like this [indicating] now, and you want to stop that, and to start them going up.

Senator BARKLEY. I agree with you, Mr. Baruch, entirely on the matter of balancing the Budget, but I think it ought to be done by reducing expenses instead of increasing taxes. But I am not quite able to go along with you in saying that is the magic wand that will start things back, that as soon as we quit spending more in the Government that will of itself turn the wheels.

Mr. BARUCH. The first thing that will happen if you have your Budget in balance, of the huge amounts of bonds carried in the banks to give them a hiding place, they can be sold to the people, to investors, and that would start the wheels going, and get people to putting money into investments instead of hiding places. Then, after they are satisfied with that, they will turn round to something else.

Senator KING. Mr. Baruch, isn't this really one of the primary considerations that would result from a balancing of the Budget, or rather failing to do it, if we do not balance the Budget there will be this continued and increased apprehension that the credit of the Government itself, including State and municipal governments, will soon be impaired and Government securities can not be sold? If we continue to increase deficits and a loading up with bonds, then the Federal Government itself may be plunged into the abyss, carrying business with it.

Mr. BARUCH. I think that is what goes to the root of the matter, and whether justified or not it is still there.

Senator BARKLEY. I do not know whether you would want to answer this question or not: Our total indebtedness in this country is $154,000,000,000, including all kinds of governmental debts, all kinds of corporate debts, all agricultural debts, all personal debts;

it amounts to $154,000,000,000, which is more than half of our total wealth. In fact, we do not know what our total wealth is just now. When we were on the upgrade, two or three years ago, we were estimated to be worth about $350,000,000,000, not net but gross. Would you want to give an opinion as to whether this country can ever lift itself out of that enormous burden of debt without a considerable scaling down? And if you do not want to answer that question, all right.

Mr. BARUCH. My personal opinion is that it can not.

Senator KING. Might I suggest right there, would the ——

Mr. BARUCH (continuing). And already that indebtedness is really wiped out in the markets. Take railroad bonds, where you have a market, and you gentlemen understand that ——

Senator KING (interposing). Yes; they are scaled down all right, because the man who bought a bond or a stock at $100 four years ago may have had to sell it for $25.

Mr. BARUCH. Yes, Senator King, and you can get a good many witnesses to that.

Senator KING. He scales it down but holds it against the corporation that issued the bonds. That is not a scaling down brought about by legislation.

Mr. BARUCH. No, sir.

Senator KING. It is, of course, a voluntary scaling down, like all scaling down must be voluntary, unless it goes through the bankruptcy courts.

Senator GORE. It is not a scaling down so far as the corporation is concerned.

Senator BARKLEY. No. Now, to get to the farm situation——

Senator KING (interposing). Isn't it a fact, however, that notwithstanding this large indebtedness to which Senator Barkley referred—and, by the way, Prof. Irving Fisher says it is $230,000,000,000 instead of $154,000,000,000.

Mr. BARUCH. Oh, well, what are a few billion dollars as between friends.

Senator KING. Isn't it a fact that much of that would wash itself out if it were in active business? The aggregate may be a maximum of $230,000,000,000, but if you start $1 out at work, and A gets it, and A pays it to B, and B pays it to C, the debt being domestic instead of foreign, much of this debt would be wiped out. It would be a bookkeeping transaction in the course of a year or two if we had active business.

Mr. BARUCH. Yes; because earning capacity behind an indebtedness increases the value of the indebtedness.

Senator BARKLEY. If we could get our annual income back to $85,000,000,000 it would be different. Now, Mr. Baruch, let us take the case of the farmer: Do you think the bankruptcy law offers any remedy for the farmer?

Mr. BARUCH. So far as the farmer is concerned I was trying to apply this if certain processes have set in. If the farmer can not sell then he can not pay off his mortgage, and the fellow who has the mortgage can not sell it. Now, if he could establish some relationship whereby there could be an exchange of some new bond for that present indebtedness, on a basis that gives the use of Government credit, if we could establish that as a means of reducing his fixed obligation, and therefore his interest charges, he would be helped, and the man who holds the mortgage could be helped, because he can not sell it now.

Senator BARKLEY. I think you have in mind some agency probably of a kind of Government set up to bring about accommodation between debtor and creditor. The word "bankrupt" is odious to the average farmer. Many of them would rather lose their farms than to go into a bankrupt court. What I had in mind was: Do you think farmers as a class, and I am not attempting to put them above anybody else, but they are not skilled in the intricacies of the bankruptcy law, and it is a last resort, and in the most extreme case at that when the farmer will go into a bankruptcy court to get relief from his debts——

Mr. BARUCH (interposing). There is no question about that. In the reconstruction days I lived in South Carolina, when nobody had anything, but the last thing anyone wanted to do was to leave his debts unpaid.

Senator BARKLEY. I have thought that any bankruptcy law we might pass offers to agriculture no remedy or relief. What do you think about that, Mr. Baruch?

Mr. BARUCH. I think you have two things mixed up a little bit. What I had in mind about this LaGuardia bill was to make it possible to shorten bankruptcies and not permit a small amount of private claims, either against an individual or a corporation, to hold up a settlement when a large majority of the claims against an individual, we will say, agree. That very frequently happens in court. Sometimes you have to pay one man 100 cents on the dollar when the other 75 per cent are willing to give up. That is happening all through the country. In New York City we have mortgages, and they are making adjustments at, say, 75 per cent, and are reducing the interest to 4 per cent.

Senator LA FOLLETTE. Mr. Chairman, might I now ask a few questions that occur to me?

The CHAIRMAN. Yes.

Senator LA FOLLETTE. I will try to be as brief as possible. Mr. Baruch, on page 2 of your statement you said:

> It seems to be agreed that costs of Government have risen to about 33½ per cent of national income.

Have you in mind what percentage of cost of Government is Federal as distinguished from State and local?

Mr. BARUCH. Senator Barkley just stated that, but his figures are larger than mine.

The CHAIRMAN. Do you mean of the United States Government, or the States and cities and counties?

Senator LA FOLLETTE. I asked Mr. Baruch what percentage of the total cost of Government was chargeable to the Federal Government.

The CHAIRMAN. And that includes State, county, and city.

Mr. BARUCH. No; as I understand, you are only asking as to the United States Government.

Senator LA FOLLETTE. Yes.

Senator BARKLEY. About 33⅓ per cent.

Mr. BARUCH. No; not for the United States Government.

Senator BARKLEY. The annual expenditures of the United States Government are nearly one-third of the total of the Government charges of the country.

Senator LA FOLLETTE. That is higher than the figure I have seen usually quoted. It is placed somewhere between one-fourth and one-fifth of the total cost of Government. The point I wanted to bring out was this: You could not, Mr. Baruch, accomplish the results which you seek to obtain and hope for as flowing from a balancing of the budget of the Federal Government, by merely doing that and stopping there. Balancing budgets is to be the next objective toward remedying economic conditions, as I took it from your statement you believe necessary, but the problem does not stop with the balancing of the Federal Budget. There is also the problem of the larger governmental expenditures of States and counties and cities and municipalities, which in the aggregate is much larger than the Federal Government's expenditures.

Mr. BARUCH. That is right, sir.

Senator LA FOLLETTE. Then also I wish to bring out, or to get your idea, as to whether or not there is not a great deal of money of the Federal Government spent for services which we would otherwise have to maintain regardless of whether carried on by the Federal Government or not. I have in mind such items as national defense, and the other items which must, I think, or almost anyone would admit, are necessary in any event, and that statement brings me to another question: In another part of your statement as I understood it, Mr. Baruch, you said that $800,000,000 should be cut out of the Federal Budget. Is that right?

Mr. BARUCH. If you want to bring it down.

Senator LA FOLLETTE. Could you tell us where to make the cuts?

Mr. BARUCH. Well, of course that is a moot question. I can show you figures that have been made up and which I have not studied myself.

Senator LA FOLLETTE. I wanted to get your suggestions, if you had any, as to how that could be accomplished, because that seems to be where even the most ardent Budget balancers fall into disagreement among themselves when they start in to carry out their proposition that we should cut and slash.

Mr. BARUCH. Well, I base that upon this, first: That I believe if we did that there would be enough revival in business to bring up the receipts of the Government so that the Budget would be practically in balance. If you did it only to 3½ billions of dollars it would not do that. But if you bring it down by a cut of $800,000,000 it would bring it to $2,800,000,000. Then I believe there would be such a restoration of confidence that it would bring up the receipts.

Senator LA FOLLETTE. That is a mathematical calculation.

Mr. BARUCH. Yes, sir.

Senator LA FOLLETTE. But the problem that confronts both the executive and the legislative branches of the Government is: Where are you going to start with those cuts? And when you start with it then those who have been most ardent about the matter are opposed to your cutting the thing which they think, or a particular group happens to regard, as a particular service of the Government.

Mr. BARUCH. Now, let us take the Army and the Navy. I have from the figures I have had presented to me at different times, and I believe we could get just as effective ones, that this money if spent in a different way——

Senator SHORTRIDGE (interposing). That is the point. Will it be as efficient?

Mr. BARUCH. Yes; I think it would be. After all, Senator, we have to cut our cloth accordingly. If you have not the money you can not do certain things, and then it will be a question of the best judgment of where that cut ought to be.

Senator LA FOLLETTE. That is where the difficulty comes in. The minute you start in to find out where to cut $800,000,000 you find a great divergence of opinion, not only in the Senate, but among the very groups out in the business world, coming from those who have been very active in their condemnation, or very vociferous in their condemnation of Congress because it does not proceed to make cuts. I am not going to point out any specific example because I think it is a very human reaction, but I get letters in one mail from business men in my own State urging me to join in the economic drive. Then when the Appropriations Committee cuts off some activity of a bureau, or some activity that they are interested in, they immediately write me and tell me to get up and fight that particular proposal. All I am trying to point out is that it is easy enough to make an arithmetical calculation as to how much should be cut out of the budget in order to bring it more nearly into balance, but when you get down to the practical proposition as to where the cuts are going to fall, it is a much more difficult problem.

Mr. BARUCH. In other words, a man is willing to cooperate as long as you do all the cooperating.

Senator LA FOLLETTE. Yes, sir.

The CHAIRMAN. We can save $400,000,000 here in one place. But we won't do it. We have not the votes.

Senator SHORTRIDGE. And what is that place?

Senator KING. The Veterans' Bureau.

The CHAIRMAN. In the Veterans' Bureau.

Senator SHORTRIDGE. Just for the record I wanted that stated.

The CHAIRMAN. The Veterans' Bureau, where we are paying men who were thousands of miles from the scene of war, and who never saw a gun fired, and who are just as healthy as you are, and more so.

Senator SHORTRIDGE. I doubt it.

The CHAIRMAN. And they are drawing $400,000,000 from the Government.

Senator LA FOLLETTE. I do not wish to get into anything that is going to be a miniature Senate debate here. I wanted to bring that question out. Now, Mr. Baruch, another point: On page 4 of your statement you say:

> I am not speaking of overproduction which is a mere correlative of underconsumption. I mean excess productive capacity.

As a matter of fact do you really believe that with very few exceptions taking the world as a whole there is no real overproduction? Isn't it a matter of inability to consume? You go forward to mention certain raw materials of which there is an excess of production, but if we were to envision a high enough standard of living for the peoples of the world there would not be as a matter of overproduction with very few exceptions.

Mr. Baruch. If we could possibly see in front of us enough demand to consume all these things, why, you would have a different story. But we have not yet been able to envision that.

Senator La Follette. My only point is that for the long pull perhaps you can over emphasize an attempt to regulate, curtail and restrict production to meet the failing ability to consume, whereas if we were ever to establish economic stability it has always seemed to me we should not overlook the fact of lifting the capacity to consume to more nearly equal the capacity to produce.

Mr. Baruch. I tried to suggest that thought, that we had gone from the delusion of grandeur to the delusion of poverty. I think there is a good deal in the mental condition of the poeple. If it were possible to lift this up in the way I suggested, that that was the only practical one. There would be a reconsumption of goods that might change the whole picture.

Senator La Follette. Mr. Baruch, you spoke in one place of phantom values which we have been struggling to maintain. From that do you mean present commodity prices and values of real estate, and other essential values, are now at normal?

Mr. Baruch. No; my opinion is that it is subnormal. You must see it is subnormal from what I have been suggesting. Present values are due not alone to fear of what has been but of what is and what might happen over this country, and we are coming to feel ourselves hopeless with the reflection of the prices of commodities as you have referred to them.

Senator La Follette. On page 8 you said:

First and foremost, make adequate provision against human suffering.

Of course I agree with you absolutely about that. But it leads me to ask this question: Do you believe that the money necessary to prevent human suffering in this country may be borrowed, either directly or indirectly, as a means of providing it rather than attempting to carry it as a current item of expenditure in the budget?

Mr. Baruch. I tried to show you what I thought should be done, whatever money you need to use there are additional taxes, and you have a large field, if you have an excise tax, and you can widen that field, and put on additional taxation. That will be for interest and amortization of that loan in a certain length of time, and you can use that money.

Senator La Follette. But you see no objection to carrying items of that kind outside the current budget, provided you set up the means for their amortization and retirement?

Mr. Baruch. I do not. I tried to make that plain, Senator.

Senator Shortridge. Mr. Baruch, for the record——

Senator La Follette (interposing). One minute, please.

Senator Shortridge. I beg pardon; I thought you were through.

Senator Barkley. Mr. Baruch, do you make the same answer to the inquiry as to whether all this vast construction program of the Government should be carried as current expense, or would you charge that to capital investment and provide for its gradual amortization after a period of years instead?

Mr. Baruch. Yes; plus this fact, that where you put in a capital investment on what I term a self-liquidating enterprise. And by that I mean something that we have, like a bridge in New York City, on which they will charge tolls, and those tolls ought to be impounded and come back to the Government and start to pay interest and amortization, and you would amortize the bonds and draw them down, and as things started to improve your indebtedness would gradually come down.

Senator La Follette. Even a budget of a corporation, which, of course, I do not agree is entirely analogous to a governmental budget which has the taxing power behind it; even the budget of a corporation would not charge off capital expenditures for increased plant capacity as a current operating item.

Mr. Baruch. Yes, sir; they ought to pay it every year.

Senator La Follette. Well, you mean to charge off the debt service on it?

Mr. Baruch. Do you mean interest on debt and amortization?

Senator La Follette. But you would not find, for instance, in a statement of the United States Steel Corporation, when they were going to spend $5,000,000, let us say, this year for new plant, they would not set that up and try to charge it off out of revenues for the current year.

Mr. Baruch. Yes; for depreciation.

Senator La Follette. I understand that.

Mr. Baruch. They must charge that off.

Senator La Follette. But we are carrying in this Federal Budget an item for capital expenditures as though it had to be provided for out of this year's revenue.

Mr. Baruch. As I said, if you have to spend a billion dollars for some purpose, or for relief; if you would issue a billion of dollars worth of bonds, and pay interest and amortization through taxation, that ought to be carried as capital.

Senator La Follette. And that applies, as Senator Barkley suggested, as a capital expenditure, for public works.

Mr. Baruch. If you provide for interest and amortization, I think it is sound.

Senator Barkley. Take all this public buildings program started here two or three years ago, for which we provided $500,000,000. Of course those buildings take the place of private buildings upon which the Government pays enormous rents, and it was of course inaugurated as employment relief also. Presumably those buildings are to benefit the people for 50 years. The question in my mind is whether they ought to be charged off against revenues of one year, as if they were going to be torn down at the end of the year, or if they ought to be a capital investment paid for by taxes, of course, but spread out a period of 15 or 20 years, so that you do not have to consider them in your annual budget, except interest and amortization.

Mr. Baruch. Interest and amortization to the extent of replacing the old ones, yes.

Senator La Follette. Mr. Baruch, you spoke of the danger of our losing gold. Do you happen to have in mind the amount of claims which foreigners have on gold in the United States?

Mr. Baruch. No, and I do not think anybody has that.

Senator La Follette. You do not think those figures are available?

Mr. Baruch. They may be available through the Federal reserve system, or they might make a good guess at it. But I do not know.

Senator La Follette. Have you any idea what the holding of American securities abroad is?

Mr. BARUCH. No; but the best guess that has been made is that, including the debts owed by the allied governments, it is over 20 billion dollars. Those are the figures that are generally used, and I have never heard them disputed.

The CHAIRMAN. Senator La Follette, Mr. Teague is here, and we would like to get through with him this afternoon.

Senator LA FOLLETTE. One more question. Mr. Baruch, you referred also to the fact that people sold goods to obtain money. As a matter of fact, they are selling goods in order to exchange goods, are they not?

Mr. BARUCH. Do you mean to new barterers?

Senator LA FOLLETTE. Yes.

Mr. BARUCH. Yes.

Senator LA FOLLETTE. Another thing, the most of the business done to-day is being done at a loss, isn't it?

Mr. BARUCH. I think so.

Senator LA FOLLETTE. What causes that?

Mr. BARUCH. Well, a man has an establishment, and he wants to keep it up, doesn't want to discharge his employees, and it is always a case of the hope of to-morrow.

Senator LA FOLLETTE. Has banking policy anything to do with it?

Mr. BARUCH. I do not think so.

Senator LA FOLLETTE. You do not think that there has been any pressure upon business from the banking community in order to become liquid, which has forced the liquidation of goods and their sale at a loss?

Mr. BARUCH. I would answer the question this way. Naturally, if a concern owes money to the bank they are going to sell what they can if the bank puts pressure upon them. There is no doubt about that.

Senator LA FOLLETTE. What I was trying to find out was whether or not the banking policy had contributed anything to this forced liquidation of goods and this decline in the price level.

Mr. BARUCH. I do not think so. I think it did in the beginning, but I do not think so now. Except the natural pressure of a bank that is owed money, they want to get the money.

Senator LA FOLLETTE. That is just the point.

Mr. BARUCH. That is always happening, Senator. When a concern owes money to a bank and the bank wants the money, the concern naturally will try to get the money to pay what it owes. Nobody wants to go through bankruptcy, and the fellow will sell his shirt if necessary to get the money.

Senator LA FOLLETTE. There has been a lot of that?

Mr. BARUCH. Yes; a fellow is scared to death and wants to get out of debt.

The CHAIRMAN. We notice in the sales that are made, the ones that are cutting the prices more than any one else and leading in the price reduction are the large stores that are not in trouble at all, but they have got to keep up the volume of business in order to pay their expenses, and that is the way they are doing it.

Mr. BARUCH. That is quite true. I think it is a mixture of everything. But I do not think there is an malicious endeavor, Senator, on the part of——

Senator La Follette. I am not questioning anybody's motives. I do not think there is any profit in doing that. I am only interested in getting your view as a very experienced man of business affairs as to what some of the contributing factors to the situation are. You mentioned one of the benefits to be derived from a balanced budget the influx of gold into the United States. Is it not true that there has been a considerable influx of gold during the last eight months?

Mr. Baruch. Yes, sir; but whenever you talk about balancing the budget it flows in here. If we did this this would be the safest place in the world for everybody and they would put their money here.

Senator La Follette. But have not the gold transfers resulted in an increase over the last eight months, and I merely wish to point out that it has not yet produced any of the beneficial results that you anticipated?

Mr. Baruch. And the only reason it has not is because it has not come in sufficiently, because there is not sufficient confidence.

Senator Barkley. It does not stay when it does come?

Mr. Baruch. It will stay when we balance our budget. That is my opinion. I get back to that all the time.

Senator Barkley. Up to what percentage?

Mr. Baruch. The people do not know which way to turn with their money. They do not know how to put it to work.

Senator Shortridge. Mr. Baruch, you have mentioned the word gold and the word silver, and necessarily repeated even the word money. What is money? Will you for the record give us your definition? What is money?

Mr. Baruch. Well, money is the medium which people are willing to accept for the exchange of goods and services.

Senator Shortridge. Gold bullion is not money, is it?

Mr. Baruch. No. But gold is the basis of the ——

Senator Shortridge. No, but ——

Mr. Baruch. You asked the question and I would like to answer.

Senator Shortridge. You answered the question. Gold out in the undeveloped mines of California is not money?

Mr. Baruch. No, sir; not until you get it out.

Senator Shortridge. No.

Mr. Baruch. Neither is anything else of value.

Senator Shortridge. All right. Silver bullion is not money anywhere, is it?

Mr. Baruch. No, sir.

Senator Shortridge. When it is in the mines there undeveloped in Utah. And I dare say they have vast quantities of that metal. Now what is the transformation which turns gold bullion or gold in the mines of Alaska, in the ledge, or in California, or the silver in Utah—what is the process that turns the bullion into what we call money?

Mr. Baruch. Take the gold and carry it to the mint and they give you $20.67.

Senator Shortridge. Oh, no, it is Government that makes it, is it not?

Mr. Baruch. I say when you take it there and they stamp it $20.67.

Senator Shortridge. Yes. Governments.

Senator Walsh of Massachusetts. Government action does it.

Senator SHORTRIDGE. I have an idea struggling to emerge. Governments must then pass laws whereby certain metals are called or turned into and regarded as money for the exchange of products?

Mr. BARUCH. Yes, sir.

Senator SHORTRIDGE. Is that right?

Mr. BARUCH. Yes, sir.

Senator SHORTRIDGE. From the remotest periods the metal, gold, has been by government made into money, has it not? And from even remoter periods, far back yonder, in Egypt and India and Mesopotamia, governments have turned the metal, silver, into money, have they not?

Mr. BARUCH. Yes, sir.

Senator SHORTRIDGE. And through the ages, the centuries, the old gray centuries, governments have turned those two metals into money, is that right?

Mr. BARUCH. Yes, sir.

Senator SHORTRIDGE. They could do it tomorrow, could they not, on a ratio?

Mr. BARUCH. Well, it all depends on what the ratio is.

Senator SHORTRIDGE. Why certainly. Certainly.

Mr. BARUCH. As long as you do not make—you are familiar, of course, with Gresham's law?

Senator SHORTRIDGE. I have read the book.

Mr. BARUCH. And as long as there is the cheaper money of course that will always drive out the other money.

Senator SHORTRIDGE. Well, but that depends on the ratio.

Mr. BARUCH. Yes. If silver were 25 cents as now and you made it on the basis of 20 cents people would buy silver instead of gold.

Senator SHORTRIDGE. Precisely. But if governments would agree that we need money—now we have not really had a definition of money yet.

Senator KING. Purchasing power.

Senator SHORTRIDGE. No. Well, pardon me, Senator.

Senator KING. That is all there is to it. Purchasing power.

Senator SHORTRIDGE. It is a measure of human labor, is it not? Is not that the idea of the value of money?

Mr. BARUCH. Well, something that you will exchange for your labor.

Senator SHORTRIDGE. Yes.

Mr. BARUCH. Instead of using barter, people take something in exchange for it.

Senator SHORTRIDGE. Yes, truly. Shells in some countries were used as money, were they not?

Mr. BARUCH. Wampum was used in this country.

Senator SHORTRIDGE. Yes, certainly. And it represented human labor, and that was used in lieu of an absolute barter of labor for labor or coon skin for coon skin.

For future discussion I want to get your view on this further point. When gold was discovered in the far West it had a very materially beneficial effect on the business of the country, did it not? When gold was discovered up in Alaska similarly there were beneficial results? Is that right? Now if capital could return into the developing of the mines of our own country, the gold mines, that would be beneficial, would it not? By increasing the volume of what we call money? And would it not be so—and by putting the question I do not indicate my views; I want to develop the thought—if a metal as bullion is not money, if the metal which we call gold or the metal we call silver is not money in its original state, and if governments can turn it into money, why would it not be a wise thing to make use of they metal, silver, since the quantity of gold is more or less limited?

Mr. BARUCH. Well, of course if they could turn it into money and the people will take it as money you are right.

Senator SHORTRIDGE. Well, they took it for about 1,900 years.

Mr. BARUCH. Yes, sir. And they might take it again. But look at the countries on the silver basis as compared with America on the gold basis. Although that is not naturally a sequatur, I will admit that. My remarks are not naturally a sequatur, I will admit that.

Senator SHORTRIDGE. Of course we call a piece of paper money. Is it money?

Mr. BARUCH. Well, if you can use it for money.

Senator SHORTRIDGE. Well, is it money?

Mr. BARUCH. Yes, sir.

Senator SHORTRIDGE. Then gold is money?

Mr. BARUCH. That is money as long as people will take it as such.

Senator SHORTRIDGE. I might pursue the matter, but I thank you for your views.

Senator WALSH of Massachusetts. May I ask you, Mr. Baruch, a question? Calling your attention to what you said about the destructive effects of devaluation I want to read a sentence.

Mr. BARUCH. What page is this?

Senator WALSH of Massachasetts. Page 20.

Labor, which has already suffered a 40 per cent to 50 per cent reduction in income, would certainly find itself the victim of a new and greater cut—not by its employers, but by the very government upon which it relies for protection. And not labor alone.

Would you care to amplify that?

Mr. BARUCH. Yes. What I mean by that is this, that what has always occurred would occur. The extremes of this thing result in this, that wages never move as fast as other things, sir. If the price of things went up they would not raise the price of labor in proportion to the other things. If everything rose together that would be all right, but that is not the history.

Senator WALSH of Massachusetts. You base that on the experience in the past in inflation movements?

Mr. BARUCH. Yes, sir.

Senator WALSH of Massachusetts. What has been the experience in England?

Mr. BARUCH. In England the things are just about where they were when they put inflation into effect. That I could not answer. What I had in mind more, of course, was the experience of a country like Germany.

Senator WALSH of Massachusetts. Where labor specially suffered?

Mr. BARUCH. Yes. Finally everybody suffered.

Senator WALSH of Massachusetts. Yes.

Senator LA FOLLETTE. On that very point, Mr. Baruch, you mentioned in your statement, and you just now mentioned again, the fact that British prices did not rise after the country went off the gold standard. But as a matter of fact prices fell elsewhere, and

British prices on a weighted index rose about 2 per cent. So that measured in what happened elsewhere their prices really have risen, is that not true? For instance, prices here since England went off the gold standard have fallen, according to the Federal Reserve Bulletin, about 10 per cent. They have risen in England about 2 per cent. They have fallen in Germany about 14 per cent, and in France about 13 per cent. So that as compared with what happened elsewhere their prices have really risen substantially have they not?

Mr. Baruch. Well, that is like a good many post hoc arguments. In the meantime, England has put on the tariff and the Empire trading, and every one of these countries have shoved up their tariffs. That complicates it very much.

Senator La Follette. I understand that, but it is not quite right to say that the prices have not——

Mr. Baruch (interposing). I took these figures from—I haven't got them in front of me, but the statement I made is substantially correct, sir.

Senator King. Well, it is worthy of comment, if I may be pardoned for interrupting——

Senator Walsh of Massachusetts. Senator Gore wants to say a word.

Senator Gore. I want to interject that gold prices have declined in England 23 per cent since then; gold prices have declined in Germany since that time 15 per cent, and in France 13 per cent. That is in gold price.

Senator King. It is worthy of comment, however, that Mr. O'Brien, the head of the Tariff Commission in the report which was submitted has stated that so far as it affected our trade and commerce or prices in the United States there was no disadvantage by reason of England going off the gold standard, and that the imports into the United States have been substantially the same, relatively, from those countries operating on the gold standard and those that have gone off of the gold standard. That is to say, there have been declines, but the decline has been substantially the same, in the same ratio, whether they were on the gold standard or off the gold standard. And he has deduced from that that going off the gold standard has not affected the imports into the United States.

Senator Shortridge. Senator, do you not think that depreciated currency has resulted in increased imports?

Senator King. I do not. Quite the reverse.

Senator La Follette. Mr. Baruch, may I ask you one more question?

Mr. Baruch. Certainly.

Senator La Follette. You anticipate that balancing the Budget will help to start business in this country?

Mr. Baruch. Yes, sir.

Senator La Follette. Are you relying largely on the psychological factor?

Mr. Baruch. Yes, sir, on the psychological factor. The dispelling of the fear in the man's mind that the dollar is not going to be as good to-day as it was yesterday.

Senator La Follette. It has been in balance some times early in the depression and it did not seem to stop the depression. I wanted to bring out whether you felt it was the psychological factor that was the chief thing.

Mr. BARUCH. I think it is the thing that has been turning the thing faster than it should have been.

Senator BARKLEY. Do you think the fact that prior to that it was over-balanced had any effect on business.?

Mr. BARUCH. What is that?

Senator BARKLEY. The fact that the Budget was over-balanced? That we had a surplus every year from $300,000,000 to $900,000,000 for four or five years prior to 1929—did that have a beneficial effect on business?

Mr. BARUCH. Looking at the records: Retiring the Government bonds and taking those out and making people get into other investments. And that was the period of our highest prices. Not entirely because of that, but I think it was affected by the great amount of retirements.

Senator BARKLEY. The reverse effect probably would be true?

Mr. BARUCH. Undoubtedly. In my opinion it would be true.

Senator BARKLEY. The Government is spending more money than it takes in. And that fact is from lack of confidence and the decline in prices and the situation which confronts us. Reversely, the taking in of more money than the Government spends and the consequent improvement of its obligations would have the opposite effect.

Mr. BARUCH. Yes.

Senator BARKLEY. Thank you.

Senator GORE. On the point that Senator Connally was asking. You state that if we should reduce the number of grains in the gold dollar, or should take steps looking in that direction, it would result in immediate withdrawal of all gold reserves from the Treasury, and from the banks too, I take it?

Mr. BARUCH. Yes. From the Federal Reserve System. They would be the one that would have it taken from them.

Senator GORE. Would not the withdrawal be from the Federal Treasury in the case of the greenbacks?

Mr. BARUCH. No; from the Federal Reserve System.

Senator GORE. Not of the greenbacks.

Mr. BARUCH. No. I think some of them are only redeemable in silver, and the bank notes are redeemable in something else. But the Federal Reserve notes are the only ones redeemable in gold.

Senator GORE. But the old United States notes are redeemable in gold at the Treasury.

Mr. BARUCH. Yes.

Senator GORE. Would that not cause a complete collapse of the credit structure?

Mr. BARUCH. Undoubtedly.

Senator GORE. Would it not also tend to draw gold from other couhtries into this country and drain the gold reserves?

Mr. BARUCH. Do you mean because people would want to buy it?

Senator GORE. No. Let us assume that we divide the number of grains in the gold dollar half in two. That makes the calculation easier. That would double the debt-paying power of a given number of grains of gold?

Mr. BARUCH. Yes.

Senator GORE. You would pay twice as much debts, and we would assume they would have just as much purchasing power as debt paying power. Now if we double them, we, now having $4,000,000,000 of gold, would then have $8,000,000,000. That would be diminished weight and value, of course. Now that would be a gift to the people who hoarded their gold of $4,000,000,000 would it not?

Mr. BARUCH. Yes.

Senator GORE. A few would get nothing in return. Those that had hoarded their gold could avail themselves of the law and double their boarded gold, is that not true?

Mr. BARUCH. Yes, sir.

Senator GORE. Would that not tend to draw gold into this country from other countries, where it could pay twice as much debt as it could there?

Mr. BARUCH. Well, if we had any debts like the foreign debts, if they were not payable in gold, the person that had borrowed would be able to pay off their debts with the new dollar.

Senator GORE. Yes. And if foreign gold came in here its debt-paying power and purchasing power would be doubled, when it got in here? Because a less number of grains of gold would make an American dollar?

Mr. BARUCH. If things did not go up, that is the point.

Senator GORE. Yes. I am coming to that.

Mr. BARUCH. If they did not go up.

Senator GORE. I am coming to that. It would tend to drain gold out of foreign countries, and in so far as it would drain the gold out of foreign countries it would shrink their credit basis, would it not?

Mr. BARUCH. Yes; if they did that, unquestionably.

Senator GORE. Would that not shrink their purchasing power?

Mr. BARUCH. Yes.

Senator GORE. Would that not make them worse markets for our surplus products than they are now?

Mr. BARUCH. Yes.

Senator BARKLEY. Senator Gore, right on that point let me ask this question. If this scheme or plan would drain our own gold supply from the Treasury, from the Federal reserve system and the places where it is now, and the same thing would drain the other countries of all their gold, where would it go?

Senator GORE. To this country where it pays the debts.

Senator BARKELY. It would come into this country?

Senator GORE. Yes. It would double its value.

Senator BARKLEY. What would happen to it? What becomes of the gold that is drained from the Treasury and the Federal reserve system, leaving out all foreign gold? What happens to it if it is going to be drained from the places where it is?

Mr. BARUCH. Well, what finally will happen, the gold will be used to buy something with it.

Senator BARKLEY. Yes.

Mr. BARUCH. I mean, it is not going to disappear. You are not going to eat it at all. It is still there.

Senator BARKLEY. It might be withdrawn from the Treasury and the Federal reserve system and hidden.

Senator GORE. Hidden. Twenty-five grains make a dollar now?

Mr. BARUCH. Yes.

Senator GORE. Suppose 12 and a fraction grains make a dollar under that scheme; then these foreign countries can come in here where they can pay with a gold dollar containing 12½ grains a dollar of debt that was contracted when we had the old dollar containing 25 grains, and they will come in here with the dollars containing 12½ grains of gold to pay the debts.

Now I will put the reverse side of it. Any scheme to take grains of gold out of the gold dollar has reference to some fixed level of prices at some given period of time, does it not?

Mr. BARUCH. Yes.

Senator GORE. Now, if when prices go down you take grains of gold out of the gold dollar and they go down below your fixed standard of price level, then when prices go above your fixed price level you have got to put more grains in your gold dollar, haven't you?

Mr. BARUCH. You have got to pay more gold for it; that is so.

Senator GORE. That works both ways.

Mr. BARUCH. That is if you change your standard, Senator. Is that what you mean?

Senator GORE. Well, that is what we are doing. That is what we have under consideration.

Mr. BARUCH. Yes. True.

Senator GORE. When prices go down below our fixed price level, whatever that may be—we will say it goes down one-half—then we will say that 12½ grains instead of 25 grains of gold make a dollar. Now, suppose prices would go twice as high as your fixed level, then you have got to put 50 grains of gold in your gold dollar. You have got to work this in both ways.

Mr. BARUCH. Certainly.

Senator GORE. Now, then, suppose you lived at Buffalo and prices went up above our fixed and chosen level, and Congress here is going to put twice as many grains of gold in a dollar as now, do you not think that anybody that has gold on the border would take it across to Canada?

Mr. BARUCH. Yes. In the meantime he would be so dizzy that he would not know where he was with all these changes.

Senator CONNALLY. He would not be any dizzier than he is now.

Mr. BARUCH. He is pretty dizzy now, Senator, but it would make him dizzier.

Senator GORE. Would not such a plan make it still more difficult than now to establish and maintain any fixed standard of value for international trade?

Mr. BARUCH. Yes, sir.

Senator GORE. Is not the lack of such a fixed standard one of the most serious embarrassments now to world trade?

Mr. BARUCH. Unquestionably.

Senator GORE. Nobody knows how to compute it; whether you are going to gain or lose by contracts, because you can not tell whether the exchange is going to go up or down. That would obstruct trade and make recovery more difficult than it is now?

Mr. BARUCH. Unquestionably. I tried to bring that out in my statement.

Senator GORE. I did not hear all your statement. The variable standard of international currencies discourage trade?

Mr. BARUCH. Absolutely unquestionably.

Senator GORE. In relation to future contracts?

Mr. BARUCH. Unquestionably.

Senator GORE. We have got about $100,000,000,000 of indebtedness in this country that carry the gold clause. A great deal of that is Government bonds. Thirty billion dollars of Government bonds of some kind or another containing the gold clause, principal and interest payable in gold.

Senator KING. Of the present weight and fineness.

Senator GORE. Yes. You said this plan would make it easier on the taxpayer. It would for current expenses. But in order to pay taxes to pay Government debts, principal and interest, he would have to pay twice as much gold as he does now if you cut the number of grains in the gold dollar down to half. He would have to get two of these new dollars to pay a dollar of the old debt.

Mr. BARUCH. The old debt. But if your taxes are in the new dollars he would have to pay the same amount of dollars.

Senator GORE. No.

Mr. BARUCH. But the Government would have to go out and get twice as many dollars.

Senator GORE. That is the point.

Mr. BARUCH. They would have to go out and get twice as many dollars with which to pay their interest.

Senator GORE. Yes, to pay the debts that contain the gold clause.

Mr. BARUCH. Yes.

Senator GORE. The Government would have to go out and get out of the taxpayers' pocket twice as many of these new dollars as it would the old dollars?

Mr. BARUCH. That is right, sir, because it is payable in gold.

Senator CONNALLY. They would have to get the same amount of grains of gold, yes.

Senator GORE. That is the point. They would have to get the same amount of gold. Now let me give this illustration. A year ago Congress set aside 400,000 bales of cotton to manufacture into cloth for the unemployed and the distressed and the naked. We just recently set aside 400,000 more bales of cotton.

Senator KING. 350,000.

Senator GORE. Well, I am taking the figures to keep them even, Senator.

Senator KING. All right.

Senator GORE. We recently set aside 400,000 more bales of cotton to manufacture cloth for the unemployed, the distressed of the nation. Would it not have been better had we cut the yardstick in half? We would then have had twice as many yards of cloth and could clothe twice as many people. Does it not come to that?

Mr. BARUCH. I think so.

Senator CONNALLY. I just want to briefly summarize now. I want to say that this morning I did not know Mr. Baruch was going to touch on this, and I came in while he was reading a statement about gold, and some of you know I have been making a little noise about it, so I was not really prepared to interrogate him as I should, but during the noon hour I have gone over the matter. I want to very briefly sum up.

Mr. Baruch, you admit that a rise in commodity values generally is desirable, do you not?

Mr. BARUCH. Yes, sir.

Senator CONNALLY. And when commodity values are going up people bring their money out and buy and engage in business, and prosperity returns, does it not?

Mr. BARUCH. Yes; because, I presume, they buy them because they think they can make money.

Senator CONNALLY. They are going up, and they think they can make money.

Mr. BARUCH. Yes.

Senator CONNALLY. Now on the other hand, is not one of the chief causes of hoarding a falling commodity market? People hoard their money because they do not want to spend it because they think values are going lower, is that not true?

Mr. BARUCH. To some extent, yes. I think maybe we have got the cart before the horse. I think commodities are falling down because people will not buy them.

Senator CONNALLY. Certainly. And the reason they will not buy them is because they do not have any confidence in those values and think they are probably going lower. It is the reverse of the other proposition, that when they are going up people buy them because they think they are going higher. When they are going down they will hoard their money.

Mr. BARUCH. They will not buy them because they think they can not make a profit on them.

Senator CONNALLY. I think you and I are in agreement on some points. I think you admitted this morning, and I agree with you, that reducing the content of the gold dollar would cause domestic prices to rise somewhat in the same relation?

Mr. BARUCH. I do not think they will rise as much as export prices. I said in my statement "probably."

Senator CONNALLY. All right.

Mr. BARUCH. Probably.

Senator CONNALLY. It would have an effect of raising prices. And of course it would increase the farmer's purchasing power in terms of dollars. I am not speaking in terms of gold ounces now but in terms of increasing his buying power in terms of dollars.

Mr. BARUCH. He would get more dollars.

Senator CONNALLY. And enable him to pay his debts.

Mr. BARUCH. That is right. He would be benefited.

Senator CONNALLY. You agreed awhile ago in answering Senator Barkley that all values were now subnormal, did you not?

Mr. BARUCH. I do, Senator.

Senator CONNALLY. You mean subnormal in terms of gold, do you not?

Mr. BARUCH. Yes.

Senator CONNALLY. In other words, you mean that the gold dollar is too high, or any kind of a dollar is too high?

Mr. BARUCH. I think they are subnormal in their relation, sir, to anything in human activity, and the only thing we have got to measure them by is the dollar.

Senator CONNALLY. Yes, the only thing we have got to measure them by is the dollar; so all other values are now below what they ought to be in relation to the dollar?

Mr. BARUCH. Let me add one thing to it. And they are down there because people with money will not buy them.

Senator CONNALLY. Well, no matter how they are down.

Mr. BARUCH. That is very important, though.

Senator CONNALLY. No matter how they got down there you admit that they are now down below what they ought to be?

Mr. BARUCH. Yes.

Senator CONNALLY. In other words, you agree to the proposition that the value of the dollar ought to be decreased if it can be done legitimately?

Mr. BARUCH. Well, I can not agree with you there.

Senator CONNALLY. How then are you going to get these commodities back up to a level with money if you say money is too high and too dear?

Mr. BARUCH. Because I think when the fear is removed from people about their Government credit and the fear of what is going to happen with these dollars they will buy things and go into business activity.

Senator CONNALLY. You are simply talking about the process. I am talking about the fact. You say that the price of the money is too high and commodities are too low. You think that can be accomplished by removing fear?

Mr. BARUCH. Yes.

Senator CONNALLY. Well, if we could pass a law abolishing fear that would be fine.

Mr. BARUCH. If you can do that, if you can pass a law abolishing fear, I am with you.

Senator CONNALLY. I am trying to see if we can find a way to do that. You have already admitted that commodities are too low and money is too high. Now you furthermore stated to Senator Barkley that in view of the present volume of debts that they can not be paid off unless they are scaled down, did you not?

Mr. BARUCH. A great many of them; yes, sir.

Senator CONNALLY. Well now, did you not say that taking the whole volume?

Mr. BARUCH. The whole volume; yes. But of course there are exceptions.

Senator CONNALLY. Well, I can not take up each farm mortgage and discuss it.

Mr. BARUCH. No.

Senator CONNALLY. I am talking about the whole debt, Federal, State, county, and individual; that on the present volume of indebtedness it can not be paid off unless it is scaled down.

Mr. BARUCH. Unless it is scaled down.

Senator CONNALLY. All right. Reducing the dollar would scale it down, would it not?

Mr. BARUCH. It would scale it down a lot.

Senator CONNALLY. It would scale it down a lot.

Mr. BARUCH. It might make it disappear.

Senator CONNALLY. What is the other alternative? If you admit that the present volume of indebtedness is so great that it can never be paid without scaling down, the only other alternative to scaling down is universal liquidation or bankruptcy, is it not?

Mr. BARUCH. No; not universal liquidation.

Senator CONNALLY. It has got to be scaled down, has it not?

Mr. BARUCH. Senator, I know of no way that any man can pay any of his debts except to go out and work and save his money. Now, if he can not pay them the process he has always gone through is that he has compromised with his creditors.

Senator CONNALLY. If he can not compromise it will mean he is foreclosed and will have to go out?

Mr. BARUCH. Yes; it may be that way.

Senator CONNALLY. In other words, he liquidates it either voluntarily or is forced.

Mr. BARUCH. I think that has already taken place. It is simply a question of adjusting with his creditors.

Senator CONNALLY. Senator Gore made the statement that we had $4,000,000,000 in gold, and if we increased that to $8,000,000,000 every man that had any gold in his possession would be given a gift of double its value. Is it not true that international values are based not on nominal value of so many grains in a dollar or in a pound but in the actual weight of the gold?

Mr. BARUCH. Actual weight of what?

Senator CONNALLY. Actual weight of the gold in ounces?

Mr. BARUCH. Yes. They are based on gold values.

Senator CONNALLY. An ounce of gold will buy the same everywhere in the world, will it not?

Mr. BARUCH. Yes.

Senator CONNALLY. So if a man has actual gold, by cutting the value of the dollar in two it would not either increase or decrease the value of what he has? He would have still so many grains of gold, would he not?

Mr. BARUCH. Yes.

Senator CONNALLY. In the nominal increase in the value he would get $2 for $1 it is true, but those $2 under our whole theory would still be simply in the same amount, but in dollars it would be twice as much. He would still only get what he has got now—so many grains of gold, and it would not be a gift to him of a cent. He would be more fortunate, of course, than a man that had a mortgage that would have to be discharged in those new dollars, but gold in itself would still have the same value all over the world that it has got now.

Mr. BARUCH. That is ture.

Senator CONNALLY. The theory of this is that every other commodity would always increase, is it not?

Mr. BARUCH. I do not think that it would increase relatively any more than gold would.

Senator CONNALLY. Maybe not. If other commodities did increase you would not be giving this man twice as much, because he could not buy twice as many commodities with the same amount of gold. But if he has gold, and it is his property, and you would thereby increase the value of all other property by increasing the commodity values, why should not the man that got the gold get the same increase in his gold as the man who had silver, or the man who had copper, or the man who had cotton, or the man who has a farm?

Mr. BARUCH. The only difference is this, I think, that the man with gold would be able to buy twice as much, no matter what the price is, but the man with other commodities would have an inequality with the other man.

Senator CONNALLY. Stop right there, Mr. Baruch. You said the man with gold would be able to buy twice as much with his dollars?

Mr. BARUCH. If we cut them in half.

Senator CONNALLY. Then commodities would double in value, would they not? That is all I am trying to get you to admit.

Mr. BARUCH. It would have that tendency.

Senator CONNALLY. No; you can not make the statement in one breath that a man with gold would get twice as many commodities and then deny that the other commodities would not go up twice.

Mr. BARUCH. That is right.

Senator CONNALLY. That is right, is it not?

Mr. BARUCH. Yes.

Senator CONNALLY. It has got to be hot or cold, one or the other. It can not be both.

Mr. BARUCH. No.

Senator CONNALLY. So according to your formula, then, every other commodity would double in value.

Senator BARKLEY. Senator, this man who gets his double amount of dollars then could buy just as much with them, whatever it was, as he could an hour before with the gold dollar.

Senator CONNALLY. Yes, and according to that theory it does not matter how low it would go, because it would still buy the same amount of products. That contradicts Mr. Baruch's other statement that it was desirable to lift all commodity values. You want them to be raised?

Mr. BARUCH. I think they would have the same relationship as they had before.

Senator CONNALLY. Increased commodity level is beneficial, is it not? So it has that effect.

Now, one other point and I am through. After we have gotten through here, the only difference is that you agreed this morning that you would favor this process if it could be worked out in a practical way.

Mr. BARUCH. So I would, yes, sir, with any measure.

Senator CONNALLY. Yes; I am trying to help the man who produces and who can not now get values for his product. I am trying to help the man who is in debt and who you say can never pay his way out of debt because the burden is so great. I am trying to speak for that man in order that we can scale it down, and in behalf of the man who is producing at starvation wages and starvation prices at this time, to try to bring about a liquidation, if you want to call it that, by Government action rather than to leave him to the mercies of the strong creditor who has got the advantage in the case where a man is trying to adjust his debt with that man, the creditor has got the advantage, he has a strong character and he has an aggressive force and he is going to come out on top in any sort of adjustment like that.

Senator KING. One question on that. If the theory that has been suggested by the able Senator from Texas were to prevail and would be beneficial, why would it not be more beneficial instead of having one-third go to cut it down to one one-hundredth part?

Senator CONNALLY. Oh, no, we want to get it to the fair figure, the commodity figure. That is why I proposed it, to get it to the commodity level. One other question. You do not think that Europe can pay the debts that they owe us on the present value, do you? Did you say that?

Mr. BARUCH. I do not know that I——

Senator CONNALLY. Is it not a fact that the depreciation of foreign money has made it harder for Europe to pay us than it would be otherwise?

Mr. BARUCH. Yes; her unstabilized currency.

Senator CONNALLY. Her unstabilized currency?

Mr. BARUCH. Yes.

Senator CONNALLY. In other words, she would have to pay us two or three times, measured in her commodities, more money than she would when she incurred her debt?

Mr. BARUCH. But the same in our own dollars.

Senator CONNALLY. Sir?

Mr. BARUCH. But the same in our own dollars.

Senator CONNALLY. Yes; I understand; the same in our own dollars.

Mr. BARUCH. And the same kind of dollars our taxpayers have got to pay.

Senator CONNALLY. I understand that. I am not arguing that. Senator Gore brought out that you had to have a fixed amount of gold to keep international balances on an even keel. Are they on an even keel now?

Mr. BARUCH. Are they on an even keel?

Senator CONNALLY. International exchanges and currencies and their foreign trade, are they on an even keel now with our present fixed standard of the gold dollar?

The CHAIRMAN. They are wherever gold is involved.

Mr. BARUCH. You can take it with anything. I know it is very unstabilized and very uncertain.

Senator CONNALLY. Senator Gore, though, seemed to make a point of the fact that if we changed the gold content of the dollar we would ruin international exchanges and international trade.

Senator GORE. My point was that it would disturb it worse than it is.

Mr. BARUCH. I think it would be a wonderful thing for the other nations if we do it.

Senator CONNALLY. When England went off the gold standard was not the effect of her action to devaluate the pound in terms of gold? It amounted to a devaluation of the pound, did it not?

Mr. BARUCH. Yes, sir.

Senator CONNALLY. France after the war devaluated the franc.

Mr. BARUCH. Eighty per cent.

Senator CONNALLY. And paid her debts off, and is she not about the most prosperous country in Europe to-day?

Mr. BARUCH. No, sir.

Senator CONNALLY. What is the most prosperous?

Senator KING. No, indeed.

Mr. BARUCH. France is almost as badly off with its budget and in as bad trouble as we are.

Senator CONNALLY. Let us forget the budget.

Mr. BARUCH. They have just gotten over their inflation.

Senator CONNALLY. I know about the budget.

Mr. BARUCH. She has just gotten over her inflation.

Senator CONNALLY. Is not France in good condition when compared with other countries?

Senator SHORTRIDGE. Czechoslovakia is in much better condition.

Mr. BARUCH. Compared with which one, Senator?

Senator CONNALLY. Any one of them.

Mr. BARUCH. I think Germany is in better condition because she has repudiated practically everything.

Senator SHORTRIDGE. Senator Connally, if you will be good enough to give me your attention?

Senator CONNALLY. I shall.

Senator SHORTRIDGE. The debts due and to become due us from England, France, Italy, and 8 or 10 of those European nations are severally payable in gold of present weight and fineness.

Senator CONNALLY. Yes.

Senator SHORTRIDGE. Or, as you might otherwise express it, of present value. Now does your plan contemplate by cutting up the gold dollar that England, for example, or Italy, or Czechoslovakia may pay us in these cut-up dollars?

Senator CONNALLY. I will say to the Senator——

Senator SHORTRIDGE. No, I am serious, and that is worthy of an answer.

Senator CONNALLY. I know, Senator, and I am going to answer you if you will give me a chance.

Senator SHORTRIDGE. Yes.

Senator CONNALLY. I do not know what those contracts provide for.

Senator SHORTRIDGE. They do provide for the payment in gold, Senator.

Senator CONNALLY. Present standard weight?

Senator SHORTRIDGE. Yes.

Senator CONNALLY. If they are, I would treat them like I would treat every other kind of contract written in those terms. I admit it is an open legal question. I am not prepared to say what the Supreme Court would hold, nor can any other man say what they would hold. I would treat them in the same way that I would treat the others.

Mr. BARUCH. I think the Senator was quite right in the statement he made in which he said that every one of these contracts was payable in gold coin of the present weight and fineness, and remained payable as such.

Senator CONNALLY. I said if it was a dollar contract, it would be paid in dollars. I think that is all, Mr. Baruch.

Senator WALSH of Massachusetts. Mr. Baruch, let me ask you this question: Is it not a fact that commodity prices are controlled not merely by the volume of money but as well by the volume of credit? And is it not a fact that a great deal of our volume of credit has disappeared and our volume of money has somewhat increased at the present time?

Mr. BARUCH. Yes.

Senator WALSH of Massachusetts. I ask you, assuming that the volume of credit is essential to raise commodity prices, what effect will the inflation such as proposed here have upon increasing the volume of credit?

Mr. BARUCH. The first effect—if you can get over the first flush of this thing—I think the first effect would be bad. Then if the people get accustomed to it after a while, and we went through all of the trials and tribulations, and people got confidence that they were not going to make any other change, why we would work out of it, because they would accept the conditions.

Senator WALSH of Massachusetts. The volume of credit during our prosperous era was a large factor in increasing commodity prices, and contributed to our prosperity, did it not?

Mr. BARUCH. I am not in agreement with that entirely. I do not care what the volume of credit was. If there is a less supply than demand prices will go up. And I think Senator La Follette brought out very carefully that if you could get the demand for higher standards of living the prices would go up.

Senator WALSH of Massachusetts. Regardless of the extent and ease with which credit can be obtained?

Mr. BARUCH. No; I think we have got to have credit to put in manufacturing and production for the commodities to be produced and sold to the public.

Senator WALSH of Massachusetts. Was not one of the chief elements of our prosperity the extent and ease with which credit could be obtained?

Mr. BARUCH. Yes.

Senator WALSH of Massachusetts. And to come back to a period of prosperity we have got to also have a period of easy credit?

Mr. BARUCH. Yes.

Senator LA FOLLETTE. Do you agree with the statement of one economist who said that credit was suspicion asleep?

Mr. BARUCH. I think there is a great deal to that.

Senator BARKLEY. Will not any artificial remedy that may be devised in the change of our monetary system that affects advantageously the seller, to a corresponding degree affect disadvantageously the buyer, so as to affect his purchasing power which reversely operates against the seller?

Mr. BARUCH. Yes; but Senator Connally was assuming that the purchasing power will go up with the dollars the same as the selling price.

Senator BARKLEY. Yes; I know that. But it seems to me that if we were to draw a straight line and put all the sellers on the left and all the buyers on the right, and say that this artificial increase in money of the country is going to help the seller, it will correspondingly injure the buyer. Because he will have to pay more dollars for what he buys from the man on the other side of the line.

Mr. BARUCH. He will be in a bad fix if he does not get many dollars.

Senator BARKLEY. The first thing you know his purchasing power will be reduced to the extent that he can not buy anything from the man on the other side of the line, and therefore, on the whole, I am unable to see how it benefits the general situation.

Senator CONNALLY. There is not anybody that is simply a buyer and a seller. Everybody is both a buyer and a seller.

Senator BARKLEY. But you have got to treat the buying and the selling as a different transaction.

Mr. BARUCH. If we can get more buyers through any such thing as Senator La Follette suggested our troubles will disappear.

The CHAIRMAN. We thank you, Mr. Baruch, for your testimony. Mr. Teague will proceed with his statement. We have about 100 witnesses to appear here, and we will never get through with these hearings unless we confine ourselves to the subject matter.

Mr. Teague, will you proceed.

## STATEMENT OF C. C. TEAGUE, SANTA PAULA, CALIF.

Mr. TEAGUE. Mr. Chairman and gentlemen. My name is C. C. Teague, Santa Paula, Calif. For the purpose of identification, I am president of the California State Chamber of Commerce, the California Fruit Growers Exchange, and the California Walnut Growers Association.

Senator GORE. You used to be on the Farm Board, Mr. Teague?

Mr. TEAGUE. Yes, sir. Gentlemen, in common, I presume, with every good American who loves his country and hopes that our Government will be maintained, I have been thinking some of these problems, and out of my thinking I have evolved some plans which seem to me might be helpful in the present depressed condition of this country.

It seems to me that the fundamental cause of the depression is the complete collapse of the credit structure of this country. Following the period of inflation we had the stock market crash of 1919, followed by bank failures, followed by hoarding by the people, followed by hoarding of the bankers who were afraid there was going to be a line in front of their banks the next day, and the result is that we had a fear psychology in the hearts of the people so that no one is operating normally.

These bank failures have undoubtedly affected 10,000,000 of depositors. There are something like 10,000 banks that have failed, and probably the total number of people that are affected are three times the number of depositors.

The result of this fear psychology and this breakdown in the credit structure of the country is that the 45 billion dollars of deposits of the people are not operating in the credit structure. Confidence has been completely destroyed. No one is acting normally. All values are out of their proper relation to the value of the dollar. There is no bottom to the market.

The question is: How can values be restored to their proper relation to the dollar? One school of thought says currency inflation (*a*) by decreasing the number of grains of gold in the dollar, and (*b*) remonetizing the silver, and (*c*) the issue of fiat money. In my opinion all of these proposals are unsound.

The other school of thought says: Inflate or restore credit by restoring confidence in banks so that 45 billion of deposits will operate in the credit structure. In my opinion this is the sound procedure.

How can this be done? The Reconstruction Finance Corporation was created for that purpose. It has not accomplished that result. It has no doubt stopped many failures. It did not release bank credit. It did not restore the confidence of the public in banks. It did not restore the confidence of bankers. Many loans to banks by the Reconstruction Finance Corporation were used to increase the liquidity of banks, but did not release credit.

There can be no return to normalcy, in my opinion, until confidence in banks is restored so that there will be a normal operation of credit. With continuing bank failures there is no hope for this confidence returning.

How can this confidence be restored? In my opinion it can only be done in time to meet the present emergency by emergency measures. I can see no hope except through some form of Federal guarantee of bank deposits. If the guarantee were only applicable to 75 per cent of the deposits of all banks it could be put into effect quickly without the delays that would probably be necessary if there were a 100 per cent guarantee, as in the latter case it would be necessary to examine all banks coming under the guarantee to be sure they were solvent, and the delays that would be inherent to the reorganization of banks that could not qualify would be great.

A small tax on banks would create a fund which, plus the 25 per cent of deposits not under guarantee and plus the capital and surplus of impaired banks should insure the Government against loss.

To avoid excessive losses through encouragement of unsound banking under the guarantee system there should be more strict limitation of bank charters. National examination of banks should be tightened. Branch banking should be extended, thus averaging the loans and deposits over broader and more diversified industry. Clearing houses could be used to investigate and make recommendation with reference to complaints of banks practicing unfair competition by soliciting deposits by making unsound loans. If such practice were not corrected they should be expelled from the guarantee.

If bankers do not set aside their pride of position and consent to some form of guarantee of deposits we are headed straight for currency inflation and the only stable thing we have left, the value of the dollar, will disappear.

The second largest contributing factor to depression is the low buying power of the 30,000,000 people on the farms due to depressed prices caused largely by surplus production.

I have a short memorandum here that I would like to read which is devoted to that phase of the subject.

Senator KING. Before you leave that, may I ask one question?

Mr. TEAGUE. Yes.

Senator KING. In your discussion about the guarantee of bank deposits do you refer to State banks as well as national banks?

Mr. TEAGUE. It seems to me they would all have to come under the guarantee unless you would put off the time of going into effect a sufficiently long time to permit of the reorganization of State banks to come into the Federal structure.

Senator KING. Would you favor, assuming it is constitutional, the compulsion of State banks to come within the periphery of the Federal system?

Mr. TEAGUE. I do not think that compulsion would be necessary, because I think they would have to come in or close their doors if we had a Federal guarantee.

Senator HARRISON. The House has already passed a Federal guarantee bank bill, and there is another bill pending that applies to time deposits.

Mr. TEAGUE. Yes. That is not law, however.

Senator HARRISON. No.

Mr. TEAGUE. It is generally conceded that the present depression in agriculture is primarily due to an overproduction of agricultural lands brought about by bringing into production, during the high prices of the war, most of the agricultural lands capable of crop production. There has been much discussion in recent years of some plan looking to the control of surplus production, among them the equalization fee plan, the debenture plan, and later, domestic allotment. Practically all of these plans have been condemned for the reason that they only look to dealing with the surpluses on a few specified products in agriculture without looking to the fundamental thing of removing the total agricultural surplus and because of almost impossible administration features.

There is an increasing school of thought that this question must be approached from a broader point of view which looks to the control of the total surplus of agriculture, and bringing up the general level of all agricultural prices by some method of taking out of production the acres of land that are producing the surplus. The most practical plan in this direction that has been suggested is some plan of leasing the surplus acres, and it is to that suggestion that this memorandum is directed.

It is proposed that there shall be by Federal legislation a board or commission created with power of taxation which would be empowered to levy either a manufacturers' excise tax or a tax upon the products of all of the annual crop land that pass through the hands of the original handlers, the amount of this tax to be determined by an investigation as to the number of acres of land that would have to be taken out of production to raise the general level of agricultural prices to some predetermined level, and the taxing, therefore, be flexible enough to permit of the raising or lowering of the tax so as to take out additional acres or to release them as the need becomes apparent to maintain the level of prices determined upon.

Senator WALSH of Massachusetts. Would you tax all manufactured products or only those products that are the result of agriculture?

Mr. TEAGUE. My thought is that the tax should apply to the products of the annual crop lands.

Senator WALSH of Massachusetts. Such as textiles and cereals, and so forth?

Mr. TEAGUE. Yes.

Senator KING. All sorts of fruits, tomatoes, peaches, apples, deciduous fruits, oranges?

Mr. TEAGUE. Well, that is a question for determination. I reach that question a little later when I speak of what is proposed in regard to orchard lands.

The commission, then, through the established agencies of the Government would determine the quantity of land that should be taken out of production in the various States, and allot to the States for leasing this quantity of land. The commission would then advertise for bids to lease lands from the owners of each State requiring that every bidder specify under oath the number of acres that he offered for lease, its location, the crop to which it had been planted, the average production of said land for the past three years, and the price at which he would be willing to lease. The commission would then have in its possession a picture of what this surplus land had been producing, and then could award leases in such manner as to take out of production the required number of acres to establish a proper balance between supply and demand.

Senator WALSH of Massachusetts. The award would be by mutual consent?

Mr. TEAGUE. Yes, sir.

This plan should be in effect for at least five years. It would probably be advisable to lease a certain percentage of the land for five years, as there is no probability that all of the products of all of the agricultural lands will be needed in that length of time. A certain percentage of the land would be leased on annual leases, so as to permit of flexibility in the balancing of production, and so that it could be released if there were evidences of the price structure getting too high.

Advantages of the bidding system are that there would be a natural grading of the productive value of the lands in the price that the various applicants would place upon their leases. It would not require a large army of men to contact all of the farmers and bargain for leases. It would not require policing as the land could be posted, and no man would dare to plant leased land to crops because he would know that the crop would be taken away from him.

The advantage of the plan is that it does not look to benefiting some particular class in agriculture at the expense of other classes.

Assuming that it might be necessary to remove 15 per cent of the total lands in agricultural production by the lease system it would only be necessary to contact with that percentage of the producers—owners of the surplus acres—inasmuch as the selections of the leased land would probably be largely made from the large owners, so as to leave the small producers on the farm, it would only be necessary to contact a still smaller percentage of the farmers.

Assuming that there are 300,000,000 acres devoted to the production of annual crops, and assuming that it was necessary to withdraw 15 per cent of these acres from production, the number of acres withdrawn, if they were of average production, would be 45,000,000 acres. This land could probably be leased at from $100 up, based on its productive value. A tax levy of $150,000,000 to $200,000,000 would probably withdraw all of the land necessary to balance production and demand.

Senator GORE. Right at that point let me ask you a question, Mr. Teague.

Mr. TEAGUE. Yes.

Senator GORE. Our textile mills, cotton and woolen mills, are capable of producing more than the requirements of the country at present. Would you lease this surplus?

Mr. TEAGUE. Lease the mills?

Senator GORE. Yes.

Mr. TEAGUE. No. I am only dealing with acres of land.

Senator SHORTRIDGE. Mr. Teague, could I interrupt your statement?

Mr. TEAGUE. All right.

Senator SHORTRIDGE. May I ask you this question right here?

Mr. TEAGUE. Yes.

Senator SHORTRIDGE. What would become of the land taken out of production?

Mr. TEAGUE. I will reach that in a moment, Senator.

Senator SHORTRIDGE. Very well.

This 150,000,000 to 200,000,000 is a bagatelle compared with the present value of agricultural crops of something like $5,000,000,000 and $10,000,000,000 to $12,000,000,000 in normal times, and compared with the enormous sums of money that the Government is spending in its relief programs.

After the total surplus acres were removed, the producers would be free to plant the balance of the land to any crop that they desire to produce, relying on the proper adjustment between producers as to the crops they would produce, based upon the differential that would, of course, be inherent upon the higher level of prices established.

It might be advisable to insert a clause in leases pledging the owner not to increase his production from any other acres from which he was not then producing. Leases could provide that owner could occupy any buildings on the premises; also that the owner would have the right to fallow land to keep down weeds, and grow no crops.

The CHAIRMAN. Would you make a penalty for violation of that?

Mr. TEAGUE. For growing no crops?

The CHAIRMAN. For growing no more than they had agreed.

Mr. TEAGUE. The land would be under lease to the Government, and the Government could step in and take the crop at any time. There would be no need of a penalty.

Senator WALSH of Massachusetts. Do you think you could get all this amount of leased land on an average basis of $4.50 an acre?

Mr. TEAGUE. I think so, without any question.

Senator WALSH of Massachusetts. That is about what it would amount to?

Mr. TEAGUE. Yes.

Senator SHORTRIDGE. Of course that could not apply to walnut crops?

Mr. TEAGUE. No; I will reach that in a moment, Senator.

The livestock and dairying industry would be benefited because a large percentage of the livestock and dairy products are produced on the highly developed lands where the feed comes from the production of such land, or from the lands under rotation, and the taking out of surplus acres would probably proportionately reduce the livestock and dairy cattle on said farms.

This plan, by bringing up the general price level of this large section of the agricultural producers, should very materially affect the general economic conditions of the country as every one recognizes that the depressed condition of agriculture and the low buying power of the farmer is a very important factor in the present depression. It would not be feasible to attempt to deal by this plan with the agricultural lands planted to orchards for the reason that the orchard must be taken care of, cultivated, sprayed and pruned, and the crop will be produced in any event; and it would be difficult to police it so as to keep it out of production. The orchardists could rely upon a very substantial benefit coming from the general improvement in the economic situation by reason of the increased buying power of the farmer and the improved economic condition.

Just two very short suggestions in addition, Mr. Chairman. There must be a lowering of taxes through severe cuts in the cost of government, Federal, State, county, and municipal, and budget plans, along the lines of that which has been done in the State of Mississippi where the budget was cut, I understand, about 30 per cent, and the Government operated within the budget.

I might add that the tax bill of the farmer is greater than his interest bill. So the question of taxation is very important.

Senator SHORTRIDGE. Just say that again, please.

Mr. TEAGUE. The tax bill of the farmer is very much greater than his interest bill.

Some way should be found of reestablishing foreign trade through stabilizing foreign exchange on a gold standard basis.

Senators, that is all I have to present.

Senator CONNALLY. Right there: How are you going to do that?

Mr. TEAGUE. I think it would be possible in many ways. By perhaps some form of international agreement, or perhaps the formation of some gold pool by the principal countries operating on the gold standard. It would not take anything like the quantity of gold under a gold pool and agreement, with the combined gold standards of all participating countries, that it does separately——

Senator CONNALLY. I think we have done about as much advancing of gold to Europe as we want to do.

Senator KING. I take it from your last observation that you are in favor of this means that seems to have a rather continental character, of cutting off our trade with foreign nations. You believe in international trade?

Mr. TEAGUE. I think, so far as it can be maintained, that it certainly should be. Nevertheless, I do not think it should be maintained at the expense of sacrificing our domestic markets which take 90 per cent of all of the things we produce.

Senator KING. Assume that our exports exceed by between $300,000,000 and $500,000,000 our imports: Would you favor an embargo established to keep out the rest of the imports?

Mr. TEAGUE. I do not think an embargo would be necessary, if you can establish your foreign exchange on a stabilized exchange basis.

Senator KING. You do believe that we are a part of the world and that we can profit by shipping our surplus products abroad?

Mr. TEAGUE. I do, certainly, as far as we can do it without opening up our markets and getting the worst of it in the trade.

Senator KING. You do not assume we could ship our goods abroad unless we received some in return, do you?

Mr. TEAGUE. Oh, no; we certainly would receive some things in return. It is unthinkable that we would close up our markets entirely to trade with the whole world. I think it is extremely desirable that we trade; but I do not see how we can do it unless we do reestablish our foreign exchange, because we are going to get into a barrier situation against each other.

Senator SHORTRIDGE. Mr. Teague, I just want to emphasize the thought that you expressed, with which I unqualifiedly agree. Interstate trade among 48 States, with one hundred and twenty odd millions of people, is far more important than our foreign trade, however important that may be?

Mr. TEAGUE. Yes.

Senator SHORTRIDGE. And we must not surrender our home market to the cheap goods coming from certain foreign countries?

Mr. TEAGUE. I would not think anybody would quarrel with that principle, Senator. I do not see how they could.

Senator SHORTRIDGE. There was a time when I was scoffed at and sneered at and ridiculed by the newspapers of this country because I stood up for adequate tariff protection. It was said that I was erecting a barrier around America, a Chinese wall around America. Now I perceive, however, that certain of my critics and calumniators are out-Heroding Herod—are now demanding that we buy in America, with which I agree.

Senator HARRISON. I resent the statement that the Senator from California was ever scoffed at.

Senator SHORTRIDGE. Yes, I was; by some of these unconvicted newspaper boys. I have defended more of them in the Senate than any other Senator.

The CHAIRMAN. Have you any further statement to make, Mr. Teague?

Mr. TEAGUE. That is all, Mr. Chairman.

Senator GORE. Oklahoma was the first State to initiate such a system as you have mentioned, Mr. Teague, but it failed. I do not think that necessarily condemns the system, however. I have given it a great deal of thought, and the principle that occurs to me is this, that there should be some system that will guarantee deposits, that will not treat the honest and the dishonest bankers as though they were the same.

Mr. TEAGUE. Of course, Senator, I am not proposing that you shall guarantee the capital and surplus of a bank; I am merely proposing that you guarantee the deposits of the people in that bank.

Senator GORE. I understand that.

Mr. TEAGUE. Do you want the people to suffer because of some banker that you say is dishonest in his conducting of banking? Check him in another way.

Senator GORE. Here is what I am getting at. A dishonest bank fails. The banker defrauds his depositors. The honest banker has got to guarantee the dishonest banker. That is the point that occurs to me. There are 45,000,000,000 bank deposits in this country to-day?

Mr. TEAGUE. Yes.

Senator GORE. That means that the banks owe $45,000,000,000 to their depositors?

Mr. TEAGUE. Yes, sir.

Senator GORE. The system of guaranteeing deposits takes the president of each bank by the hand and makes him "sign on the dotted line" and say, "I undertake to pay $45,000,000,000 of other banks' debts." That is the thing that gives me pause.

Mr. TEAGUE. You spoke of these experiments in other States. I do not think that they necessarily form a precedent, for the reason that——

Senator GORE. I do not think so either.

Mr. TEAGUE. It covers one particular territory, and it probably was established after the banks had gotten unsound.

Senator GORE. You know that a great many people have gotten into trouble by going on other people's notes and having them to pay?

Mr. TEAGUE. Yes.

Senator GORE. Even when they exercised their own discretion and judgment as to whether they should go on those notes or not. You propose passing a law which makes every banker in the United States sign a note of every other banker in the United States, just like he signed his name on a promissory note, agreeing to pay $45,000,000,000 of debts to their depositors.

Mr. TEAGUE. Oh, no; I do not think that.

Senator GORE. Would it make all banks secure or unsecure?

Mr. TEAGUE. No; I say we would levy a tax on all banks that would be estimated to pay any losses that might be incurred——

Senator GORE. I understand your proposition.

Mr. TEAGUE. Well, all right.

Senator GORE. In the last two years the deposits in these failed banks amounted to something like $4,500,000,000. All the capital of all the national banks in the United States is $1,500,000,000. Their capital and surplus is $3,000,000,000. The deposits in those failed banks are about $1,500,000,000 more than the entire capital stock and surplus of every national bank in the United States.

Mr. TEAGUE. And why did they fail? Because the people all demanded their money at once; and no banker can meet that condition.

Senator GORE. Oh, no. A good many failed because of the fact that they had frozen assets and could not carry on.

Senator BARKLEY. One of the biggest banks in western Kentucky failed, to the surprise of everyone. There had been no run and no suspicion.

Mr. TEAGUE. I do not think that is an invariable rule. Many of them have failed, you know, because of runs.

Senator GORE. There is a large bank in Texas which enjoyed universal confidence, and yet it failed, and the president is now in the penitentiary. Are you going to make a banker out in Salt Lake City pay for his crookedness? It is that point that I want to find some way of getting around.

The CHAIRMAN. It may be that the bank did not have a run on it, but you will find it more than likely that there was a steady withdrawal for months and months, and that is what brought about the failure.

Mr. TEAGUE. Yes. If there had been confidence, Senator, and the people had transacted their business with those banks, they would not have failed.

Senator GORE. The president of the bank under the law could have borrowed $55,000. He had borrowed $300,000 in one way or another. He was crooked.

Senator SHORTRIDGE. He is in jail now, is he not?

Senator GORE. Yes; but that does not help the depositors. Should honest bankers be made to pay for his crookedness?

Mr. TEAGUE. Here is what is bothering me, Senator—some way of protecting the people. There are nearly a third of our population affected on account of these failed banks, and we are making Bolsheviks of them, and if we do not do something to protect them I do not know where we are going.

Senator GORE. One third of the banks have failed. I appreciate the gravity of the problem.

Senator CONNALLY. With regard to this farm matter, you say they pay a rent on the credit that will be liberated?

Mr. TEAGUE. I say, what you do would be to lease the land at a fixed rental basis established by the owners themselves, based upon their productive value.

Senator CONNALLY. I understood you to say that the remainder of the land that was leased he could do with as he pleased?

Mr. TEAGUE. The remainder of the land not under lease he could do what he pleased with.

Senator CONNALLY. That is all.

The CHAIRMAN. The committee will adjourn now until 10 o'clock to-morrow morning.

(Whereupon, at 4.20 o'clock p. m., the committee adjourned until to-morrow, Tuesday, February 14, 1933, at 10 o'clock a. m.)

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# INVESTIGATION OF ECONOMIC PROBLEMS

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**TUESDAY, FEBRUARY 14, 1933**

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
*Washington, D. C.*

The committee met at 10 o'clock a. m., pursuant to adjournment on Monday, February 13, 1933, in room 335 Senate Office Building, Senator Reed Smoot presiding.

Present: Senators Smoot (chairman), Reed, Shortridge, Couzens, La Follette, Harrison, King, George, Walsh of Massachusetts, Barkley, Connally, and Gore.

Also present: Senator Coolidge.

The CHAIRMAN. The committee will come to order. We will first hear this morning Mr. Paul Block.

## STATEMENT OF PAUL BLOCK, NEW YORK CITY

The CHAIRMAN. Mr. Block, you may proceed now with whatever statement you desire to make, but make it as brief as possible.

Mr. BLOCK. Mine will take 10 minutes, Senator.

The CHAIRMAN. Mr. Block, whom do you represent?

Mr. BLOCK. Myself.

The CHAIRMAN. Proceed.

Mr. BLOCK. Mr. Chairman and gentlemen, a great deal of study has been given on how to get out of this depression; what we need now is prompt but constructive action.

There are some basic things which have been under discussion for some time, and I wish to express my viewpoints on these.

First in importance is the balancing of our budget. To accomplish this I favor immediate drastic reduction in the cost of government and a small manufactuers' sales tax which may be eliminated once repeal of the Eighteenth Amendment is adopted. We could cut cost of government very materially if Congress and the President would, among other things, provide for a reduction in bonus payments now being made to veterans of the World War. No one has greater respect or sentiment for our veterans than I have, but our country can not afford bonuses and pensions to those who either never went overseas or were not injured in actual service. Congress would be doing not only its duty in providing for such a reduction, but would help a vast majority of the people by using this means of cutting down the terrific burden of taxation. Later I will speak of a method of providing help for these veterans.

Next in importance, is for the Government to remain on a gold basis and for the new administration to make it clear to all of our citizenship, and to the entire world, that we are firm in our determination not to debase our currency, and that there will be no change from it, because if our people and the peole of the world were to lose confidnence in the American dollar, the withdrawal of invested money and the hoarding of gold would be so great it would bring chaos to our financial system. Credit would be further restricted, deflation would be accelerated, unemployment would be increased, the standard of living would be lowered, and such business as still is profitable, in my opinion, would virtually stop.

Another vital factor, at least according to my views, is the settlement of the foreign debts. Perhaps, as has been suggested, these debts should be reduced a certain percentage for each million dollars spent with us by the debtor nations. Possibly a further percentage of discount should be given for each million dollars of armament reduction made by the debtor country. We should seek agreements with foreign nations which are now off the gold standard to return to it so that all of us would be on a more nearly equal basis in international trade.

I do not pretend to be able to judge just how much further reduction we should give to our debtor nations for a final settlement; but whatever agreement is made, I believe it should definitely include concessions either in trade or disarmament, or both, and their return to the gold standard. I do not claim that it is just for our foreign debtors to request these further reductions, but it is my best judgment that the great majority of them will never be in any position to meet their obligations to us in full. I believe that clearing up this debt situation will, in the long run, be both beneficial and profitable to us.

The repeal of the eighteenth amendment should be hurried because of the large excise tax this would bring to our treasury, which would permit us to reduce many of our present-day taxes, including, perhaps, the manufacturers' sales tax, if adopted. It is not necessary to add how much the repeal of this amendment would also mean to the morale of our entire citizenship.

I would suggest a coalition cabinet, but I fear that our 2-party political system is in the way of this, and more is the pity. In these days of anxiety and despair politics should be forgotten. Perhaps an active advisory board having certain defined power could be appointed by the President, to include a half a dozen of our leading citizens, no matter what their political affiliations may be, but whose names would bring confidence to our people and who would confer with the President and the cabinet, as well as with the chairmen of various committees in Congress, to devise ways and means to obtain measures which would be helpful to all the country.

I regard it as imperative to undertake public works on a large scale to provide a way for a general revival of business and to expand the credit of the country. I believe that the money which thousands of people are now hoarding and that some of the money which is now almost overburdening our savings banks, which are unable to employ it profitably, would be released for the purchase of 10 or 20 year bonds yielding a moderate interest, possibly 2½ per cent or 3 per cent at the outside. Such funds would be put into circulation immediately and they would not, in my opinion, affect investment in good municipal, real estate, or business issues. Further, such a bond issue which could be sold the same way we marketed Liberty bonds, would help to stop the agitation for inflation of the currency, which is too dangerous to be attempted. Commercial banking houses, however, should not have the privilege, if it is possible to withhold it from them, of purchasing these bonds except for customers. Otherwise, they might invest in this issue funds which they should loan to business. I believe the Government is entirely justified in issuing such bonds at this time. During the war we did not hesitate to float bonds, which the people bought readily, to pursue the war. I consider the present emergency just as great as in war time. The Government debt is now less than it was at the end of the war. Our resources are greater than they were then. We are, I believe, justified in increasing our national debt to help regain prosperity for our people.

A way should be provided to help the unemployed veterans, and I would suggest that this be done through giving them preference on Federal public works.

I have no doubt that there are some reductions that should be made in our tariff schedules, but I am very much opposed to changes being considered except with nations which are definitely on a gold basis. In fact, I consider it necessary to raise tariffs against the products of countries which use depreciated currencies.

A way should be found to reduce the number of working days and working hours. I do not know whether this can or should be done by Federal action, but until more work is staggered there will always remain a large percentage of unemployed people, due to improved methods of machine production.

A plan must, of course, be found to help the farmers; but I do not believe in a dole system for them or for anyone. I am not enough of a student of agricultural economics to suggest what particular system would be best to help the men and women of the agricultural districts. However, moratoriums for farm mortgages, it seems to me, are essential. I believe also that the creditors of farmers should adjust their claims on a basis more in keeping with the present value of farm lands. I believe it will be necessary to fix lower interest rates on farm mortgages, and the same considerations should be given to small home owners everywhere.

As to prices of agricultural products, if a legal way could be found to limit the production of wheat and cotton and to place a minimum price on them that could be successfully worked out, without Federal subsidy, and without too great cost for administration, this may be the method to pursue. Other farm products would benefit indirectly if the plan succeeded.

In conclusion, I would like to add just this word. These are desperate and discouraging days. Mere talk and more talk will not help; only action, prompt action—to-day and not to-morrow—will meet the situation.

Senator King. Mr. Block, may I ask you a question?

Mr. Block. Yes, sir.

Senator King. You suggested the importance of getting nations back on to the gold standard. Evidently you believe that there should be a metallic base to support the currencies and credits of the world?

Mr. Block. A gold base.

Senator King. In view of the fact that silver for many years, indeed for centuries, was a part of the metallic base, that it was primary money the same as gold, do you not think that if the nations by international agreement should remonetize silver or agree upon a ratio between gold and silver and should coin silver bullion or gold bullion upon the ratio agreed upon that that might stabilize prices and give greater stability to the monetary systems of the world?

Mr. BLOCK. Personally I do not think so. Silver is used for so many purposes, and its value keeps changing so that I fear that it will all be turned into gold as quickly as gold can be bought with it, and the gold would be hoarded and we would go into an inflation which would eventually bring chaos to our monetary and business system. That is my best viewpoint.

Senator KING. When silver was a part of the monetary system of the world the danger which you presage did not occur.

Mr. BLOCK. The conditions, I do not believe, existed that exist to-day. I am speaking of the present day and the immediate future which I see ahead of me.

Senator KING. You do not believe, do you, that $11,000,000,000 of gold for monetary purposes for all the world is adequate, do you?

Mr. BLOCK. I do, yes. Because it is there as a safeguard, and it is plenty for the purposes for which it remains in the treasuries of the world.

Senator KING. Would you regard it as a disaster if by some freak of nature or by some providential act a great gold deposit amounting to billions of dollars were uncovered and that golden treasury poured into trade and commerce?

Mr. BLOCK. Well, I would not be able to answer that, Senator, I can not answer that.

Senator KING. Another question. You suggest that additional bonds might be issued by the Government. And you refer to the fact that during the war we issued more bonds than are presently outstanding. The facts are that we have approximately forty billion of bonds outstanding, that is Federal, State, and their political subdivisions. Do you not think that by a persistent or a constant issue of bonds aggregating billions of dollars we might ultimately impair the credit of the country and reduce the value of the bonds in the market?

Mr. BLOCK. Not for the amount of bonds which I would issue had I the power to issue them. I do not think three, four, five, six billion dollars worth of bonds would impair our country. As I say, our Federal Government is in better condition to-day than it was after the war.

Senator KING. We have issued approximately five billion of bonds to meet deficits during the past three years, and in addition the cities and counties and States have issued bonds, and the Federal Government now is the only purchaser of the Reconstruction Finance Corporation debentures which are issued, and is the only purchaser of the bonds which are issued by the home loan bank and by the Federal farm bank, so that we are under obligation, apparently, to purchase from organizations created by the Federal Government not millions but possibly billions of bonds. Do you not think that with this tremendous outpouring of bonds, of securities by the Federal Government, by the Reconstruction Finance Corporation, and the other organizations to which I have referred, that there may be a time when the credit of the Government may be impaired?

Mr. BLOCK. There is not any question there may come a time, but I do not think it is here if you will balance your budgets and if you will cut the cost of administration not only in Federal Government but in States and counties and cities that you mentioned, and pass the repeal bill so that we will take in taxes which now the Government does not get, and in this way reduce other taxes, all of which will be helpful to business.

Senator KING. You regard it as indispensable, however, for the maintenance of the credit of the Government in view of this prodigious bond issue which will continue, that we balance the Budget?

Mr. BLOCK. That we balance the Budget.

Senator KING. Yes?

Mr. BLOCK. That should come first.

Senator GEORGE. Mr. Block, I assume that you hold to what we know as the quantitative theory of money? I judge you do by insisting on gold and gold alone.

Mr. BLOCK. I do not know that I understand, Senator, the question of the quantitative money. Meaning that we should all have a lot of money?

Senator GEORGE. No, meaning that we should not have very much money for fear that the governments may be tempted to overissue. In other words, that the price of your money is limited necessarily by the amount of gold in the world; is that your theory?

Mr. BLOCK. No.

Senator GEORGE. And as long as that base is maintained that you can not run to excessive issues?

Mr. BLOCK. You can not run to excessive issues if you do not balance your budget, if you are continuously spending more money than you are taking in.

Senator GEORGE. I am speaking of the money theory. You insisted that there be but one metallic base, and that is gold?

Mr. BLOCK. Yes.

Senator GEORGE. Just what is your idea in insisting that you just have gold?

Mr. BLOCK. Because I fear that an inflation would occur which would bring chaos.

Senator GEORGE. In other words, you are looking for a limited base?

Mr. BLOCK. Well, let me call it the present gold limit base.

Senator GEORGE. Yes. That is what I had in mind.

Mr. BLOCK. Yes.

Senator GEORGE. That is what I apprehended was back of your statement. Of course, you do not think that the Lord made money?

Mr. BLOCK. Some people——

Senator GEORGE. You know it is purely the creature of law?

Mr. BLOCK. Yes; I agree in that.

Senator GEORGE. Absolutely.

Mr. BLOCK. I believe that.

Senator GEORGE. And so far as money is concerned, there would not be any better money than paper money if you always hold that issue within bounds?

Mr. BLOCK. And if you could not get it through other channels.

Senator GEORGE. Yes. That is what I mean. If you could not start the printing presses. So your idea is——

Mr. BLOCK (continuing). And could not use it for a million other purposes, thereby changing the value all the time.

Senator GEORGE. Well, you do not think that the value of gold changes like other commodities also? Not so rapidly?

Mr. BLOCK. No, sir; I do not.

Senator GEORGE. Not so widely?

Mr. BLOCK. I do not think so; no, sir.

Senator GEORGE. You do not have an idea at all that perhaps our monetary system may be partially responsible for the value of gold at this moment?

Mr. BLOCK. I do not think so. I do not pretend to be so wise that I know it all, but I do not think so.

Senator GEORGE. You do not go back to the old theory of the intrinsic value of gold, do you, Mr. Block?

Mr. BLOCK. I have studied it and I am giving you my best judgment in my statement.

Senator GEORGE. Yes; I am curious to know, though, just what is back of it, because everybody that comes, of course, is going to say that we must not get off the gold standard, and personally I agree with you, but then I haven't any such idea as a great many other of the witnesses no doubt are going to express here from time to time. I do not see any reason for saying that there should be but one metallic base unless you go farther back and say that you can not have two standards. But the real value of gold is a base, and as long as you maintain reserves and have a proper relation to the currency that is tied to it, that will prevent, of course, any undue inflation. It will prevent you from just simply setting your printing presses in use and working if you have got a paper currency altogether.

Mr. BLOCK. The value of silver, according to my mind, will change no matter what the Government may say about it, because it is used for so many other purposes besides money.

Senator George. Well, undoubtedly it will change more than gold.

Mr. BLOCK. Yes.

Senator GEORGE. I grant you that, because it has a wider commercial use.

Mr. BLOCK. Yes, that is right; and that is the danger.

Senator GEORGE. Yes.

The CHAIRMAN. We thank you.

Mr. BLOCK. Thank you.

The CHAIRMAN. Dr. Herman F. Arendtz.

## STATEMENT OF DR. HERMAN F. ARENDTZ, ECONOMIST OF THE UNITED BUSINESS SERVICE, BOSTON, MASS.

The CHAIRMAN. You may proceed, Doctor.

Doctor ARENDTZ. In treating the current depression it has been my belief that we are dealing with two depressions, one superimposed upon the other.

Senator BARKLEY. Mr. Chairman, might we know the identity of the witness?

Senator KING. Doctor Arendtz, of Harvard.

Doctor ARENDTZ. Economist of the United Business Service at present.

The first is the familiar credit crisis that we have had in this country again and again resulting from the collapse of overextended credit. The second is a long and grinding world depression caused by falling world prices. The first struck us in the stock market. When we seemed to be getting over that in the spring of 1930 the heavy weight of the world depression bore down on it, and since then we have suffered in common with the world from that.

As to the first, it is due to the money credit system which we have. We talk about the United States being on a gold standard. Actually it is a managed credit system with a gold façade. The reason I say that is this, because the chief instruments of conducting transactions are bank deposits subject to check. Eighty-five to ninety per cent of all transactions are done with checks normally. Probably somewhat less now because so many banks have failed that people use more currency. The question of whether you peel a note off a roll, as they do in Europe, and pay a bill, or whether you write a check against your bank account, is merely a matter of method. The actual volume of currency includes not only ordinary paper and coin, and so forth, but bank deposits subject to check.

Now, if you figure that way—and I do—the actual gold cover in 1929 was not the 60 or 70 per cent that the Federal reserve gold ratio reports, but against the whole of that currency was only 18 and a fraction per cent. And to-day it is about 21.6 per cent. I do not think that is too much gold. It is so little that the value of gold does not determine it. It is the expansion and contraction of credit that does it and carries the gold with it.

Now we expanded credit steadily in 1927, 1928, and 1929, in fact really since 1922, and then the thing got so top heavy it just collapsed.

As to the world depression, the whole debt situation was built up during and following the war to a point where it could not stand any more debt inflation of any sort. And then we got a series of years in which the gold output was steadily increased at a steadily smaller percentage than the normal volume of goods and services produced for sale. That would have caused a gradual decline in world prices if it had not been for the credit expansion here and the tremendous investments of Americans in foreign securities which overflowed this credit expansion here out into the rest of the world and filled up the gap that failing gold production had left. Then when we broke down and failed the whole thing came down together.

The CHAIRMAN. Approximately $10,000,000,000 of foreign investments held by Americans.

Doctor ARENDTZ. Yes; I should say. And as that went on year by year it filled up the gap that the failing gold production had left and prevented a decline in world prices which would have come otherwise, and then when we failed, when American investment and credit expansion collapsed the whole thing came together—crashed at once.

Now, that at least is the theory that I believe to be sound with regard to the primary underlying causes. I have here, for instance, Doctor Harwood's book on "Cause and Control of Business Cycles," in which he treats the credit expansion side in the United States alone. But I do not think that is adequate, because the world depression arising from the other cause I mentioned ultimately became more important, and still is.

Remedies one can divide into two or three groups. First is immediate. Immediate relief is obviously necessary. Relief to prevent the banks from collapsing, relief to prevent insurance companies from collapsing, to keep railroads functioning, and to keep people from starving. Those things are absolutely necessary. Apparently the greater part of that has got to be done on Federal credit, on Federal Government credit one way or another. It would look so.

Senator KING. Not State or municipal?

Doctor Arendtz. Yes; State too. But I think perhaps the greater part of it has to be Federal. I may be wrong there, but certainly a very large part of it has got to be done on Federal Government credit one way or the other.

Senator Couzens. May I ask a question at that point?

Doctor Arendtz. Yes.

Senator Couzens. Do you believe that in keeping the railroads functioning and the banks functioning that you have got to maintain an unstable capital structure?

Doctor Arendtz. Temporarily maybe you have.

Senator Couzens. What is the use of doing it temporarily if it later collapses?

Doctor Arendtz. Well, the only hope is that if you do it temporarily you may in the meantime be able to create better conditions so it will not collapse.

Senator Couzens. Well, we have been doing that in Detroit for a long time and the State of Michigan has collapsed.

Doctor Arendtz. Well, that is the danger, but relief is principally necessary. Can Federal credit stand it or will that collapse? That is one way of putting your question, is it not?

Senator Couzens. That is what I am asking you.

Doctor Arendtz. Yes.

Senator Couzens. Whether Federal credit can maintain this unsubstantial credit structure that now exists?

Doctor Arendtz. Nobody in the world, I think, can answer that. It depends on how much of it becomes necessary. Ultimately if it has to go on and on even Federal credit will collapse too, without any question.

Senator Couzens. Would you be willing to take the hazard of Federal credit collapsing so as to maintain an unsubstantial credit that now exists in private concerns and State and railroads, and others?

Doctor Arendtz. I would try to avoid that by every possibility.

Senator Couzens. Yes. But immediate action is necessary. I am trying to get your experienced judgment as to how far we should go in trying to maintain an excessive overcapital structure.

Doctor Arendtz. The capital structure has got to be reduced, and I think that the bankruptcy bill now pending is useful to that end, and I think that ought to be done to make every effort to make the Federal relief as small as possible.

Senator Couzens. Well, assume that that could not be done in the next few months, would you suggest that the Government continue to extend its credit and hazard its credit to maintain that structure?

Doctor Arendtz. What is the alternative? Let them all go?

Senator Couzens. I am asking you.

Doctor Arendtz. The alternative seems to be to let them all go, and since there is no reasonable hope of reforming the structure and making it sound without complete chaos and a general collapse, my answer would be, "Yes, I would."

The Chairman. In other words, if the Government did not assist at this time the collapse would come quicker than if it did?

Doctor Arendtz. Precisely.

Senator Couzens. What is the use of sustaining it if it is going to go anyway? The Senator from Utah says that to sustain it you prevent it from going earlier.

The CHAIRMAN. I said, "if" Senator Couzens. I did not say that it will. But my question was "if." I did not say that it will go. But I think perhaps the only way to prevent it from going would be through the Government assistance. I do not believe it ever will.

Senator COUZENS. Do the Senator and the economist mean that the Government should sustain it without any plan of reducing the structure?

Doctor ARENDTZ. No; I do not mean that by any means.

The CHAIRMAN. No; I would not think of that at all.

Senator COUZENS. What are you going to do if Congress does not adopt effective ways of reducing and strenghtening the structure? Are you going to take the hazard of jeopardizing Federal credit?

Doctor ARENDTZ. I see nothing else possible. If the temporary relief is let ride as that and nothing else, and nothing else is done, your collapse will come anyhow.

Senator COUZENS. What effect is that going to have on the Federal credit any differently than a failure to exactly balance the Budget at this time? In other words, how can the Federal Budget be balanced if you are going to extend this aid to the present capital structure and count it in as an effective pressure upon Government credit?

Doctor ARENDTZ. I was coming to that in just a minute.

Senator COUZENS. All right. I beg your pardon.

Doctor ARENDTZ. Next to the matter of immediate relief it seems to me comes the question of balancing budgets, not only Federal but State, municipal, business, and every kind. There has got to be a readjustment. I do not think there is any reasonable possibility by any practicable method of restoring the price level all the way. Now I will speak more about that. But there has got to be a readjustment.

Government is costing the people more than they can afford to pay. With a national income of $85,000,000,000 in 1929 it might be possible, and was, to support it, but with that cut from $85,000,000,000 to $37,500,000,000 we can not afford to pay the price for Government that we paid when we had $85,000,000,000. And that means that there have got to be cuts. And the budget should be balanced by cutting expense. Not by putting new taxes on an impoverished people. I think that plan of increasing taxation on an impoverished people is one that would shame an oriental despotism. I do not think it is possible.

Senator COUZENS. Have you analyzed the Treasury bookkeeping system?

Doctor ARENDTZ. Not closely. I have seen the Budget and those estimates, but I have not analyzed the bookkeeping system as such.

Senator COUZENS. Then you have not discriminated between the Government advancing $500,000,000 to the Reconstruction Finance Corporation and the $125,000,000 more to the Federal land banks and some more to a liquidating banking corporation being placed in Government expenditures?

Doctor ARENDTZ. Yes; I have faced that one.

Senator COUZENS. And you believe that with the present system of bookkeeping then that should be balanced each year?

Doctor ARENDTZ. I do not think it is possible to balance it this year. But we should aim to balance it just as quickly as possible.

Senator COUZENS. Yes. Well, of course everybody agrees with that. But do you mean that we should attempt to raise out of taxation or reduce other expenses to the point where we can balance expenditures like $500,000,000 to the Reconstruction Finance Corporation in one year or two years?

Doctor ARENDTZ. As I say, I do not think that is possible, but I think that we should come as near to it as we can, and in every case should provide in the budget for interest on any new loans sinking funds on it.

Senator COUSENS. Yes, and in the meantime you should prefer to cut wages and dismiss employees and cut expenses so as to pay interest on the money which we borrow to put into the Reconstruction Finance Corporation?

Doctor ARENDTZ. I am not very strong for dismissing too many employees, but I am for cutting wages and salaries of Government employees from the President down, well, somewhat in proportion—perhaps not quite as much, but somewhat in proportion to the extent to which they have been slashed in private industry.

Seanator COUSENS. So that in effect we may pay the interest on some billion dollars that we put into the stock investments to maintain the capital structure of the country?

Doctor ARENDTZ. I think that is necessary.

Senator BARKLEY. Aside from any money put into the capital investment for reconstruction, or for the Reconstruction Finance Corporation, or for any other of these extra governmental activities, at the present rate of income and outgo we would have to reduce the expenses about a billion dollars to balance the budget now if we do not pay out any more for any of these things.

Doctor ARENDTZ. Well, do you want me to suggest possibilities in that respect?

Senator BARKLEY. If you have possibilities.

Doctor ARENDTZ. Well, here is one. It happens that when I was 16 years old I went in the Massachusetts Naval Reserve in the Spanish War, and as I understand the matter I am entitled to free hospitalization. All I did was get some good training and have a good time and paid what I was worth for it. Now I do not see any sense in that. I think that veterans' remunerations for sickness or injuries not connected with war service should be cut off. That is one thing.

Then I think that all pensions can properly and should be reduced in this way. The purchasing power of the dollar is much higher than it was in 1929. Now if a pension of so many dollars was adequate in 1929 a smaller one will have the same purchasing power to-day and does not represent any real reduction.

Senator BARKLEY. You are going on the assumption that whatever allowance was made to veterans was an exact justice to them at the time and that therefore it is more than justice to them now?

Doctor ARENDTZ. No. I would not say that. I am going on the assumption that whatever was made to them at the time was then considered reasonably adequate—without raising the question of too precise justice—was considered reasonably adequate. And it would be equally reasonably adequate if it were reduced.

Senator BARKLEY. Those allowances were not based upon the cost of living. They were based upon the proportion of a man's injuries to his earning capacities, of course assuming that he was normal and could receive normal wages.

Doctor ARENDTZ. Very well. His earning capacity has declined.

Senator BARKLEY. Of course the earning capacity with everybody has declined, whether he was in the service or out of it, and regardless of his degree of disability for any cause.

Senator KING. Senator, that would not be true of pensions because pensions were granted in many instances without any disability at all.

Senator BARKLEY. Yes, service pensions.

The CHAIRMAN. There are $400,000,000 of that kind of pensions paid to-day.

Senator BARKLEY. Well, I do not care to go into a detailed discussion of that. But what other item have you?

Doctor ARENDTZ. General reduction of salaries, as I suggested, somewhat like the reductions that have been made in private industry.

Senator KING. And States and counties?

Doctor ARENDTZ. I think if the Federal Government set the example the local pressure on the States would make the States and municipalities follow suit pretty rapidly.

Senator KING. Do you not think the States and municipalities are setting the precedent for the Government?

Doctor ARENDTZ. In fact they are.

Senator BARKLEY. Is it not a fact that public offices of municipalities and counties and States are much closer to the people and are much more immediately responsive to them than those in the Federal Government, and if there is any example to be set the States and counties and municipalities should not sit around waiting for the Federal Government to set the example; they ought to set it themselves?

Doctor ARENDTZ. Well, they are in some places.

Senator COUZENS. I assume then on your theory that the purchasing power is much greater, that we ought to cut also all the interest charges on our securities, because they are getting the same interest rates that they did previously and they are getting much more purchasing power?

Doctor ARENDTZ. Is that possible?

Senator COUZENS. Well, I think it is just as possible as it is to take the food out of babies' mouths.

Doctor ARENDTZ. With a lower purchasing power the lower wages do not do that.

Senator COUZENS. It would not do it with the man who was receiving interest on bonds either, would it?

Doctor ARENDTZ. Quite so. I am not questioning the matter of abstract justice in the matter. I think you are right. But practically it may not be possible, that is all.

Senator KING. However, Senator Couzens, interest rates have fallen during the past years.

Senator COUZENS. I am talking about the securities that were issued——

Senator GEORGE. Fixed rates.

Senator COUZENS (continuing). During the prosperous periods. And the securities that the Government now has are drawing 4 and 4½ per cent, which were sold at what we might call inflationary periods, and if those salaries and compensations to veterans were fixed at that time it is assumed that they were all fixed on the relative value of things. If you are going to take it out of one group then take it out of all groups.

Senator KING. What do you say as to the effect upon the ability of municipalities, States, and the Government to issue securities and find a market for them if it is understood that there will be a constant reduction in the interest rates if there should be a decline in business and in prices?

Senator COUZENS. Why treat dollars different from what you do individuals?

Senator KING. I am just asking the question.

Senator COUZENS. I do not know. I do not think you can treat them any different.

The CHAIRMAN. I think, however, that there is hardly a city or county or a State but what has borrowed up to the limit now. If they do anything they ought to reduce them rather than increase them.

Senator COUZENS. The Senator from Utah has said what I have in mind. That every agency that can come to the F. R. C. is increasing their indebtedness, and I am opposed to it.

Senator KING. Hear! Hear!

Senator COUZENS. It is time now for the Federal Government to stop trying to maintain excessive and ridiculous capital structures and paying the interest to a special group and at the same time urging and campaigning with all sorts of propaganda to balance the Budget out of the hides of veterans and employees. There is no justice in that. If the Government is going to be just it ought to treat all alike. You can not do it any other legal way. If you can not reduce legally, as the witness says, interest on bonds, why, let us default.

The CHAIRMAN. Proceed.

Doctor ARENDTZ. That covers the first point; that is the matter of cutting down cost of Government to the price level which exists.

The second line of attack is that of building up the price level more toward—it will not be built back to it in any case, but more toward the level which it was. That is largely a world problem. I mean to say that to build the price level up in this country alone, if it could be done, would simply result in making this country a wonderful place to sell goods in and a very poor place to buy them in, with a resulting draining out of the gold in payments for a surplus of imports until the price level was brought down.

The CHAIRMAN. And that would be the natural result.

Doctor ARENDTZ. Yes; the plans for building up the price level are generally those of inflation in some form. Now inflation is wanted primarily in order to furnish more purchasing power. Purchasing power is what is down. It is not overproduction, it has been pretty well shown, that lies back of this depression, but decline in demand. It is not overproduction in the sense of a sudden and great excess of production. It is overproduction in the sense that more is produced than can be sold at a profit, but that is because the demand has fallen, not because the increase in supply is so great.

Senator COUZENS. Does the witness intend to imply that at no time during the period around 1929 was there any excess production?

Doctor ARENDTZ. In 1929 there was a comparatively small excess in production, but nothing that would account for any such collapse as we have to-day.

Senator COUZENS. That is perhaps true, but was there not a constant desire on the part of every one to increase production by capital expenditures?

Doctor ARENDTZ. Yes; but in spite of that the figures of industrial production, of crops and so forth, as I brought out in my little book there, did not show any extraordinary increases. They do in a few items. There are a few items that do. The rest did not. Rather steady normal increase, one might say. It is the purchasing power that collapsed rather than the sudden outburst of supply.

Senator COUZENS. Well, what caused the purchasing power to collapse?

Doctor ARENDTZ. The fundamental reason I believe to be the fact that gold production proceeded at a rate of less than 2 per cent through a number of years, while the production of goods and services for sale increased at the rate of over 3 per cent. Now most economists agree that is a normal rate.

Senator BARKLEY. Is that an annual increase you speak of?

Doctor ARENDTZ. Yes; and that, most economists agree, is a normal rate. Of course had it been possible to constantly increase the credit money structure it might have moved them on that, but it was not done except in this country.

Senator COUZENS. I will agree with you that the increase was not so substantial, but if you will watch the graph of the increase in manufactures, and then if you compare that with the graph of the rise in credits and debts you will find it is enormous.

Doctor ARENDTZ. I am speaking of credit money. Of cdebts you are right. But of credit money I am speaking.

Senator COUZENS. What I was getting at, though, was this: What effect do you think the fact that the manufacturing graph shows along like that, a very gradual increase, and the debts up like this, almost twice as much? I ask you what effect the increase in the debt structure had upon the purchasing power and the welfare of the country as a whole?

Doctor ARENDTZ. The increase in the debt structure—that is so far as it was interest-bearing debt—would not have direct effect except so far as those securities became the basis for loans which would go into bank deposits subject to check, and therefore into actual purchases.

Senator COUZENS. Of course that is a rather complicated answer for a layman to get.

Doctor ARENDTZ. I know it. I agree with you.

Senator COUZENS. But at the same time it was certainly taking out of the purchasing power an enormous amount for interest charges which went back, if you please, into bank deposits and otherwheres, but not into consumption.

Doctor ARENDTZ. I am not so sure about that not going into consumption.

Senator COUZENS. Well, I am quite sure about that.

Doctor ARENDTZ. When people get interest they have to do something with it. They do not bury it in the ground. It works out somewhere.

Senator COUZENS. Oh, they get it back and put it into more investments, put it into more debts, and more interest is the result.

Doctor ARENDTZ. All of which creates a very top-heavy speculative structure.

Senator COUZENS. Now you have come to the point.

Doctor ARENDTZ. Quite so.

Senator COUZENS. That is just what I wanted to develop. So that in effect the whole situation, at least a great percentage of it, is due to the absurdity of building up a debt structure such as we did during the period referred to.

Doctor ARENDTZ. Well, I will have to come back to my original distinction between the two depressions, the one characteristically American, which is what you say, the expansion of speculation on credit, and the other the long world depression, which is not primarily connected with that at all. Now so far as this country goes you are absolutely right. It is that speculative pyramid built on credit that tipped over. And we have had it before; we have had it time and again before.

Senator COUZENS. And when that terrible pyramid of debts topples over what effect does that have on the rest of us? What effect does it have on commodity prices?

Doctor ARENDTZ. Well, it results in a lot of liquidation and the wiping out of bank currency; by that I mean demand deposits subject to check; and the wiping out of a lot of bank currency helps to bring down prices.

Senator COUZENS. And of course it curtails purchasing power?

Doctor ARENDTZ. Because it curtails purchasing power in fact.

Going back to the possibilities of raising the price levels, there are three ordinarily spoken of. One is the reflation of bank credit. Now, the Federal Reserve for the past year has been trying to effect a reflation of bank credit by buying Government securities and putting excess reserves at the banks' disposal hoping that that would expand their loaning policies. But solvent borrowers have already got as much money as they need to finance what little business they can do. And borrowers who merely want to be carried and can not show profit-making possibilities bankers are not interested in. And so it has simply failed to expand, that is all. It has been impossible to expand it.

And there I want to call attention to the unsatisfactory character of our currency system, which I repeat is primarily a bank-managed currency system. It is bank deposits and checks. What we call ordinary money currency is only a very small part of it. We will say, perhaps 20 per cent.

Senator COUZENS. Not that much.

Doctor ARENDTZ. At the most. I want to be liberal about it.

Senator COUZENS. It will not be 20 per cent.

Doctor ARENDTZ. Maybe it will not. But somewhere between, anyway, 10 and 20 per cent.

Senator COUZENS. As a matter of fact, the currency question is not the important factor in this whole collapse, is it?

Doctor ARENDTZ. Why, I think if it had not been possible to expand the bank credit currency—if they had not been able to finally set up deposits and make loans they never could have flown so high and they consequently would not have fallen so far.

Senator COUZENS. That is true, but that does not exactly answer my question. I ask you if it is not a fact that the currency question in itself and by itself has not been the reason for the great crisis?

Doctor ARENDTZ. I am not quite sure I understand what you mean there. It is impossible to disassociate it, pick it away from the rest.

Senator COUZENS. Well, it does not seem to me that it should be so very difficult when you can reduce it to percentages.

Doctor ARENDTZ. Percentages of what?

Senator COUZENS. Percentages of the relation to currency and the kind of credit that you have just been speaking about. In other words, if you concede that currency had somewhere from a 10 to a 20 per cent relationship to the whole debt structure and the whole business structure.

Doctor ARENDTZ. No; I do not mean that. I mean to say that of the actual currency that is used as purchasing power there at are least \$4 in checks—that is, bank credit currency used as money—to \$1 in what we call pocket money or paper bills or coin or what have you. Now that sort of currency we have found expands, and expands too freely when confidence is high. People want to borrow, and it looks good. And the banks are willing to lend. And it expands when it ought not, perhaps. Then anything that happens to chill confidence, things turn down, it looks bad, it immediately contracts violently. The bankers have to in their own defense. I am not blaming them any. If I were a banker I would do the same thing for my own protection. I would have to.

Senator COUZENS. What is the prevention of that?

Doctor ARENDTZ. I was going to suggest one thing, and that is higher bank reserves; and I think all the banks should be brought under Federal jurisdiction, and every bank taxed out of existence that does not join the Federal reserve system where it can be controlled, and higher reserve ratios required in the future. That is looking ahead a ways, but that seems to me necessary. I do not believe a cover of 18 or 20 per cent is adequate in times when confidence is threatened. Most any cover, or none, will work when confidence is high. If nobody wants to get gold—if you substituted pigs of lead and they did not know the difference it would work just the same as long as confidence ran high. But the structure has got to stand the strain and not merely work in good times.

The purpose, as I say, of inflation, is to increase purchasing power—to go back to that. And this expansion of bank credit is apparently not possible until confidence returns.

Senator CONNALLY. Mr. chairman, may I ask the witness a question right there?

The CHAIRMAN. Senator Connally.

Senator CONNALLY. Is it not the purpose of the Federal reserve law to do that in a measure now through the raising of the rediscount rate?

Doctor ARENDTZ. They tried to control the credit structure that way. That is one of the ways. Open market purchases is another.

Senator CONNALLY. Your idea is that either it has not been exercised properly or does not work?

Doctor ARENDTZ. No; my idea is this: I do not think at the present time it is possible to reflate bank credit.

Senator CONNALLY. Yes, but I am talking about the other way. You said you wanted larger reserves?

Doctor ARENDTZ. Yes.

Senator CONNALLY. So as to prevent too much inflation in times of confidence and prosperity?

Doctor ARENDTZ. Yes.

Senator CONNALLY. Now, Doctor Arendtz, the theory of the Federal reserve was that in a period of that kind they would reach the situation by raising the rediscount rate.

Doctor ARENDTZ. That is the theory.

Senator CONNALLY. And you don't think that that has worked, or is it because the Federal Reserve Board has not exercised that power?

Doctor ARENDTZ. Well, it obviously has not worked, and the reason is, I take it, that they would not, as I would not want, to stand before the country in the position of stopping, checking, reversing a period of good business. When business is booming and going strong the Federal Reserve Board—suppose they had put the screws on, had raised interest rates, sold Government securities, a great howl would go up from the country, attacking the board for slowing down business. That is the difficulty always with a managed currency, the difficulty of management. It is easy enough to expand it. For instance, if it is paper bills you can print more of them but when it comes to checking the thing, apparently no human power is ever wise enough or strong enough, or even willing, to say no to an eager nation. I could not be, I am quite willing to admit.

Senator CONNALLY. In 1929, when we had the gigantic debauch in stock-market speculation, if the Federal Reserve Board and the authorities had put on the interest rate a little earlier that would have had the tendency of slowing such things down, wouldn't it?

Doctor ARENDTZ. Yes. It would have slowed business down along with speculation.

Senator CONNALLY. Well, business would have been better off if it had been slowed down before it went off the cliff, wouldn't it?

Doctor ARENDTZ. Yes. But at such a time it seems to be humanly impossible for any board of men to stand up and face the country and tell them: No, you shall not. You see, the people will say: We are on the high road to prosperity. We are in a new era. No, you must not do it. And so it is that I say: Who will put the brakes on at such a time? Who can do it?

Senator CONNALLY. well, they did finally put the brakes on, didn't they?

Doctor ARENDTZ. Yes, but it was after it had got too far. And not even then, you might say, for all practical purposes. So the situation is that I have just lost faith in humanly-managed systems.

Senator CONNALLY. Well, how are you going to get any other kind of system by legislation?

Doctor ARENDTZ. Well, by means of more hard money and less credit. That is the answer. That is the thing I suggest, hard money for use.

Senator CONNALLY. Well, as to the matter of gold, we certainly can not make any more gold by law.

Doctor ARENDTZ. No, but you can add a silver supply to it. You can remonetize silver. That will help some.

Senator CONNALLY. Possibly.

Doctor ARENDTZ. In connection with the matter of management may I say this: I feel that we are threatened with something that will ultimately turn out even more disastrous than what we have had in the past, and that is this: Is it a conspiracy or what? This plan or program of a number of economists and international bankers to create an international facade, a gold base but an internationally-managed credit currency. That is, that you will put certain international bankers and their economists in control at Basle, a bank of international settlements for example, and they will shuffle and manipulate world credit, and fix prices stable based theoretically on a gold system. But that gold base is only a gold facade for a managed gold credit currency. And it will not work. It has not worked.

The CHAIRMAN. Oh, that is only a dream. It has made no headway so far as the governments of the world are concerned.

Doctor ARENDTZ. Yes, Mr. Chairman, it is a dream. But it is a dream that will be raised in the forthcoming economic conference. And it will be backed by some very powerful names, and a big effort will be made to put it across. I think the thing is the most dangerous we have been faced with at all. What we have to do, and it may not be nice or easy, is to get back to less managed credit and more hard money. Every managed credit system so far has turned into a mismanaged system, and I do not believe that with these new people it would be any different.

Senator KING. Doctor Arendtz, your theory, as announced in your admirable little book, is that nature has furnished approximately 3 per cent accretion to the metal base of the world for an indefinite period, that production has been substantially between 3 and 4 per cent. There must be a relation between any increase in metallic base and the production of the world. And you have shown there in your little book that the world's gold supply is diminishing—or as it was for a number of years, although there has been a slight increase I believe this year, and there is bound to be a fall in price in that case. And if gold shall continue to diminish in production the prices inevitably must fall, if they rest solely upon a gold basis. Therefore you suggest that it would be wise to strengthen the metallic base because gold production is inadequate to furnish the 2 or 3 per cent necessary for stabilization of prices as measured by production.

Doctor ARENDTZ. Precisely. There will be one of three things: Either falling prices owing to inadequacy of gold, or a managed credit to supply a constantly higher credit money base, or else a reinforced metallic base.

The first we do not want. And the second is bound to be mismanaged and disastrous and cause a collapse. War will break it, has in the past without any question, and other conditions might.

I do not believe, I have not confidence enough in the wisdom and moral strength or whatever you may call it, of any group of men to sit on a pedestal and manage world credit and currency for us. And that is so even if the world would put confidence in them, and it won't, and you won't get international cooperation. When you want central banks to cooperate with this thing what do you get? Even if there were not the world's fear of it, when it comes to the matter of the cooperation required it may be considered, by some, contrary to the national interest, we will say of France, or of Great Britain, or of the United States, or of somebody else. Central reserve banks can not cooperate against the interests of their own nationals. They would be removed at home if they did it, and they just will not do it.

Senator COUZENS. Isn't it a fact that in 1927 the public relied very much on the advice of President Coolidge and Secretary Mellon?

Doctor ARENDTZ. I suppose so. At any rate, they tried to cooperate in the interest of world welfare and to stop the speculative orgy that in the main we are now trying to untangle. So far as a reflection of bank credit demand is concerned it comes only after confidence returns and it therefore becomes profitable to borrow money for business purposes, when one thinks he can make a profit out of it. I do not believe that confidence can be restored by just saying: Have confidence; nor by any psychological treatment.

Senator COUZENS. Which means, what guarantee will you have to put confidence in, is that it?

Doctor ARENDTZ. Well, in 1929 business confidence was never higher. Lack of confidence did not do it. Lack of confidence and the fear complex came afterwards, when the downward spiral had got started. Then that stimulated fear and produced lack of confidence. Some concrete physical cause is going to be necessary, like the primer in an engine if you will, such a thing as that is necessary in order to restore confidence.

Senator HARRISON. Doctor Arendtz, won't you elaborate a little on that?

Doctor ARENDTZ. Say, an influence to bank credit reflation, which I think is not possible until confidence comes. The paper money program I think is a delusion and a snare. In the first place, paper money inflation will raise prices in the United States only, and there has got to be a lot of it to do that. There must be a lot of paper money issued to do that. And it will not raise world prices because it does not circulate outside of this country. The only way it would contribute toward raising world prices, if we are to maintain redemption in gold, would mean just putting out gold in exports constantly, and gold would do some good in that particular, but it won't last.

Senator HARRISON. You say it would take a lot of paper money. How much would you say?

Doctor ARENDTZ. Oh, not less than $2,000,000,000.

The CHAIRMAN. And that would not do it?

Doctor ARENDTZ. I doubt if it would. I said not less even than that. And I do not mean to say that that would certainly be enough. The thing is this: If you start prices up, if you succeed in stopping the downward trend and start even a small upward trend, the change in sentiment will do the rest very often. You do not have to produce it positively. What you need is a primer. Or, in other words, you do not have to put enough gas in the engine to run it for all time, but you do have to get it started.

The CHAIRMAN. And do you think that would do it?

Doctor ARENDTZ. That would start it along the road.

Senator HARRISON. In the last three years and a half we have had an expansion of $3,500,000,000 in circulating money, and at the same time prices have continued to go down. What has been the cause of that?

Doctor ARENDTZ. That was because half of that, in management, has simply replaced bank deposits, which were formerly used. There are considerable sections of the country now using currency that used to write checks.

Senator HARRISON. We would still have to increase it by half a billion dollars.

Doctor ARENDTZ. Yes. The most of that may have gone into hoarding as a result of fright.

Senator HARRISON. So that the amount of money theoretically in circulation, and the most of it now is theoretically so, because it is not working or turning over, is that it?

Doctor ARENDTZ. The most of it is either hoarded or being used to draw checks on.

Senator HARRISON. And any amount of money, currency, or any other kind of money, that we printed or coined, probably would find its way ultimately into the same hoarding places where it is now.

Doctor ARENDTZ. I think not, not if you put in enough to check the fall in prices and start a turn upward. As soon as it becomes evident that the price level has turned up, instead of down, then people want to buy, and the existing purchasing power would be released.

Senator HARRISON. That will happen in any event after prices start up, without any increase in money. That is, what money is in existence now would start its daily dozen, so to speak.

Doctor ARENDTZ. That is true when prices start up. My own thought about the inflation is what is wanted to make that start, is a primer.

Senator HARRISON. You are against paper inflation?

Doctor ARENDTZ. I am. And another reason is this: That when you once put an issue of paper money into circulation you never can get it out. It stands indefinitely as a liability against the Government. That during Civil War days we had a large crop of greenbacks. The idea was that it would be a noninterest bearing loan and would save the Government interest, to issue paper money. The same idea is being advanced now, that it would save interest on bonds if the Government would print that kind of paper money, and then retire it at some later time. But you can not retire it, and for this reason, that when they tried to retire the Civil War greenbacks, and there were some $70,000,000 retired, a great howl went up that the Government was making money scarce and injuring business. And of course it was true to this extent, that they were taking current purchasing power out of business and putting a pressure on prices.

And the same thing has been true in the matter of world experience. Any country that has put a lot of paper into circulation has been unable to get it out. That was true of France, although it was controlled to some extent. Italy did the same thing. In Germany it went down and went out of control. And I would say that that would happen here. It might be quite possible to control it here, to restabilize it at some lower level, as France and Italy did. It has been done at other times, but you can not get it out of circulation.

Senator HARRISON. They only attempted to stabilize it after it had become so enormous as to be almost worthless, especially in Germany.

Doctor ARENDTZ. Yes; but I am now talking about France and Italy, that did stop it on a lower level. But it might get out of control and go down and out like Germany. But it is not at all sure that you can do that. It is only fair to assume that it might be stabilized at a lower level. Nevertheless it does not help world prices at all, and once it was in circulation you could never get it out. And if you face a subsequent crisis that paper money circulation is a limit on your Government credit. It stands there like a sickle, around the neck of the Treasury always. That is the main trouble with it.

Senator COUZENS. You would not recommend that we attempt to do anything like that in this country, would you?

Doctor ARENDTZ. No. I do not like the idea of putting that sort of thing out if it can possibly be helped. Conditions might come to the point where it was the only thing that could be done in order to pay Government expenses, and that was so in the Civil War.

Senator COUZENS. Are you going to make any suggestion as to how we might somewhat regulate the purchasing power of the dollar?

Doctor ARENDTZ. Well, I don't know. I doubt if——

Senator BARKLEY (interposing). Senator Couzens, before he does that I should like for him to discuss the different plans of inflation. He started a while ago to discuss seriatim that matter, if I am correct about it, and I should like to have that discussion preliminary to an answer to your question.

Senator COUZENS. Then I withdraw my question.

Senator BARKLEY. Doctor Arendtz, suppose you answer that preliminary to your answer to Senator Couzen's question.

Doctor ARENDTZ. The other plan which I have advocated is the remonetization of silver. Now, the reasons have been to some extent stated. For centuries the world output of silver and gold together met the situation in fact. This idea of a single gold standard is only about 50 years old to all practical purposes. It ignores the fact that the actual money of half the people of the world is still silver, although they admit that the market is not as great as their population by any means, but such is the case nevertheless. We can not create gold at will, and the only way in which metallic money can be supplied adequately is by a remonetization of silver, which ought to be an international job.

Senator COUZENS. At what ratio would you suggest?

Doctor ARENDTZ. Well, in my book I have suggested 30 to 1. But since that was written the price level has gone much lower, the need for reflation is greater, and I think I would lower the ratio. Any kind of ratio within reasonable limits, anywhere from 16 to 25, and it does not make much difference if it is an international job. Just so it is a reasonable ratio, and a number of the leading countries do it at the same time.

Senator KING. Don't you agree with Mr. Darling of the Bank of England, that 20 to 1 with the production during the past 300 or 400 years, would not be a sufficient value with regard to gold, but rather a return to 16 to 1 would be more like the natural situation?

Doctor ARENDTZ. Sixteen to one is more in harmony with nature. But I do not think that is necessarily a determining factor in the case.

Senator LA FOLLETTE. Why do you think a remonetization of silver would tend to stop the violent price fluctuations. We had them then, didn't we, when silver was a part of the metallic base of money?

Doctor ARENDTZ. Not as violent by any means.

Senator LA FOLLETTE. Fluctuations were pretty violent during the Napoleonic period and in 1860 and 1870, were they not?

Doctor ARENDTZ. In the Napoleonic period paper money prices fluctuated violently. But the matter of credit money expansion there comes in. Now, the fact, for instance, that China and other silver standard countries, have not suffered as the so-called gold world has from depression, is not due to the fact that it is just because it is silver. But silver has been more stable, a more stable measure of value, over the past two years. In other words, the purchase value of an ounce of silver has fluctuated less than an ounce of gold. China is prosperous where it has not been smashed by war or floods. Anyone who has traveled in China knows that. But the reason is not that silver is superior to gold as a measure of value. Gold would be as good if it were not for its top-heavy credit situation. The silver nations have not raised that top-heavy credit structure, and their price level has gone along, not absolutely stable, no, but without violent fluctuations that have characterized ours.

Senator LA FOLLETTE. How are you going to prevent these excesses of credit structure being superimposed upon your double basis as well as upon your single base?

Doctor ARENDTZ. I suggested a while ago that the bank reserve requirements should be higher, and that the banks should be under the discipline of the Federal reserve system always. And that is worth something. I do not say it could stand against everything but it would be worth something. Then another feature of that is that I would make the reserve requirements gold only and not stand on a bimetallic reserve.

Senator LA FOLLETTE. That remedy could be applied to the money now, if it still stood on the gold standard?

Doctor ARENDTZ. Yes. But what are you going to do for reflation in that case? In other words, instead of reflecting up and expanding bank credit that would tend to hold it down. Some reflation that would be reasonable, but rather than let that go wild again, try to hold that down and substitute silver for bank credit.

Senator BARKLEY. That would not have any effect upon the so-called check credit facilities, would it?

Doctor ARENDTZ. The banks have to hold a certain amount, a certain percentage of their deposits.

Senator BARKLEY. Then they would have to hold it and not loan it out to the public.

Doctor ARENDTZ. Yes.

Senator BARKLEY. But they could not put any restrictions on the checking power of a man with money in bank.

Doctor ARENDTZ. Bank depositors must rest on loans, to a certain extent, although they can not loan where they are below the legal ratio. It would stop the accretion of check deposits through excessive loans. It seems to me that that method of silver remonetization offers the only possibility of increasing the metallic base.

Senator THOMAS of Idaho. Just how would you do that in the United States in event that other countries of the world would not join?

Doctor ARENDTZ. Well, there is only one way it could be done by the United States alone without endangering the gold standard, at least so far as I know it is the only one. I have suggested to Mr. Somers, of the House Coinage Committee, a bill along that line. That is, if the Treasury were to issue certificates, legal tender, at the market value. That is, if you have 1,000 ounces of commercial bar silver 99.99 fine, that upon a deposit of that; and suppose the current price were 25 cents an ounce, you would get 250 silver token dollars, or silver certificate dollars, legal tender, redeemable not in gold, but in gold dollars' worth of bar silver at time of redemption. Now, that would mean that deposits could be made at any time and certificates given at the current market rate, and redeemed at the current market rate at time of redemption, so that your silver dollar could never be worth any different than your gold dollar.

The CHAIRMAN. Would you limit this to American production of silver?

Doctor ARENDTZ. No, sir. Of course, that opens wide the door of speculation, to form a pool and run the silver up and unload it on the Treasury and let the Treasury hold the bag. But the remedy that I offered suggested two arrangements: One would be to put a ceiling on, that is, a certain price per ounce, above which no certificates would be issued. And if you say no certificates would be issued at any time at a price exceeding that represented by an increase of one-half of 1 per cent per month, at a 25-cent base at the first of this year, that would take it out of circulation. That would prevent speculation.

Now, that proposition was criticized. I had a talk with Senator Wheeler, and he criticized that on the ground that while it was economically sound, and might be a desirable way to do it, that it did not provide a sufficient immediate inflation. I agree to that. The result would be slow. But it would provide steadily a full weight of silver currency, standing on its own legs, and not a hard and fast gold standard. The bank reserves would be the same. It would not be hurried.

Senator CONNALLY. Of course you want to make that legal tender.

Doctor ARENDTZ. Yes.

Senator CONNALLY. It would not be tenderable on contracts calling for gold of the present weight and fineness.

Doctor ARENDTZ. No, sir; not legally so. But suppose you have——

Senator CONNALLY (interposing). I know what you are going to say, that you can go to the Treasury and get an ounce of silver or of gold. But legally it would not be tenderable in payment of obligations calling for gold of the present weight.

Doctor ARENDTZ. No. But all you have to do is to put in an order to sell enough silver to supply the gold you want on the New York metal market.

Senator CONNALLY. Oh, I understand what you mean, the same as any commodity. For instance, if you have a bushel of wheat you can sell it and get gold and pay your debt.

Doctor ARENDTZ. Yes, sir.

Senator CONNALLY. But it does not meet the objection that has been urged here to have plans for revaluing the dollar?

Doctor ARENDTZ. No, sir.

Senator LA FOLLETTE. How do you meet the argument of those who want a remonetization of silver with the fixing of a ratio which is arbitrary and which is subject to the same human reactions as apply in the case of managed currency to which you refer.

Doctor ARENDTZ. The fixing of the ratio is of course arbitrary. But if it is fixed by international agreement I can see no possible reason why any reasonable ratio could not be maintained indefinitely. I have heard that the opinion has been given by people high in authority—well, not in authority, but who are authorities on the subject, that I can not name, that the United States could hold a ratio alone indefinitely. But I do not feel convinced of that.

Senator LA FOLLETTE. Assuming that the United States could alone hold a ratio, why wouldn't there be the same pressure accompanying fluctuations in the business cycle; I mean, to change the ratio, that you predict would be the case if we attempted a managed currency.

Doctor ARENDTZ. I think if you simply increased your metallic base and then put the brakes on credit inflation, you would not get the violence of cycles.

The CHAIRMAN. In that case how would you limit inflation? How could it be done?

Doctor ARENDTZ. I suggested that the bank system be brought entirely into the Federal reserve, so that there would not be any banks that were nonmembers. And, secondly, that the reserve requirements should be raised.

The CHAIRMAN. Supposing that were done, and supposing they conformed to all the rates necessary, and all the provisions that you mention now, when that limit was reached then what would happen?

Doctor ARENDTZ. If they ran up to that limit you would get a certain amount of inflation. I do not think it is avoidable.

The CHAIRMAN. That is exactly what would happen.

Dr. ARENDTZ. Yes. You can not keep an absolute level.

The CHAIRMAN. And we would be back into an inflation period at once.

Senator KING. If there should be through some act of providence an outpouring of gold in the United States, $350,000,000 or $400,000,000 worth to-day, and then a substantial production new, and say it should be a $1,000,000,000 a year, there would be a tremendous inflation in the sense that we are using the word now.

Doctor ARENDTZ. Quite so.

Senator KING. For centuries gold and silver circulated in all countries of the world, until 1893 practically, at a ratio of 14½ to 16 to 1.

Doctor ARENDTZ. Yes, sir.

Senator KING. While there were some differences they were brought about by paper money issued in the Napoleonic wars and other conditions. But by and large wouldn't there be a proper relation between the two metals, largely the result of natural laws, the production of about 14½ ounces of silver to 1 ounce of gold, which has been the situation ever since the days of the discovery of America in 1492?

Doctor ARENDTZ. Yes, that is true. But if you take that bimetal base and then raise a corresponding credit structure higher upon it, you would have the same trouble again, wouldn't you But if you held down the credit expansion by increasing bank reserves, keeping gold alone as reserve metal, that is required for reserves, silver not legal, the legal tender in circulation but not permissible for reserve purposes, then you have a metallic currency upon which you can not build a top-heavy credit structure, and you have got the possible limits of credit expansion, setting board reserves. Now, I am not arguing that you can prevent expansions and contractions of credit. I am not arguing that at all. I do not think you can prevent or entirely smooth out business cycles by any one thing at any time, but I think the violence of them can be greatly curtailed by curtailing credit.

Senator COUZENS. At that point let me ask you: Would it be possible and would it be effective to increase the reserves necessary by edict of the Federal Reserve Board, in order to stop an expansion of credit, instead of changing the rediscount rate?

Doctor ARENDTZ. At the present time I do not understand that the Federal Reserve Board has authority to do that.

Senator COUZENS. No. But I am asking you in case they were given that authority by law, if when an expansion of credit is in evidence the bank reserves might be increased.

Doctor ARENDTZ. There comes in the same difficulty that they had in 1928, when, in order not to hurt business, they refrained from using the powers they then had of checking credit expansion. Now you are going to give them some more powers to check credit expansion, and in a like situation will they use it?

Senator COUZENS. Is it possible to make it mandatory upon the Federal Reserve Board when commodity prices reach a certain level to increase the reserves so as to decrease expansion?

Doctor ARENDTZ. It might be possible to make it manatory, but it may not be a matter of commodity prices. Commodity prices do not go up much in such a period. For instance, they were very stable in the period from 1922 to 1929. The thing would not have acted at all. It was security prices that went wild. It was the matter of securities upon which the speculative fervor impinged as it were, not commodities. So that would not fit the case at all.

Senator COUZENS. Have you any suggestion as to how the Federal Reserve Board could by law be given a mandate to prevent what occurred in 1929?

Doctor ARENDTZ. Well, perhaps it might be said that it had a mandate then, but did not exercise it to a certain extent.

Senator COUZENS. What was its mandate then?

Doctor ARENDTZ. For example, it could have raised interest rates in 1928. It might have sold securities. It might have taken on open market operations.

Senator COUZENS. As a matter of fact, we were so mad in 1928 that anything like a reasonable rediscount rate would not have affected the situation, would it?

Doctor ARENDTZ. No, not anything. But when interest rates got up high it turned it. But I think that brings us to the crux of the whole thing, and that is, when you get into a period where the mentality is a mentality of speculation, a new era, prosperity is going onward and upward, no powers that you give to human beings will be exercised. If you have a hard and fast law that a bank can not loan unless it has 25 per cent, for instance, of reserves against its deposits, it gets to a limit that it can not pass.

Senator REED. Doctor Arendtz, you are telling us how to stop the next boom. What I want to know is, how to start it.

Doctor ARENDTZ. I spoke of that a while back. We ought first to cut governmental expenditures down to what the public can afford to pay, and balance the Budget. Secondly, we ought to make an effort to lift the price level somewhat.

Senator REED. Wouldn't the price level lift itself if we could restore confidence?

Doctor ARENDTZ. Yes, that is true. If you could restore confidence it would. But, again, wouldn't the very primer that restored confidence itself bring about an increase of purchasing power? It would raise the price level. Could you restore confidence by edict?

Senator REED. You can restore confidence by balancing the Budget and making sure there will be no inflation.

Doctor ARENDTZ. That would help undoubtedly.

Senator REED. It would stop hoarding instantly.

Doctor ARENDTZ. I think so. But it will not probably be possible to entirely do it. It would not seem so with the amount that has got to be spent for relief, it would not seem that in addition to the general governmental expenditures the giving of this relief would permit of the Budget being absolutely balanced. You can not let people starve in the streets.

Senator REED. Certainly not, and I am not proposing that.

Doctor ARENDTZ. That will mean that anyway for the time being budgets can not be balanced entirely.

Senator COUZENS. You can not go out and feed crowds of people and balance the Budget, because these are extraordinary times, and you can not raise enough money to balance the budgets.

Doctor ARENDTZ. But if you will cut costs in the way I have suggested you will approach that as nearly as possible.

Senator COUZENS. What confidence are you going to restore whan the people are undoubtedly terrorized of having their incomes cut off? How are you going to get confidence by that procedure?

Doctor ARENDTZ. Well, as to facing having their incomes cut off, as I stated before, I do not think the solution lies in firing a lot of people and keeping the rest at the same salaries. I think it consists in increasing employment at the expense of lower wages. Now, that is one thing, and beyond that I think a primer is going to be necessary.

Senator REED. What primer do you suggest?

Doctor ARENDTZ. I have suggested the remonetization of silver as the only practicable one, and that it ought to be done on a fixed ratio by international agreement.

Senator REED. The present ratio of silver to gold is about 80 to 1 on the markets of the world.

Doctor ARENDTZ. Yes, sir.

Senator REED. If we tried to stabilize silver at 16 to 1 or 20 to 1, what would prevent our becoming the recipient of all the silver in the world?

Doctor ARENDTZ. Well, not all of it, but the available surplus, probably. You understand that China can not send us all the money they have. That is impossible. And India can not send us the only money they have. Silver which is in actual use can not be sent over here.

Senator REED. They have 400,000,000 ounces of silver by way of surplus at this time, haven't they?

Doctor ARENDTZ. I would say that were Senator Wheeler's bill enacted into law, and the United States attempted to remonetize silver at a ratio of 16 to 1, the result would be something like this: In the first place, the thought that silver is disastrous has been instilled into the minds of business men, so much so that you might get a run on gold to start with. I do not know how far, but it might do some damage. But firm measures that gold would be paid on demand, and without limit, would probably stop such a run. But beyond that the first effect would be to raise the price of silver to $1.28 an ounce

Now, the second effect would be a flood of orders for lumber, wheat, cotton, and copper from the Orient. That is, oriental trade would come to the United States. For instance, if lumber is at $12 a thousand feet, and you translate that into the Chinese silver dollar, which is now five times that, but if you tell him he can pay for that lumber with 12 silver dollars in his money, he will order the goods from us. Now, I do not mean permanently and forever, but there would be a temporary stimulation, a rush of orders from the Orient. No other country could get any orders under those conditions, and America would have them. And we would get their silver for that. And to what extent, you say?

Senator REED. Yes.

Doctor ARENDTZ. Well, figuring that the Indian government would take that opportunity to sell some of its silver—and there is another reason why they could not sell very much—and the surplus stocks in Shanghai would come, I would figure that perhaps 600 million dollars to 650 million dollars' worth would be dumped on the United States within a six months' period, or a year anyway. And it would come at the point of time when there would be new orders for our goods.

The CHAIRMAN. How much did you say?

Doctor ARENDTZ. I said $600,000,000 to $650,000,000. That is only an estimate. The story about huge stocks of silver waiting to be dumped on the United States is simply a myth. There aren't any such stocks of silver.

The CHAIRMAN. There are about 11,000,000,000 ounces produced in the world.

Senator KING. Not produced, Mr. Chairman, but in existence.

The CHAIRMAN. No; that has been produced.

Senator KING. That is, in existence to-day?

The CHAIRMAN. Yes.

Senator COUZENS. How much per annum?

Doctor ARENDTZ. That has varied a good deal. At the highest it was 262,000,000 ounces, and at the present time about 160,000,000 ounces.

Senator COUZENS. Would it be practicable to put a limit on silver without putting a limit on production, or the amount of silver produced?

Doctor ARENDTZ. No; I do not think so. The minute you do that you get a bullion value in your coin out of line with the value outside and uncoined.

Senator KING. Might I interrupt you right there? Isn't it a fact that in the Pittman bill, when silver was worth $1.38 an ounce, and in Great Britain $1.72 an ounce, there was no export of silver from China or India? We had no invasion or inundation of silver in this country?

Doctor ARENDTZ. No.

Senator KING. And isn't it true that when Germany and two or three European countries, after the discovery of gold in California and Australia, and they believed that gold was the cheap money, and they demonitized it, and went to the silver standard, that there was no great export of silver into those countries that had demonitized gold and made silver their sole standard?

Doctor ARENDTZ. When did they make silver their sole standard?

Senator KING. In 1857, Great Britain——

Doctor ARENDTZ (interposing). No; not Great Britain.

Senator KING. I meant Germany, and one or two countries there, I think including Belgium.

Doctor ARENDTZ. As to the supplies that would come out, that is the point at issue?

Senator KING. Yes.

Doctor ARENDTZ. The portions that are undoubtedly held in India and in China in private hoards would not come out. Of that I feel no doubt whatever, because those savings are the savings of the poor and middle-class people. They are kept not for speculative purposes, but, like savings deposits of the poor and middle-class people here, a man there will accumulate a little silver by way of ornaments or of silver bullion, against the marriage of his daughter, or a death in the family, or his own death, or famine, and all experience has shown that that comes out only when the contingencies arise, and never because of a change in the gold value of the silver they have hoarded. A price of $1.35 or $1.38 in 1919, which we had, brought no more than 50,000,000 ounces out of China. I think that shows pretty clearly that those hoards will not come. They are performing their function, and it will stay there. You won't get those.

Now, future production would be stimulated, we will say. I have the figure in that $600,000,000 to $650,000,000 possibly, of Spain selling a lot of silver, of their saying: Here is a good chance to sell it. And the Indian Government, although there are good reasons why they would not, of doing the same thing. Taking the situation all over probably it would be somewhat less than that figure that has been mentioned.

Senator COUZENS. How long a time would it take for silver to run from its present price up to $1.28.

Doctor ARENDTZ. Well, if it were receivable at the American mint at that rate I would say it would jump to it almost over night.

Senator COUZENS. In other words, could they bring it out and make delivery so as to raise it from 25 cents to $1.25 over night?

Doctor ARENDTZ. Well, over night is a bit exaggerated, but within a week or two.

The CHAIRMAN. The price would rise over night?

Doctor ARENDTZ. Yes, sir; but delivery might be postponed. The question would come as to holding it there.

Senator COUZENS. But what about delivery. which might mean that it would come out rapidly enough to jump the price from 25 cents to $1.25?

Doctor ARENDTZ. I think if the United States Mint stood there offering that price; regardless of the amount that came out the price would go up, amounts would flow in, in other words. But I can not see any possible way by which anyone can find such huge silver stocks as they talk about inundating the country. That is impossible.

Senator COUZENS. It would not make much difference to what price it went, so far as deliveries were made, how long it took to make deliveries.

Doctor ARENDTZ. Do you mean in the matter of the flow of silver to the United States?

Senator COUZENS. Yes; because it does not make much difference as long as you do not get a quantity.

Doctor ARENDTZ. I would say that it would flow in in about a six months' period. Then you would settle down to taking the surplus production.

Senator COUZENS. And if it did not have a beneficial effect we could repeal that law?

Doctor ARENDTZ. Yes. But if you did you would have that currency on your hands. It would let it go down.

Senator COUZENS. No, if we agreed to buy it at a certain ratio.

Doctor ARENDTZ. Pardon me. What was that question?

Senator COUZENS. If we bought it from the stocks of silver of the world, taken over a period of six months when you said the deliveries might occur.

Doctor ARENDTZ. Suppose you have taken 600 dollars of silver and coined it, then you would have 600,000,000 dollars of silver or of certificates in circulation.

Senator COUZENS. Yes.

Doctor ARENDTZ. How can you get rid of that except by redeeming it and selling it in the open market? And if you do you bring the price down again and injure what you have in service.

Senator COUZENS. I mean retaining the 600,000,000 dollars of silver and issuing certificates therefor; so that the 600,000,000 dollars of silver would always be on hand with which to redeem the certificates.

Doctor ARENDTZ. Yes, but the price would no longer be sustained once you closed the mints.

Senator COUZENS. If the holders did not cash in the silver certificates it would not be particularly necessary so long as we had the value of it.

Senator KING. We have more than $400,000,000 of certificates circulating, based upon what we have. In addition to that, we have $200,000,000 of half dollars, quarter dollars, and dimes, perhaps not of silver actually coined but the silver certificates are circulating.

Doctor ARENDTZ. The bullion value is about 20 cents.

Senator KING. Or 25 cents.

Dr. ARENDTZ. No, I think about 20 cents now, to be accurate.

Senator CONNALLY. It gets its value bacause redeemable in gold.

Doctor ARENDTZ. Yes, obviously.

Senator CONNALLY. Doctor Arendtz, how about the relative increase of gold in the world and other wealth. You said gold increased about 2 per cent annually.

Doctor ARENDTZ. The figures I have from the World Almanac show a very small increase. In 1923 it was 17.8, in 1924 it was 19, in 1925 it was 19, in 1926 it was 19.4, and in 1927 it was 19.5.

Senator CONNALLY. What do you mean by that?

Doctor ARENDTZ. Million ounces, these are.

Senator CONNALLY. What percentage of that is over the volume of gold in existence.

Doctor ARENDTZ. I can not tell you offhand.

Senator CONNALLY. Has gold been increasing in production in about the same ratio as other production?

Doctor ARENDTZ. No, less.

Senator CONNALLY. Exactly. In other words, one reason why gold is so dear now is because it has not increased in volume of production in the same ratio as other wealth.

Doctor ARENDTZ. That is one reason, the reason that started it. The other reason is that a collapse of credit started a great demand for it.

Senator CONNALLY. As long as that goes on in that sort of ratio gold will get dearer and other commodities will get cheaper.

Doctor ARENDTZ. If that continues.

Senator CONNALLY. Italy and France did in fact revalue their money, didn't they?

Doctor ARENDTZ. Yes.

Senator CONNALLY. You say that gold and silver have been increasing since 1492 on a ration of about 14½ to 1.

Doctor ARENDTZ. Silver has been more than 14½ to 1 of gold on the average, but it has been that average in that period.

Senator CONNALLY. Then the average for the period has been 14½ to 1?

Doctor ARENDTZ. Yes.

Senator CONNALLY. Gold to-day is worth out of all proportion to that relationship, about 80 to 1, although the volume of silver and gold is about 14½ to 1. Now, isn't it true that the reason gold is worth so much more than silver is because the demand for gold as money has created an artificial value for gold?

Doctor ARENDTZ. Yes, sir.

Senator CONNALLY. Otherwise if they were both purely commodities, and neither one had any money value, it would have some fair relationship of value in proportion to their volume?

Doctor ARENDTZ. They might, depending upon the relative demand for both of them.

Senator CONNALLY. To be sure. But I say if in the arts and sciences they were purely commodities. So that by reason of being coined by the Government as money gold has obtained a value out of proportion to silver.

Doctor ARENDTZ. Yes, sir.

Senator CONNALLY. Your idea in remonetizing silver is to bring down the value of gold?

Doctor ARENDTZ. Yes, sir.

Senator CONNALLY. You want to cheapen gold money, and your plan is to make it, arbitrarily by law, cheaper by lifting up silver.

Doctor ARENDTZ. Diluting it with silver is a good word.

Senator CONNALLY. Or, bringing in silver means the same thing. So your idea is that the value of gold ought to be reduced and you are going to reduce it by saying that instead of its being worth 80 to 1 it is 20 to 1, and your purpose is to make the gold dollar cheaper.

Doctor ARENDTZ. Yes, sir.

Senator CONNALLY. And any other reduction in the value of gold which would be practicable would have the same effect, wouldn't it?

Doctor ARENDTZ. Yes, sir.

Senator CONNALLY. But your silver dollar, as you said a while ago, would not be tenderable in payment of debts which had a gold clause, except on account of their interchangeability with gold.

Doctor ARENDTZ. Quite so.

Senator CONNALLY. Now, your idea is to make silver money, but you want to prevent the importation of as much of it as possible from other countries.

Senator CONNALLY. If it is desirable to make silver money why not have it all?

Doctor ARENDTZ. Do you mean to attract importations?

Senator CONNALLY. Yes.

Doctor ARENDTZ. The only reason is this, that ultimately, if we stand as the only nation maintaining a fixed ratio, that as production increased——

Senator CONNALLY (interposing). But we would have all the silver and other countries would have all the gold.

Doctor ARENDTZ. They might very readily say: Here is a chance for us to increase our gold reserves at the expense of America, and proceed to do that.

Senator CONNALLY. If silver is worth 25 cents an ounce and by law you made it worth $1.25, every country on earth that could get silver over here would get it over here and swap it for gold.

Doctor ARENDTZ. I think you exaggerate that.

Senator Connally. Well, if a Chinaman had some tea, and it was worth only 20 cents a pound in the United States, but we arbitrarily made it go to $1.29 a pound, he would send all of his tea over here, wouldn't he?

Doctor ARENDTZ. As much as he could.

Senator CONNALLY. Wouldn't he do the same thing with silver?

Doctor ARENDTZ. As much as he could, but he cannot send all the money he has.

Senator CONNALLY. If he swaps it for gold he would then do that?

Doctor ARENDTZ. They would never do that.

Senator CONNALLY. Well, a Chinaman even knows the difference between 20 cents and $1.29, doesn't he?

Doctor ARENDTZ. That is quite true, but when silver is worth $1.29 there is no benefit in his swapping it for gold. And, besides, the East will never turn to gold. It is impracticable. Any man who has lived in the East knows it. But Europe might do it.

Senator CONNALLY. Well, I have never lived there.

Doctor ARENDTZ. Is it your idea that he has a dollar worth 20 cents that he can get $1.29 for?

Senator CONNALLY. That is your proposition, that he can bring it over and have it minted into a dollar.

Doctor ARENDTZ. Then it becomes a dollar, and he has a dollar, and why exchange it for gold?

Senator CONNALLY. Because the only way he can get such a value is to exchange it in this country.

Doctor ARENDTZ. He may use it with which to buy goods.

Senator CONNALLY. To be sure. And he might sell it to buy silver.

Doctor ARENDTZ. That is true.

Senator CONNALLY. Your idea is that by the recoinage of silver we would benefit ourselves by making the property and money of other countries more valuable than it is.

Doctor ARENDTZ. It would certainly get a sheaf of new orders. Now, whether the subsequent effect would be undesirable is another question. But there is no question about its bringing, in my judgment, a temporary rush of new orders.

Senator LA FOLLETTE. What would happen to prices in China?

Doctor ARENTDZ. Chinese prices would move slowly. The country is so vast, the number of people there so great, the customary scale of prices prevail, and it is only very slowly they could lower wages and prices to suit that change in what is to have the price of the American dollar in their markets. That is quite a complicated question, international exchange, but the upshot of it I think is this: That actually it would end by lowering the value of gold really more than—that is, the purchasing price, more than it raised the purchasing power of silver. It is only very slowly that the East could change its price level.

Senator La Follette. If you had a large stimulation in production of silver, which is a by-product of other metals mined more largely, what would happen to prices of the primary product?

Doctor Arendtz. Unquestionably remonetization of silver at a higher price level would stimulate production. How much I do not know, nor does anyone know. The highest it has gone was 262,000,000 ounces, no higher. Now, under this plan whether it could be pushed higher I can not say. Probably it might, and how much I do not know, nor does anyone else know. But obviously an increase in production of silver would tend to increase the production of these metals, largely by-products, and some two-thirds or three-quarters of the production is a by-product production of silver, and it would increase their production too, without any doubt.

Senator La Follette. And prices might tend to come down.

Doctor Arendtz. Unquestionably that would tend to influence the prices of those particular metals. For instance, copper, zinc, and lead, which are the only ones involved, might go more downward.

The Chairman. It is now time to recess.

Senator Barkley. Just one question, Mr. Chairman, before you recess: Doctor Arendtz, to sum up your suggestions, if I may, your remedy for this situation is three-fold: First, balance the budget, second, remonetize silver, and, third, raise the reserve requirements of banks, and provide that they shall all be compelled to come under the Federal reserve system.

Doctor Arendtz. Yes. The last is not so much a remedy for this situation as it is a prevention of a repetition of it.

Senator Walsh of Massachusetts. A public check on credits?

Doctor Arendtz. Yes.

Senator Barkley. Is that a fair summation of your suggestions?

Doctor Arendtz. I would say so.

The Chairman. It is now about 12 o'clock and we must recess.

Doctor Arendtz. I thank you gentlemen.

The Chairman. The committee will now rise to meet again at 2 o'clock in this same room.

(Thereupon, at 12 o'clock noon the committee recessed to meet at 2 o'clock p. m. the same day.)

## AFTER RECESS

The committee reconvened at 2 o'clock p. m. Tuesday, February 14, 1933, at the expiration of the noon recess.

The Chairman. The committee will come to order. Is Mr. Peek present?

Mr. Peek. Yes, sir.

## STATEMENT OF GEORGE N. PEEK, MOLINE, ILL.

The CHAIRMAN. Give your name and address for the record, Mr. Peek.

Mr. PEEK. George N. Peek, Moline, Ill.

The CHAIRMAN. Whom do you represent, Mr. Peek?

Mr. PEEK. I represent no organization at the present time.

The CHAIRMAN. You are here personally?

Mr. PEEK. Yes, sir.

The CHAIRMAN. You may proceed.

Mr. PEEK. In appearing before your committee in response to your invitation, I want to say in advance of my regular remarks that I started my studies of the agricultural question largely from the industrial angle. I was engaged in a line of business, the manufacture of agricultural implements, depending wholly upon the farmer for its market.

Senator HARRISON. What firm is that?

Mr. PEEK. Dependent largely upon the American farmer.

Senator HARRISON. I mean what firm are you connected with?

Mr. PEEK. I was president of the Moline Plow Co., at that time, and previous to that time I had been with Deere & Co., except during the period of the war when I was a member of the War Industries Board. My investigations led me very soon to the close relationship between agriculture and all American business and the importance of agriculture to our whole social and economic structure. I want to bring that out because frequently in discussing the farm question a great many people conclude that that is something off by itself and more or less unrelated to our national economy.

In discussing the causes of the existing depression and possible legislative remedies, upon the invitation of your committee, I shall review primarily the relation of the prolonged agricultural depression to the general depression which followed, and suggest in some detail the principles of legislation which I consider necessary to incorporate into law to relieve the depression in agriculture in so far as prices are concerned.

If time permits I shall comment briefly also upon some other agricultural legislation which now seems imperative. Legislation is required:

1. To correct price disparity and to prevent or minimize its recurrence.
2. To remove some of the burden of debt and interest charges.
3. To restore foreign outlets for American products.
4. To reduce local, State, and Federal expenses, in order that taxes may be brought into proper relation to reduced earnings and incomes.
5. To provide short-term credit and banking facilities where they are now lacking.
6. To provide a more adequate and better adapted rural credit system to remove discrimination between agricultural and other borrowers.
7. To inflate the currency if the foregoing are insufficient.

In my judgment this unparalleled depression is due in large part to mistaken national policy throughout the last 12 years. Unfortunately for the Nation, we followed the insular English policy of three-fourths of a century ago and attempted to become a financial and commercial Nation. Apparently this was done without due regard to agriculture and without a clear conception of the fact that we are a great continental Nation capable of sustaining a standard of living peculiar to ourselves by maintaining a fair relationship between our major economic groups. Our banking and industrial leaders seem to have lost sight of the vastly greater importance to the Nation of the purchasing power of some 70,000,000 to 80,000,000 of our people dependent directly and indirectly on the basic industry of agriculture than the relatively meager foreign trade in industrial commodities we have enjoyed.

Our national policy for the expansion of foreign trade in industrial products, without taking into account its effect upon agriculture and related industries, was a mistaken one. We have been trying to maintain our industrial war-time facilities at a capacity above peace-time demands. We have loaned abroad more money than is represented by our entire war debt upon the theory, I assume, that it would be used particularly to buy our industrial products. We have put the facilities of our gigantic Department of Commerce behind the movement to expand foreign trade, just as though we were a debtor nation as we were before the war, instead of a creditor nation as we emerged from the war. We had nearly held the gold supply of the world, so that foreign nations could not pay us in gold, and we prevented their paying us in goods and services by our tariffs, while at the same time we have insisted upon the payment of war debts. We have gone further, to the extent that we have captured foreign markets we have interfered with the normal relations of other countries between themselves. Under such conditions it is not surprising that many nations have erected trade barriers aimed to protect their own interests.

This deliberate and urgent expansion of foreign trade in industrial products either consciously or unconsciously ignored the greater importance of foreign trade to agriculture than to other industry. It ignored also the greater importance of our domestic trade from which we obtain 92 per cent of our whole national income. In the 23 years from 1910 to 1932 the total income from all exports averaged 7.45 per cent of the whole national income, but the proportion of agricultural income attributable to agricultural exports was 17.86 per cent, while the proportion of industrial income attributable to industrial exports was only 5.21 per cent. (Details for these figures are given in Exhibits 1 and 2.)

In the recent national campaign the President elect recognized the necessity to our general business recovery of restoring the purchasing power of agriculture. In Atlanta, on October 24, 1932, he said:

> * * * let me make clear in as emphatic words as I can find the fundamental issue in this campaign. Mr. Hoover believes that farmers and workers must wait for general recovery, until some miracle occurs by which the factory wheels revolve again.
>
> No one knows the formula of this miracle.
>
> I, on the other hand, am saying over and over that I believe that we can restore prosperity here in this country by reestablishing this gigantic purchasing power of half the people of the country, that when this gigantic market of 50,000,000 people is able to purchase goods, industry will start to turn, and the millions of jobless men and women now walking the streets will be reemployed.

Again, in Boston, the week before election, he said:

We need to give 50,000,000 people who live directly or indirectly on agriculture a price for their products in excess of the cost of production. That will give them the buying power to start your mills and mines to work to supply their needs. They can not buy your goods because they can not get a fair price for their products.

The CHAIRMAN. I suppose you will tell us in this article how that can be done, will you not?

Mr. PEEK. I will give you my views; yes, sir.

Let no one doubt that the results of the election meant general approval of the views expressed above. Having thus quoted the President-elect himself defining his position, it is important briefly to review what has happened to agriculture.

### DEFLATION OF AGRICULTURE

The conscious deflation of agriculture began in 1920 when the Federal Reserve Board determined to reduce commodity prices.

Congress became disturbed at the severity of the agricultural depression which immediately resulted, and in June, 1921, appointed a joint commission of agricultural inquiry to determine the cause of the agricultural depression.

The commission made its report in October, 1921, but it failed to report the cause of the agricultural depression. The depression continued and in January, 1922, President Harding called a national agricultural conference. This conference brought to the attention of Congress and the President the disparity between the prices of agricultural and industrial commodities in the following language:

### PRICE ADJUSTMENT

Agriculture is necessary to the life of the Nation; and, whereas the prices of agricultural products are far below the cost of production, so far below that relatively they are the lowest in the history of the country; therefore, it is the sense of this committee that the Congress and the President of the United States should take such steps as will immediately reestablish a fair exchange value for all farm products with that of all other commodities. (From H. R. Document, No. 195, Report of the National Agricultural Conference, January 23–27, 1922, p. 171.)

No immediate action was taken either by Congress or by the President on this unqualified finding and recommendation. In the spring of 1924, at the instance of Secretary Henry C. Wallace, legislation was introduced in Congress addressing the discriminatory situation as to farm prices. This legislation was defeated in the House of Representatives.

The disparity continued in varying degree, but only in 1925 did the farm dollar recover as much as 92 per cent of its pre-war purchasing power. (The detail of that information is given on exhibit No. 3, column 2.)

The farm depression continued despite feverish activity in many industries and sections of the country. In 1927 and again in 1928 Congress passed legislation addressing the disparity between agricultural and industrial prices and aimed to correct this disparity. This legislation was twice vetoed.

In 1929 the agricultural market act, creating the Farm Board, became a law. It has failed completely to correct this disparity. I may say that the sponsors of that act never intended that it should raise farm prices, and that it was not proposed by leaders of farm thought. Some farm leaders, however, accepted it on the theory that a half loaf is better than no bread at all. I shall be glad to supply information on this point in greater detail if it is desired.

The farmer did everything in his power to carry on. He increased his efficiency in every possible way. He bought tractors, combines and other labor-saving devices to the value of hundreds of millions of dollars. He doubled his fertilizer purchases. He improved his crops, livestock, and farming practices, all to meet the cry of the business fraternity that he must become a more efficient producer. His only means of meeting his problem was to produce more units at a lower unit cost to meet his constantly rising expense in the face of lower prices.

By 1929 agriculture had practically exhausted its accumulated resources if it was to continue as a normal purchaser of industrial products.

Farm income fell from almost $17,000,000,000 in 1919 to $5,240,000,000 in 1932, a drop of 70 per cent. (Details of these figures are given in exhibit 3, column 1.)

A computation that I have made from Government data indicates that if the farmer had received for his products only the same relative prices from 1920 to 1932 inclusive that he received in the prewar period (1909–1914), which is generally accepted as a normal one, he would have received $27,500,000,000 more than he did receive. (That data is given in exhibit 3, column 3.)

This vast sum reflects only the shortage in exchange value of all agricultural commodities in relation to industrial commodities, computed for the period from 1920 to 1932. It does not reflect the price relations of particular commodities within the agricultural group. (As shown on exhibit 4.)

Some of these have been almost unbelievably low in their returns (grain and livestock, for example), while others have held up fairly well. The result of this discrepancy as between different agricultural commodities is evidenced by the varying depths of the depression in the different sections of the Nation where they are produced.

### AGRICULTURE'S SHARE OF THE NATIONAL INCOME

In 1910 agriculture received 22.6 per cent of the total national income. In 1919 this had risen to 27.5 per cent. In 1921 it dropped to 15.3 per cent, while the average for the three years 1930 to 1932 was 13.3 per cent. (The details are given in exhibit 5.)

As an average for the 5-year period 1910 to 1914, agriculture received 21.5 per cent of the national income. (See exhibit 5, column 3.) In the period from 1920 to 1932, inclusive, the total national income was $900,685,000,000. Had agriculture received a ratable share of this income its receipts would have been $193,687,000,000. They were $135,128,000,000, or $58,519,000,000 less than its ratable share, had the 21.5 per cent of the pre-war period been preserved. This comparison assumes a fair relation to have existed in the period 1910 to 1914.

### MORTGAGE DEBT AND CAPITAL ASSETS

In addition to the great disparity in the exchange value of his commodities, the farmer's mortgage debt increased from $3,320,000,000 in 1910 to $7,858,000,000 in 1920, and to $9,468,000,000 in 1928. Then the volume of farm foreclosures began to evidence itself in a decreasing total mortgage debt which is now estimated to stand at about $8,500,000,000. In the face of a catastrophic fall in his income, he has had to pay interest on an enormously increased debt.

The CHAIRMAN. Have you any fingures to show what caused that increase? The cause of the increase from $3,320,000,000 in 1910 to $7,858,000,000 in 1920?

Mr. PEEK. Only as I reflect the figures that show the decreased income to the farmer.

Senator SHORTRIDGE. No, the increase of the debt.

The CHAIRMAN. What I want to know is this: Have you analyzed it and seen just exactly why, and what was the source, and the reasons for it?

Mr. PEEK. Do you refer, Senator, to the possible increased value of land?

The CHAIRMAN. No. You say "the farmer's mortgage debt increased from $3,320,000,000 in 1910 to $7,858,000,000 in 1920."

Senator REED. Because there was a boom in farm land prices.

The CHAIRMAN. I wanted to know whether you have analyzed that and whether it was on account of purchases that he made, or the investment in lands.

Senator SHORTRIDGE. Why, of course.

The CHAIRMAN. And whether it came about from change in his living conditions. I simply ask you whether you have analyzed it and whether you have the figures to present.

Mr. PEEK. I have analyzed it from the standpoint, Senator, of the decreased relationship of the prices of his commodities and the prices that he had to pay.

The CHAIRMAN. No, that is not what I mean. In other words, was the standard of living between those years such that it would make the difference between the figures quoted in your statistics?

Mr. PEEK. Well, I can not give you an exact application of that.

Senator SHORTRIDGE. You allude to that on page 6. You say he improved his crops.

Mr. PEEK. If I may complete my analysis, Senator, I will be glad to get any further data that I can which you desire.

The CHAIRMAN. Very well.

Mr. PEEK. A further measure of the progressive impoverishment of agriculture is the decrease in the value of its capital assets that has accompanied the increase in its mortgage debt, as follows:

*Relation of capital value to mortgage debt*

| Year | Value of plant ($1,000)[1] | Mortgage debt ($1,000) |
|---|---|---|
| 1910 | $34,801,126 | $3,320,470 |
| 1920 | 66,316,003 | 7,857,700 |
| 1930 | 47,879,838 | 9,241,390 |
| 1932 | 37,000,000 | [2] 8,500,000 |

[1] Land and buildings.

[2] Approximately.

The decrease in mortgage debt between 1930 and 1932 is due almost wholly to wiping out debt and farmer alike by foreclosure. Recourse to foreclosure proceedings apparently is rapidly coming to an end as evidenced by recent occurrences in Iowa, Arkansas, and many other agricultural States.

TAXES

Farm real estate and personal property taxes alone have increased from $292,000,000 in 1914 to nearly $777,000,000 in 1930, an increase of 166 per cent. The average amount of taxes per acre in 26 states has increased so that in 1930 they stood 245 per cent of 1913, according to the figures of the Department of Agriculture.

Senator KING. Have you any figures showing the valuation per acre throughout the United States for taxable purposes?

Mr. PEEK. I have no figures here.

Taxes and interest, which amounted to about 20 per cent of farm production expenses in the pre-war period, had risen to 40 per cent in 1930.

MIGRATION FROM THE FARMS

A great exodus from the farms started with the 1920–1921 agricultural breakdown. For ten years, beginning in 1920, migration was at the rate of about 2,000,000 people a year. But about one-third of this number found their way back to the farms after milling around in the cities looking for jobs and adding to the army of unemployed. (The details of that figure are given in Exhigit 6.) Many cities regarded this influx as new population, and built hotels, apartment houses, office buildings, and homes to take care of it, many of which now stand nearly empty as a monument to mistaken judgment.

INDUSTRIAL PRICES HELD UP

During this period since 1920 while the tide was running so strongly against the farmer, the cost of the things he had to buy was prevented from declining proportionately to the things he had to sell. This was due to the organization of industry and labor which enabled them to carry on behind successive tariff acts, as follows: The emergency tariff act of 1921; the Fordney-McCumber Tariff Act of 1922, and the Hawley-Smoot Tariff Act of 1930. (See exhibit 7.)

Senator SHORTRIDGE. The farmer was protected by that also, was he not?

Mr. PEEK. I prefer to discuss that later, please, if you will let me finish my statement, Senator.

Senator SHORTRIDGE. Very well.

Mr. PEEK. I will be glad to take it up.

Senator KING. You and I will have a controversy over that, Senator.

Mr. PEEK. I do not believe I will have so much of a controversy with you on some angles.

In addition to these general enactments, there were frequent increases under the flexible provisions of the tariff laws.

It is constantly stated that the things the farmer buys are not subject to duty. To disprove this we need only to point to the duties on such basic raw materials as iron, steel, copper, aluminum, lumber, coal, and petroleum, which in the form of raw, semimanufactured, and finished products are used in large quantity by the farmer.

Other protective devices have been put into effect in the interest of industry and labor which assisted them in resisting inflation, with the ultimate result that while agricultural prices as of January 15, 1933, stand at 51 per cent of pre-war, prices paid by farmers stand at 105 per cent, according to the figures of the Department of Agriculture on January 30.

### TWO POSSIBLE METHODS FOR CORRECTING DISPARITY

There are only two ways of correcting the disparity between agricultural and industrial prices: (1) Raise agricultural prices, or (2) reduce industrial prices to the level of agricultural prices. Farm leaders consistently have urged the first method. Responsible leaders of labor have supported them. Most of our leaders in big business and finance have opposed them. If the second method were adopted, it would mean cutting industrial prices to half or less than half of their present levels. This would mean complete chaos in labor, industry, and finance.

May I suggest to your committee that in your deliberations you give full consideration to the views and motives in the past of those who now or hereafter appear before you to suggest the way out of our present difficulties.

### PRICE DISPARITY

Before considering provisions for legislation that are essential to correct price disparity, let us note certain facts concerning prices of a few commodities in the United States in different years and in Europe; and in the case of wheat the situation in world markets. These facts will throw a good deal of light upon the present situation. My statements are based on data prepared by the Bureau of Agricultural Economics, United States Department of Agriculture.

### WHEAT, FLOUR, AND BREAD PRICES

In 1914 No. 2 hard winter wheat sold at Kansas City at $0.93 a bushel.

Flour sold at Kansas City at $4.36 a barrel.

Bread sold at Kansas City at $0.061 a pound.

In December, 1932, No. 2 hard winter wheat sold at Kansas City at $0.423 a bushel; flour sold at Kansas City at $3.40 a barrel; bread sold at Kansas City at $0.067 a pound.

These comparison for the pre-war and present situations are highly significant. With a wheat price in 1932 54.5 per cent below 1914, we have a flour price 22.2 per cent below and a bread price 9.8 per cent above. Just these simple facts demonstrate that so far as wheat is concerned price levels have been brought down at the expense of the farmer and the consumer. The spread between them has increased; the farmer gets less, the consumer pays more. Kansas City bread prices are of particular significance, for both in 1914 and in December, 1932, they were identical with the average for the United States.

A comparison of wheat, flour, and bread prices in foreign countries has added significance. In making international comparisons of prices, it is obviously impossible to make them absolutely identical because of different milling and baking practices. However, they disclose the general picture with sufficient accuracy.

On September 19, 1932, wheat sold in Paris at $1.24 a bushel, flour sold in Paris at $5.58 a barrel, bread sold in Paris at $0.04 a pound.

Kansas City figures for December, 1932, compared with the Paris figures for September 19, 1932, show the more favorable situation in Paris for both the farmer and the consumer:

| Commodity | Kansas City | Paris |
|---|---|---|
| Wheat | $0.423 | $1.24 |
| Flour | 3.40 | 5.58 |
| Bread | .067 | .04 |

That is 4 cents a pound loaf.

Senator REED. Mr. Peek, may I interrupt you?

Mr. PEEK. Yes.

Senator REED. In other words, our farmers are getting less and our consumers are paying more?

Mr. PEEK. Exactly.

Senator REED. Who is getting the greater part of that split?

Mr. PEEK. I think that the spread is absorbed in the general distributive system between the farmer and the consumer.

Senator REED. Well, somebody must be making an extortionate profit there.

Mr. PEEK. I think that the profits are largely expended in the costs of carrying on the business.

Senator REED. In other words, we have a wasteful system of distribution?

Mr. PEEK. Yes, sir.

Senator REED. From which nobody profits?

Mr. PEEK. Well, I would not say nobody profits. I think perhaps a great many people are employed in that wasteful system of distribution.

Senator REED. Well, if the French can distribute so much more efficiently, why can not we?

Mr. PEEK. I think that we can come more nearly approximating their prices.

Senator REED. If we did, would we not benefit both the farmer and the consumer?

Mr. PEEK. It would if the price was reflected to the farmer.

The CHAIRMAN. Well, there is a difference in the wage, of course, between this country and France.

Mr. PEEK. I say if it were reflected to the farmer; the difference between the price paid to the farmer and the price paid by the consumer; the difference in the distribution—the relative difference between those two.

Senator KING. Have you discovered, Mr. Peek, whether or no there is a monopolistic control in many sections of our country of the products of wheat—that is, of bread and of flour? The reason I ask the question is because complaints have come to me that in this city a number of the bakeries—I do not know whether that is the proper term—a number of the corporations that have been engaged in the production of bread and other cereal products have coordinated or cooperated or consolidated, and that has brought about a sort of a monopolistic control of the bread supply of this district. And I am told that similar situations exist throughout the United States, and there is a sort of a baking trust. Have you made investigations to determine whether that information that has been brought to my attention is accurate?

Mr. PEEK. No. I have no definite facts on that. I have my own views of it, Senator, which I shall not hesitate to express when I complete my paper, if you care to have me do so.

Senator KING. Yes; I would be glad to get your views on that.

Senator REED. It must be a pretty inefficient trust, because a number of them have recently gone into receivership.

Mr. PEEK. I did not understand that, Senator.

Senator REED. I say a number of these big baking companies have recently gone into receivership, have they not?

Mr. PEEK. I do not think that proves anything necessarily.

Senator KING. Senator, some of those trusts, like other corporations where monopolies are formed, have issued an enormous quantity of watered stock and they have paid extortionate prices to destroy the competing small man. I say they have just pyramided their stockholdings and their bonds, and have got watered conditions that were not conducive to economy or to the continued solvency of the corporation.

Senator REED. I am not assuming to defend them, Senator.

Senator KING. I know that.

Senator REED. But if they have a monopoly and have gone into receivership they must have been very inefficiently managed.

Senator KING. You know many of these monopolies, Senator, have been very inefficiently managed and the corporation has gone out, like the Insull Corporation, to acquire all of those engaged in that activity, and issued watered stock, and the result is they have come to a precipice and have been pushed over.

Mr. PEEK. Senator, what influence do you think is behind them?

Senator KING. You are on the witness stand.

Mr. PEEK. You almost said what I said I would say at the conclusion of my remarks, but you did not finish them.

Few people know the great discrepancy in relative prices of wheat and bread that have prevailed as between Europe and the United States for many years. I wish, therefore, to elaborate a little on this subject. The following comparisons are based on data compiled by the United States Department of Agriculture.

I will ask you if you will follow these tables, because it is a little easier to follow them than it is to read them.

Senator REED. I have already read them.

Mr. PEEK. Following is a table of comparative prices of wheat, flour, and bread.

*Comparative prices of wheat, flour, and bread*

| | Berlin | Paris | Kansas City |
|---|---|---|---|
| *1909-1913 average* | | | |
| Wheat (bushel) | $1.355 | $1.416 | $0.95 |
| Flour (barrel) | 4.97 | 6.01 | 4.38 |
| Bread (pound) | | .0558 | .06 |
| *1931 average* | | | |
| Wheat | 1.716 | 1.871 | .755 |
| Flour | 7.01 | 7.96 | 4.86 |
| Bread | | .042 | .083 |
| *1932 average* | | | |
| Wheat | 1.524 | 1.717 | .469 |
| Flour | 6.56 | 6.92 | 3.85 |
| Bread | [1] .078 | .039 | .067 |

[1] Wheat rolls.

The 1909–1913 average. Wheat in Berlin was $1.355 a bushel. In Paris it was $1.416. In Kansas City, 95 cents a bushel.

Flour in Berlin was $4.97 a barrel; in Paris, $6.01; in Kansas City, $4.38.

Senator REED. What was the German and French tariff on wheat at that time?

Mr. PEEK. I do not have those figures in this document. I will undertake to get them for you.

Senator REED. All right.

Senator SHORTRIDGE. Have you undertaken to give the reasons for that so-called disparity of prices?

Senator REED. Well, that is evident, Senator. The French and German wheat supply is not adequate to the demand.

Senator SHORTRIDGE. I, of course, had that in my mind. Due to the supply and the demand.

Mr. PEEK. Well, I would say hardly that. I cover that a little bit later in my conclusions.

Senator SHORTRIDGE. All right.

Mr. PEEK. While bread per pound, the figures were not obtainable for that period for Berlin, but in Paris they were $0.0558 per pound loaf, and in Kansas City $0.06. In other words bread was selling at less in Paris than it was in Kansas City, when wheat in Paris was $1.41 a bushel and in Kansas City it was 95 cents a bushel.

The CHAIRMAN. Of course wages and everything else here were higher than they were in Paris.

Mr. PEEK. I am not talking about anything except agriculture, Senator, at this particular juncture. The relation of agriculture to these particular commodities.

Senator REED. It is worth remembering that our farmers have to pay higher wages here than the French and German farmers pay over there.

Senator SHORTRIDGE. Labor is necessary there and here.

Mr. PEEK. You mean the farm labor?

The CHAIRMAN. The farm labor, and also in the milling of the wheat, and every time it is touched.

Mr. PEEK. Well, after you leave the farm the rest of the things are beyond the farmer's control. So we must look elsewhere. After we leave the point of local markets we must look elsewhere quite largely for the difficulty.

Senator REED. The price he has to pay for labor on his own farm is largely beyond his control, too.

Mr. PEEK. Yes.

Senator REED. So he is being ground between two circumstances he is not able to correct or control.

Mr. PEEK. It is very largely due to the prices of industrial labor, Senator, because if they are beyond a certain point there would be no labor on the farm, if the labor in the city goes too high.

Senator REED. Yes.

Mr. PEEK. That was the 1909-1913 average I just read.

In 1931 wheat in Berlin was $1.71 a bushel; in Paris, $1.87 a bushel; and in Kansas City, 75 cents a bushel.

Flour in 1931 in Berlin was $7.01 a barrel; in Paris, $7.96 a barrel; and in Kansas City, $4.86.

For bread in 1931 there are no figures for Berlin, but in Paris the price of bread was $0.042 and in Kansas City it was $0.083.

In other words, wheat in Paris was $1.87 a bushel, in Kansas City, 75 cents; bread in Paris was 4 cents and in Kansas City 8 cents.

The 1932 average for wheat in Berlin was $1.52; in Paris, $1.71; and in Kansas City, 47 cents.

Flour in Berlin was $6.56 a barrel, in Paris it was $6.92, and in Kansas City it was $3.85.

Bread (wheat rolls), which are not exactly comparable, in Berlin were $0.078, in Paris bread was $0.039, less than 4 cents, and in Kansas City, $0.067.

While the pre-war price of wheat in Berlin was $1.35 a bushel, the 1932 average price was $1.52 a bushel, or 13 cents higher. In Paris the pre-war average price was $1.42, while the 1932 price is practically $1.72, or 21.1 per cent higher; while in Kansas City the pre-war price was 95 cents and the 1932 price was practically 47 cents, or 51 per cent lower.

The average price of bread in Kansas City has increased from 6 cents a pound loaf pre-war to 6.7 cents a pound loaf in 1932, or 9 per cent higher. In Paris the average price of a pound loaf has dropped from 5.58 cents to 3.9 cents, a drop of 30 per cent.

When wheat was $1.87 a bushel in Paris in 1931, it was 75 cents a bushel in Kansas City. But bread was 8.3 cents in Kansas City and only 4.2 in Paris. (For further details, see Exhibit 8.)

It must be clear that the whole burden of giving justice to the American wheat farmer need not fall upon the consumer.

Senator HARRISON. Mr. Peek, that price that you stated was charged in Kansas City, was that pretty general over the country?

Mr. PEEK. I stated before, Senator, that in previous periods I give the data at two separate dates where the Kansas City price was the exact average of the whole United States.

WORLD WHEAT MARKETS

A general impression prevails that the world's trade in wheat has been declining and that it has become necessary for the United States to restrict its production of wheat as a permanent policy.

For many years I have protested against the expressed view of those who advocate the restriction of agricultural production to the demands of the domestic market, and I have pointed out the unfavorable effect such a policy would have not only upon the farmer but upon our whole economic structure—commerce, transportation and finance. The social effects, too, would be far reaching and destructive.

I have pointed out also that the vacuum created in the world's agricultural market by our withdrawal would be—in fact is being—filled by other exporting countries such as Canada, South America, and Australia. Such withdrawal would dry up our own resources to the direct advantage of foreign nations.

Recently the leading boards of trade and produce exchanges published a pamphlet entitled "A Survey of the Farm Question" (January 4, 1933), from which I quote:

> It may be here pointed out that, contrary to general impression, our loss of a market for our wheat is not the result of an increased production through a nationalistic program in importing countries. Actually the world is buying more wheat, but it is coming from our rival surplus producing countries. During the two postwar years of our 23 per cent tariff the world export trade in wheat averaged 675,000,000 bushels, of which we furnished 41 per cent. During the seven years of our 38 per cent tariff, the international world trade in wheat averaged 791,000,000 bushels and we furnished 21 per cent of it. In the two years under our 53 per cent tariff, the world wheat trade reached 814,000,000 bushels, and we supplied only 15 per cent of it. The importing countries of the world still want wheat in increasing quantities, but they are buying it in countries where commerce is permitted to flow in both directions.

That is page 17 in the pamphlet to which I have referred, and that is published under the auspices of the leading boards of trade and produce exchanges of the country.

The CHAIRMAN. Do you speak for the farm organizations?

Mr. PEEK. Do I speak for them?

The CHAIRMAN. Yes.

Mr. PEEK. I do not. I tried to make that clear in the beginning of my remarks, that I represent no organization except myself. You may perhaps recall, Senator, that from 1924 to 1928 I was president of the American Council of Agriculture, that was an organization of farm leaders, and during two years of that period I was chairman of the executive committee of 22, which was made up at the meeting of governors of 11 States, from 11 Middle Western States, 2 from each State.

The CHAIRMAN. You recognize, do you not, that the farm organizations of the United States had their representatives here at the time that the tariff bill was under consideration, and that every rate in that tariff bill was supported by the respresentatives of the farm organizations in this country?

Mr. PEEK. That has no influence upon my opinion, Senator.

The CHAIRMAN. No.

Mr. PEEK. I am merely expressing my views.

The CHAIRMAN. No, but I ask you whether you were aware of that fact?

Mr. PEEK. Oh, yes. I am aware of the general discussion in a general way.

Senator KING. May I ask my colleague, does he mean by that broad statement that he just made that the farmers supported every schedule in that tariff bill?

The CHAIRMAN. Every agricultural schedule.

Senator KING. I thought you were referring to the whole tariff bill.

The CHAIRMAN. No; I spoke about the agricultural schedules, and I asked him if he recognized that the farm organizations of the United States supported them.

Senator KING. I wanted to state that many of the farmers did not and do not support many of the schedules in that bill.

The CHAIRMAN. Agricultural?

Senator KING. No. I am not speaking of that.

The CHAIRMAN. I am talking about the agricultural schedules in the tariff bill.

Senator KING. If you limit it to agriculture, that is one thing.

The CHAIRMAN. Yes.

Senator SHORTRIDGE. Before you conclude, do you undertake to account for the falling off of our foreign wheat trade?

Mr. PEEK. I think so; yes.

Senator SHORTRIDGE. Very well.

Mr. PEEK. Time forbids referring in detail to the great body of facts touching the question of international trade in wheat. However, in the 8-year fiscal period from 1922–23 to 1929–30 United Kingdom imported an average of 218,283,000 bushels of wheat from all sections of the world. Our average proportion of their imports for that period was 33,991,000 bushels, or 15.6 per cent.

In 1931–32 United Kingdom imported 245,000,000 bushels, or 12.2 per cent, more than the 8-year average, but took only 18,679,000 bushels from the United States. In other words, our share of the wheat trade of United Kingdom fell from an average of 15.6 per cent to 7.6 per cent.

Senator REED. Let me interrupt you. Was not that very largely due to the dumping in Great Britain by the Soviet?

Mr. PEEK. I think not. If I may go on, Senator, I think I will perhaps answer your question.

Senator SHORTRIDGE. They buy from their own people.

Senator REED. Very well.

Mr. PEEK. The total world trade in wheat during the period of the Fordney-McCumber bill (1922–1930) averaged 735,882,000 bushels yearly. The average during the period of the Smoot-Hawley bill (1930–1932) has been 869,263,000 bushels, an increase of 18.1 per cent.

During the same period the United States' share in the world wheat trade dropped from an 8-year average of 186,193,000 bushels under the Fordney-McCumber Act to 133,667,000 bushels under the Smoot-Hawley Act, a decrease of 28.2 per cent.

The CHAIRMAN. Is there that difference in the rate of duty in the two bills?

Mr. PEEK. I beg your pardon?

The CHAIRMAN. Is there a difference in the rate of duty in the two bills of that percentage? If it is because of the duty then of course the higher rate has decreased with the importations. Was there 18 per cent difference in the rates? That is what you are trying to point out, is it not, that the rate of duty was what prevented the exportation of our wheat abroad and the use by foreign countries?

Mr. PEEK. I am merely trying to point out the facts in relation to it and at this juncture not to state the cause of it.

The CHAIRMAN. Well, that is all right. Just so we understand that.

Senator SHORTRIDGE. That is what I wanted him to develop, if he has views upon that subject.

The CHAIRMAN. Yes. Because that is very easily explained.

Mr. PEEK. I am merely submitting official data on what has happened at this point.

The CHAIRMAN. Very well. Proceed.

Mr. PEEK. During the same period the United States' share in the world wheat trade dropped from an 8-year average of 186,193,000 bushels under the Fordney-McCumber Act to 133,667,000 bushels under the Smoot-Hawley Act, a decrease of 28.2 per cent. Our share in world wheat trade, expressed in percentages, has dropped from 25.3 per cent to 15.4 per cent, despite an increase in total world wheat trade of 18.1 per cent. (See Exhibit 9.)

A study of our sales of wheat to foreign countries during periods covered by different tariff acts is very enlightening. During the Payne-Aldrich period of 1909–1913, all importing countries obtained 14.3 per cent of their wheat imports from the United States. While the Underwood law was in effect pre-war they obtained 44.5 per cent. In the postwar period, while the Underwood Act was in force, this percentage increased to 53.3. In the eight years of the Fordney-McCumber bill it dropped to an average of 25.3 per cent, and under the Hawley-Smoot bill it dropped to 15.4 per cent. Obviously due allowance must be made for the fact that European countries had not fully reestablished their agriculture during the period of the Underwood law. Nevertheless, the showing is significant of what has happened to our wheat export trade. (For further details see Exhibit 10.)

The picture as to our part of international trade is incomplete without some disclosure as to exports of wheat from the United States and other chief exporting countries.

Our export trade dropped from a 2-year average in 1920 and 1921 of 331,646,000 bushels to a 2-year average in 1930–31 and 1931–32 of 133,667,000. Comparing the same paid of 2-year periods, the exports of all exporting countries rose from an average of 784,889,000 bushels to an average of 869,263,000, an increase of 10.7 per cent. (For further details see Exhibit 11.)

For convenience of reference the average exports of the United States, other important exporting countries, and all exporting countries are shown in Exhibit 12.

Senator HARRISON. That gives the percentage of increase from each of the countries?

Mr. PEEK. Yes.

### HOG AND PORK PRICES

Turning our attention to hogs and hog products, we find similar discrepancies. So little corn moves from the farm as corn that the most practical way to increase corn prices is to deal with hogs. A study of the following prices shows many peculiarities of price behavior after the product leaves the hands of the farmer. December, 1932, is used for comparison as it is the latest month conveniently available.

*Average Chicago prices*

| Commodity | 1914 | December, 1932 | Per cent decrease |
|---|---|---|---|
| Heavy hogs | $8.36 per hundredweight wholesale | $3.05 per hundredweight wholesale | 63.52 |
| Dressed pork | $13.30 per hundredweight wholesale. | $5.90 per hundredweight wholesale | 55.64 |
| Pork chops | $0.198 per pound retail | $0.176 per pound retail | 11.11 |
| Bacon (sliced) | $0.317 per pound retail | $0.216 per pound retail | 31.86 |
| Ham (sliced) | $0.326 per pound retail | $0.303 per pound retail | 7.06 |

Available data on European livestock and meat prices are not complete, but they are very significant.

| Commodity | Year | Price per hundredweight wholesale | |
|---|---|---|---|
| | | United States | Germany |
| Hogs | 1913 | $8.37 | $12.64 |
| Pork | do | 12.60 | (1) |
| Hogs | September, 1932 | 4.12 | 8.68 |
| Pork | do | [2] 8.60 | [3] 13.89 |

| Commodity | Year | Price per hundredweight wholesale | |
|---|---|---|---|
| | | United States | England and Wales |
| Hogs | 1914 | $8.36 | $14.48 |
| Do | 1931 | 6.58 | 16.34 |
| Dressed pork | do | [2] 12.30 | [4] 17.69 |

[1] Not available. [2] Chicago. [3] Berlin. [4] London.

Now, if you refer to that table, you will see that heavy hogs in 1914 in Chicago, the average price was $8.36 per 100 pounds. In December, 1932, $3.05 per 100 pounds. A percentage of decrease of 63.52 per cent in price.

The CHAIRMAN. You have not got the price for 1929, have you?

Mr. PEEK. Not there. In other places here the prices occur.

The CHAIRMAN. That will make quite a different picture, will it not?

Mr. PEEK. Not so different as you would think. We will turn to that shortly.

The CHAIRMAN. We will see.

Mr. PEEK. Dressed pork in 1914, $13.30 per 100 at wholesale; December, 1932, $5.90, or 55.64 per cent decrease.

Pork chops at retail in 1914 were 19.8 cents per pound, and in 1932, 17.6 cents per pound, or a decrease of 11.11 per cent.

The CHAIRMAN. Have you any tables showing what they were in 1910 in comparison? This is when the war began, you know.

Mr. PEEK. I have some figures here in just a minute showing the average of 1909 and 1914; yes.

Sliced bacon in 1914 was 31.7 cents per pound at retail, and in 1932, 21.6 cents per pound, a decline of 31.86 per cent.

Ham (sliced) in 1914 was 32.6 cents, and in December, 1932, 30 cents, or 7.06 per cent decrease.

In other words, hogs declined 63.52 per cent, dressed pork declined 55.64 per cent, pork chops declined 11.11 per cent, bacon (sliced) declined 31.86 per cent, and ham (sliced) declined 7.06 per cent. Again reflecting the fact that the relative decline in the price of the hog is not reflected in the price of meat to the consumer.

Available data on European livestock and meat prices is not complete, but they are very significant. Hogs in 1913 in the United States, $8.37; Germany, $12.64.

Pork in 1913 in the United States, $12.60; Germany not available.

Hogs, September, 1932, $4.12 in the United States; in Germany $8.68.

Pork, September, 1932, Chicago, $8.60; Berlin, $13.89.

Hogs in the United States at wholesale in 1914 were $8.36, and in England and Wales, $14.48.

Hogs in 1931 in the United States were $6.58, and in England and Wales, $16.34.

Senator KING. That is reduced to the gold values, is it not?

Mr. PEEK. Both expressed in American money, yes, sir.

Dressed pork in 1931, $12.30 in Chicago, and $17.69 in London.

We have available also certain other comparisons of hog and pork prices. The Department does not give figures covering comparable cuts. The data are averages for 1909–1913, and 1931 and 1932. (See bottom of exhibit 8.) Hog prices were as follows:

| | 1909–1913 | 1931 | 1932 |
|---|---|---|---|
| Berlin (220 to 265 pounds) | $11.63 | $10.02 | $8.20 |
| Chicago (all weights) | 7.77 | 6.16 | 3.83 |
| Difference | 3.86 | 3.86 | 4.37 |

Clearly, as is the case with wheat, the whole burden of giving justice to the American hog producer need not fall upon the consumer.

It is apparent that foreign prices for hogs and their products do not determine our domestic prices. The large export business in hog products has been in lard, and it is quite probable that accumulating surpluses of lard in our markets and protection Germany is giving her agriculture are having a depressing effect upon the prices for hogs. This would seem to be borne out by a comparison of price behavior for a few selected years on lard, as follows:

| | 1925 | 1929 | November, 1932 |
|---|---|---|---|
| Chicago | $17.90 | $12.97 | $6.19 |
| Liverpool | 18.29 | 13.23 | 7.26 |
| Hamburg | 18.78 | 13.79 | 8.59 |
| Chicago-Liverpool spread | .39 | .26 | 1.07 |
| Chicago-Hamburg spread | .88 | .82 | 2.40 |

The spread is greatly increased, as is shown.

The CHAIRMAN. In favor of the United States?

Mr. PEEK. I would say against the United States. The Chicago-Liverpool spread in 1925 was 0.39; in 1929 was 0.26; and in November, 1932, was 1.07. While the Chicago-Hamburg spread in 1925 was 0.88, in 1929, 0.82 and November, 1932, $2.40.

COTTON

The expressed theory held by some that we should relinquish our agricultural export markets and increase our industrial exports at the same time, overlooks, as has been pointed out, the importance of agriculture to our whole economic structure—commerce, transportation, and finance.

In the case of cotton the pursuance of this theory is particularly murderous as we produce 57.36 per cent of the world crop (1924–1930 7-year averages; world crop, 25,620,000 bales; United States crop, 14,700,000 bales). Furthermore, we export 54.43 per cent of what we produce (1924–1930 7-year averages: production, 14,700,000 bales; exports, 8,002,000). These facts are from Bulletin 169, United States Bureau of the Census.

Hitherto we have enjoyed practically a world monopoly in production, producing some 57 per cent of the world's supply, and exporting about 55 per cent of what we produce. We have failed in the matter of prices, however, to take advantage of our peculiar opportunity to exercise a proper influence on world prices.

Senator SHORTRIDGE. Have you undertaken to explain that point? You make a positive statement there which may be correct.

Mr. PEEK. I think I explain a good many of the points that you raise, Senator, later.

Senator SHORTRIDGE. All right, sir.

Mr. PEEK. We have allowed our cotton producers to remain at the mercy of the buyers of cotton (foreign nations), while at the same time these producers, as consumers like the rest of our consumers, have been compelled to purchase the products of cotton in a highly protected market.

To force our cotton growers to curtail substantially their production would merely drive them into grain and livestock. The producers of grain and livestock (except lambs) have suffered more since 1920 than the cotton growers themselves. (See Exhibit 4.) (See also Exhibit 13.)

Cotton is grown on nearly 2,000,000 farms and is peculiarly a crop employing a large amount of human labor. If we drive, say 400,000 cotton farms out of production, what can their operators do except further break down the general farm structure, or migrate to the cities where we already have 12,000,000 unemployed workers?

Senator SHORTRIDGE. Does anybody propose to drive 400,000 cotton farmers out?

Mr. PEEK. What would they do?

Senator SHORTRIDGE. Why do you use those figures and make that statement about them? I am merely asking for information.

Mr. PEEK. I am giving my view of it, Senator. I think that would be the effect that they would do one or the other of two things. They would break down other sections of the farm picture or move away from the farm. They would have to be employed somewhere.

Senator HARRISON. They would have to raise some other stuff.

Mr. PEEK. Yes; or move away—one or the other—or get out.

LEGISLATIVE REMEDIES REQUIRED

If the foregoing statements and figures, with the information contained in the exhibits, are accepted as substantially reflecting the facts, it is clear that America has neglected her agriculture and that European countries hold their agriculture in higher esteem than we hold ours. Practically every important European nation gives special assistance to its agriculture.

Our farmers can not and will not continue to feed and clothe the Nation for less than it costs them.

The CHAIRMAN. In this statement of yours, do you tell Congress what to do in order to remedy that?

Mr. PEEK. I am making some suggestions in order to remedy it, Senator. I am leading right to that now.

From a purely business standpoint it is folly to ignore the great purchasing power of one-fourth of our population living on the farms. and perhaps considerably more who are directly dependent upon them.

Any plans for the restriction of agricultural production to the demands of the domestic market involving substantial curtailment of acreage, except occasionally in case of great emergency, as in case of cotton at present, should be considered in the light of our whole national and international economy, and should not be adopted as a permanent national policy. Our national effort should tend toward making the farm a satisfactory place for more not less people.

In the past the independent land-owning farmer has been among the most conservative of our people and our greatest bulwark against radicalism. With him the capitalistic system is secure. Without him anything may happen.

I wonder if we may not draw an analogy between the present situation in America and Europe about 1780, when Edward Gibbon, in his third volume of the Decline and Fall of the Roman Empire, wrote of Europe:

> One great republic, whose various inhabitants have attained almost the same level of politeness and cultivation. The balance of power will continue to fluctuate, and the prosperity of our own and neighboring kingdoms and the prosperity of our own and neighboring kingdoms may be alternately exalted or depressed; but these partial events can not essentially injure our general state of happiness, the system of acts and laws and manners which so advantageously distinguish, above the rest of mankind, the Europeans and their colonies.

And then came the French Revolution in 1789.

At the outset I indicated my purpose to confine my discussion primarily to the relation of the agricultural depression to the general depression. The former began in 1920; the latter, generally speaking, 10 years later with the stock-market crash at the end of 1929.

In considering suggestions for legislation, we should keep in mind the extent and duration of the injustice to which agriculture has been subjected in different sections, its present condition, and the importance of agriculture in our national economy. Furthermore, we should consider well the social aspects as affected by legislation which will be referred to later. Far more than ecomonic justice and business restoration are involved in the restoration of agriculture. The whole capitalistic system of government now is on trial. The future of the Nation depends upon a wise solution of the problems now confronting government.

As stated at the outset, legislation is required:

1. To correct price disparity and to prevent or minimize its recurrence.
2. To remove some of the burden of debt and interest charges.
3. To restore foreign outlets for American products.
4. To reduce local, State, and Federal expenses in order that taxes may be brought into proper relation to reduced incomes and earnings.
5. To provide short term credit and banking facilities where they are now lacking.
6. To provide a more adequate and better adapted rural credit system to remove discrimination between agricultural and other borrowers.
7. To inflate the currency if the foregoing are insufficient.

The CHAIRMAN. How do you intend to reduce local and State and Federal expenses? How would you have Congress do it?

Mr. PEEK. I do not think the National Government can reduce local taxes, of course. But I think that the action of Congress itself can set a very good example with respect to that.

The CHAIRMAN. It has not been followed by the States of late.

Senator HARRISON. Some of the States have followed it. I know my own State has cut the expenses of the State one-third this last year.

The CHAIRMAN. Well, I suppose you got into the position where you had to, did you not?

Senator HARRISON. Yes. They were in a bad state.

Mr. PEEK. Iowa started out to reduce its expenses $25,000,000, to effect that saving in its taxes this year.

Senator SHORTRIDGE. Pardon me before you proceed. On page 27 you have suggested some seven different plans or propositions or suggestions. Do you propose before you get through to point out how you expect to do that?

Mr. PEEK. Yes; I am coming now to the first one, Senator.

Senator SHORTRIDGE. Thank you.

Mr. PEEK. 1. Principles of legislation necessary to correct price disparity and to prevent or minimize its recurrence.

Emergency agricultural legislation is necessary and imperative pending the development of a comprehensive national program for agriculture and the opening of normal export markets through international trade agreements, reciprocal tariffs, application of foreign debt to payment in whole or in part for our exports, stabilization of international currencies, and such other important subjects.

Other emergency legislation is necessary pending these other things.

This emergency legislation should cover only such commodities (and, if necessary, competitive substitutes therefor) the prices of which in our domestic markets are influenced largely by the prices in foreign markets or which are directly affected by the conditions in foreign countries. I should say wheat, cotton, hogs, and possibly tobacco. I include hogs because that is the only way I know of to reach corn. Provision should be made to include, if necessary, grains that may be substituted for wheat and other livestock substitutable for hogs.

The period of duration should be one year, subject to extension, in whole or in part, from year to year, upon proclamation of the President, until a comprehensive national program for agriculture is developed.

Senator SHORTRIDGE. The President has no power to do that, has he?

Mr. PEEK. If he had the power given him by Congress he would have it, would he not?

Senator SHORTRIDGE. I do not know that Congress has the right to give such a power.

Mr. PEEK. Perhaps not.

Senator HARRISON. You mean to write some law and in that law give to the President the right to extend that law by proclamation?

Mr. PEEK. Yes, sir; exactly.

The importance of the processor must be recognized as he performs a necessary service between the farmer and the consumer.

Agreements should be authorized between the proper governmental bodies and existing agencies, including processors and associations of producers. The aim to be accomplished by these agreements should be to dispose of existing surpluses and to keep the channels of trade open through every instrumentality at our command; that is, governmental, producers, processors, and exporters (private or cooperative).

Prevention of burdensome supply in future should be provided for by decreasing prospective production before harvest in the areas where it is excessive, compensating the farmer for so decreasing production. Such action can be fully justified as a contribution to the general welfare.

Reduced production should be effected in areas of surplus production. Reduction should not take place in sections or areas where the particular products are deficient in supply. To do otherwise would be wasteful and uneconomic and would create dissatisfaction and unrest.

Senator HARRISON. The House allotment bill does not do that, does it?

Mr. PEEK. No. It merely curtails acreage.

Senator HARRISON. Yes; but it curtails acreage everywhere, whether or not there is a surplus in a particular product for a State.

Mr. PEEK. Yes. Well, I come to it later.

Senator SHORTRIDGE. Is that made mandatory, Senator, by that?

Senator HARRISON. No; the House bill is not mandatory. Is it, Mr. Peek?

Mr. PEEK. If they participate in the benefits.

Senator HARRISON. Oh, yes. But they do not have to go into it.

Senator SHORTRIDGE. Yes. Then in a sense it is not mandatory.

Mr. PEEK. For example, why should South Carolina decrease her corn production when she imports corn and the surplus of corn originates in the Middle West?

I may say right there, I was in South Carolina the latter part of November. A gentleman with whom I talked had just shipped in a carload of corn for which he paid 62 cents a bushel delivered at Georgetown. The farmer in Iowa got 10 cents for that corn and the 52 cents was absorbed between the farmer and this man who bought it for distribution at 62 cents. Now why ask South Carolina to curtail its production of corn when the Middle West is reducing it?

Senator SHORTRIDGE. Yes; it is perfectly absurd.

Mr. PEEK. Or why should New York State reduce her wheat production of 5,000,000 bushels when she is forced to import millions of additional bushels each year, and the surplus is made in Kansas, North Dakota, and a limited number of additional States?

For example, in 1931 New York State raised 5,000,000 bushels of wheat. Kansas raised 240,000,000 bushels. Kansas raised about one-third of our total production, and Kansas alone accounted for our total supply of surplus.

Senator HARRISON. There would be no reason to make California, for instance, decrease her cotton supply when they do not produce a surplus out there?

Senator SHORTRIDGE. But I may add right there, for I know its great importance appeals to my friend, we raise the best—now notice—the best long-staple cotton raised in the United States, and I have the authority of a Senator from the South who is an expert in the matter of cotton who says that it is better than the Egyptian.

Senator HARRISON. I am not one that will contest that California can not raise the best of everything.

Senator SHORTRIDGE. That covers the whole field.

Mr. PEEK. I believe that desired results can not be accomplished by attempting control of acreage planted, because the variation in yield of all growing crops from year to year depends 75 per cent upon weather and pests, which are largely beyond human control, and only 25 per cent upon acreage planted. According to figures compiled by the Department of Agriculture many sections of the country are deficient all of the time, and many part of the time, in supply of some crops. (See the first three columns, Exhibit 13, for cotton example.)

Market prices should respond almost immediately to an announced national policy of restricting supply, if necessary, in order to obtain fair prices for producers, and a determination of Government to assist producers equitably to adjust supply to demand.

Funds to cover the cost of giving the farmer a fair return should be provided by a tax on the processor, as provided by the Jones bill (H. R. 13991), which has already passed the House.

Not only is this a convenient method of protecting the Treasury, but it would have the added advantage of stimulating the processors to pay the farmers a fair price in order to avoid paying an equivalent amount in taxes added to the price.

If, as a result of agreements authorized to be made with processors and others, prices do not rise to a fair level then the difference between such fair-price level and prevailing market prices should be paid to the farmer by the Government, and the Treasury should be reimbursed by means of an adequate tax on the processor.

A fair price may be considered an amount which bears to the price for all commodities bought by producers, during a predetermined period (say, three months), the same ratio as the price for the commodity paid producers, during the pre-war period (1909–1914) bore to prices for all commodities bought by producers during such pre-war period.

At the present time this would mean at local markets a price for wheat of 93½ cents, cotton 12½ cents, and hogs 7½ cents a pound for the proportion required for domestic consumption.

In my opinion these prices are too low, considering the increased interest burdens and increased taxes, as well as the price injustice to which the farmer has been subjected at least 12 years. We should consider adding to such a fair price in future years a percentage (say

10 per cent) as soon as general business conditions improve. Reference to prices of wheat, cotton, corn, and hogs in previous years in this country is made in Exhibit 14.

That is the information you asked for a few minutes ago, Senator.

In addition to tariffs imposed by existing law and those included in the Jones bill, duties should be laid also on jute and black strap molasses. That bill should be amended also in other particulars.

The principles that should govern this legislation are well defined in my mind. If your committee, or any other committee of the Congress having jurisdiction, desires, I will prepare amendments to the pending legislation and submit them for consideration.

Emergency legislation is essential at the earliest possible date. The situation has been drifting from bad to worse in recent months. This is evidenced by the farmers' holiday strikes, by interference with legal processes and foreclosure proceedings, by tax demonstrations at county courthouses in many sections of the country, by continuing bank and commercial failures, and in other ways.

### COMMENTS ON OTHER LEGISLATION SUGGESTED

Legislation is now under consideration covering the lightening of the burden of debt, reduction of Federal expenses and hence taxes, and providing for extending the activity of the Reconstruction Finance Corporation to provide short-term credit.

Your committee understands that many communities are entirely without banking facilities. Large banks are reluctant to make loans for the usual conduct of business. Smaller banks are unable to do so. It would seem, therefore, that there must be given to the Reconstruction Finance Corporation or some other Government agency authority to extend credit for productive enterprise in order that business may go on pending general business recovery.

Restoration of foreign outlets for American products must in large measure await announcement of the policies of the new administration and action thereon by the Congress. It is not necessary to emphasize again the importance of foreign markets for our surplus agricultural products.

At the earliest possible date consideration should be given to an adequate and better adapted rural credit system in order that agriculture may have on as favorable terms as ready access to the credit resources of the Nation as that enjoyed by other lines of essential endeavor.

### CONCLUSION

Farming is a mode of living as well as a business. It should be the most secure of all lines of endeavor so far as it lies within the power of government to make it. Actually as now conducted it is one of the most hazardous occupations of man. It is subject not only to the whims of nature but to the machinations of market speculators throughout the so-called civilized world.

The rural community should be a haven of refuge for those weary of the confusion of busy cities. It should be a place to which people may return with relative security. What industry except agriculture could absorb in three years 2,000,000 of the surplus population of cities in such a time of depression?

A vigorous agriculture is the greatest customer for our large industries. It is our greatest national resource. Cotton alone has accounted for $20,000,000,000 of the $120,000,000,000 total value of exports of the past 38 years. Given fair treatment, the independent land-owing farmer is protection against radicalism of every kind.

I hope that your committe will invite refutation of these conclusions by any witness who appears before you.

(The exhibits to Mr. Peek's statement are here printed in the record in full, as follows:)

EXHIBIT 1.—*Relation of income to export trade, 1910–1932*

| Year | Percentage of income attributable to exports | | |
|---|---|---|---|
| | Total | Agricultural | Nonagricultural |
| 1910 | 5.83 | 13.12 | 3.70 |
| 1911 | 6.79 | 16.18 | 4.22 |
| 1912 | 6.83 | 15.48 | 4.48 |
| 1913 | 7.27 | 16.11 | 4.94 |
| 1914 | 7.01 | 15.85 | 4.64 |
| 5-year average | 6.77 | 15.35 | 4.42 |
| 1915 | 7.83 | 19.96 | 4.54 |
| 1916 | 10.52 | 17.03 | 8.69 |
| 1917 | 12.89 | 15.33 | 12.00 |
| 1918 | 10.30 | 15.10 | 8.56 |
| 1919 | 11.49 | 21.14 | 7.83 |
| 5-year average | 10.80 | 17.69 | 8.47 |
| 1920 | 11.61 | 28.46 | 7.44 |
| 1921 | 10.95 | 29.21 | 7.66 |
| 1922 | 6.04 | 19.27 | 3.48 |
| 1923 | 5.61 | 16.29 | 3.58 |
| 1924 | 5.87 | 16.46 | 3.89 |
| 5-year average | 7.94 | 21.99 | 5.14 |
| 1925 | 6.24 | 19.05 | 3.87 |
| 1926 | 5.80 | 16.48 | 4.01 |
| 1927 | 5.87 | 16.42 | 4.15 |
| 1928 | 5.67 | 15.46 | 4.09 |
| 1929 | 6.20 | 15.50 | 4.69 |
| 5-year average | 5.95 | 16.59 | 4.17 |
| 1930 | 6.50 | 15.91 | 5.07 |
| 1931 | 5.61 | 14.91 | 4.24 |
| 1932 | 5.09 | 14.35 | 3.59 |
| 3-year average | 5.88 | 15.21 | 4.45 |
| 23-year average | 7.45 | 17.86 | 5.21 |

Percentages are based on data from Foreign Commerce and Navigation and on the Statistical Abstract (agricultural section).

EXHIBIT 2.—*Relation of agricultural to nonagricultural and total exports, 1910–1932*

| Year [1] | Total exports [2] | Agricultural exports [2] | | Nonagricultural exports [3] | |
|---|---|---|---|---|---|
| | Thousands of dollars | Thousands of dollars | Per cent of total | Thousands of dollars | Per cent of total |
| 1910 | 1,710,084 | 871,158 | 50.9 | 838,926 | 49.1 |
| 1911 | 2,013,549 | 1,030,794 | 51.2 | 982,755 | 48.8 |
| 1912 | 2,170,320 | 1,050,627 | 48.4 | 1,119,693 | 51.6 |
| 1913 | 2,428,506 | 1,123,652 | 46.3 | 1,304,854 | 53.7 |
| 1914 | 2,329,684 | 1,113,974 | 47.8 | 1,215,710 | 52.2 |
| 5-year average | 2,130,429 | 1,038,041 | 48.7 | 1,092,388 | 51.3 |
| 1915 | 2,716,178 | 1,475,938 | 54.3 | 1,240,240 | 45.7 |
| 1916 | 4,272,178 | 1,518,071 | 35.5 | 2,754,107 | 64.5 |
| 1917 | 6,227,164 | 1,968,253 | 31.6 | 4,258,911 | 68.4 |
| 1918 | 5,838,652 | 2,280,466 | 39.1 | 3,558,186 | 60.9 |
| 1919 | 7,081,462 | 3,579,918 | 50.6 | 3,501,544 | 49.4 |
| 5-year average | 5,227,127 | 2,164,529 | 41.4 | 3,062,598 | 58.6 |
| 1920 | 7,949,309 | 3,861,511 | 48.6 | 4,087,798 | 51.4 |
| 1921 | 6,385,884 | 2,607,641 | 40.8 | 3,778,243 | 59.2 |
| 1922 | 3,699,909 | 1,915,866 | 51.8 | 1,784,043 | 48.2 |
| 1923 | 3,886,682 | 1,799,168 | 46.3 | 2,087,514 | 53.7 |
| 1924 | 4,223,973 | 1,867,098 | 44.2 | 2,356,875 | 55.8 |
| 5-year average | 5,229,151 | 2,410,257 | 46.1 | 2,818,895 | 53.9 |
| 1925 | 4,778,155 | 2,280,381 | 47.7 | 2,497,774 | 52.3 |
| 1925 | 4,653,148 | 1,891,739 | 40.7 | 2,761,409 | 59.3 |
| 1927 | 4,867,346 | 1,907,864 | 39.2 | 2,959,482 | 60.8 |
| 1928 | 4,773,332 | 1,815,451 | 38.0 | 2,957,881 | 62.0 |
| 1929 | 5,283,938 | 1,847,216 | 35.0 | 3,436,722 | 65.0 |
| 5-year average | 4,871,184 | 1,948,530 | 40.0 | 2,922,654 | 60.0 |
| 1930 | 4,617,730 | 1,495,907 | 32.4 | 3,121,823 | 67.8 |
| 1931 | 3,031,557 | 1,038,034 | 34.2 | 1,993,523 | 65.6 |
| 1932 | 1,909,123 | 752,141 | 39.4 | 1,156,982 | 60.6 |
| 3-year average | 3,186,200 | 1,095,383 | 34.4 | 2,090,818 | 65.6 |
| 23-year average | 4,210,777 | 1,786,646 | 42.4 | 2,424,130 | 57.6 |

[1] Year ending June 30.
[2] U. S. Department of Agriculture Yearbooks.
[3] By difference.

EXHIBIT 3.—*Actual agricultural income and approximate income had fair exchange value prevailed*

| Year | 1 [1] Agricultural income (millions of dollars) | 2 [1] Ratio of prices received to prices paid | 3 [1] Adjusted agricultural income (millions of dollars) |
|---|---|---|---|
| 1919 | 16,935 | 102 | ---------- |
| 1920 | 13,566 | 99 | 13,703 |
| 1921 | 8,927 | 75 | 11,903 |
| 1922 | 9,944 | 81 | 12,276 |
| 1923 | 11,040 | 88 | 12,545 |
| 1924 | 11,337 | 87 | 13,031 |
| 1925 | 11,968 | 92 | 13,009 |
| 1926 | 11,480 | 87 | 13,195 |
| 1927 | 11,616 | 85 | 13,666 |
| 1928 | 11,741 | 90 | 13,046 |
| 1929 | 11,911 | 89 | 13,383 |
| 1930 | 9,403 | 80 | 11,754 |
| 1931 | 6,955 | 63 | 11,040 |
| 1932 | 5,250 | 52 | 10,077 |
| Total 13 years | 135,128 | ---------- | 162,628 |
| Average ratio, 1920-1932 (13 years) | 10,394 | 83 | 12,509 |

| | Millions of dollars |
|---|---|
| Total probable income based on fair exchange value | 162,628 |
| Total actual agricultural income | 135,128 |
| Accumulated deficiency in agricultural income | 27,500 |

[1] Col. 1÷col. 2×100=col. 3.

Source: Col. 1 from U. S. Department of Agriculture; col. 2 "Agricultural situation" January, 1933, issue

EXHIBIT 4.—*Relative farm prices for 12 years, 1921–1932*

[August, 1909, to July, 1914=100]

| | 12-year average | 1921 | 1922 | 1923 | 1924 | 1925 | 1926 | 1927 | 1928 | 1929 | 1930 | 1931 | 1932 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| All farm commodities | 121 | 116 | 124 | 135 | 134 | 147 | 136 | 131 | 139 | 138 | 117 | 80 | 57 |
| Prices paid by farmers for commodities bought | 148 | 156 | 152 | 153 | 154 | 159 | 156 | 154 | 156 | 155 | 146 | 126 | [1] 111 |
| Individual farm commodity prices: | | | | | | | | | | | | | |
| Cotton | 135 | 101 | 156 | 218 | 216 | 179 | 122 | 128 | 150 | 143 | 100 | 61 | 47 |
| Corn | 113 | 88 | 93 | 125 | 142 | 156 | 109 | 123 | 139 | 136 | 121 | 78 | 44 |
| Oats | 97 | 89 | 91 | 104 | 119 | 112 | 97 | 113 | 123 | 111 | 95 | 64 | 46 |
| Barley | 88 | 81 | 82 | 91 | 110 | 115 | 89 | 108 | 112 | 90 | 75 | 54 | 45 |
| Wheat | 115 | 132 | 117 | 111 | 125 | 171 | 153 | 136 | 128 | 116 | 92 | 55 | 44 |
| Rye | 103 | 141 | 104 | 89 | 107 | 138 | 111 | 120 | 129 | 121 | 82 | 48 | 40 |
| Flax | 115 | 89 | 123 | 139 | 129 | 145 | 122 | 116 | 116 | 145 | 126 | 73 | 58 |
| Hay | 97 | 107 | 98 | 104 | 112 | 106 | 110 | 101 | 90 | 97 | 95 | 82 | 63 |
| Potatoes | 146 | 149 | 136 | 122 | 125 | 163 | 266 | 190 | 119 | 134 | 178 | 104 | 62 |
| Apples | 137 | 175 | 166 | 146 | 133 | 154 | 127 | 129 | 152 | 145 | 140 | 98 | 73 |
| Cottonseed | 135 | 101 | 159 | 199 | 174 | 159 | 124 | 130 | 171 | 159 | 119 | 77 | 44 |
| Hogs | 115 | 108 | 116 | 98 | 103 | 152 | 163 | 134 | 121 | 130 | 122 | 81 | 48 |
| Cattle | 124 | 106 | 104 | 108 | 108 | 120 | 124 | 139 | 176 | 177 | 145 | 104 | 78 |
| Calves | 131 | 117 | 114 | 119 | 120 | 131 | 143 | 151 | 174 | 180 | 147 | 104 | 74 |
| Lambs | 164 | 122 | 164 | 178 | 182 | 208 | 196 | 193 | 205 | 202 | 139 | 98 | 75 |
| Sheep | 133 | 101 | 132 | 145 | 149 | 168 | 162 | 159 | 168 | 165 | 115 | 74 | 53 |
| Eggs | 131 | 155 | 133 | 140 | 141 | 157 | 147 | 131 | 141 | 149 | 117 | 86 | 74 |
| Butter | 149 | 151 | 140 | 161 | 157 | 161 | 163 | 168 | 173 | 173 | 145 | 110 | 83 |
| Wool | 158 | 95 | 163 | 212 | 209 | 221 | 186 | 174 | 203 | 176 | 119 | 80 | 55 |
| Horses | 55 | 65 | 59 | 58 | 54 | 55 | 56 | 55 | 58 | 57 | 51 | 45 | 42 |
| Chickens | 168 | 182 | 167 | 165 | 168 | 178 | 192 | 178 | 186 | 196 | 162 | 136 | 102 |

[1] Preliminary.

Source: Division of Statistical and Historical Research, U. S. Department of Agriculture.

EXHIBIT 5.—*Relation of agricultural to nonagricultural and total income, 1910 to 1932*

| Year | Total income [1] (000,000 omitted) | Agricultural income [2] (000,000 omitted) | Per cent of total | Nonagricultural income [3] (000,000 omitted) | Per cent of total |
|---|---|---|---|---|---|
| 1910 | 29,345 | 6,643 | 22.6 | 22,702 | 77.4 |
| 1911 | 29,660 | 6,372 | 21.5 | 23,288 | 78.5 |
| 1912 | 31,755 | 6,784 | 21.4 | 24,971 | 78.6 |
| 1913 | 33,393 | 6,975 | 20.9 | 26,418 | 79.1 |
| 1914 | 33,227 | 7,028 | 21.2 | 26,199 | 78.8 |
| 5-year average | 31,476 | 6,760 | 21.5 | 24,716 | 78.5 |
| 1915 | 34,690 | 7,395 | 21.3 | 27,295 | 78.7 |
| 1916 | 40,585 | 8,914 | 22.0 | 31,671 | 78.0 |
| 1917 | 48,314 | 12,832 | 26.6 | 35,482 | 73.4 |
| 1918 | 56,658 | 15,101 | 26.7 | 41,557 | 73.3 |
| 1919 | 61,628 | 16,935 | 27.5 | 44,693 | 72.5 |
| 5-year average | 48,375 | 12,235 | 25.3 | 36,140 | 74.7 |
| 1920 | 68,442 | 13,566 | 19.8 | 54,876 | 80.2 |
| 1921 | 58,271 | 8,927 | 15.3 | 49,344 | 84.7 |
| 1922 | 61,187 | 9,944 | 16.3 | 51,243 | 83.7 |
| 1923 | 69,295 | 11,040 | 15.9 | 58,255 | 84.1 |
| 1924 | 71,905 | 11,337 | 15.8 | 60,568 | 84.2 |
| 5-year average | 65,820 | 10,963 | 16.7 | 54,857 | 83.3 |
| 1925 | 76,561 | 11,968 | 15.6 | 64,593 | 84.4 |
| 1926 | 80,284 | 11,480 | 14.3 | 68,804 | 85.7 |
| 1927 | 82,921 | 11,616 | 14.0 | 71,305 | 86.0 |
| 1928 | 84,119 | 11,741 | 14.0 | 72,378 | 86.0 |
| 1929 | 85,200 | 11,911 | 14.0 | 73,289 | 86.0 |
| 5-year average | 81,817 | 11,743 | 14.4 | 70,074 | 85.6 |
| 1930 | 71,000 | 9,403 | 13.2 | 61,597 | 86.8 |
| 1931 | 54,000 | 6,955 | 12.9 | 47,045 | 87.1 |
| 1932 | 37,500 | 5,240 | 14.0 | 32,260 | 86.0 |
| 3-year average | 54,168 | 7,200 | 13.3 | 46,968 | 86.7 |
| 23-year average | 56,519 | 10,005 | 17.7 | 46,515 | 82.3 |

[1] 1910–1929 are estimates by National Bureau of Economic Research; 1930–1932 are by National Industrial Conference Board.
[2] Estimates by U. S. Department of Agriculture.
[3] By difference.

EXHIBIT 6.—*Migration to and from farms*

| Year | To farms | From farms | Year | To farms | From farms |
|---|---|---|---|---|---|
| 1920 | 560,000 | 896,000 | 1928 | 1,698,000 | 2,120,000 |
| 1921 | 759,000 | 1,323,000 | 1929 | 1,604,000 | 2,081,000 |
| 1922 | 1,115,000 | 2,252,000 | | | |
| 1923 | 1,355,000 | 2,162,000 | Total, 10 years | 13,140,000 | 19,436,000 |
| 1924 | 1,581,000 | 2,068,000 | 1930 | 1,740,000 | 1,723,000 |
| 1925 | 1,336,000 | 2,038,000 | 1931 | 1,683,000 | 1,469,000 |
| 1926 | 1,427,000 | 2,334,000 | 1932 (first 3 months) | 564,000 | 432,000 |
| 1927 | 1,705,000 | 2,162,000 | | | |

*Total farm population*

| | | | | | |
|---|---|---|---|---|---|
| 1910 | 32,076,960 | 1924 | 31,056,000 | 1929 | 30,257,000 |
| 1920 | 31,614,269 | 1925 | 31,064,000 | 1930 | 30,169,000 |
| 1921 | 31,703,000 | 1926 | 30,784,000 | 1931 | 30,585,000 |
| 1922 | 31,768,000 | 1927 | 30,281,000 | 1932 | 31,241,000 |
| 1923 | 31,290,000 | 1928 | 30,275,000 | 1933 | 32,000,000 |

Data from the U. S. Department of Agriculture.

EXHIBIT 7.—*Dutiable and free imports and rates of duty under different tariff laws*

[Emergency act of 1921 omitted]

| Tariff and date | Period selected | Average rate of duty | | Per cent free |
|---|---|---|---|---|
| | | On dutiable | On all | |
| Payne-Aldrich, Aug. 6, 1909 | 1910–1913 (fiscal) | 40.77 | 19.34 | 52.55 |
| Underwood (pre-war) Oct. 4, 1913 | 1914–15 (fiscal) | 35.75 | 13.77 | 61.45 |
| Underwood (postwar) | 1920–21 (calendar) | 20.75 | 8.07 | 61.08 |
| Fordney-McCumber, Sept. 22, 1922 | 1923–1929 (calendar) | 38.28 | 13.89 | 63.71 |
| Hawley-Smoot, June 18, 1930 | 1931 (calendar) | 53.21 | 17.73 | 66.57 |

The average rate of duty on the dutiable articles was computed by dividing the total duties collected for the period by the value of the dutiable goods imported during the period and multiplying by 100.

The average rate of duty on all goods was determined by dividing the total duty collected for the period by the total value of goods imported, both free and dutiable, during the period and multiplying by 100.

The per cent of goods entering free was determined by dividing the total value of free goods for the period by the total value of imports for the period and multiplying by 100.

With the exception of the year 1931, the figures are therefore all weighted averages.

(Compilation based on valuation of imported dutiable and nondutiable goods and on customs receipts.)

EXHIBIT 8.—*Prices of specified commodities at certain foreign and domestic markets. 5-year average 1909–1913, annual 1931 and 1932*

| Commodity and description | Year beginning July 1 | | | | |
|---|---|---|---|---|---|
| | Market | Unit | Average 1909–1913 | 1931 | 1932 |
| Wholesale prices: | | | | | |
| Wheat— | | | | | |
| Domestic | Berlin | Cents per bushel | 135.5 | [1] 171.6 | [2] 152.4 |
| Do | Paris | do | 141.6 | [1] 187.1 | [2] 171.7 |
| Red | Liverpool | do | 112 | [3] 79.9 | [3] 58.7 |
| No. 1 Northern spring | Minneapolis | do | 99 | [1] 82.8 | [2] 68.4 |
| No. 2 Hard winter | Kansas City | do | 95 | [1] 75.5 | [2] 46.9 |
| Do | Chicago | do | 97.1 | [1] 84.5 | [2] 52.9 |
| Flour— | | | | | |
| Spring wheat, family patents | Minneapolis | Dollars per barrel | 4.97 | 5.36 | 4.56 |
| Hard winter patents | Kansas City | do | 4.38 | 4.86 | 3.85 |
| Do | Chicago | do | 4.63 | 4.35 | 3.67 |
| | Year beginning Jan. 1 | | | | |
| "000" duty free | Berlin | Dollars per barrel | 5.97 | 7.01 | [4] 6.56 |
| No description | Paris | do | 6.01 | 7.96 | [4] 6.92 |
| Straights | London | do | 4.87 | 3.49 | [5] 3.06 |
| Retail prices: | | | | | |
| Bread— | | | | | |
| Rye | Berlin | Cents per pound | [6] 3.03 | 4.1 | 3.8 |
| Wheat rolls | do | do | | | 7.8 |
| White, first quality | Paris | do | [7] 5.58 | 4.2 | [5] 3.9 |
| No description | United Kingdom. | do | | 3.3 | 2.6 |
| Baked weight | Minneapolis | do | [8] 5.6 | [1] 8.2 | [2] 6.7 |
| Do | Kansas City | do | [8] 6.0 | [1] 8.3 | [2] 6.7 |
| Do | Chicago | do | [8] 6.1 | [1] 9.0 | [2] 8.2 |
| Wholesale prices: | | | | | |
| Hogs— | | | | | |
| 220–265 pounds | Berlin | Dollars per 100 pounds | [9] 11.63 | 10.02 | 8.20 |
| Average price, all weights | Chicago | do | 7.77 | 6.16 | 3.83 |
| Pork— | | | | | |
| Fresh | Berlin | Cents per pound | [8] 15.04 | 14.18 | [4] 12.42 |
| Fresh loins | Chicago | do | 13.33 | 17.54 | 11.41 |
| Retail prices: | | | | | |
| Pork— | | | | | |
| Fresh | Berlin | do | | 18.60 | [10] 15.56 |
| Chops | Chicago | do | [8] 19.0 | 29.6 | 21.3 |

[1] July, 1930, to June, 1931.
[2] July, 1931, to June, 1932.
[3] Liverpool parcels, 1930–31 and 1931–32.
[4] Average for 10 months.
[5] Average for 9 months.
[6] Average for 1913–14.
[7] Average for July, 1914.
[8] Average for 1913.
[9] Weight not stated.
[10] Average for 6 months.

DIVISION OF STATISTICAL AND HISTORICAL RESEARCH

Compiled as follows:

United States prices—Records of the division of statistical and historical research.

Foreign prices—

Wheat—

Berlin—1909–1913, Vierteljahrschafte Zur Statistik des Deutschen Reichs; 1931–32, Wirtschaft und Statistik. (Continued.)

Paris—1909–1913, Statistique Agricole Annule, France, 1914; 1931–32, Bulletin de la Statistique Generale de la France, quarterly.

Liverpool—1909–1913, Corn Trade News, weekly; 1931–32, Corn Trade Yearbooks.

Flour—

Berlin—1909–1913, Vierteljahrschafte Zur Statistik des Deutschen Reichs, 1914, vol. 1, p. 81; 1931–32, Institut International de Statistique Bulletin Mensuel de l'Office Permanent.

Paris—1909–1913, Annuaire Statistique, 1931, p. 116*; 1931–32, Institut International de Statistique Bulletin Mensuel de l'Office Permanent.

London—1909–1913, The Economist, London; 1931–32, Institut International de Statistique Bulletin Mensuel.

Compiled as follows—Continued.
  Foreign prices—Continued.
    Bread—
      Berlin—1913–14, Statistisches Jahrbuch, 1932, p. 253; 1931–32, Wirtschaft und Statistik.
      Paris—July, 1913, Annuaire Statistique, 1931; 1931–32, Bulletin de la Statistique General de la France et du Service d'Observation des Prix.
      United Kingdom—1931–32, Ministry of Labour Gazette, Monthly. (Prices for first of each month.)
    Hogs—
      Berlin—1909–13, Monatliche Nachweise; 1931–1932, Cable reports of weekly averages from Agricultural Attaché L. V. Steere, Berlin.
    Pork—
      Berlin—1913, Statistisches Jahrbuch, 1928; 1931–32 (wholesale prices) Wirtschaft und Statistik, Part II (monthly); 1931–32 (retail prices), Report of Agricultural Attaché, Berlin, dated October 17, 1932, p. 8, as compiled from Institut fur Konjunkturforschung.

EXHIBIT 9.—*Total imports of wheat, including flour, by chief importing countries, and quantity and percentage purchased from the United States under different tariff acts*

[Thousands of bushels]

| Year [1] | United Kingdom | | | Germany | | | Italy | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total | From United States | Per cent from United States | Total | From United States | Per cent from United States | Total | From United States | Per cent from United States |
| 1910 | 221, 232 | 23, 403 | 10. 6 | 86, 868 | 2, 584 | 3. 0 | 45, 322 | 278 | 0. 6 |
| 1911 | 207, 919 | 29, 353 | 14. 1 | 92, 204 | 2, 661 | 2. 9 | 43, 383 | 601 | 1. 4 |
| 1912 | 229, 160 | 31, 260 | 13. 6 | 85, 218 | 7, 996 | 9. 4 | 65, 914 | 2, 976 | 4. 5 |
| 1913 | 226, 978 | 45, 855 | 20. 2 | 94, 451 | 13, 689 | 14. 5 | 66, 635 | 5, 693 | 8. 5 |
| 4-year average | 221, 322 | 32, 468 | 14. 7 | 89, 685 | 6, 733 | 7. 6 | 55, 315 | 2, 387 | 4. 3 |
| 1914 | 218, 025 | 67, 990 | 31. 2 | | 5, 945 | | 37, 404 | 20, 594 | 55. 1 |
| 1915 | 191, 063 | 58, 500 | 30. 6 | | 15 | | 83, 161 | 51, 936 | 62. 4 |
| 2-year average | 204, 544 | 63, 245 | 30. 9 | | 2, 980 | | 60, 283 | 36, 265 | 60. 2 |
| 1920 | 234, 475 | 93, 514 | 39. 9 | [2] 60, 378 | 13, 311 | 22. 0 | 79, 875 | 38, 738 | 48. 5 |
| 1921 | 184, 850 | 82, 461 | 44. 6 | [2] 70, 681 | 45, 043 | 63. 7 | 103, 016 | 61, 106 | 59. 3 |
| 2-year average | 209, 663 | 87, 988 | 42. 0 | 65, 530 | 29, 177 | 44. 5 | 91, 446 | 49, 922 | 54. 6 |
| 1921–23 [2] | 212, 186 | 63, 805 | 30. 1 | 70, 681 | 28, 910 | 40. 9 | 101, 030 | 35, 892 | 35. 5 |
| 1922–23 | 209, 290 | 36, 850 | 17. 6 | 42, 676 | 13, 275 | 31. 1 | 112, 003 | 34, 016 | 30. 4 |
| 1923–24 | 224, 136 | 23, 343 | 10. 4 | 29, 751 | 8, 617 | 29. 0 | 77, 552 | 8, 505 | 11. 0 |
| 1924–25 | 234, 512 | 50, 169 | 21. 4 | 76, 243 | 17, 337 | 22. 7 | 102, 125 | 26, 067 | 25. 5 |
| 1925–26 | 201, 313 | 20, 376 | 10. 1 | 76, 410 | 3, 301 | 4. 3 | 66, 339 | 2, 966 | 4. 5 |
| 1926–27 | 226, 908 | 47, 488 | 20. 9 | 99, 252 | 11, 208 | 11. 3 | 88, 184 | 10, 481 | 11. 9 |
| 1927–28 | 222, 270 | 41, 994 | 18. 9 | 98, 557 | 8, 090 | 8. 2 | 87, 905 | 10, 555 | 12. 0 |
| 1928–29 | 215, 138 | 20, 439 | 9. 5 | 86, 162 | 3, 143 | 3. 6 | 91, 930 | 5, 144 | 5. 6 |
| 1929–30 | 212, 698 | 31, 265 | 14. 7 | 67, 958 | 6, 892 | 10. 1 | 46, 700 | 1, 087 | 2. 3 |
| 8-year average | 218, 283 | 33, 991 | 15. 6 | 72, 126 | 8, 983 | 12. 5 | 84, 092 | 12, 353 | 14. 7 |
| 1930–31 | 230, 900 | 24, 341 | 10. 5 | 22, 000 | 4, 147 | 18. 9 | 86, 235 | 3, 960 | 4. 6 |
| 1931–32 | 245, 000 | 18, 679 | 7. 6 | 30, 853 | 2, 865 | 9. 3 | 33, 000 | 1, 666 | 5. 0 |
| 2-year average | 237, 950 | 21, 510 | 9. 0 | 26, 427 | 3, 506 | 13. 3 | 59, 618 | 2, 813 | 4. 7 |

[1] 1910–15 and 1920–21 calendar years; 1921–22 to 1931–32 fiscal years.
[2] Fiscal years 1920–21 and 1921–22.

EXHIBIT 9.—*Total imports of wheat, including flour, by chief importing countries, and quantity and percentage purchased from the United States under different tariff acts*—Continued

[Thousands of bushels]

| Year [1] | Belgium | | | France | | | Netherlands | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total | From United States | Per cent from United States | Total | From United States | Per cent from United States | Total | From United States | Per cent from United States |
| 1910 | 75,351 | 2,009 | 2.7 | 23,960 | 2,933 | 12.2 | 80,946 | 4,374 | 5.4 |
| 1911 | 82,405 | 4,981 | 6.0 | 79,695 | 979 | 1.2 | 68,657 | 7,589 | 11.1 |
| 1912 | 71,261 | 7,667 | 10.8 | 26,698 | 3,143 | 11.8 | 75,018 | 12,650 | 16.9 |
| 1913 | 69,790 | 13,401 | 19.2 | 57,669 | 5,437 | 9.4 | 89,534 | 23,286 | 26.0 |
| 4-year average | 74,702 | 7,015 | 9.4 | 47,006 | 3,123 | 6.6 | 78,539 | 11,975 | 15.2 |
| 1914 | -------- | 7,156 | -------- | 65,595 | 29,941 | 45.6 | 58,556 | 24,723 | 42.2 |
| 1915 | -------- | 6,335 | -------- | 76,775 | 43,580 | 56.8 | 28,768 | 32,948 | [4] 114.5 |
| 2-year average | -------- | 6,746 | -------- | 71,185 | 36,761 | 51.6 | 43,662 | 28,836 | 66.0 |
| 1920 | 34,053 | 24,824 | 72.9 | 87,770 | 27,732 | 31.6 | 20,194 | 15,348 | 76.0 |
| 1921 | 39,600 | 23,389 | 59.2 | 40,256 | 9,059 | 22.5 | 23,605 | 30,888 | [4] 130.9 |
| 2-year average | 36,827 | 24,107 | 65.5 | 64,013 | 18,396 | 28.7 | 21,890 | 23,118 | [4] 105.6 |
| 1921-22 [3] | 45,289 | 18,107 | 39.9 | 19,779 | 5,742 | 29.0 | 22,974 | 23,570 | [4] 102.6 |
| 1922-23 | 41,267 | 11,535 | 28.0 | 44,133 | 14,803 | 33.5 | 25,935 | 16,669 | 64.3 |
| 1923-24 | 43,176 | 4,554 | 10.5 | 54,213 | 2,481 | 4.6 | 30,762 | 12,494 | 40.6 |
| 1924-25 | 45,135 | 15,656 | 34.7 | 43,818 | 14,298 | 32.6 | 30,623 | 25,100 | 82.0 |
| 1925-26 | 42,689 | 4,223 | 9.9 | 35,978 | 620 | 1.7 | 29,150 | 7,356 | 25.2 |
| 1926-27 | 41,236 | 9,249 | 22.4 | 53,878 | 16,156 | 30.0 | 29,060 | 24,502 | 84.3 |
| 1927-28 | 44,848 | 8,899 | 19.8 | 53,877 | 5,144 | 9.5 | 31,532 | 18,750 | 59.5 |
| 1928-29 | 44,061 | 3,301 | 7.5 | 50,665 | 2,243 | 4.4 | 29,518 | 10,241 | 34.7 |
| 1929-30 | 44,541 | 6,374 | 14.3 | 38,471 | 2,232 | 5.8 | 30,992 | 11,042 | 35.6 |
| 8-year average | 43,369 | 7,974 | 18.4 | 46,879 | 7,247 | 15.5 | 29,696 | 15,769 | 53.1 |
| 1930-31 | 48,244 | 7,662 | 15.9 | 66,943 | 7,888 | 11.8 | 36,830 | 11,039 | 30.0 |
| 1931-32 | 48,000 | 10,770 | 22.4 | 81,000 | 10,770 | 13.3 | 31,000 | 9,503 | 30.7 |
| 2-year average | 48,122 | 9,216 | 19.2 | 73,972 | 9,329 | 12.6 | 33,915 | 10,271 | 30.3 |

| Year [1] | World imports | United States exports | |
|---|---|---|---|
| | | Total | Per cent of world total |
| 1910 | 673,995 | 61,923 | 9.2 |
| 1911 | 720,997 | 83,330 | 11.6 |
| 1912 | 690,965 | 109,451 | 15.8 |
| 1913 | 775,236 | 154,760 | 20.0 |
| 4-year average | 715,298 | 102,366 | 14.3 |
| 1914 | 626,684 | 231,318 | 36.9 |
| 1915 | 513,586 | 276,393 | 53.8 |
| 2-year average | 570,135 | 253,856 | 44.5 |
| 1920 | 677,792 | 307,630 | 45.4 |
| 1921 | 566,372 | 355,661 | 62.8 |
| 2-year average | 622,082 | 331,646 | 53.3 |

[1] 1910-15 and 1920-21 calender years; 1921-22 to 1931-32 fiscal years.
[3] Not included in average.
[4] United States exports to the Netherlands exceeded total imports of wheat into the Netherlands. This is probably due to the fact that varying quantities of wheat billed to Holland were actually destined to Germany and other European countries.

EXHIBIT 9.—*Total imports of wheat, including flovr, by chief importing countries, and quantity and percentage purchased from the United States under different tariff acts*—Continued.

[Thousands of bushels]

| Year [1] | World imports | United States exports | |
|---|---|---|---|
| | | Total | Per cent of world total |
| 1921-22 [2] | 645, 611 | 267, 855 | 41.5 |
| 1922-23 | 651, 024 | 221, 923 | 34.1 |
| 1923-24 | 665, 897 | 156, 430 | 23.5 |
| 1924-25 | 763, 218 | 260, 802 | 34.2 |
| 1925-26 | 659, 279 | 108, 035 | 16.4 |
| 1926-27 | 788, 387 | 219, 160 | 27.8 |
| 1927-28 | 797, 669 | 206, 259 | 25.9 |
| 1928-29 | 845, 150 | 163, 687 | 19.4 |
| 1929-30 | 716, 436 | 153, 245 | 21.4 |
| 8-year average | 735, 882 | 186, 193 | 25.3 |
| 1930-31 | 890, 526 | 131, 536 | 14.8 |
| 1931-32 | 848, 000 | 135, 797 | 16.0 |
| 2-year average | 869, 263 | 133, 667 | 15.4 |

[1] 1910-15 and 1920-21 calendar years; 1921-22 to 1931-32 fiscal year.
[2] Not included in average.

Sources: Total imports by countries and for the world and United States exports from yearbook, U. S. Department of Agriculture. Imports of United States wheat compiled by Bureau of Agricultural Economics, U. S. Department of Agriculture, from Foreign Commerce and Navigation of the United States.

EXHIBIT 10.—*Per cent of total purchases of United States wheat, including flour, by leading importing countries, and by all countries during periods covered by different tariff acts*

| Tariff act and period | United Kingdom | Germany | Italy | Belgium | France | Netherlands | All countries |
|---|---|---|---|---|---|---|---|
| Payne-Aldrich 1909-1913 | 14.7 | 7.6 | 4.3 | 9.4 | 6.6 | 15.2 | 14.3 |
| Underwood pre-war 1914-15 | 30.9 | | 60.2 | | 51.6 | 66.0 | 44.5 |
| Underwood postwar 1920-21 | 42.0 | 44.5 | 54.6 | 65.5 | 28.7 | [1] 100.0 | 53.3 |
| Fordney-McCumber 1922-23 to 1929-30 | 15.6 | 12.5 | 14.7 | 18.4 | 15.5 | 53.1 | 25.3 |
| Hawley-Smoot 1930-31 to 1931-32 | 9.0 | 13.3 | 4.7 | 19.2 | 12.6 | 30.3 | 15.4 |

[1] United States exports to the Netherlands exceeded total imports of wheat into the Netherlands. This is probably due to the fact that varying quantities of wheat billed to Holland were actually destined to Germany and other European countries.

Sources: Total imports by countries and for the world and United States exports from yearbook, U. S. Department of Agriculture. Imports of United States wheat compiled by Bureau of Agricultural Economics, U. S. Department of Agriculture, from Foreign Commerce and Navigation of the United States.

EXHIBIT 11.—*Exports of wheat, including flour, chief exporting countries*

[Thousands of bushels]

| Year [1] | United States | Canada | Argentina | Australia | Other countries | Total |
|---|---|---|---|---|---|---|
| 1910 | 61,923 | 60,777 | 75,051 | 54,188 | 495,889 | 747,828 |
| 1911 | 83,330 | 76,414 | 89,991 | 63,319 | 407,329 | 720,383 |
| 1912 | 109,451 | 104,320 | 103,260 | 40,428 | 364,182 | 721,641 |
| 1913 | 154,760 | 151,975 | 109,637 | 53,207 | 388,855 | 858,434 |
| 4-year average | 102,366 | 98,372 | 94,485 | 52,786 | 414,064 | 762,072 |
| 1914 | 231,318 | 91,322 | 39,435 | 60,878 | 211,181 | 634,134 |
| 1915 | 276,393 | 176,959 | 88,155 | 12,365 | 67,058 | 630,930 |
| 2-year average | 253,856 | 134,141 | 68,795 | 36,622 | 139,119 | 632,532 |
| 1920 | 307,630 | 144,345 | 195,492 | 87,340 | 51,684 | 786,491 |
| 1921 | 355,661 | 179,606 | 62,399 | 116,466 | 69,155 | 783,287 |
| 2-year average | 331,646 | 161,976 | 128,946 | 101,903 | 60,420 | 784,889 |
| 1921-22 [2] | 267,865 | 185,768 | 62,399 | 116,466 | 52,645 | 685,133 |
| 1922-23 | 221,923 | 274,886 | 145,428 | 49,625 | 60,161 | 752,023 |
| 1923-24 | 159,880 | 343,781 | 170,009 | 83,384 | 122,690 | 879,744 |
| 1924-25 | 260,802 | 194,849 | 125,289 | 124,112 | 134,467 | 839,519 |
| 1925-26 | 108,035 | 320,649 | 99,803 | 77,486 | 146,051 | 752,024 |
| 1926-27 | 219,160 | 304,948 | 138,240 | 96,584 | 101,911 | 860,843 |
| 1927-28 | 206,259 | 305,658 | 178,135 | 72,962 | 83,706 | 846,720 |
| 1928-29 | 163,687 | 422,732 | 215,603 | 113,285 | 111,550 | 1,026,857 |
| 1929-30 | 153,245 | 184,213 | 161,265 | 61,776 | 139,714 | 700,213 |
| 8-year average | 186,624 | 293,965 | 154,222 | 84,904 | 112,531 | 832,243 |
| 1930-31 | 131,536 | 267,365 | 120,510 | 143,295 | 227,820 | 890,526 |
| 1931-32 | 135,797 | 199,563 | 144,920 | 155,593 | 212,127 | 848,000 |
| 2-year average | 133,667 | 233,464 | 132,715 | 149,444 | 219,773 | 869,263 |

[1] 1910-1915 and 1920-21 calendar years; 1921-22 to 1931-32 fiscal years.
[2] Not included in average.

Source: Yearbooks, U. S. Department of Agriculture, 1910-1932.

EXHIBIT 12.—*World wheat exports, including flour, during periods covered by different tariff acts*

[Thousands of bushels]

| Tariff act and period | United States | Canada | Argentina | Australia | Other countries | World total |
|---|---|---|---|---|---|---|
| Payne-Aldrich 1909-1913 | 102,366 | 98,372 | 94,485 | 52,786 | 414,064 | 762,072 |
| Underwood prewar 1914-15 | 253,856 | 134,141 | 68,795 | 36,622 | 139,119 | 632,532 |
| Underwood postwar 1920-21 | 331,646 | 161,976 | 128,946 | 101,903 | 60,420 | 784,889 |
| Fordney-McCumber 1922-23 to 1929-30 | 186,624 | 293,965 | 154,222 | 84,904 | 112,531 | 832,243 |
| Hawley-Smoot 1930-31 to 1931-32 | 133,667 | 233,464 | 132,715 | 149,444 | 219,773 | 869,263 |

Source: Yearbooks, U. S. Department of Agriculture 1910-1932.

EXHIBIT 13.—*Cotton: Acreage, production value, exports, etc., United States, 1919-1932*

| Calendar year | Acreage harvested | Average yield per acre | Production | Price per pound received by producers Dec. 1 | Farm value basis Dec. 1 farm price |
|---|---|---|---|---|---|
| | *1,000 acres* | *Pounds* | *1,000 bales* | *Cents* | *1,000 dollars* |
| 1919 | 33,566 | 161.5 | 11,421 | 35.6 | 2,034,558 |
| 1920 | 35,878 | 178.4 | 13,440 | 13.9 | 933,658 |
| 1921 | 30,509 | 124.5 | 7,954 | 16.2 | 643,933 |
| 1922 | 33,036 | 141.2 | 9,755 | 23.8 | 1,160,968 |
| 1923 | 37,123 | 130.6 | 10,140 | 31.0 | 1,571,829 |
| 1924 | { 39,204 | (1) | 13,628 | ---------- | ---------- |
| | { 41,360 | 157.4 | 13,628 | 22.6 | 1,540,884 |
| 1925 | 46,053 | 167.2 | 16,104 | 18.2 | 1,464,032 |
| 1926 | 47,087 | 182.6 | 17,977 | 10.9 | 982,736 |
| 1927 | 40,138 | 154.5 | 12,955 | 19.6 | 1,269,885 |
| 1928 | 45,341 | 152.9 | 14,478 | 18.0 | 1,301,796 |
| 1929 | 45,793 | 155.0 | 14,828 | 16.4 | 1,217,829 |
| 1930 | 45,091 | 147.7 | 13,932 | 9.5 | 659,455 |
| 1931 | 40,693 | 201.2 | 17,096 | 5.7 | 487,236 |
| 1932 | 37,589 | 162.1 | 12,727 | [2] 5.4 | [2] 343,629 |

[1] Census. [2] Basis Dec. 15, 1932, price.

EXHIBIT 13.—*Cotton: Acreage, production value, exports, etc., United States, 1919–1932*—Continued

| Year beginning Aug. 1 | Average price per pound New York | Domestic exports | Imports | Net exports | United States consumption (Census Bulletin 169) |
|---|---|---|---|---|---|
| | *Cents* | *1,000 bales* | *1,000 bales* | *1,000 bales* | *Bales* |
| 1919 | 38.29 | 6,707 | 732 | 5,993 | 6,419,734 |
| 1920 | 17.89 | 5,973 | 237 | 5,753 | 4,892,672 |
| 1921 | 18.92 | 5,348 | 380 | 5,980 | 5,909,820 |
| 1922 | 26.24 | 5,007 | 492 | 4,536 | 6,666,092 |
| 1923 | 31.11 | 5,815 | 306 | 5,530 | 5,680,554 |
| 1924 | 24.74 | 8,240 | 328 | 7,923 | 6,193,417 |
| 1925 | 20.53 | 8,267 | 340 | 7,939 | 6,445,852 |
| 1926 | 15.15 | 11,299 | 419 | 10,900 | 7,189,585 |
| 1927 | 20.42 | 7,859 | 354 | 7,524 | 6,834,063 |
| 1928 | 19.73 | 8,419 | 479 | 7,957 | 7,091,065 |
| 1929 | 16.60 | 7,035 | 395 | 6,650 | 6,105,840 |
| 1930 | 10.38 | 7,133 | 112 | 7,029 | 5,262,974 |
| 1931 | 6.34 | 9,191 | 130 | 9,087 | 4,866,016 |
| 1932 | | | | | |

Source: Department of Agriculture and Bureau of the Census.

EXHIBIT 14.—*Actual and ratio prices of wheat, cotton, and hogs*

WHEAT RATIO PRICES

| Calendar year | Index of prices paid by farmers | Actual price to producers | Prices adjusted to ratio existing between actual price average 1910–1914 and index of prices paid by farmers 1910–1914 |
|---|---|---|---|
| | | *Dollars per bushel* | *Dollars per bushel* |
| Average: | | | |
| 1910–1914 | 100 | 0.881 | 0.881 |
| 1922 | 151.8 | 1.037 | 1.337 |
| 1923 | 153.4 | .985 | 1.351 |
| 1924 | 154.0 | 1.105 | 1.357 |
| 1925 | 158.9 | 1.510 | 1.400 |
| 1926 | 156.1 | 1.351 | 1.375 |
| 1927 | 154.0 | 1.205 | 1.357 |
| 1928 | 155.6 | 1.134 | 1.371 |
| 1929 | 154.8 | 1.027 | 1.364 |
| 1930 | 146.3 | .809 | 1.289 |
| 1931 | 126.2 | .488 | 1.112 |
| 1932 | 111.0 | .388 | .977 |

COTTON RATIO PRICES

| | | | |
|---|---|---|---|
| | | *Cents per pound* | *Cents per pound* |
| Average: | | | |
| 1910–1914 | 100 | 11.9 | 11.9 |
| 1922 | 151.8 | 19.3 | 18.1 |
| 1923 | 153.4 | 27.0 | 18.3 |
| 1924 | 154.0 | 26.8 | 18.3 |
| 1925 | 158.9 | 22.2 | 18.9 |
| 1926 | 156.1 | 15.1 | 18.6 |
| 1927 | 154.0 | 15.9 | 18.3 |
| 1928 | 155.6 | 18.6 | 18.5 |
| 1929 | 154.8 | 17.7 | 18.4 |
| 1930 | 146.3 | 12.4 | 17.4 |
| 1931 | 126.2 | 7.6 | 15.0 |
| 1932 | 111.0 | 5.8 | 13.2 |

EXHIBIT 14.—*Actual and ratio prices of wheat, cotton, aud hogs*—Continued

HOG RATIO PRICES

| Calendar year | Index of prices paid by farmers | Actual price to producers | Prices adjusted to ratio existing between actual price average 1910–1914 and index of prices paid by farmers 1910–1914 |
|---|---|---|---|
| | | *Dollars per hundredweight* | *Dollars per hundredweight* |
| Average: | | | |
| 1910–1914 | 100 | 7.24 | 7.24 |
| 1922 | 151.8 | 8.40 | 10.99 |
| 1923 | 153.4 | 7.13 | 11.11 |
| 1924 | 154.0 | 7.48 | 11.15 |
| 1925 | 158.9 | 11.00 | 11.50 |
| 1926 | 156.1 | 11.80 | 11.30 |
| 1927 | 154.0 | 9.68 | 11.15 |
| 1928 | 155.6 | 8.75 | 11.27 |
| 1929 | 154.8 | 9.44 | 11.21 |
| 1930 | 146.3 | 8.82 | 10.59 |
| 1931 | 126.2 | 5.89 | 9.14 |
| 1932 | [1] 111.0 | 3.47 | 8.04 |

[1] Preliminary

Source: Bureau of Agricultural Economics, U. S. Department of Agriculture.
Method: Multiply the annual index of prices paid by farmers by the 1910–1914 average of annual actual prices to producers.

AVERAGE PRICE OF CORN

| Year, October to November: | Cents per bushel |
|---|---|
| 1909–1914 average | 64.2 |
| 1922 | 75.0 |
| 1923 | 82.3 |
| 1924 | 107.3 |
| 1925 | 71.4 |
| 1926 | 74.1 |
| 1927 | 85.3 |
| 1928 | 84.5 |
| 1929 | 80.9 |
| 1930 | 60.2 |
| 1931 | 32.1 |
| 1932 (December) | 18.8 |

Senator HARRISON. Mr. Peek, you say that you would offer any suggested amendments to the Jones bill.

Mr. PEEK. Yes.

Senator HARRISON. Have you offered those suggestions to the Agricultural Committee that has studied that proposition?

Mr. PEEK. I have not offered them in that form. I have discussed with the chairman of the Agricultural Committee in the Senate the general question of this form of legislation, and since that discussion and since the hearings have been going on I have crystallized my views a little more definitely in the form of amendments to the pending legislation which I could present to Congress at any time.

Senator HARRISON. Well, I think that either that committee or this committee ought to have it, and preferably that committee, because I understand they are going to bring out some legislation within the next day or so.

Mr. PEEK. Yes; and, Senator, what they are proposing to do is beyond comprehension when they eliminate the corn and the livestock areas from consideration and confine the bill to cotton and wheat. They overlook the areas in which the greatest distress has occurred, and that is the great livestock belt of the Middle West. And if you will refer to Table 4 in this statement you will see the relative position of the different commodities over the period of the last 10 years and at present, which is conclusive of the importance of legislation affecting those great middle-western sections.

Senator SHORTRIDGE. They omit livestock, do they, in the proposed bill?

Mr. PEEK. Yes; the committee omits livestock in the bill.

Senator SHORTRIDGE. Entirely?

Mr. PEEK. It is confined to wheat and cotton.

Senator HARRISON. Their theory is to experiment with two propositions, I understand. I agree with you that they ought to deal with the corn proposition. I can understand why they deal with cotton on a different plan from that with which they would deal with wheat.

Mr. PEEK. Yes.

Senator HARRISON. But certainly I think they ought to deal with the corn situation.

Mr. PEEK. Well, if they are going to experiment they had better err on the other side.

Senator HARRISON. I think they ought to deal with that situation.

Mr. PEEK. I want to give you a picture, if I may——

The CHAIRMAN (interposing). Before you do that, Mr. Peek, let me ask you a question: In your statement you say:

> At the present time this would mean at local markets a price for wheat of 93½ cents, cotton 12½ cents, and hogs 7½ cents for the proportion required for domestic consumption. In my opinion these prices are too low, considering the increased interest burdens and increased taxes, as well as the price injustice to which the farmer has been subjected at least 12 years.

How would you support a price for wheat of 93½ cents?

Mr. PEEK. How would I get for the farmer that price?

The CHAIRMAN. Yes.

Mr. PEEK. I think, in the first place, that immediately upon the announcement by the Congress of the United States to the country that it is hereafter proposed to see that the farmer gets a fair price, and would remove the necessary proportion of supply so that an excessive surplus could not break down the market, the market price for wheat would rise, and the difference between the market price and that price I would give to the farmer in the form enacted by the Jones bill.

The CHAIRMAN. I have not any question but what the price would rise if the production were restricted to just what we would use in this country. But without doing that and so long as we have an overproduction I don't see how you are ever going to raise the price.

Mr. PEEK. Overproduction of what?

The CHAIRMAN. Of wheat, in this case.

Mr. PEEK. I am not willing to say that we have an overproduction of wheat with millions of hungry people in this country, and in every nation of the world, and even when the export markets under these conditions have been taking more than before, and we have been getting our proportion.

Senator SHORTRIDGE. Are you suggesting a way by which we can get greater exports of wheat?

Mr. PEEK. I am suggesting reciprocal national agreements, and an application of foreign debts in part in order that they may purchase some of our surplus supplies, as a means of again stimulating our export markets.

The CHAIRMAN. Well, Mr. Peek, do you think we ought to cancel the foreign debts?

Mr. PEEK. No, sir; I do not. Positively, I do not.

Senator SHORTRIDGE. And they are made payable in gold, too, aren't they?

Mr. PEEK. And perhaps that is a good reason for not canceling the debt.

Senator HARRISON. Your remarks apply to wheat. They do not apply in the present situation to cotton.

The CHAIRMAN. Yes, they do.

Mr. PEEK. I say in my remarks except in great emergencies, and I think you have such a great emergency existing to-day in the case of cotton.

The CHAIRMAN. In other words, there ought to be a present curtailment of cotton production until it meets the normal supply and demand.

Mr. PEEK. Yes; but not necessarily as to the acreage planted. If you should go out and try to cut the acreage you would get what the old lady got who bought a horse from a boy, blind and spavined.

Senator SHORTRIDGE. As a practical farming operation how would you proceed to restrict the production of cotton?

Mr. PEEK. I would not attempt it. That is my whole point. I would restrict the supply and not the production. I would go in and take it out of production. If it were apparent that we were going to mature an oversupply I would cut it down if necessary, if we could not get rid of it in any other way, at any kind of price. And if it was going to cut down our whole national economic situation I would take it out of the market.

The CHAIRMAN. Do you mean you would burn it up?

Mr. PEEK. Yes, or do anything.

Senator SHORTRIDGE. Who would do the cutting down?

Mr. PEEK. The Government would pay for doing it. But the people of the country would pay the Government through a tax on the processor. And there is no use of talking about marketing a hog as a hog because you have to market it as pork; nor of marketing wheat as wheat, because the consumer buys bread and not wheat. The processor is the essential factor in between the farmer and the consumer. The farmer's product stops at the local market, and the consumer, over here, eats the finished product.

Senator SHORTRIDGE. In other words, we will say here is a farmer who has 200 acres of growing cotton.

Mr. PEEK. Yes, sir.

Senator SHORTRIDGE. Good growing cotton, on fertile soil, and with climatic conditions satisfactory, and——

The CHAIRMAN (interposing). In California, for instance.

Senator SHORTRIDGE. Yes, you might say that. But the greatest cotton-producing State is that of the Senator from Mississippi, and next to ours is the best.

Mr. PEEK. And if there were a Texas man present you would have a row on your hands at once about that.

Senator SHORTRIDGE. I am sticking to Mississippi now. Here is a good old honest farmer in Mississippi who has 200 acres of growing cotton, maturing and which looks fine. Now, somebody says: There is going to be surplus of cotton, and some one comes to that farmer and suggests that he destroy or tear up or burn 100 acres of it. Is that your idea?

Mr. PEEK. No, pay for it.

Senator SHORTRIDGE. Who is going to pay him for it?

Senator HARRISON. The consumer.

Mr. PEEK. The Treasury of the United States in the first instance, to be reimbursed by a tax on the consumer.

Senator SHORTRIDGE. Very well. I see your point.

Senator HARRISON. But the processor makes the initial payment and then the Treasury pays, and the consumer in the end.

Mr. PEEK. The Treasury makes the initial payment.

Senator SHORTRIDGE. Does the same Government official go to the individual, the several farmers, and suggest that a certain acreage be destroyed?

Mr. PEEK. Government officials will go into the areas where the production is excessive. He might go into Mississippi this year and into Texas next year, and——

Senator SHORTRIDGE (interposing). But supposing the farmer refused and would say: "I do not want you to destroy my field of cotton. What then?"

Mr. PEEK. You will have cases like that, but the farmer will hardly refuse when he sees it is going to raise the price of his whole production by removing a limited proportion of it and that he is going to be paid for it.

Senator SHORTRIDGE. Yes, if he sees it and gets it.

Mr. PEEK. Well, Senator Shortridge, all my business life had been put in with the farmer. I do not mind saying that as between groups of farmers, groups of business men, and groups of bankers, I had rather leave my interest in posterity to the fairness and consideration and understanding of the farmer than any of the rest of them.

Senator SHORTRIDGE. Well, that is a good sentence and true. You were born between two rows of corn, as I understand it.

Mr. PEEK. So to speak; yes. Now, I want to refer to this bank situation for just a minute. My home is in Moline. That is a part of the tri-cities (Moline, Rockland, and Davenport), a community of 150,000 people. On December 31, 1929, we had bank deposits in the three towns of $114,275,000. On December 31, 1932, we had bank deposits of $42,000,000. And for four weeks we have been going along under a holiday program inaugurated by the mayors on the Illinois side of the river, with no banking facilities, with no business of any kind being conducted. Davenport a few years ago had one institution, which has since failed, which had the largest savings deposits per capita of population of any city in the United States. But that is the condition there to-day.

In the morning paper that I picked up I noticed a bulletin——

Senator SHORTRIDGE [interposing]. We ought not to give publicity to those facts. That is publicity that ought not to be given.

Mr. PEEK. I contend that publicity should be given to those facts, and that the country should have an understanding of what the real situation is.

Senator SHORTRIDGE. Well, such publicity given in the newspapers will wreck the country.

Mr. PEEK. All right. Here is one from the newspaper this morning saying that a 10-day moratorium has been given for Michigan banks.

I am emphasizing the situation to point out that the banking structure of this country is not performing the function for which it was created. Somebody somewhere must step into the breach if you are not to wreck the country, and that somebody must be the Government. There is nobody else. Banking facilities must be extended through some governmental function in order that the people may live and exchange their usual commodities and services, as between each other, pending the period when a national policy can be determined.

Senator HARRISON. Mr. Peek, would you mind giving to this committee those amendments that you suggest in your statement?

Mr. PEEK. I will be very glad to give them to you.

The CHAIRMAN. In relation to the banking business I think it ought to be said that the action was taken on account of one man.

Mr. PEEK. In Detroit, do you mean?

The CHAIRMAN. Yes, in Detroit.

Senator SHORTRIDGE. That is what they say, and as long as you have brought up the subject that should be added.

Senator HARRISON. Well, that is a collateral question.

The CHAIRMAN. I do not think it ought to be discussed at all, but as long as it was I thought I should make that statement.

Mr. PEEK. I will say that the reason for action in my community was that we have hardly turned a wheel for three years. People have withdrawn their savings from banks in order to live. No amount of money loaned by the R. F. C. will put one man back to work. Nothing will put a man back to work except some business coming into the plants, and the plants there are largely railroad shops and farm implement factories. Only those men who can go back to work can again become depositors instead of withdrawing what is left of their savings. Otherwise we will continue to slide downhill.

Senator LA FOLLETTE. Mr. Peek, I notice in reading over your statement that you do not make any reference to the effect of freight rates in the matter of discrimination against agriculture.

Mr. PEEK. Not very definitely, but I made extended statements covering the difference between the price the farmer receives at the farm and the price the consumer pays. That is a part of it, the transportation that you refer to.

Senator LA FOLLETTE. It is quite a big part of it, isn't it?

Mr. PEEK. No. I think if the entire transportation cost was wiped out, so that there was no cost of transportation from farm to consumer, the farmer would still be at very great disadvantage as compared with other industries.

Senator LA FOLLETTE. Well, I agree with that. But nevertheless——

Mr. PEEK (interposing). It is an important part, of course.

Senator LA FOLLETTE. It is an important factor in the discrimination against agriculture, is it not?

Mr. PEEK. That is true, but I do not want to create the impression that I consider that the major one by any means.

Senator La Follette. I do not want to create the impression that I consider it to be the primary factor, either. But in any analysit of this situation that has confronted agriculture, it seems to me that you leave out one of the important factors if you do not point ous the fact that the farmer is the only producer in the United States who can not add the cost of transportation to the selling price of his product. On the contrary, it is deducted from the selling price of his product.

Mr. Peek. That is right.

Senator La Follette. To-day a farmer who wants to ship, say, from Omaha to Chicago, has to pay 5 cents in cash on top of every bushel of wheat sent into that market.

Mr. Peek. Yes, sir.

Senator La Follette. And yet the farmer pays the added freight cost on everything he buys for the use of his family or on his farm.

Mr. Peek. Yes.

The Chairman. The same thing applies to cattle and sheep.

Senator La Follette. I am talking about farmers.

Senator Shortridge. I fully agree with you, Senator La Follette, and let me emphasize your thought: For instance, our Government spent millions of dollars; yes, millions of dollars in encouraging the raising——

The Chairman (interposing). Well, we ought to get along if we can. We still have another witness here.

Senator Shortridge. I want to get this into the record: The Government spent millions of dollars encouraging farmers of California horticulturists, and I suppose we will treat them as farmers, in the planting of grapes, and particularly urging upon us the planting of wine grapes, and they spent millions of dollars in propaganda, or rather legitimate information, as to soil, as to type of vine, and then along came a certain constitutional amendment, which has been mentioned more or less, and what is the upshot, what is the situation as respects the price a man gets for his grapes? In the old days he sold them right there, in San Francisco or Los Angeles or at other points, and they were converted into harmless wine. Now the grapes must be shipped, those fresh grapes, mind you, must be shipped from Santa Rosa and other towns in California, 3,000 miles to New York, where they are disposed of by auction. And a lot of criminals there in that city have a combination and they will not bid for the grapes, and they must be sold within a few days or they are ruined. But the price of transportation there from Sacramento, Calif., in many instances exceeds the price for which the grapes are sold in New York. That is one reason perhaps why some people have thought instead of making the poor and poisonous wine in New York, a harmless beverage might be made in California, and thereby help the farmer, for we were quite prosperous in those days and now we are broke.

Mr. Peek. Well, there is legislation before the Congress now addressed to your problem, is there not?

Senator Shortridge. There is.

Mr. Peek. And I assure you I am in sympathy with its passage.

Senator Shortridge. I thank you.

The Chairman. Is there anything else you desire to say, Mr. Peek?

Mr. Peek. Nothing else, Mr. Chairman.

The Chairman. All right. We will excuse you.

## APPENDIX TO STATEMENT BY GEORGE N. PEEK, OF MOLINE, ILL.

Pursuant to the request of the committee, there are set forth below amendments to the pending bill H. R. 13991, entitled "An act to aid agriculture and relieve the existing national economic emergency," as passed by the House of Representatives January 12, 1933.

These amendments have been framed to carry out the principles set forth in the foregoing statement. In formulating the amendments it has been borne in mind that by the time legislation can possibly be enacted the planting season will be so far advanced as to make impractical any general control of acreage planted for the current year.

[H. R. 13991, Seventy-second Congress, second session]

[Omit part struck through and insert part printed in italic]

AN ACT To aid agriculture and relieve the existing national economic emergency

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That this Act may be cited as the "National Emergency Act."

DECLARATION OF POLICY

SEC. 2. It is hereby declared—

(a) That the depression in prices for that portion of our agricultural commodities for domestic consumption, and the effect of unsettled world conditions upon foreign markets for that portion of our agricultural commodities for consumption abroad, and the inequalities between the prices for agricultural and other commodities, have given rise in the basic industry of agriculture to conditions that have affected transactions in agricultural commodities with a national public interest, that have burdened and obstructed the normal currents of commerce in such commodities, and that render imperative the enactment of this Act for aiding in the relief of the present national economic emergency in agriculture and thereby facilitating the recovery of industry, transportation, employment, and finance.

(b) That is the policy of Congress to encourage agricultural planning and readjustment to meet changed world conditions and to aid in restoring the parity between agriculture and other industries and in correcting the inequalities between the prices for agricultural and other commodities.

~~(c) That the provisions of this Act are made applicable solely with respect to wheat, rice, cotton, peanuts, tobacco, butterfat, and hogs by reason of the fact that the prices for these basic commodities are a controlling factor in establishing prices for other domestic agricultural commodities.~~

*(c) That the provisions of Title I, II, and III of this Act are (subject to section 3) made applicable solely with respect to wheat, cotton, tobacco, and hogs by reason of the fact that the prices for these basic commodities are a controlling factor in establishing prices for other domestic agricul-*

*tural commodities, that exportable surpluses of these commodities or products thereof are ordinarily produced, and that substantially the entire production of these commodities is processed prior to ultimate consumption.*

*EXTENSION OF ACT TO COMPETITIVE COMMODITIES*

*Sec. 3. If the Secretary of Agriculture at any time finds that the operations under this Act with respect to wheat or hogs are ineffective in establishing a total return to the producer substantially equal to the fair exchange value for wheat or hogs, then the Secretary shall report such finding to the President. If the President determines that in order to correct such situation it is necessary to extend the operation of this Act to other grains or livestock, he shall by proclamation specify the grains or livestock to be covered. Commencing at such time as shall be specified in the proclamation, but not later than 30 days after the issuance thereof, the provisions of Titles I, II, and III shall become applicable to the grain or livestock specified.*

*FAIR EXCHANGE VALUE*

*Sec. 4. The fair exchange value for any commodity shall be an amount which bears to the national average price for all commodities bought by producers at local markets during the three preceding calendar months, the same ratio as the national average price received for the commodity by producers at local markets during the period commencing August, 1909, and terminating July, 1914, bore to the national average price for all commodities bought by producers during such period. Such value shall be determined by the Secretary of Agriculture on the basis of price statistics computed and published by the Department of Agriculture.*

## ~~TITLE II—DISTRIBUTION OF COMMODITY BENEFITS~~

~~ADJUSTMENT CERTIFICATES~~

~~Sec. 3. (a) The Secretary of Agriculture shall determine a marketing year for each of the following commodities: Wheat, rice, cotton, peanuts, tobacco, and hogs. The marketing year for butterfat shall be the period of twelve months beginning July 1; and there shall be an initial marketing period for wheat, butterfat, rice, cotton, peanuts, and hogs, commencing thirty days after the date of approval of this Act and terminating at the commencement of the 1933–1934 marketing year for the respective commodities.~~

~~(b) Adjustment certificates shall be issued for the initial marketing period for wheat, butterfat, rice, cotton, peanuts, and hogs, and for the 1933–1934 marketing year for wheat, butterfat, rice, cotton, peanuts, tobacco, and hogs; and in the case of butter fat adjustment certificates shall be issued monthly. If this Act is extended with respect to any commodity for an additional year pursuant to proclamation of the President under section 28, then adjustment certificates shall be issued for the 1934–1935 marketing year for the commodity.~~

~~(c) Each producer of wheat, butterfat, rice, cotton, peanuts, tobacco, or hogs shall be entitled, subject to the conditions of this Act, to have issued to him adjustment certificates covering the~~

~~domestic consumption percentage of the commodity of his own production marketed by him during any period for which adjustment certificates may be issued with respect to the commodity: *Provided*, That as to cotton, adjustment certificates may, in the discretion of the Secretary, be issued to the producer when the cotton is ginned or the unginned cotton sold. For the purpose of this subsection the domestic consumption percentage in the case of butterfat shall at all times be 80 per centum.~~

~~(d) For the purposes of this title a commodity shall be deemed to be marketed by a producer when sold or otherwise disposed of by or for him for processing or resale, but hogs shall not be deemed to be marketed when sold or otherwise disposed of to a feeder of hogs who is not also a processor of hogs.~~

~~(e) No adjustment certificate, or part thereof, shall, while in the possession of the producer to whom it was issued, be subject to attachment, levy, or seizure under any legal or equitable process.~~

~~(f) In administering the provisions of this section in respect to butterfat the Secretary of Agriculture shall permit cooperative associations of producers, when in the judgment of the Secretary such associations are qualified to do so, to act as agents of their members and patrons in connection with the issuance of adjustment certificates to which such members are entitled.~~

## ~~DOMESTIC CONSUMPTION PERCENTAGE~~

~~SEC. 4. (a) The Secretary of Agriculture—~~

~~(1) In the case of wheat, rice, peanuts, and cotton, shall, within thirty days after the date of the approval of this Act, estimate, as nearly as practicable, and proclaim the percentage of domestic wheat, rice, peanuts, and cotton to be marketed during the respective initial marketing periods therefor, that will be needed for domestic consumption.~~

~~(2) In case of wheat, rice, peanuts, cotton, and tobacco, shall, at least two weeks prior to the commencement of each marketing year with respect to which this title is in effect for the commodity, estimate, as nearly as practicable, and proclaim the percentage of the total domestic production of the commodity during the then current calendar year that will be marketed and needed for domestic consumption.~~

~~(3) In the case of hogs shall, within thirty days after the date of approval of this Act, estimate, as nearly as practicable, and proclaim the percentage of domestic tonnage of hogs to be marketed during the initial marketing period for hogs that will be needed for domestic consumption.~~

~~(4) In case of hogs shall, at least two weeks prior to the commencement of each marketing year with respect to which this title is in effect for hogs, subsequent to the initial marketing period for hogs, estimate, as nearly as practicable, and proclaim the percentage of domestic tonnage of hogs to be marketed during such year that will be needed for domestic consumption.~~

~~(b) Any such percentage proclaimed for any period shall be based on statistics of the Department of Agriculture and other Federal agencies as to the average domestic consumption of the commodity for the five preceding periods of like duration.~~

~~FACE VALUE OF CERTIFICATES~~

~~SEC. 5. The face value of any adjustment certificate per unit of any commodity covered thereby shall be equal to the fair exchange allowance per like unit of the commodity in effect with respect to such commodity at the time of its marketing, less a pro rata share of administrative expenses as estimated by the Secretary of Agriculture.~~

~~ISSUANCE OF CERTIFICATES~~

~~SEC. 6. The Secretary of Agriculture shall designate officers, employees, or agents of the Department of Agriculture (or with the approval of the President, of any other department or independent establishment; or with the approval of the appropriate State authority, of any State or political subdivision thereof) for the issuance of adjustment certificates. Such certificates shall be issued upon application by the producer and proof satisfactory to the Secretary that the producer is entitled thereto pursuant to this Act and the regulations thereunder.~~

~~REDEMPTION OF ADJUSTMENT CERTIFICATES~~

~~SEC. 7. (a) Each adjustment certificate shall be issued in two parts, each to be at one-half the face value of the certificate. Title to either part of an adjustment certificate shall be transferable by delivery. One part of an adjustment certificate may be presented by the bearer for redemption at any time during the year commencing one month after the date of issuance thereof, and the other part may be presented by the bearer for redemption at any time during the second six months of such year. Certificates shall be accepted for redemption at the United States Treasury or at such fiscal agencies of the United States as the Secretary of the Treasury shall designate.~~

~~(b) The action of any officer, employee, or agent in issuing and fixing the value of any adjustment certificate and in redeeming such certificate shall not be subject to review by any court or by any officer of the Government other than the Secretary of Agriculture.~~

~~ACREAGE CONTROL~~

~~SEC. 8. (a) Nothing in this Act shall be construed as affecting or controlling in any way the freedom of any producer to produce and sell as much as he wishes of any commodity; except that the issuance of adjustment certificates shall be subject to the following conditions and limitations:~~

~~(1) No adjustment certificates shall be issued in respect of wheat, rice, cotton, peanuts, or tobacco of any producer marketed during the 1933-1934 marketing year for the commodity, unless the producer's acreage of wheat, rice, cotton, peanuts, or tobacco of 1933 production is 20 per centum less than his average acreage for such preceding period as the Secretary deems representative of normal production conditions in the area; but this paragraph shall not apply to acreage planted to wheat in the fall of 1932.~~

~~(2) No adjustment certificate shall be issued in respect of any lot of hogs of any producer marketed during the initial marketing period for hogs unless the producer's tonnage of hogs for market during such~~

~~period is or will be 20 per centum less than his tonnage for the same period during the preceding year.~~

~~(3) No adjustment certificates shall be issued in respect of hogs of any producer marketed during the 1933–1934 marketing year for hogs, unless the producer's tonnage of hogs for market during such year is or will be 20 per centum less than his tonnage for the preceding year, nor unless his acreage of corn, if any, of 1933 production is 20 per centum less than his average acreage for such preceding period as the Secretary deems representative of normal production conditions in the area: *Provided*, That the words "acreage of corn" shall not be construed to include acreage of corn harvested before maturity for silage or fodder feeding purposes.~~

~~(4) In the event that this Act is, by proclamation of the President made pursuant to section 28, extended for an additional year with respect to wheat, rice, cotton, peanuts, tobacco, or hogs, no adjustment certificate shall be issued to any producer in respect of such commodity marketed by him during the 1934–1935 marketing year for the commodity, unless the producer's acreage, in case of wheat, rice, cotton, peanuts, or tobacco, or in case of hogs, his acreage of corn, if any, and his tonnage of hogs, has been reduced in such amount as the Secretary of Agriculture has found necessary in order to prevent abnormal surpluses or carry-overs in the commodity.~~

~~(5) No adjustment certificates shall be issued in respect of wheat, rice, cotton, peanuts, hogs, or tobacco in any case where reduction of acreage is required by this Act, if the land representing such reduction is utilized, during the year in respect of which such reduction occurs, for the production of any commodity of which, in the opinion of the Secretary, there is normally produced or is likely to be produced an exportable surplus, nor in case the producer during that part of the initial period or the then current marketing year for the commodity, as the case may be, which has elapsed, has increased his production of milk or milk products for sale over his production thereof for sale for the same period during the preceding year. It shall be the duty of the Secretary of Agriculture to determine and make public the commodities that may be produced in various regions upon land representing acreage reductions under this Act without violating the requirements of this paragraph.~~

~~(6) In the event that this Act is, by proclamation of the President made pursuant to section 28, extended for an additional year with respect to butterfat, no producer who produces for sale more butterfat during any month in the 1934–1935 marketing year than was produced for sale by him during the corresponding month of the preceding marketing year shall receive any adjustment certificate under this Act for such month.~~

~~(b) The Secretary of Agriculture shall by regulation provide for the application of the provisions of this section with respect to producers not engaged in the production of the commodity prior to the particular year.~~

~~FAIR EXCHANGE ALLOWANCE~~

~~SEC. 9. (a) The fair exchange allowance for any commodity shall be the difference between the price received for the commodity by producers at local markets and the fair exchange value for the commodity, as hereinafter determined.~~

~~(b) The fair exchange allowance per unit for each commodity shall be proclaimed by the Secretary of Agriculture on the day following the date of approval of this Act. Thereafter the fair exchange allowance shall be proclaimed at such intervals as the Secretary may from time to time deem necessary to keep in effect a fair exchange allowance which, together with the price received for the commodity by producers at local markets during the last three months for which index numbers are available, will substantially equal the fair exchange value for the commodity.~~

~~(c) The fair exchange allowance shall be determined by the Secretary on the basis of the index numbers for prices as computed and published by the Department of Agriculture.~~

~~(d) The fair exchange allowance specified in the first proclamation for any commodity made by the Secretary under this Act shall take effect on the day following the date of approval of this Act. The fair exchange allowance specified in any subsequent proclamation for the commodity shall take effect at such date as is specified in the proclamation.~~

~~(e) Except as provided under subsection (f), the fair exchange value for any commodity shall be an amount that shall bear to the price for all commodities bought by producers during the last three months' period for which index numbers are available, the same ratio as the price for the commodity paid producers at local markets during the base period bore to prices for all commodities bought by producers during such base period. The base period shall be the period commencing September, 1909, and terminating August, 1914, except that in the case of tobacco, the base period shall be the period commencing September, 1909, and terminating August, 1919.~~

~~(f) During the following periods the fair exchange value in the case of wheat, rice, butterfat, cotton, peanuts, and hogs shall be as follows:~~

~~(1) In the case of wheat, 75 cents a bushel during the initial marketing period.~~

~~(2) In the case of rice, 75 cents a bushel during the initial marketing period.~~

~~(3) In the case of butterfat, 26 cents a pound during the initial marketing period.~~

~~(4) In the case of cotton, 9 cents a pound during the initial marketing period.~~

~~(5) In the case of peanuts, 3 cents per pound during the initial marketing period.~~

~~(6) In the case of hogs, 5 cents a pound during the initial marketing period; and beginning with the 1933–1934 marketing year for hogs, 6 cents a pound, plus an additional one-half cent a pound for each ten points increase that exists in the index number for factory employment over the index number therefor on the date of approval of this Act, as published by the Federal Reserve Board, until such time as the fair exchange value for hogs so computed first equals such value as computed under subsection (e). Thereafter the fair exchange value for hogs shall be computed under subsection (e).~~

## *TITLE I.—DISTRIBUTION OF COMMODITY BENEFITS*

### *GENERAL*

*SEC. 5. (a) Titles I, II, and III of this act shall, in accordance with the terms thereof, apply to wheat, cotton, tobacco, and hogs, commencing on the date of approval of this act; and shall apply to other grains or livestock specified in any proclamation of the President under section 3 commencing at such time as is specified in the proclamation.*

*(b) The Secretary of Agriculture shall determine the marketing year for each commodity to which Titles I, II, and III have become applicable.*

### *DOMESTIC CONSUMPTION PERCENTAGE*

*SEC. 6. The Secretary of Agriculture shall within 30 days after the date of approval of this Act, and may from time to time thereafter as crop condition reports of the Department become available, estimate as nearly as practicable and proclaim the percentage of the domestic stocks on hand, plus the domestic production for the current calendar year of each commodity to which this title is applicable, that in his judgment will be needed for domestic consumption. Any such percentage is hereinafter referred to as the domestic consumption percentage for the commodity. The amount that will be needed for domestic consumption shall be based on statistics of the Department of Agriculture and other Federal agencies as to the average domestic consumption of the commodity for the five preceding years; and the amount of domestic stocks on hand and domestic production for the current calendar year shall be based on the best available data of the Department of Agriculture and other Federal agencies.*

### *ADJUSTMENT CERTIFICATES*

*SEC. 7. (a) Adjustment certificates shall be issuable during the period commencing 30 days after the date of approval of this act, and terminating at the expiration of the 1933–34 marketing year for the commodity. If this act is extended with respect to any commodity for an additional year pursuant to proclamation of the President under section 30, then adjustment certificates shall be issuable for the 1934–35 marketing year for the commodity.*

*(b) Each producer of the commodity shall be entitled, subject to the conditions of this act, to have issued to him adjustment certificates covering the domestic consumption percentage, then in effect, of the commodity of his production marketed by him during any period for which adjustment certificates may be issued with respect to the commodity.*

*(c) For the purpose of this title, a commodity shall be deemed to be marketed by the producer when it is sold or otherwise disposed of by him for processing or resale; but hogs shall not be deemed to be marketed when sold or otherwise disposed of to a feeder who is not also a processor of hogs.*

*(d) The face value of an adjustment certificate, per unit of any commodity covered thereby, shall be equal to the benefit payment per unit in effect with respect to the commodity at the time of its marketing, less a pro rata share of administrative expenses as estimated and proclaimed by the Secretary of Agriculture.*

*(e) The benefit payment with respect to any commodity shall be the difference between the current national average price received for the*

*commodity by producers at local markets, and the fair exchange value of the commodity, computed to the nearest one-half cent per pound or bushel. Such current national average price received by producers shall be determined by the Secretary on the basis of such price for the last three months for which statistics of the Department of Agriculture are available.*

*(f) The benefit payment shall be proclaimed at such intervals as the Secretary may from time to time deem necessary to keep in effect a benefit payment which, together with such current national average price received by producers, will substantially equal the fair exchange value for the commodity. The benefit payment specified in any proclamation shall take effect at such date as is specified therein.*

*ISSUANCE OF CERTIFICATES*

*SEC. 8. (a) Adjustment certificates shall be issued upon application by the producer and proof satisfactory to the Secretary of Agriculture that the producer is entitled thereto pursuant to this Act and the regulations thereunder prescribed under section 23.*

*(b) The Secretary of Agriculture shall designate officers, employees, or agents of the Department of Agriculture (or, with the approval of the President, of any other department or independent establishment; or, with the approval of the appropriate State authority, of any State or political subdivision thereof) for the issuance of adjustment certificates.*

*(c) No adjustment certificate, or part thereof, shall, while in the possession of the producer to whom it is issued, be subject to attachment, levy, or seizure under any legal or equitable process.*

*REDEMPTION OF ADJUSTMENT CERTIFICATES*

*Sec. 9. (a) Title to any adjustment certificate shall be transferable by delivery. Any adjustment certificate, when presented by the bearer at any time after 30 days and not more than one year from the date of the issuance thereof, shall be redeemable at its face value. Adjustment certificates shall be accepted for redemption at the United States Treasury and at such fiscal agencies of the United States as the Secretary of the Treasury shall designate.*

*(b) The action of any officer, employee, or agent in issuing and fixing the value of any adjustment certificate and in redeeming such certificate, or in making any payment under section 20, shall not be subject to review by any court or by any officer of the Government other than the Secretary of Agriculture or the Secretary of the Treasury.*

*(c) In administering the provisions of this title the Secretary of Agriculture shall permit cooperative associations of producers, when in the judgment of the Secretary such associations are qualified to do so, to act as agents of their members and patrons in connection with the issuance and redemption of adjustment certificates to which such members or patrons are entitled.*

## TITLE II—ADJUSTMENT CHARGES

### PAYMENT OF ADJUSTMENT CHARGES

SEC. 10. (a) There shall be levied, assessed, and collected an adjustment charge on the first domestic processing of any ~~wheat, rice, cotton, peanuts, tobacco, butterfat, or hogs,~~ *commodity with* *respect to which adjustment certificates are issuable,* whether of domestic production or imported, to be paid by the processor. Adjustment charges shall at any given time be at the same rate per unit of the commodity as the ~~fair exchange allowance~~ *benefit payment* then in effect with respect to the commodity~~;~~ ~~except that in the case of hogs, during the periods specified below, the adjustment charge shall be the difference between the price received for hogs by producers at local markets and the following amounts:~~

~~(1) For the period commencing the day following the date of approval of this Act and terminating April 30, 1933, 3½ cents a pound.~~

~~(2) For the period commencing May 1, 1933, and terminating June 30, 1933, 4 cents a pound.~~

~~(3) For the period commencing July 1, 1933, and terminating at the beginning of the 1933–1934 marketing year, 4½ cents a pound.~~

~~The price received for hogs by producers at local markets shall be determined and proclaimed by the Secretary of Agriculture from time to time, for the purposes of this section, as may be necessary in order to keep in effect an adjustment charge substantially equal to the difference between such price and the amounts above specified. Such price shall be determined by the Secretary on the basis of index numbers for prices as computed and published by the Department of Agriculture.~~

~~(b) Adjustment charges shall commence on the day following the date of approval of this Act and shall terminate with respect to any commodity one month after the end of the 1933–1934 marketing year for the commodity; except that if this Act is extended with respect to any commodity for an additional year, pursuant to proclamation of the Secretary of Agriculture under section 28, then adjustment charges with respect to the commodity shall terminate one month after the end of the 1934–1935 marketing year for the commodity.~~

(*b*) *Adjustment charges with respect to any commodity shall commence on the day on which adjustment certificates first become issuable with respect to the commodity and shall terminate at such time as the Secretary of the Treasury finds and proclaims that the Treasury has been fully reimbursed for all expenditures made or to be made pursuant to this Act with respect to the commodity, but in no case earlier than the date on which adjustment certificates cease to be issuable with respect to the commodity.*

~~(c) Each processor required to pay any adjustment charge imposed by this section shall procure and keep posted a certificate of registry in accordance with regulations prescribed by the Secretary of the Treasury. Any processor who fails to register or to keep posted any certificate of registry in accordance with such regulations shall, upon conviction thereof, be subject to a fine of not more than $1,000.~~

~~(d) In order to protect the processors of cotton against disadvantages in competition, during any period for which an adjustment charge is in effect with respect to cotton, there shall be levied, assessed, and collected upon the first domestic processing of silk or rayon an adjustment charge equal to the adjustment charge then in effect as to cotton, per like unit of the commodity, to be paid by the processor. No such charge shall be collected with respect to rayon derived from processed cotton subject to an adjustment charge with respect to its processing.~~

*(e) Any person delivering any product to the American National Red Cross (or other organization designated by the American National Red Cross) for charitable distribution or use, pursuant to Act of Congress, shall, if such product is under this Act, subject to tax or processed from a commodity with respect to which there is in effect an adjustment charge at the time of processing, be entitled at the time of delivery to a refund of the amount of any tax or adjustment charge paid under this Act with respect to such product, or the commodity from which it was processed, as established by conversion factors prescribed by regulations of the Secretary of the Treasury. The Secretary shall prepare forms for filing claims for such refunds and shall certify to the Treasury of the United States claims which have been approved for payment.*

FLOOR STOCKS

SEC. 11. (a) Upon the sale or other disposition of any article processed wholly or in chief value from ~~wheat, rice, cotton, peanuts, silk, rayon, tobacco, butterfat, or hogs that (on the date any adjustment charge, or increase or decrease therein, takes effect or terminates)~~ *any commodity with respect to which adjustment certificates are issuable, that on the date any adjustment charge takes effect with respect to the commodity,* is held for sale or other disposition (including articles in transit) by any person other than a consumer or a person engaged solely in retail trade, there shall ~~be made a tax adjustment as follows:~~

~~(1) In case an adjustment charge takes effect or is increased, there shall~~ be levied, assessed, and collected a tax to be paid by such person equivalent to the amount of the adjustment charge ~~or increase~~ which would be payable with respect to the commodity from which processed if the processing had occurred on such date.

~~(2) If the adjustment charge is terminated or decreased, there shall be refunded to such person a tax (or if the tax has not been paid, the tax shall be abated) in an amount equivalent to the adjustment charge or decrease with respect to the commodity from which processed.~~

~~(3)~~ Such equivalent amounts shall be established by conversion factors prescribed by regulations of the Secretary of the Treasury.

(b) The proceeds of all taxes collected under this section shall be covered into the Treasury, and there are authorized to be appropriated amounts necessary for the payment of refunds under this section.

~~(c) For the purpose of this section the term "retail trade" shall not be held to include the business of an establishment which is owned, operated, maintained, or controlled by the same individual, firm, corporation, or association that owns, operates, maintains, or controls any more than two other establishments of the same character.~~

~~(d)~~ *(c)* Notwithstanding the provisions of subsection (a) such subsection shall apply to flour in excess of ~~25~~ *10* barrels held for sale or other disposition by any person engaged solely in retail trade.

EXPORTATIONS

SEC. 12. (a) Upon the exportation to any foreign country (including the Philippine Islands, the Virgin Islands, American Samoa, and the island of Guam) of any product with respect to which an adjustment charge or tax has been paid under this Act, the exporter thereof shall be entitled at the time of exportation to a refund of the amount of such charge or tax, as established by conversion factors prescribed by regulations of the Secretary of the Treasury. The Secretary shall prepare forms for filing claims for such refunds and shall certify to the Treasurer of the United States claims which have been approved for payment.

(b) Upon the giving of satisfactory bond for the faithful observance of the provisions of this Act requiring the payment of adjustment charges or taxes, and of such regulations as may be prescribed thereunder, any person shall be entitled, without payment of the adjustment charge or tax, to process for such exportation any commodity with respect to which an adjustment charge is imposed by this Act, or to hold for such exportation any article processed wholly or in chief value therefrom. The Secretary of the Treasury shall prescribe necessary regulations for such processing or holding in bond or in such other manner as may be necessary to carry out such provisions.

PROCESSING FOR PERSONAL USE ~~AND LIMITED SALE~~

SEC. 13. No adjustment charge shall be required to be paid on the processing of any commodity by the producer thereof for consumption by his own family, employees, or household~~, or on the processing of hogs by the producer thereof, for sale during any year for which such charge would otherwise be payable, if his sales of the products resulting from such processing of hogs do not exceed $100 during such year, or on the processing of butterfat by a producer for direct sale to consumers, during any year for which such charge would otherwise be payable, if his sales of the products containing such butterfat do not exceed $75 during such year~~.

GOVERNMENT INSTRUMENTALITIES

SEC. 14. No processor or other person shall be exempt from any adjustment charge or tax under this Act by reason of the fact that the products of the processed commodity are purchased by the United States, or any State, Territory, or insular possession thereof (except the Philippine Islands, the Virgin Islands, American Samoa, and the island of Guam), or the District of Columbia, or any agency or instrumentality thereof.

EXISTING CONTRACTS

SEC. 15. (a) If (1) any processor, jobber, or wholesaler has, prior to the date of approval of this Act, made a bona fide contract of sale for delivery after such date of any article in respect of which an adjustment charge or tax is imposed under this Act, and if (2) such contract does not permit the addition to the amount to be paid thereunder of the whole of such charge or tax, then (unless the contract prohibits such addition) the vendee shall pay so much of the charge or tax as is not permitted to be added to the contract price.

(b) Charges or taxes payable by the vendee shall be paid to the vendor at the time the sale is consummated and shall be collected and paid to the United States by the vendor in the same manner as other adjustment charges or taxes under this Act. In case of failure or refusal by the vendee to pay such charges or taxes to the vendor, the vendor shall report the facts to the Commissioner of Internal Revenue who shall cause collection of such charges or taxes to be made from the vendee.

COLLECTION OF ADJUSTMENT CHARGES

SEC. 16. (a) The adjustment charges and taxes provided in this Act shall be collected by the Bureau of Internal Revenue under the direction of the Secretary of the Treasury. Such adjustment charges shall be paid into the Treasury of the United States.

(b) All provisions of law, including penalties, applicable with respect to the taxes imposed by section 600 of the Revenue Act of 1926, and the provisions of section 626 of the Revenue Act of 1932, shall, in so far as applicable and not inconsistent with the provisions of this Act, be applicable in respect of adjustment charges and taxes imposed by this Act: *Provided*, That the Secretary of the Treasury is authorized to permit postponement, for a period not exceeding 60 days, of the payment of adjustment charges covered by any return.

*(c) In order that the payment of adjustment charges may not impose any immediate undue financial burden upon processors, any processor subject to such charges shall be eligible for loans from the Reconstruction Finance Corporation under section 5 of the Reconstruction Finance Corporation Act.*

LOW-VALUE PRODUCTS

SEC. 17. If the Secretary of the Treasury and the Secretary of Agriculture jointly find that any class of products of any commodity is of such low value compared with the quantity of the commodity used for their manufacture that the imposition of the adjustment charge would prevent in whole or in large part the use of the commodity in the manufacture of such products and thereby substantially reduce consumption and increase the surplus of the commodity, then the Secretary of the Treasury may abate or refund the adjustment charge with respect to such amount of the commodity as is used in the manufacture of such products in accordance with regulations prescribed by the Secretary of the Treasury.

IMPORTATIONS

SEC. 18. (a) During any period for which an adjustment charge under this Act is in effect with respect to cotton there shall be levied, assessed, collected, and paid upon the following articles when imported from any foreign country into the United States the following duties:

(1) On cotton having a staple of less than one and one-eighth inches in length, 5 cents per pound; and

(2) On all dutiable articles wholly or in chief value of cotton having a staple of less than one and one-eighth inches in length, an additional duty of 5 cents per pound on such cotton contained therein, as established by conversion factors prescribed by regulations of the Secretary of the Treasury.

(b) During any period for which an adjustment charge is in effect with respect to ~~wheat, rice, cotton, peanuts, tobacco, butterfat, or hogs,~~ *any commodity*, there shall be levied, assessed, collected, and paid upon the importation, from any foreign country into the United States of goods processed or manufactured from such commodity which, if domestically processed, would be subject to an adjustment charge a duty equal to the amount of the adjustment charge which would be payable with respect to such domestic processing at the time of importation, as established by conversion factors prescribed by regulations of the Secretary of the Treasury. Such duty shall be in addition to any other duty imposed by law.

(c) During any period for which an adjustment charge is in effect with respect to ~~butterfat,~~ ~~and~~/~~or~~ ~~cotton,~~ ~~and~~/~~or~~ *cotton or* hogs, there shall be levied, assessed, collected, and paid upon the importation from any foreign country into the United States of animal, marine, and vegetable oils or fats, and upon the oil content of the raw materials from which such oils and fats are extracted, a duty of 5 cents per pound*; and upon such importation of molasses not imported to be commercially used for the extraction of sugar or for human consumption, 6 cents per gallon*. Such ~~duty~~ *duties* shall be in addition to any other duty imposed by law.

(d) The duties imposed by this section shall be levied, assessed, collected, and paid in the same manner as duties imposed by the Tariff Act of 1930, and shall be treated, for the purposes of all provisions of law relating to the customs revenue, as duties imposed by such Act.

(e) As used in this section the term "United States" means the United States and its possessions, except the Philippine Islands, the Virgin Islands, American Samoa, and the island of Guam.

## *TITLE III—MARKETING AGREEMENTS AND CONTROL OF SUPPLY*

*SEC. 19 (a) To aid in the administration of this Act, to meet the situation caused by the existence of abnormal surpluses, and to prevent accumulation of new or further increase of old surpluses pending the opening of normal export markets, the Secretary of Agriculture, the Attorney General, and the Secretary of Commerce are jointly authorized to enter into marketing agreements with processors, associations of producers, and other agencies engaged in the handling of any commodity to which Titles I and II have become applicable or in handling the products of such commodity. No such agreement shall be entered into unless, in the judgment of the Secretaries, the execution of the terms thereof will aid in maintaining for producers of the commodity a return therefor at local markets substantially equal to the fair exchange value for the commodity. Such agreements shall provide for the marketing of the commodity, including the storage or other disposition thereof, and for the disposal of any net profits arising out of such marketing operations. Except as provided in section 30, marketing operations under such agreements shall be applicable only to the 1933 production of the commodity and prior accumulated surpluses of the commodity.*

*(b) For the purpose of carrying out any such agreement, the parties thereto shall be eligible for loans from the Reconstruction Finance Corporation under section 5 of the Reconstruction Finance Corporation Act, but not in excess of such amounts as may be authorized by the agreement.*

*Sec. 20. (a) If the Secretary finds from the crop condition reports of the Department of Agriculture that the domestic stocks on hand of wheat,* *cotton, or corn plus the prospective production thereof for the current year are in excess of the estimated consumption requirements of the domestic markets and the potential foreign markets for the commodity, then the Secretary shall determine and publish the amount by which it is desirable to reduce such production in order not to exceed the requirements of such markets. The Secretary shall ascertain and proclaim the production areas in which the prospective production will exceed the normal proportion of the total production of such areas. The Secretary shall proclaim in each such production area the percentage by which producers therein shall, in order to be entitled to the payments under subsection (b), reduce their production of the crop theretofore planted.*

*(b) Under regulations prescribed by the Secretary of Agriculture and the Secretary of the Treasury, there shall be paid to each producer promptly upon proof satisfactory to the Secretary of Agriculture that his production has been so reduced, an amount equal as nearly as possible to the price of the estimated amount of the commodity so removed from production, less the cost of completing the production and harvesting of the commodity and its preparation for and hauling to local markets.*

*(c) No adjustment certificate shall be issued any producer of wheat or cotton for the marketing year for any crop with respect to which the producer has failed to reduce his production in accordance with the percentage, if any, prescribed for his production area under this section.*

*(d) To assist in the efficient administration of this section, the Secretary of Agriculture is authorized to designate in each State lying wholly or in part in any production area proclaimed under subsection (a), a committee composed as follows: The head of the department of agriculture of the State; the head of the agricultural extension service of the State; and such person as is recommended to the Secretary by the Governor of the State to represent the farmers of the State, preferably the executive head of the leading farm organization of the State.*

*(e) The payments made to producers under this section shall be paid out of the Treasury from receipts derived from the duties levied under section 18.*

## TITLE ~~III~~ *IV*—GENERAL PROVISIONS

### DEFINITIONS

SEC. ~~19~~ *21*. As used in this Act—

(1) In case of wheat or *other grain* ~~rice~~, the term "processing" means the milling or other processing (except cleaning and drying) of wheat or *other grain* ~~rice~~ for market, including custom milling for toll as well as commercial milling, but shall not include the grinding or cracking thereof not in the form of flour for feed purposes only.

(2) In case of cotton, silk, and rayon, the term "processing" means the spinning, manufacturing, or other processing (except ginning) of cotton, silk, or rayon; and the term "cotton" shall not include cotton linters.

(3) In case of tobacco, the term "processing" means the manufacturing or other processing (except drying) of tobacco.

(4) In case of hogs *or other livestock*, the term "processing" means the slaughter of hogs *or other livestock* for market.

~~(5) In case of peanuts, the term "processing" means the cleaning, polishing, grading, shelling, crushing, or other processing thereof.~~

~~(6) The term "butterfat" as used herein means the amount of fat content of milk and products made from milk. In the case of butterfat, the term "processing" means all manufacturing of milk or cream into products and also all steps taken in the handling and sale of milk or cream as such after the product leaves the farm where produced; also, in case of direct sales by producer to a consumer, all steps in preparing the product for market, whether or not taken on the farm where produced.~~

### ADMINISTRATIVE EXPENSES

SEC. ~~20~~. *22.* (a) Amounts appropriated for the payment of administrative expenses under this Act shall be expended by or under the direction of the Secretary of Agriculture, but the amounts to be expended for such expenses under this Act shall not exceed in the aggregate a sum equal to 2½ per centum of the total amount to be collected in adjustment charges and taxes under this Act.

(b) The Secretary of Agriculture is authorized (subject to the limitations provided in subsection (a) with respect to the amounts available for the payment of administrative expenses) to transfer to the Treasury Department and other agencies of the Federal Government, and to any agency of any State or any political subdivision thereof, such sums as are required to pay the additional expenses incurred by such agencies in the administration of this Act: *Provided,* That a statement of all transfers of appropriations made hereunder shall be included in the annual Budget for the fiscal year 1936, and a statement of all transfers of appropriations made hereunder up to the time of the submission of the annual Budget for the fiscal year 1935, and all contemplated transfers during the remainder of the fiscal years 1933 and 1934, shall be included in the annual Budget for the fiscal year 1935.

### REGULATIONS

SEC. ~~21~~ *23.* The Secretary of the Treasury and the Secretary of Agriculture are authorized to prescribe such regulations as may be necessary to the efficient administration of the functions vested in them, respectively, by this Act, including regulations by the Secretary of Agriculture as to proof which the Secretary will deem satisfactory as a basis for issuing adjustment certificates *or making payments under section 20.* Copies of regulations under this Act shall be published and distributed without cost to producers and other interested persons.

### CLASSIFICATION AND TYPES OF COMMODITIES

SEC. ~~22~~ *24.* Whenever any agricultural commodity has regional or market classifications, types, or grades (*including classification by weight, in the case of hogs*) which the Secretary of Agriculture finds are so different from each other in use, grade, or marketing methods as at any time to require their treatment as separate commodities under this Act the Secretary may determine upon and designate one or more such classifications, types, or grades for such treatment. Such classification, type, or grade shall, so long as such determination remains in effect, be treated as a separate commodity under this Act in accordance with regulations to be prescribed jointly by the Secretary of Agriculture and the Secretary of the Treasury.

INFORMATION TO BE MADE PUBLIC

SEC. ~~23~~ *25*. When any adjustment charge, or increase or decrease therein, takes effect in respect of a commodity the Secretary of Agriculture, in order to prevent pyramiding of the adjustment charge and profiteering in the sale of the products derived from the commodity, shall make public such information as he deems necessary regarding (1) the relationship between the adjustment charge and the price paid to producers of the commodity, (2) the effect of the adjustment charge upon prices to consumers of products of the commodity, (3) the relationship, in previous periods, between prices to producers of the commodity and prices to consumers of the products thereof, and (4) the situation in foreign countries relating to prices to producers of the commodity and prices to consumers of the products thereof.

PERSONNEL

SEC. ~~24~~ *26*. The Secretary of Agriculture and the Secretary of the Treasury may each appoint such experts and, in accordance with the Classification Act of 1923 and all Acts amendatory thereof, and subject to the civil service laws, such officers and employees as are necessary to execute the functions vested in them, respectively, under this Act: *Provided*, That no salary in excess of $7,500 per annum shall be paid to additional employees necessary to carry out the provisions of this Act.

PENALTIES

SEC. ~~25~~ *27*. (a) Any person who makes any false statement for the purpose of fraudulently procuring, or shall attempt in any manner fraudulently to procure, the issuance or redemption of any adjustment certificate *or any payment under section 20*, whether for the benefit of such person or any other person, shall upon conviction be fined not more than $2,000 or imprisonment not more than one year, or both.

(b) Adjustment certificates issued under authority of this Act shall be obligations of the United States within the definition in section 147 of the Act entitled "An Act to codify, revise, and amend the penal laws of the United States," approved March 4, 1909, as amended.

AUTHORIZATION OF APPROPRIATIONS

SEC. ~~26~~ *28*. There are hereby authorized to be appropriated such sums as may be necessary for the purposes of this Act.

APPLICATION OF ACT

SEC. ~~27~~ *29*. The provisions of this Act, except section 18, shall be applicable to the United States and its possessions, except the Philippine Islands, the Virgin Islands, American Samoa, and the Island of Guam.

EXTENSION OF ACT

SEC. ~~28~~ *30*. Prior to the commencement of the planting of wheat, ~~rice,~~ cotton, ~~peanuts,~~ and tobacco, respectively, for production during the calendar year 1934 and prior to the commencement of the period for breeding hogs which normally will be sold during such year, ~~and prior to the 1934-1935 marketing year for butterfat~~ the Secretary of Agriculture shall investigate and report to the President whether the inequalities between the prices for any such commodity and other commodities have been, or are likely to be, corrected without extending the provisions of this Act. If the President determines that it is necessary to ~~place~~ *continue any of* the provisions of this Act in operation in order to correct any such inequality with respect to wheat, ~~rice,~~ cotton, ~~peanuts,~~ tobacco, ~~butterfat,~~ or hogs he shall thereupon issue a proclamation setting forth such determination. Upon the issuance of any such proclamation with respect to any commodity, the provisions of this Act shall be in operation for an additional year with respect to the commodity covered by the proclamation.

Senator HARRISON. Mr. Chairman, Mr. Rand is next on the calendar, and I understood he wanted to speak confidentially to the committee.

The CHAIRMAN. That is what the calendar says.

Senator HARRISON. There is another gentleman present. Could he be given 10 minutes, and then we might go into executive session to hear Mr. Rand?

The CHAIRMAN. What is his name?

Senator HARRISON. Mr. Anderson. Or he could file a brief.

The CHAIRMAN. Well, he may come around and be heard.

## STATEMENT OF S. W. ANDERSON, OF THE EQUITY CORPORATION, NEW YORK CITY

The CHAIRMAN. Whom do you represent?

Mr. ANDERSON. I do not represent anybody, Senator. I have just developed some ideas that I talked to Senator Harrison about.

Senator HARRISON. He talked to me, Mr. Chairman.

The CHAIRMAN. Have you it in the form of a statement to submit?

Mr. ANDERSON. Yes, sir.

Senator HARRISON. Suppose you try to finish in 10 minutes and then file it if you can not.

Mr. ANDERSON. It will take about 20 minutes for me to make my statement.

The CHAIRMAN. You understand that you are not on the calendar at all.

Mr. ANDERSON. Yes.

Senator HARRISON. Suppose you just go ahead.

Senator LA FOLLETTE. What is your name?

Mr. ANDERSON. S. W. Anderson.

Senator LA FOLLETTE. Where do you live?

Mr. ANDERSON. I live in New York. I am the head of an investment trust.

Senator LA FOLLETTE. What is the name of it?

Mr. ANDERSON. The Equity Corporation.

The CHAIRMAN. All right. You may proceed.

Mr. ANDERSON. I term this a plan for raising prices without altering the convertibility of our currency.

In the present situation in the world, I believe that the single, most desirable end to be achieved is a rise in the commodity price level in an atmosphere of confidence. I think everyone would agree that such a rise would make it far easier to solve our many remaining vexation problems as well as cause a number of our most pressing difficulties to disappear. If prices rise in an atmosphere of confidence, the burden of our debt structure will be substantially reduced, our Budget can be balanced with comparative ease, credit will begin to turn out more rapidly and new credit can be created because the demand for it will appear. In short, the deflation will be stopped.

I believe that the most effective way to accomplish this desired result would be, if possible, some relatively simple, very dramatic step which would convince the largest part of the American public that the value of gold had reached its peak and was about to decline while assuring them simultaneously that our currency is to continue to be convertible into gold on demand at the present rate of $20.67 per ounce in minted coins.

How can this be done? I will outline how I believe this combination of events can be accomplished and return in a few moments to a further consideration of the reasons for believing that the suggested steps will lead to the broad objections mentioned.

At the moment, aside from that consumed in the arts, the only buyers of bullion gold are the mints and central banks in the countries still on a gold base; that is, United States, France, Switzerland, Holland, Belgium, Italy, Germany, Austria, and now Poland. England is also a spasmodic buyer.

My plan suggests that all of the countries be induced, in a manner I will specify in a few moments, to withdraw their bids for gold by altering their fiscal laws removing the obligation on the part of their central banks or mints to purchase gold at a given price. For example, in the United States it would take the form of a simple amendment to the Federal reserve act—and such other acts as applied—removing the obligation of the mint and of the reserve banks to purchase bullion gold at $20.67 per ounce. The legislation would not specify when, or if so, at what price the mint or the reserve banks would resume their purchases of gold bullion.

It should be emphasized that this legislation does not alter in any manner whatsoever the gold content of the dollar nor does it relieve the reserve banks, or the central banks of other countries still on a free gold basis, from the obligation of paying minted gold coins of the present weight and fineness across their counters to holders of their notes at all times. It will, in fact, tend to emphasize the continued convertibility of our currency as will appear later on.

Before considering the reasons in back of the plan, I would like to suggest a means by which the cooperation of the other countries involved could be obtained. Austria, Belgium, Czechoslovakia, France, Italy, and Poland, owe us a total of $6,738,000,000 and England an additional $4,500,000,000, or a total of over $11,200,000,000. Without raiding the controversy of a settlement of these debts, I am assuming that we may be able to settle them by some lump-sum payments partially in dollars and perhaps partially in other currencies. My suggestion is that we use a settlement for a lump sum as a means of obtaining from these countries and others, cooperation with, and delegation of leadership to, the United States in handling the world's gold and exchange problems. It is also contemplated that the lump-sum payments obtained in settlement of the debts—say, $2,000,000,000, to $3,000,000,000 or their equivalent——

Senator SHORTRIDGE. How much did you suggest that we should settle for?

Mr. ANDERSON. I simply took a figure of, say, $2,000,000,000 to $3,000,000,000.

Senator SHORTRIDGE. And the principal now is $11,000,000,000?

Mr. ANDERSON. Yes; but whatever is the best settlement that can be developed.

Senator SHORTRIDGE. All right. I just wanted to be sure that I understood you.

Mr. ANDERSON. It is also contemplated that the lump-sum payments obtained in settlement of the debt—say $2,000,000,000 to $3,000,000,000 or their equivalent—be placed in a special fund under the control of an international committee headed by an American with a veto power, for the purpose of bringing order and stability in the foreign exchanges of the world. I will return to this phase of the plan later.

Reasons in back of the plan: With a brief outline of the plan in mind, let us turn to a consideration of the reasons why it fits the realities of the present tragic situation.

Since the war, the scale on which international payments have been required has been so large that an unprecedented strain has been placed upon the gold supply of the world in attempting to take up the slack of the huge balances of such payments, many of which, such as reparations and war debts, had no foundation in commercial transactions. In the 1920's there was added to this strain the increase in demand for gold due to the reestablishment of the gold standard in England, France, and Central Europe. So long as international credit flowed freely, the strain on gold was held in check, but when international credit collapsed with the failure of the Credit Anstalt in Vienna in 1931, the burden of the world's balance of payments fell upon gold. It remained the only commodity which was freely received in creditor countries in payment of commitments. There ensued a "scramble for gold" carrying with it suspension of specie payments in practically all debtor nations. The result has been a practical corner on gold with 68 per cent of the existing monetary supplies in the vaults of the four central banks of United States, France, Switzerland, and Holland.

This scramble for gold may perhaps be more aptly designated as a bull market in gold. Let us think of it as such and see where we arrive.

The fact that the price of gold in gold standard countries does not change, should not be allowed to obscure the fact that its value does change greatly—due, as I see it, to sudden changes in the demand for it, just as in the case of all other commodities. The expression of such changes in value, as we all know, is to be found inversely in the general level of commodity prices, and we are all keenly aware at this time that the value of gold has risen steeply in the last three years in response to the increase in the demand for it, which I have described above.

I believe that the largest part of the fundamental cause for the drastic decline in commodity prices—as well as all other prices—has been the bull market in gold mentioned above. I also believe that if some means can be found to bring this bull market in gold to a conclusion, and to initiate a bear market in gold, we will have taken the most important step possible toward an improvement in commodity prices.

Let us examine the history of past bull markets and corners in other commodities. We all know that they have been broken in the end either by the appearance of a large additional supply of the commodity in question or by the withdrawal of the bids on the part of those who had established the corner—as in the corner in Northern Pacific stock. What can we expect from the supply side of the gold equation? Beyond the amounts hoarded in the vaults of central banks in creditor countries or in countries in which specie payments have been suspended, there is little available. There is perhaps still $1,000,000,000 in private hoards in India, but it has taken 16 months to draw about $250,000,000 from that source due to sterling depreciation. There are $478,000,000 of United States gold coins privately hoarded in the world. There is also new production which in 1932 was less than $500,000,000, and of which about 40–45 per cent was utilized in the arts. All together, in comparison to world supplies of over $11,000,000,000 and in the face of just our own favorable international balance of about $600,000,000, it seems rather hopeless to expect much help from the supply side of the equation in breaking the back of the bull market in gold soon enough to do any good.

There remains available to us, then, the one infallible way to break any corner. Those who are bidding must stop bidding. This is precisely what the plan embodies.

Results of the plan: The three most important questions to examine in connection with the operation of the plan are:

1. Would it tend in any way to destroy confidence in our currency—or any other currency on a gold base?

2. Would it tend to cause commodity and other prices to rise?

3. Would it create an unmanageable problem in the foreign exchanges?

Let us take these in order:

1. I do not see that the plan would in any way call into question confidence in our currency. It should perhaps be repeated that Federal reserve notes and other currency would continue to be redeemable in minted gold coins, as at present.

The plan would in fact tend to strengthen confidence in our currency by emphasizing that the Government believed that we have now too much gold, rather than too little, and hence it proposed to cease buying gold. It should also be pointed out that on the day the legislation became effective, there would spring up an open market in bullion gold. It would in fact be wise to have this market all planned and ready for action. Gold would, of course, sell in the open gold market at a price less than the statutory price of $20.67 per ounce. This fact alone would tend very greatly to discourage anyone who, through a misunderstanding of the situation, might think that the currency was being tampered with. He would, of course, observe that he could actually buy gold more cheaply in the open market than he could buy it by redeeming his currency at the reserve bank. It should also be pointed out that the present restrictions on the issuance of currency and credit by the reserve banks would continue in force and no one would be entitled to believe that this step had in any way lifted the lid upon the creation of central bank credit. I believe there would also be a tendency for privately hoarded gold coins to flow back into the banks, because the hoarders would realize that the metallic content of their hoards is not the fact which gives them their value, since gold would be selling in the open gold market at less than $20.67 per ounce, but that the Government imprint making them legal tender is the factor which keeps gold coins at a parity with currency. The case of silver dollars illustrates the point. No one who holds a silver certificate thinks of asking for the silver dollar behind it, because he knows that the silver contained in a silver dollar is selling at less than a dollar. As a result, most of the silver dollars which used to be circulated freely have been turned into the banks for bills.

In short, I have been unable to see any respect in which the plan would tend to frighten people so far as money is concerned.

2. Let us now consider the most important aspect of all—the main goal of the plan. Will it tend to increase commodity prices?

The adoption of the legislation itself would not, of course, increase the amount of outstanding credit or currency at all. The reasons for my belief that it would tend to increase commodity prices, however, are on three counts.

First. The plan takes advantage of a psychological phenomenon which constitutes to-day one of our greatest obstacles, namely, the reverence for gold as an independent measure of value. It is a very widely held belief that whatever may happen in the world, gold has an independent hard cash value when all else fails. Hoarding of gold is a manifestation of this. We know, of course, that the root of this phenomenon lies in the fact that the principal countries of the world have adopted gold as their standard, and have thereby imparted value to it by buying it at all times. Reverence for gold, as I term it, is, nevertheless, a very real thing. Furthermore, so long as money or currency are convertible into gold at a given rate, as they would continue to be under the plan, there is a very strong popular tendency to identify money with gold. I believe, therefore, that as soon as visible evidence appears—and there would be plenty—that gold is not going to continue to go up in value, a very large number of people in the world will conclude that commodity prices should rise and they will seek to protect themselves by ceasing to hoard gold or money and will buy something else—commodities, real estate, stocks, bonds, and so forth. This argument is not subject to direct proof, because it is based on a psychological factor, but it is none the less of the very greatest importance.

The second reason I believe the plan would tend to increase commodity prices is that it embodies a settlement of the war debts on a basis so that the quid pro quo for the American people, as well as for the whole world, is definite control and leadership of world monetary policy. In my opinion a settlement of the war debts on some basis capable of fulfillment would almost in itself turn the tide of confidence and if such settlement should include a comprehensive program for monetary reform and rehabilitation of world currencies, it would unquestionably prove a powerful stimulant to the price level.

Senator HARRISON. Do you think they would sell gold and buy commodities?

Mr. ANDERSON. I think the hoarders who have gold abroad would sell it in the open market and buy something else.

Senator SHORTRIDGE. What is the value of gold per once?

Mr. ANDERSON. It is $20.67 at the mint bid by the Federal Reserve Board.

Senator SHORTRIDGE. And it varies very little from time to time?

Mr. ANDERSON. Yes.

Senator HARRISON. It is fixed by statute.

Mr. ANDERSON. Yes.

Senator SHORTRIDGE. Suppose there should be a great increase in the volume of gold at any time resulting from new discoveries.

Mr. ANDERSON. That would do the same thing.

Senator SHORTRIDGE. Would do what?

Mr. ANDERSON. That would decrease the value of gold, not the price but the value, and would thereby in my judgment tend to put commodity prices up. But I see no possibility of that, and therefore I am looking at the other side of the equation, the buying side, and suggesting that we pull that up.

Senator SHORTRIDGE. A few years ago, of course, we did not expect discoveries of gold in Alaska.

Mr. ANDERSON. Yes.

Senator SHORTRIDGE. But they were made.

Mr. ANDERSON. Yes. And I have every hope that some phenomenon like that will turn up. But I do not think we can count on it.

Senator SHORTRIDGE. Well, I have in mind certain sections of the country where I have reason to believe there is a good deal of gold.

Mr. ANDERSON. If we should have a major gold discovery, its effect will be so slow as not to be useful in this particular crisis.

The CHAIRMAN. You may go ahead with your statement.

Mr. ANDERSON. The third reason why the plan would tend to lift prices is its effect on the distribution of gold over the next few years. As the world moves on its road to recovery, it will, without doubt, prove desirable to restore specie payments and adequate gold backing for many currencies now off gold entirely. We have visualized under the plan the existence of open gold markets in numerous countries, as in London now. As gold sinks in price, due to the absence of buyers, it will become less and less burdensome for countries with insufficient reserve to add gradually to their holdings under the guidance of the international committee. With gold in the rôle I have described, furthermore, it will be far easier to consider such sound monetary doctrine as symmetalism on its merits because gold and silver will both command a market value as commodities, and we will not have to deal with the fear element which is now present in any discussion of such policies.

Senator SHORTRIDGE. Harking back to what you said a while ago, do you mean to officially cancel the foreign debts?

Mr. ANDERSON. No, not to cancel them. But to work out as good a settlement as we can, and to utilize those funds.

Senator SHORTRIDGE. They would want a substantial reduction, of course.

Mr. ANDERSON. Yes. I am simply taking a realistic view that I do not think the debts can be paid in full under any circumstances.

Senator SHORTRIDGE. But they could pay them if they would stop spending billions of dollars for armies and navies.

Mr. ANDERSON. Well, if we could get the $11,000,000,000, so much the better.

Senator SHORTRIDGE. All right. Pardon me.

The CHAIRMAN. You may go ahead.

Mr. ANDERSON. Third, let us now turn to the foreign exchange picture. If there is no control in the market we would have a foreign exchange situation just as if all currencies in the world were not redeemable in gold. The rates, in other words, would simply reflect the demand and supply of each currency in relation to others. We know that this is an unsatisfactory situation, but perhaps not necessarily a disastrous one. If the settlement of war debts I have suggested be worked out, however, we would have a large fund of perhaps an equivalent of $3,000,000,000 partly in dollars and partly in francs, sterling, zloties, and so forth, which would be managed as a stabilization fund to adjust rates in an orderly manner—to such levels as would fairly accurately reflect the true balance of payments with regard to each country. It would, of course, be of the greatest possible importance to the effective use of such a fund if trade barriers and restrictions could gradually be done away with, so that the private credit and national credit could once more be rehabilitated to take the place ultimately of a controlled exchange market.

The fund would, of course, remain the property of the United States Government, and it would be brought home when its usefulness had been fulfilled, and when it could safely be transferred entirely into dollars.

The managing committee, as I see it, should consist of one expert from each country involved, with the American acting as chairman with an unassailable veto as well as dictatorial powers if the committee reaches an impasse. I realize this concentration of power is strong medicine, but it merely reflects the fact that the United States to-day holds the economic power in the world.

MISCELLANEOUS COMMENTS

I shall not attempt in this memorandum to discuss or even touch upon many of the effects of the plan which would occur to anyone considering it. There are a few points, however, that should be at least mentioned.

One of the most practical considerations is to examine who would be damaged by the program. It is obvious that the gold-mining industry and the holders of gold bars would be seriously hurt by the amount of discount at which gold would sell in the open market from the statutory price. I do not believe that this is a serious matter politically or morally. I can not see how any other of the politically powerful groups in the world would be entitled, in their own self-interests, to a legitimate protest. A rise in commodity prices is practically universally desired. The chief difficulty with all the plans for such a rise, however, has been the fear on the part of certain sections of the community that the cure was worse than the disease, and that the means proposed to bring about such a rise, such as currency inflation, greenbackism, and so forth, would cause ultimately difficulties even greater than we now face. I have been unable to think up any arguments of a similar character which could be advanced in opposition to this program. It should be borne in mind that the program does not depreciate, in anything except purchasing power, the value of the large gold hoards held by the large central banks of the world, because those central banks have the power to stamp that gold with the appropriate legal tender imprint and to pass it out as demanded over the counter. In other words, so long as we do not alter the legal tenderability of gold coins and continue to honor the Government's stamp thereon as imparting the value to the coin, we have not in any way depreciated, from a monetary point of view, the value of our vast gold holdings or that of France.

The long-range implications of this program are of the most profound importance. If the position I have taken is correct, that the price level of the world is primarily a reflection of the demand for and the supply of gold over long periods of time, then we would be initiating a new monetary philosophy in the world, the focal point of which would be not controlled currency but a controlled demand for gold. If out of this plan there could be developed in the end an international cooperation in bidding for gold, we would, in my judgment, have a world monetary policy which would be of enormous help in attempting to correct the great swings in the general price level which have proven so catastrophic ever since modern money has been in use.

Senator SHORTRIDGE. How much gold is there in the world?

Mr. ANDERSON. About $11,000,000,000.

Senator SHORTRIDGE. Is it all minted?

Mr. ANDERSON. No. A great deal of it is in bars.

Senator SHORTRIDGE. About how much has been minted into coins of different denominations by the nations of the world?

Mr. ANDERSON. I could not say as to that. I do not know offhand.

The CHAIRMAN. Not more than one-third.

Senator SHORTRIDGE. Then about two-thirds of it is in bars?

The CHAIRMAN. Yes. They ship it always in bars, you know.

Senator SHORTRIDGE. Yes; but I wanted to know if Mr. Anderson had the figures how much had been minted.

Mr. ANDERSON. Of course each country mints or not as is demanded.

Senator SHORTRIDGE. Certainly.

The CHAIRMAN. We will now excuse you.

Mr. ANDERSON. I thank you.

(Thereupon, at 4 o'clock p. m., Tuesday, February 14, 1933, the committee resolved itself into executive session, and after a time adjourned until 10 o'clock the following morning.)

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# INVESTIGATION OF ECONOMIC PROBLEMS

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**WEDNESDAY, FEBRUARY 15, 1933**

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
*Washington, D. C.*

The committee met at 10 o'clock a. m., pursuant to adjournment on Tuesday, February 14, 1933, in room 335, Senate Office Building, Senator Reed Smoot presiding.

Present: Senators Smoot (chairman), Reed, Couzens, La Follette, Harrison, King, George, Walsh of Massachusetts, Barkley, Connally, Gore, and Costigan.

The CHAIRMAN. The committee will come to order. Mr. Leon, will you take the stand?

## STATEMENT OF RENE LEON, NEW YORK CITY

The CHAIRMAN. Mr. Leon, whom do you represent?

Mr. LEON. I represent no one but myself, Mr. Chairman.

The CHAIRMAN. What is your business?

Mr. LEON. I have no occupation. I retired from business about two years ago.

The CHAIRMAN. What was your former business?

Mr. LEON. I have been in finance all my life.

The CHAIRMAN. You may proceed, Mr. Leon.

Mr. LEON. Mr. Chairman, I have prepared a comparatively short statement covering one point alone on which I feel qualified to speak, and I respectfully request that I be permitted to complete the reading of the statement uninterrupted, after which time I will be glad to answer such questions as occur?

The CHAIRMAN. That will be the course we will follow.

Mr. LEON. A much greater volume of business has been transacted in America with a much smaller stock of gold than the present one, and with much less currency in circulation than is now outstanding. Hence we have no shortage of currency.

Money market rates for all maturities, quotations for short-term Government obligations, and large banking reserves, all bear testimony to the fact that credit is superabundant. Hence we have no shortage of credit.

Having neither currency nor credit problems, it follows that our dollar needs no alteration. But we have a problem which is basic and fundamental; one upon which our welfare depends and which requires immediate solution: it is the problem of prices.

Our well-being depends upon the level and stability of prices, without which our present system must collapse and give way to a new order, which may be better or which may be worse, but which certainly will be different. If reversion to prehistoric barter is an indication of progress, then we are justified in believing that it will be better. Many communities have already reverted to barter because their price system had broken down. If this condition spreads, Government as we conceive it, can no longer function. Government is purely administrative; upon price and volume of taxable units is predicated the income which it derives from taxation, and which is indispensable to its very life. If we revert to barter, we shall have volume without price, so that Government will be left without a basis for taxation, and, therefore, without income, unless it undertakes to levy taxes in commodities. Having no income, how could Government function, let alone meet its obligations?

When mankind supplanted barter by the price system, and adopted instruments of exchange, it took the longest step forward in the development of civilization. Of all price-measuring instruments of exchange ever used by man, there are two which, by common consent, have out-lasted all others. Either or both of them form the basis of all currency systems, of all credit systems and, where redeemability still exists, they represent ultimate redeemability for all instruments of credit. Gold and silver are their two basic price-measuring instruments of exchange.

In the game of trade the world uses yellow and white chips to figure the prices which measure and regulate every human activity. In approaching the price problem we can not permit our judgment to be restricted by the notion that the chips which we use to figure prices constitute the true values; because if we do, we will merely continue to waste time "preserving the integrity of gold" or attempting to "do something for silver," the while prices crumble about our ears, carrying with them our whole price system.

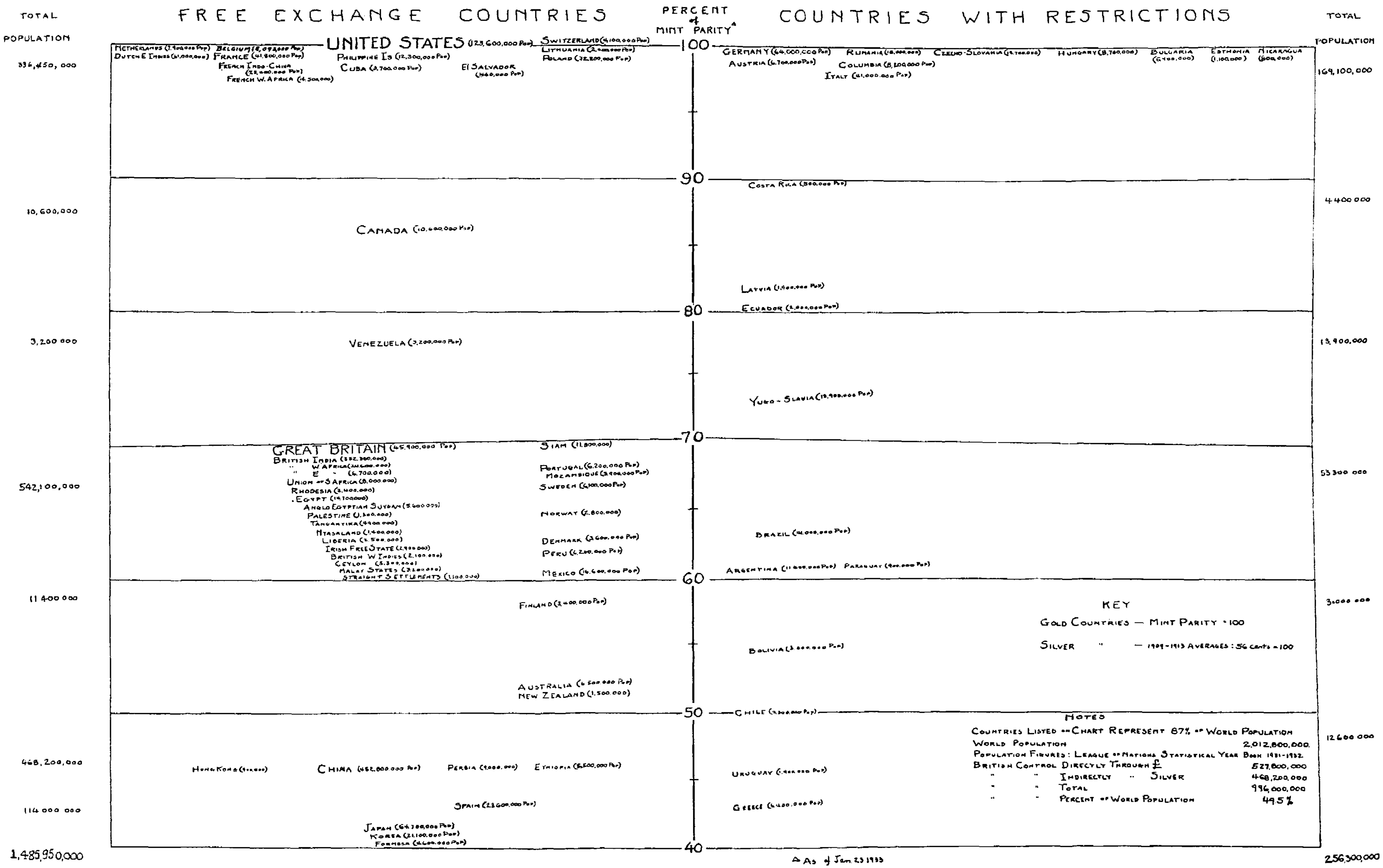
To-day our prices suffer, from the dollar's position of inequality or disparity, in its relation with the currencies of over four-fifths of the world's population. This disparity between home and alien currencies also creates a disparity between home and alien prices which results in our inability sucessfully to compete in the world's markets with those whose currencies and prices are depreciated, thus causing our normal exports to back up onto our local market and depress our prices. It also results in the flooding of our market with goods produced in those countries where depreciated currencies are the bases of prices. This, in turn, forces the readjustment downward of our home prices, which carries us further from our debts and taxes which are payable in the dollar proceeds of our commodities, our labor and our services.

I submit to your committee a chart illustrating the position of the dollar in the markets of the world.

The CHAIRMAN. It may be put in the record at this point.

(The chart, together with supporting data, is here printed in the record, as follows:)

# DISPARITY OF EXCHANGES




159450—33. PT. 2 (Face p. 172.)

*Free Exchange Countries*

| | Population (millions) | Mint par of exchange | Rate of Jan. 23, 1933 | Rate per cent of par |
|---|---|---|---|---|
| Switzerland | 4.1 | $0.192948 | $0.193341 | 100.3 |
| United States | 123.6 | 1.00 | 1.00 | 100 |
| Lithuania | 2.4 | .10 | .10 | 100 |
| Cuba | 3.7 | 1.00 | 1.00 | 100 |
| Netherlands | 7.9 | .402 | .401928 | 99.9 |
| Dutch East Indies | 61.0 | .402 | .401928 | 99.9 |
| Belgium | 8.1 | .1392 | .138992 | 99.9 |
| Poland | 32.2 | .1122 | .11197 | 99.8 |
| France | 41.8 | .039179 | .039078 | 99.6 |
| French West Africa | 14.5 | .039179 | .039078 | 99.6 |
| French Indo-China | 23.4 | .039179 | .039078 | 99.6 |
| Philippine Islands | 12.3 | .50 | .49625 | 99.2 |
| El Salvador | 1.46 | .50 | [1] .495 | 99.0 |
| Canada | 10.6 | 1.00 | .86854 | 86.0 |
| Venezuela | 3.2 | .192948 | [1] .1503 | 77.9 |
| Egypt | 14.7 | 4.9431 | 3.4565 | 69.9 |
| Anglo-Egyptian Sudan | 5.6 | 4.9431 | 3.4565 | 69.9 |
| Siam | 11.8 | .5308 | .3684 | 69.4 |
| Great Britain | 45.9 | 4.8665635 | 3.36408 | 69.1 |
| Union of South Africa | 8.0 | 4.8665635 | 3.36408 | 69.1 |
| Straits Settlements | 1.1 | .5678 | .391 | 69.1 |
| Malay States | 3.2 | .5678 | .391 | 69.1 |
| Ceylon | 5.3 | .36499 | .2522 | 69.1 |
| Rhodesia (North and South) | 2.4 | 4.8665635 | 3.36408 | 69.1 |
| British India | 352.3 | 4.8665635 | 3.36408 | 69.1 |
| Palestine | 1.3 | 4.8665635 | 3.36408 | 69.1 |
| British West Africa | 24.6 | 4.8665635 | 3.36408 | 69.1 |
| British West Indies | 2.1 | 4.8665635 | 3.36408 | 69.1 |
| Liberia | 2.5 | 4.80 | 3.307 | 69.1 |
| British East Africa | 6.7 | .2433 | .1681 | 69.1 |
| Nyasaland Protectorate | 1.4 | 4.8665635 | 3.36408 | 69.1 |
| Irish Free State | 2.9 | 4.8665635 | 3.36408 | 69.1 |
| Tanganyika | 4.9 | .2433 | .1681 | 69.1 |
| Portugal | 6.2 | .0442 | .030365 | 68.7 |
| Mozambique | 3.9 | .0442 | .030365 | 68.7 |
| Sweden | 6.1 | .26798 | .183384 | 68.5 |
| Norway | 2.8 | .26798 | .1726 | 64.4 |
| Denmark | 3.6 | .26798 | .169346 | 63.2 |
| Peru | 6.2 | .28 | [1] .175 | 62.5 |
| Mexico | 16.6 | .4985 | .30183 | 60.5 |
| Finland | 3.4 | .0252 | .014566 | 57.8 |
| Australia | 6.5 | 4.86656 | 2.523 | 52.0 |
| New Zealand | 1.5 | 4.86656 | 2.523 | 52.0 |
| Persia | 9.0 | [2] .56 | [2] .25625 | 45.9 |
| China | 452.8 | [2] .56 | [2] .25625 | 45.9 |
| Hong Kong | .9 | [2] .56 | [2] .25625 | 45.9 |
| Ethiopia | 5.5 | [2] .56 | [2] .25625 | 45.9 |
| Spain | 23.6 | .192948 | .081823 | 42.4 |
| Japan | 64.7 | .4984 | .209875 | 42.1 |
| Korea | 21.1 | .4984 | .209875 | 42.1 |
| Formosa | 4.6 | .4984 | .209875 | 42.1 |
| Total | 1,485.96 | | | |

[1] Rates supplied by New York foreign exchange traders.
[2] Price of silver per fine ounce, 56 cents, equals roughly 1909 to 1913 average.

## Disparity of Foreign Exchange

### COUNTRIES WITH EXCHANGE CONTROL

The tabulation of countries with exchange control is based upon the following:

1. Data released by the United States Department of Commerce.
2. Bulletin of January 19, 1933, on foreign exchange prepared by the Guaranty Trust Co.
3. Review of principal foreign exchange restrictions throughout the world on December 5, 1932, by the District Bank (Ltd.), Manchester, London, and Liverpool.
4. Verbal information from foreign exchange traders.

| | Population (millions) | Mint par of exchange | Rate of Jan. 23, 1933 | Rate per cent of par |
|---|---|---|---|---|
| Czechoslovakia | 14.7 | $0.0296 | $0.0296 | 100.0 |
| Bulgaria | 5.9 | .0072 | .0072 | 100.0 |
| Estonia | 1.1 | .268 | .268 | 100.0 |
| Nicaragua | .8 | 1.00 | 1.00 | 100.0 |
| Germany | 64.0 | .2382 | .237858 | 99.9 |
| Hungary | 8.7 | .1749 | .17425 | 99.7 |
| Rumania | 18.0 | .00598 | .005977 | 99.8 |
| Austria | 6.7 | .1407 | .13973 | 99.1 |
| Colombia | 8.2 | .9733 | .9524 | 97.8 |
| Italy | 41.0 | .0526315 | .05117 | 97.2 |
| Costa Rica | .5 | .25 | **.2222 | 88.9 |
| Latvia | 1.9 | .192948 | **.16 | 82.9 |
| Ecuador | 2.0 | .20 | **.16 | 80.0 |
| Yugoslavia | 13.9 | .0192948 | **.014036 | 72.7 |
| Brazil | 41.0 | .1196 | .07635 | 63.8 |
| Argentina | 11.4 | .9648 | .585835 | 60.8 |
| Paraguay | .9 | .4244 | .2580 | 60.8 |
| Bolivia | 3.0 | .365 | .1975 | 54.1 |
| Chile | 4.3 | .1196 | .06025 | 50.4 |
| Uruguay | 1.9 | 1.0342 | .47333 | 45.7 |
| Greece | 6.4 | .013 | .005435 | 42.6 |
| Total | 256.3 | | | |

Population figures: Estimate as of Dec. 31, 1930. from the Statistical Yearbook of the League o Nations for 1931-32, pp. 18-23.

Mint parity of exchange: Handbook of Foreign Currency and Exchange, United States Department of Commerce; Tate's Modern Cambist.

Rate as of Jan. 23; Federal Reserve Bank of New York as published in The United States Daily, the London Financial Times of Jan. 24. Rates marked ** are rates supplied verbally by New York foreign exchange traders.

*British control directly through sterling*

| | Population (millions) | | Population (millions) |
|---|---|---|---|
| Great Britain | 45.9 | Canada | 10.6 |
| British West Africa | 24.6 | Australia | 6.5 |
| Union of South Africa | 8.0 | New Zealand | 1.5 |
| Rhodesia | 2.4 | Tanganyika | 4.9 |
| Irish Free State | 2.9 | Liberia | 2.5 |
| Egypt | 14.7 | Norway | 2.8 |
| Palestine | 1.3 | Denmark | 3.6 |
| British West Indies | 2.1 | Sweden | 6.1 |
| British East Africa | 6.7 | Siam | 11.8 |
| Anglo-Egyptian Sudan | 5.6 | Ceylon | 5.3 |
| Nyasaland Protectorate | 1.4 | India | 352.3 |
| Straits Settlement | 1.1 | | |
| Malay States | 3.2 | | 527.8 |

*British control indirectly through silver*

| | Population (millions) | | Population (millions) |
|---|---|---|---|
| Hong Kong | .9 | Ethiopia | 5.5 |
| China | 452.8 | | |
| Persia | 9.0 | | 468.2 |

| | |
|---|---|
| World population | 2,012,800,000 |
| British control, directly through sterling | 527,800,000 |
| British control, indirectly through silver | 468,200,000 |
| | 996,000,000 |
| Per cent of world total | 49.5 |

Mr. LEON. By their surpluses of imports all nations make their contribution to the international price level, to which they are thus tied and which, under natural conditions, should reflect a normal balance of goods and services between them all. No such condition now exists. To-day the natural forces are either impeded or unduly stimulated by a series of local measures designed either to protect local markets from external competition, or artificially to stimulate exports at the expense of competing nations. Tariffs, quotas, exchange restrictions, and so forth, are merely different expressions of the same desire to achieve favorable balances at some one's else expense.

The more recent and, let it be recognized, the most effective artificiality devised to achieve favorable balances, is the deliberate depreciation of exchange. Its effectiveness is the more complete because it is the most insidious and deceptive instrument of price destruction hitherto conceived. The principle of low exchange as a stimulus to exports through the reduction of local costs of production would, if reduced ad absurdum, carry both exchanges and costs to the vanishing point. To establish this principle is to challenge competition in the same way, and this competition, by seeking still lower levels of exchanges and costs, would ultimately drive all concerned to the zero level. The gold standard countries are particularly vulnerable to this system because their obligations, which are fixed in gold, become the more onerous as prices fall.

This system must be broken up at all costs if we are to avoid a general collapse. It can be terminated by international action, failing which, local measures of protection must at once be adopted.

Sometime prior to December 15, last, the suggestion was put forth that the British Government pay its debt installment in pounds sterling. It was suggested that, by converting these pounds into dollars as opportunity offered, the problem of transfer would be facilitated and the exchange market subjected to a minimum of disturbance. The British demurred on the ground that (1) substantial holdings of pounds sterling by the United States would constitute an interference with British control of exchange and, (2) that if Britain were to guarantee the dollar equivalent of these pounds sterling, payment in the latter fashion would be tantamount to a payment in actual gold. The British objections, which were eminently proper, were sustained and payment in gold effected.

If the American Secretary of the Treasury were to issue $500,000,000 in Treasury notes and, with the proceeds were he, an American official, to enter the exchange markets and buy pounds sterling, thus lifting the rate of exchange of British currency, Britain would have every right to resent our intrusion, because it interfered with British control of British currency and, through it, with their control of the British price level. Yet, without so much as a by-your-leave, Britain has placed at the disposal of the British Treasury a £150,000,000 secret exchange equalization fund (about $500,000,000) through which Britain, by purchasing gold currencies in the exchange market, dollars included, gives to England the control of dollar exchange and, consequently, the control of American prices.

Senator HARRISON. Do you know what their status is now with reference to that 150,000,000 pounds?

Mr. LEON. I should like to answer the question later, if I may, Senator.

Because of their noncommercial character, all exchange transactions for the account of the equalization fund are artificial in their influence upon the reciprocal relations of the pound sterling and the gold currencies, the dollar included, as well as upon the reciprocal relations of prices within the sterling area on the one hand, and the prices of the gold standard nations on the other. They constitute an artificial interference by Britain with the economy of the gold standard countries, America included, whose prices are thus controlled by Britain through exchange.

That which Britain would not for one minute countenance from America, she practices every minute upon America with disastrous consequences to every phase of our economy. Every man, woman, and child in this country is the victim of this ruthless policy.

The control of the dollar exchange and, through it, of American prices, depends entirely upon Britain's ability to complete these artificial noncommercial exchange operations whereby she realizes her objectives. It is only by our leave that Britain is enabled to complete them. Because we maintain a free international gold market, and thus grant her free entry into and free exit from our money markets, we allow her, together with other aliens, to use the dollar as a lever for the intensification of this condition of disparity, or inequality, existing between the depreciated currencies and the gold standard currencies and, consequently, between their prices and the prices of the gold standard nations. We thus become a party to the crime and the coauthors of our own destruction.

It now remains for us to decide whether we shall continue to maintain a free international gold market for the benefit of alien exploiters, at the expense of our prices and at the sacrifice of our economy, or whether, by maintaining a free internal gold market for Americans, we shall raise American prices, save the American economic structure, and thus return control of American affairs to American hands.

It also remains for Great Britain to decide whether she will force us to adopt defensive measures, or whether she will abandon her attempt at price control and join with us in a common effort to raise world prices, and thus help to restore international trade. Before engaging with Britain in a bargain involving trade advantages and disarmament in return for a readjustment of debts, we might both usefully bear in mind that the short road to prosperity and to disarmament is the lifting of the economic pressure created by low prices; because this very pressure, as expressed by punitive and retaliatory measures affecting trade, engenders the suspicion which grows to hatred, and leads to armament and to war.

Let us now examine the factors underlying Britain's deflationary policy; debt cancellation is avowedly Britain's immediate objective, because, if America can be saddled with the debts, American industry must foot the bill through future taxes which, thereafter, will have to be figured in the American cost of production. With this cost of production thus presently raised, American industry would henceforth be permanently handicapped when competing with British industry in the world's markets.

If the debt cancellation policy is to succeed, debts must be made to appear to Americans to be the one insurmountable obstacle in the way of their prosperity. By way of superinducing this feeling among Americans, British policy is intensifying the American depression by driving down gold (dollar) prices. Gold and silver being the only two international instruments of exchange, Britain uses them as her implements of price destruction through the exchange equalization fund in the West, and the Indian silver dumping policy in the East.

The exchange equalization fund was ostensibly created for the purpose of adjusting the pound sterling to the British price level. British economy was in need of such adjustment; but the very proportions of the equalization fund are conclusive evidence of a desire not alone to achieve equilibrium between the British currency and the British price level, but to control world prices as well, and to wield that control for political ends. However acute may have been the pressure of self-preservation it never did and never could justify Britain's attempt to control world prices. Moreover, Britain's Indian silver dumping policy is absolutely indefensible on any grounds.

The deliberate depreciation of one of the two principal money metals, by shifting upon the other the whole burden of world finance, has merely succeeded in rarifying it, and has initiated the mad rush for gold which is still raging, and which is disrupting the economic structure of the entire world. Times without number Britain was warned of the consequences of such action. No less eminent figures than the governors of the two principal central banking institutions of the Empire have issued the warnings. Both Mr. Montagu Norman, of the Bank of England, and Sir Osborne Smith, of the Imperial Bank of India, are on record.

I submit to your committee the statements of these two gentlemen.

The CHAIRMAN. They may be placed in the record at this point.

(The statements referred to are as follows:)

STATEMENT BY MONTAGU C. NORMAN, GOVERNOR OF THE BANK OF ENGLAND, MADE BEFORE THE ROYAL COMMISSION ON INDIAN CURRENCY AND FINANCE, MARCH, 1926

The immediate effect of the announcement that the Indian Government contemplated the sale of a large quantity of silver would be to throw out of gear the exchange with China and, for a time, to paralyze trade with that country. There would be a tremendous disturbance of internal prices in China, a shock to public confidence, I should fear, unwise and panicky attempts to get out of the difficulty by resort to what, in present circumstances, would, I think, be unsuitable to China, namely a gold exchange standard. All those things would react upon this country very seriously. I think that one has also to bear in mind the interaction between gold and silver prices. There is a reaction upon gold prices when an extreme rise or fall takes place in the value of silver, which is none the less serious because it is indirect and not very apparent on the surface. The consequential changes in prices generally and in trade conditions, which would be produced, the disturbance to the world's economic peace and confidence, the interfering with the long-established social habits of the people of India in the use of silver, the shock to the reliance of a great country like China upon silver as a medium of currency and a common store of value, could not fail to have important effects upon the gold prices of countries in Europe and indeed in America.

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STATEMENT BY SIR OSBORNE SMITH PRINTED IN THE LONDON TIMES, JANUARY 20, 1932

At the fourth ordinary general meeting of the Indian Institute of Bankers, held recently in Bombay, Sir Osborne A. Smith, governor of the Imperial Bank of India, made the following statement on the silver question:

"Before I close perhaps I may briefly touch on the economic crisis through which India and the world is passing. This crisis is engaging the whole-time attention of the greatest economic leaders of all countries, but there seems to be no unanimity among these leaders as to the cause or the remedy, though most agree that maldistribution of the world's standard of value, gold, and overproduction of commodities have largely contributed to the slump. When one realizes that the teeming millions of India and Asia are half-starved and less than half-clad one can scarcely agree that there is any overproduction in regard to requirements, but there is certainly overproduction relative to purchasing power. If this is conceded, the question then arises as to how purchasing power can be stimulated, and one answer readily presents itself—by the rehabilitation of silver, through a reasonable stabilization of its value in relation to gold. If this could be accomplished, I feel sure the improvement would be immediate and lasting, and it would not be long before surplus commodities were absorbed and some measure of prosperity restored."

Mr. Leon. Added to these are innumerable Britons of distinction who constantly are calling their Government's attention to the frightful conditions which it has brought about, and which it persists in perpetuating. Yet not a word is spoken by the responsible Government officials in justification of their action. Those who profit by low silver, because they control the China trade, seem firmly entrenched in the British treasury and in the India office. There are also British officials who believe that low silver makes for better control of Indian affairs. Be they interested slave drivers or misguided politicians, the result is the same. By their action, white men the world over, Britons and Americans alike, are being subjected to the ruinous competition of the coolie. By injecting into our price system the powerful factor of price destruction which low silver constitutes, they are wrecking the world's industrial machinery, and of the once imaginary yellow peril they are making a reality.

Enlightened America, viewing the plight of a world torn asunder by retaliation, and realizing that retaliation is a losing game for all concerned, should be the last to retaliate. But our very existence demands an immediate correction of these conditions, failing which we must lose no time in adopting measures of self-protection.

The instruments of self-defense are in our lands; were the Executive, in whom power is vested, to exercise his prerogative, one-half the program of defense would be effectually established within 24 hours. A prohibitive fee on the export of gold would achieve this result. The President's authority to act is vested in him under section 5, subdivision (b), title 50, United States Code Annotated, pages 204 and 205.

I submit to your committee learned counsels' opinion on the validity of the President's power.

Senator George. Let this go in, Mr. Chairman.

The Chairman. It may be made a part of the record.

Senator Gore. Did you say section or page 204?

Mr. Leon. Pages 204 and 205, Senator.

(The opinion of Evarts, Choate, Sherman & Leon is here printed in the record in full, as follows:)

Evarts, Choate, Sherman & Léon,
*New York, February 3, 1933.*

René Léon, Esq., *New York City.*

Dear Sir: You have requested our opinion concerning the powers of the President to regulate or prohibit transactions involving the export of gold without reference to the existence of a state of war.

There is a provision contained in section 5 of the act of October 6, 1917, as amended (known as the trading with the enemy act), the construction of which will be examined in this memorandum.

Section 5 is entitled "Suspension of provisions relating to ally of enemy; regulation of transaction in foreign exchange of gold or silver." It consists of two subdivisions (a) and (b). The provisions of subdivision (a) are not pertinent to the question under discussion. Subdivision (b) begins as follows:

"(b) The President may investigate, regulate, or prohibit, under such rules and regulations as he may prescribe, by means of licenses or otherwise, any transactions in foreign exchange and the export, hoarding, melting, or earmarkings of gold or silver coin or bullion or currency, transfers of credit in any form (other than credits relating solely to transactions to be executed wholly within the United States), and transfers of evidences of indebtedness or of the ownership of property between the United States and any foreign country, whether enemy, ally of enemy, or otherwise, or between residents of one or more foreign countries, by any person within the United States."

The question presented is whether the powers conferred upon the President by the foregoing provision ended with the war or are still vested in him, and may now be validly exercised.

In construing this first clause, it will be useful to consider in connection with it the entire remainder of the subdivision whch reads as follows:

"And, for the purpose of strengthening, sustaining, and broadening the market for bonds and certificates of indebtedness of the United States, of preventing frauds upon the holders thereof, and of protecting such holders, he may investigate and regulate, by means of licenses or otherwise (until the expiration of two years after the date of the termination of the present war with the Imperial German Government, as fixed by his proclamation), any transactions in such bonds or certificates by or between any person or persons: *Provided*, That nothing contained in this subdivision (b) shall be construed to confer any power to prohibit the purchase or sale for cash, or for notes eligible for discount at any Federal reserve bank, of bonds or certificates of indebtedness of the United States; and he may require any person engaged in any transaction referred to in this subdivision to furnish under oath, complete information relative thereto, including the production of any books of account, contracts, letters or other papers, in connection therewith in the custody or control of such person, either before or after such transaction is completed."

Thus, while transactions in Government bonds or certificates are subject to regulation within a limited period only, i. e., until two years after the war, no limitation of any kind is specified with reference to the broader powers conferred in respect to foreign exchange and gold or silver or currency export transactions including earmarkings, as also transfers of evidences of indebtedness or of the ownership of property between the United States and any foreign country or between residents of one or more foreign countries or by any person within the United States.

(Section 2 of the act contains the following definition: "The word 'person,' as used herein, shall be deemed to mean an individual, partnership, association, company, or other unincorporated body of individuals, or corporation or body politic.")

Reference is made to subsection (b) of the trading with the enemy act in the act approved April 23, 1918, being chapter 63 United States Statutes at Large entitled "An act to conserve the gold supply of the United States; to permit the settlement in silver of trade balances adverse to the United States; to provide silver for subsidiary coinage and for commercial use; to assist foreign governments at war with the enemies of the United States; and for the above purposes to stabilize the price and encourage the production of silver." This act authorized the Secretary of the Treasury to melt or break up and to sell as bullion a maximum of 350,000,000 standard silver dollars at a price not less than $1 per fine ounce.

The act concludes with section 9 which provides that: "the powers conferred upon the President by subsection (b) of section 5 of an act approved October 6, 1917, known as the 'trading with the enemy act' shall, in so far as applicable to the exportation from or shipment from or taking out of the United States of silver coin or silver bullion, continue until the net amount of silver required by section 2 of this act shall have been purchased as therein provided."

This was obviously a precautionary provision, intended to assure the completion of the transaction and forestall any contention that the completion of the transaction was subject to the continuance of a state of war.

While, as already pointed out, the entire act was enacted as a war measure, there was nothing to prevent Congress from incorporating in it a provision vesting in the President powers which not only would survive the end of the war, but continue until abrogated by new legislation.

After the end of the hostilities, a number of cases arose in which the contention was made that the powers conferred upon the President and those to whom he had delegated them under the trading with the enemy act had come to an end with the proclamation of peace. This very question was dealt with by the Supreme Court of the United States in Commercial Trust Co. *v.* Miller (262 U. S. 51), as shown by the unanimous opinion of the court, from which the following is taken:

"The next contention of the trust company is that the act being a provision for the emergency of war, it ceased with the cessation of war, ceased with the joint resolution of Congress declaring the state of war between Germany and the United States at an end, and its approval by the President, July 2, 1921, and the proclamation of peace by the President August 25, 1921. The contention, however, encounters in opposition the view that the power which declared the necessity is the power to declare its cessation, and what the cessation requires. The power is legislative. A court can not estimate the effects of a great war and pronounce their termination at a particular moment of time, and that its consequences are so far swallowed up that legislation addressed to its emergency had ceased to have purpose or operation with the cessation of the conflicts in the field. Many problems would yet remain for consideration and solution and such was the judgment of Congress, for it reserved from its legislation the trading with the enemy act and amendments thereto, * * *." (P. 57.)

Applying the reasoning of the Supreme Court to the question here under discussion, it is plain that when Congress conferred upon the President the broad powers contained in the first clause of subdivision (b), it can not have intended that these powers should expire immediately upon proclamation of peace.

Thus the act stands to-day as the law of the land and except where the powers which it confers on the President are expressly limited, he is still enabled to exercise them. Especially must this be true where the situation which confronts him arises from great disturbances in world monetary conditions due to the war. Major disturbances and dislocation of monetary conditions having their origin in the war have continued and persisted in such a way as to vitally affect the welfare of the American people. Once the power to deal with them was conferred upon the President, only Congress could decide when, in respect of some particular situation as to which power is not subject to an express limitation, the situation no longer justified the retention of the power.

Congress has amended the trading with the enemy act as lately as March 10, 1928. Amendments of that date are contained in a number of sections, including sections 9, 10, 20, 22, 23, 25, 26, 27, 28, 29, 30, and 31. The fact that Congress left the first clause of subdivision (b) intact speaks for itself. While the powers conferred by the remainder of that subdivision have expired by their own terms, the powers conferred in the first clause of subdivision (b) are still vested in the President. By failing to repeal the clause in question, Congress has treated this situation as requiring that the powers conferred upon the President shall remain vested in him. Courts, in considering the effect of subdivision (b) at this time, would properly take judicial notice of the conditions to which the Supreme Court referred in Commercial Trust Co. *v.* Miller, supra, and which continuing down to the present time are affecting adversely the economic life of the country, hence causing damage to the foundations on which sound currency rests.

Of the cases involving the survival of the President's powers under the trading with the enemy act notwithstanding the proclamation of peace, there is one which is of special interest because it involved acts by the President's authority which took place subsequent to the proclamation of peace on August 25, 1921, in which the validity of those acts was challenged. This is Munich Reins. Co. *v.* 1st Ins. Co. of Hartford (circuit court of appeals, second circuit, April 6, 1925), 6 Fed. (2) 742. In that case the complainant alleged that the Alien Property Custodian on October 20, 1922—hence more than a year after the proclamation of peace—had without the complainant's consent effected a payment the validity of which depended on whether or not the powers vested in the President and delegated by him to the custodian survived in October, 1922, notwithstanding the proclamation of peace. The opinion of the court on this point states concerning the trading with the enemy act:

"The act was not terminated by the cessation of hostilities, by the joint resolution declaring the state of war between Germany and the United States at an end, or by the President's proclamation of peace." Commercial Trust Co. *v.* Miller (262 U. S. 51). (At page 745.)

The validity of the payment was upheld, and subsequently the Supreme Court refused to disturb the decision, dismissing the appeal, 273 U. S. 666.

See also Hicks Alien Property Custodian *v.* Baltimore & Ohio Railroad Co., 10 Fed. (2) 606 (U. S. district court, Maryland, February 3, 1926), in which the opinion (Soper, D. J.) states at page 609:

"(4) The railroad company further contends that, since the war is over, the custodian may no longer take any action which would affect the possible rights of those whose rights were not affected by what he did during the war, and that, if the trading with the enemy act or the joint resolution of Congress of July 2, 1921, (42 Stat. 105), should be regarded as conferring such power upon the custodian, the act or resolution to this extent is unconstitutional. * * * Moreover, the contention is contrary to the decision of Commercial Trust Co. *v.* Miller. (262 U. S. 51, 43 S. Ct. 486, 67 L. Ed. 858.) It was there contended that the act, being a provision for the emergency of war, ceased with the joint resolution of Congress of July 2, 1921, declaring the state of war at an end. But the court held that the power which declared the necessity is the power to declare its cessation, and what the cessation requires. The power is legislative and not judicial."

Thus until Congress shall legislate otherwise there is nothing to prevent the President, if in his judgment the public interest requires it, from exercising a power validly vested in him by act of Congress without time limit as to its exercise.

The clause in question which by its terms confers powers, the exercise of which is not limited to conditions arising by reason of a state of war is therefore, apparently, still in force, unless Congress lacked the power to enact it. The constitutionality of the clause as a grant of powers to be exercised after the end of the war may perhaps be questioned on two grounds: First, as a taking, without due process of law, of the property of those who are directly affected; and, second, as an unlawful delegation of legislative power to the President.

The first objection can not be sustained. The power of Congress under the commerce clause is plenary, extends to the complete prohibition of dealings in any kind of property, and is not limited by the requirements of due process. (See Gibbons *v.* Ogden, 9 Wheaton, 1, 189, 194; Lottery case, 188 U. S. 321 at page 347; Buttfield *v.* Stranahan, 192 U. S. 470 at pages 492, 493; Leisy *v.* Hardin, 135 U. S. 100 at page 108.)

The second objection (that the power conferred on the President is an unlawful delegation) presents a more doubtful question. It must be conceded that the power to prohibit could not be delegated without limitation, leaving the President wholly free at his discretion to apply an export embargo whenever he might desire to do so. If, however, the act could be so construed as to prescribe, even in indefinite terms, the conditions under which the power is to be exercised, leaving to the President only the determination as to if and when the prescribed conditions exist, no unlawful delegation could be held to exist. Literally, of course, the act prescribes no such conditions. Its purpose, however, is abundantly made clear. Each of the granted powers confers control over transactions, of different kinds, which might tend to impair the basis of the currency. This purpose is so distinct, and so limited, that a court might well hold it equivalent to a limitation on the granted power: construing the section as authorizing action only when the President should find that free commerce in gold and exchange was, in fact, likely to impair the foundation of the Nation's money. Thus limited, the delegation would be permissible; and in view of the recognized duty of the courts to construe statutes, when possible, in such manner as to sustain their validity, the construction suggested might well be adopted.

It was held in Field *v.* Clark (143 U. S. 649), that the act of Congress approved October 1, 1890, authorizing the President to suspend "for such time as he shall deem just" the provisions of that act allowing the free importation of sugar, molasses, tea, coffee, and hides as to any countries which imposed upon the products of the United States duties which "he may deem to be reciprocally unequal and unjust" can not be considered a delegation of legislative or treaty-making power, especially in view of the fact that from the foundation of the Government, Congress has frequently invested the President with similar discretion.

Likewise, the Supreme Court in Ford *v.* United States (260 U. S. 715), held that the Lever Act, approved August 10, 1917, authorizing the President to regulate the production and prices of coal, was not unconstitutional as a delegation of legislative power. No case appears to have reached the Supreme Court where any delegation of power by Congress to the President was held unconstitutional.

The grant of the power to investigate is, of course, not open to objection as a delegation. On the other hand, the grant of the power to "regulate" is less easily sustainable than the grant of the power to prohibit except with the limitation "by licenses." In so far as by the words "or otherwise" it is so broadened as literally to be exercised at will, it could not be sustained. But by construing it as exercisable only when the President finds that certain dangerous conditions exist and then by prohibition, licensing, or both during the time when such conditions continue it might reasonably be sustained in a period of national emergency.

If the act were now to be amended by incorporating therein expressly a provision such as we have suggested might be read into the act by a court construing the same so as to sustain its constitutionality, this would insure that the authority of the President could not be successfully challenged in any respect.

Very truly yours,

EVARTS, CHOATE, SHERMAN, & LEON.

Mr. LEON. Let us now analyze the consequences of such action on our economy; the founders of this country did not create the dollar as an international currency, but as the currency of the people of the United States. The duty of Government is to maintain its redeemability, in accordance with the law of the land, for the benefit of American citizens. The application of a license fee on shipments of gold for export would in no wise threaten the redeemability of the dollar. On the contrary, it would insure it by removing certain destructive foreign elements which, because they undermine our economy, threaten our currency system. Under the new condition any citizen could redeem his notes in gold on demand.

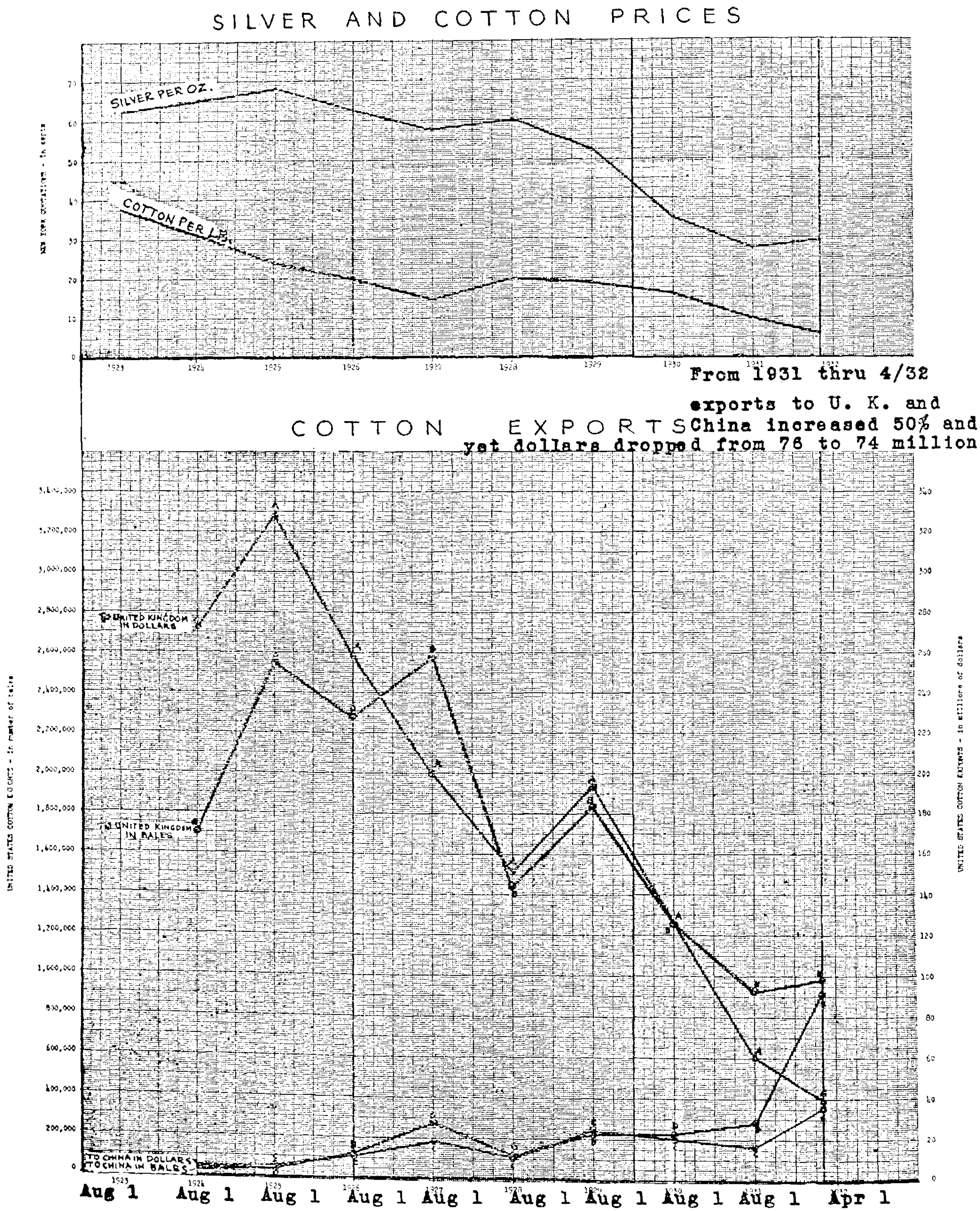
Deprived of free exit from our market, gold would no longer take free entry into it, thus effectively stopping its concentration, sterilization and consequent appreciation. Aliens could no longer buy a free "call" on gold by buying dollars in the exchange market. This is another way of saying that they could no longer freely sell and depreciate their currencies by the purchase of dollars through exchange and, by the operation, also widen the disparity existing between their prices and our own. As a result the value of gold at once would fall when measured in terms of all commodities and depreciated foreign exchanges which, once again, is another way of stating that all the commodities and depreciated foreign exchanges would rise in terms of the dollar. This rise in the foreign exchanges would be the measure of the rise of all external costs of production in their relation with our own, thus eliminating external dumping from our home markets without recourse to increased tariffs. Our prices would rise at home and fall abroad, thus facilitating both our home and export markets.

The rate of dollar exchange in the foreign markets would, henceforth, alone be fixed by the supply of and demand for dollars resulting from commercial transactions. The utilization of the dollar by aliens as a lever on their prices and on our own would be terminated once and for all. The few remaining gold-standard countries

UNITED STATES GOVERNMENT FIGURES

Through courtesy of New York Cotton Exchange

# CHART SHOWING RELATION OF COTTON EXPORTS TO SILVER PRICE



would be likely to follow suit, thus paving the way for the establishment of a sound international money system. This is now being retarded because certain nations find it profitable at the moment to remain off the gold standard which they exploit for selfish ends in utter disregard of the devastating effect of their actions upon the price structure of the gold-standard nations. Our own country is especially affected because the credit system is more fully developed in America than in other gold-standard countries; hence the undermining of our price level threatens a greater structure.

Once freed from external pressure on our prices, our commodity and security markets would definitely reverse their downward trend, and, by gaining in price and volume, would furnish to Government that basis for taxation which is indispensable to its function. Credit expansion as an aid to prices has been tried and has failed because the instrumentality was local in its nature; adverse international factors were unaffected thereby and, therefore, remained uncorrected.

Some may object to this procedure on the ground that we would lose prestige as a free gold market; but what is prestige? Webster defines it as "a weight or influence derived from past success." Let us, therefore, review the past and squarely face our achievements. For the sake of maintaining a free gold market for aliens we have sacrificed our price level, and thus upset the normal basis of economic relation between our creditor and debtor classes. Our debts and taxes having become unbearable, we are now facing all manner of unsound legislation designed to relieve us of the intolerable burden which is breaking our backs. If this be the price of such prestige as we derive from the maintenance of a free gold market for aliens, then, together with the Romans, we can well exclaim, "Venenum in auro bibitur" because we are indeed drinking poison from a golden vessel.

The second half of the program consists in further correcting the disparity of the dollar in its relation with the important silver exchanges. The influences of silver-using countries on world economy has been consistently underestimated by pointing to their relatively small contribution to the total of world trade. No greater blunder could be made. If artificial stimulus through low exchange is given to oriental exports, then the coolie will drag the white man down to his level. He is doing it now, as evidenced by the statistics of foreign trade which show that the dollar volume of Chinese trade has shrunk less than that of any one of the leading nations. Were this trade to be translated in terms of its physical volume, it would be found that it had grown enormously, while our own unemployment has grown apace.

I submit to your committee a chart.

The CHAIRMAN. It will be put in the record at this point.

Mr. LEON. That chart shows takings of cotton by China as they have grown in the past few years.

(The chart showing relation of cotton exports to silver price, together with tables on the back thereof. is here printed in the record, as follows:)

EXPORTS TO UNITED KINGDOM AND CHINA IN BALES AND DOLLARS

United Kingdom, 926,753 bales, $60,000,000; approximate average price, $64 plus.

China, 280,831 bales, $16,000,000; approximate average price, $56 plus.

Total, 1,207,584 bales, $76,000,000.

United Kingdom, 983,056 bales (eight months to April 1, 1932), $39,000,000; approximate average price, $39 plus.

China, 913,119 bales (eight months to April 1, 1932), $35,000,000; approximate average price, $38 plus.

Total, 1,896,175 bales (eight months to April 1, 1932), $74,000,000.

Approximately 50 per cent increase in bales, 3 per cent less in dollars.

Wall Street Journal figures of July 20, 1932, editorial: Total exports for first six months, 1932, 3,917,061 bales; total exports for first six months, 1931, 2,600,000 bales. Increase 1,317,061 bales or 50 per cent over 1931.

Rough calculation in dollars: Total exports from January through June, 1932, $160,000,000; average price, $40; total exports from January through June, 1931, $145,000,000; average price, $55. Increase of $15,000,000 or only 10 per cent over 1931.

Mr. LEON. China has been forced into an export position by the artificial depreciation of the (silver) Chinese exchanges. Had the purchasing power of the Chinese remained unimpaired, their indispensable import needs would not have forced them into this export position at the expense of the Western labor. Hence the imperative necessity of doing something through silver for American agriculture, American industry, and American labor, instead of merely "doing something for silver."

Authority should be given the Treasury to purchase $200,000,000 in silver at a cost not to exceed 50 cents per ounce, purchases to be made in the world's markets and not restricted to American production. The financing of this operation could be effected by expanding by an equal dollar amount our issue of silver certificates now outstanding in the sum of approximately $500,000,000, or by utilizing part of the gold now held as reserve for gold certificates and United States notes combined, now outstanding in the sum of approximately $1,500,000,000. The gold thus thrown upon the world's markets could not fail to affect its value when measured in terms of all other commodities. Our gold certificates and United States notes would be left with a gold coverage of approximately 85 per cent which should be considered as adequate. On completion of this operation we would have less silver in this country in proportion to gold stocks than we had in 1914. As a powerful influence on world prices and on American trade, this measure would have incalculable consequences. The last important available stock of silver, now held in the Indian Treasury, and said to approximate 200,000,000 ounces, would be removed from the world's markets. Faced by this vast sale of gold and by a reduced production of silver, the precious metals would regain a measure of equilibrium. Meanwhile the fall in the Chinese internal price level, caused by the rise of the China exchange, would cause little disturbance owing to the limited size of the Chinese credit structure, while further compensation would be found in the restoration of the purchasing power of the Chinese currency. Dumping on our market from that quarter would be terminated.

While unemployment and misery stalk this land of plenty, many measures of relief are being offered. While well inspired, they are usually inadequate because their sponsors fail to grasp the true nature of our basic problem. How can we ask bankrupt industry to rescue bankrupt agriculture? How can the bankrupt white-collar class be asked to support those in uniform who are also bankrupt, all because of low prices. No, class legislation will never do. We must find a remedy which will bring relief to all classes, one which will lift the burden from the backs of all our people. Low prices are diffusing poverty among us all. The distribution of wealth can only come through the raising of prices, which, by first creating wealth, will lead to its distribution among all classes.

While no country can pretend to a monopoly of the control of prices, it is equally true that no nation alone can succeed in raising world prices. However, an Anglo-American understanding will constitute a force of such numerical proportions as will insure the realization of our objective. Therefore, the part of wisdom is for the United States to assume an attitude of enlightened selfishness, by adopting a policy of give and take toward our friends across the sea. Provided Britain will work with us to raise prices and to restore international trade, we should work with her to enable her to put the pound back to its former time-honored gold parity, and assure stable monetary conditions for England which can only come about if the burden of her debts to our Treasury is not such as to constitute a constant menace to her currency.

If we are resolute in pursuing this aim, those enlightened and influential Britons, to whom I have already referred, will do their part, so that certain success will crown our joint effort.

Senator KING. I suppose you refer to Sir Robert Horne as among the enlightened Britishers?

Mr. LEON. Yes.

Senator KING. And others who recently signed the British manifesto in regard to silver?

Mr. LEON. Yes, sir.

Senator KING. Was there a little inconsistency, Mr. Leon, in your statement that there ought to be an interdiction upon the export of gold, followed by your statement that we ought to sell considerable gold and thus distribute gold throughout the world?

Mr. LEON. No.

Senator KING. Do you see any incompatibility between those two statements?

Mr. LEON. No; none whatever. For the reason that the exchange operations which caused the disparity between the dollar and the depreciated currencies are only initiated because the dollars so purchased are a call on gold. If they are no longer a call on gold nobody indulges in the operation.

Senator KING. What would be the immediate effects, if you care to elaborate your statement, of a measure adopted under the law to which you referred, or by an independent act passed by Congress preventing the export of gold?

Mr. LEON. The immediate effect, in so far as viewed from the United States, would be the sudden rise of the foreign exchanges, because the rate for dollars in the exchange markets would respond only to the supply and demand of dollars. Whereas to-day they are responding not alone to that supply and demand of dollars based on commercial operations, but also to the enormous volume of these artificial operations on account of the exchange equalization fund and similar funds for account of other nations.

Senator KING. Would not, however, the rise in the value of dollars—of course gold dollars—throughout the world, according to the philosophy which you have been enunciating, cause a reaction upon prices and cause them to seek a lower level?

Mr. LEON. On the contrary, Senator, the dollar would not rise, the dollar would fall in terms of foreign exchanges.

Senator KING. It would mean that the dollar, the gold dollar, would rise in value measured by commodities and human labor?

Mr. LEON. No; just the contrary. Just the contrary.

Senator KING. Elaborate that.

Mr. LEON. To-day there is only one commodity which needs stabilization. That is gold. It requires stabilization downwards. If you will look at the price of all commodities measured in terms of each other, with the exception of gold, you will find that they are all pretty well in line.

Senator KING. Including silver?

Mr. LEON. Including silver. They are all selling at subnormal prices. Now, we have tried to stabilize all other commodities but the one which requires stabilization. We require stabilization of gold downward.

Senator KING. Do you think that your criticism of Great Britain—and I do not know that I differ from it—is entirely warranted, or, rather, do you think that you ought to isolate Great Britain and direct those shafts of your logic against her, when we find that France, and particularly Russia, Czechoslovakia, Poland, Germany—especially Germany, in her South American activities—have sought to increase their exports, and in so doing, of course, have been willing to cut prices and possibly thus to secure greater export trade than otherwise they might have?

Mr. LEON. Senator King, the British control to-day 49½ per cent of the currencies of the world. The details of it are in these figures. They control directly or indirectly through the sterling area and the Indian silver policy approximately 1,100,000,000 people.

Senator KING. They do not control the currency of Russia?

Mr. LEON. No. I am trying to describe their control. Any control of approximately 50 per cent of the world's currency constitutes the control of world prices. I do not care to say that it would not be very highly desirable to bring all currencies into line, but I say that if you can bring at one fell swoop 50 per cent of the currencies of the world into line you have done the better part of the job. In other words, if an Anglo-American understanding can be arrived at that understanding will constitute the bandwagon which everybody has got to board.

Senator KING. That would mean undoubtedly, then, that if the United States and Great Britain should enter into an agreement regardless of the rest of the world for the use of silver at a certain ratio with gold, that it would be effective?

Mr. LEON. I will express it the other way, Senator. If the United States and Great Britain come to an agreement about the desirability of lowering the price of gold through any instrument that they can think of—the only reason why I pick silver as the only instrumentality whereby that can be achieved is because there is no other international instrument known to man. All of the other instrumentalities of exchange are local in their nature. The sterling exchange covers 600,000,000 people. Gold covers the entire population of the globe, and so does silver, in that they have a market everywhere. Furthermore, they are both deeply embedded in human psychology as money metals. They are both subject to the same legal fiat, and therefore can be created as reciprocal equivalents of each other. If there is any other instrument whereby the lowering of gold can be achieved, I will take it with my eyes shut; but I do not know of any other.

Senator King. You read, I suppose, the admirable address of President Hoover night before last in New York, in which he refers to silver, and one of the uses to which it might be put which might ameliorate conditions was to increase its use as subsidiary coin. What other policy or plan would you suggest for the utilization of silver for the purpose of increasing prices in harmony with the report of the McMillan committee of Great Britain which insisted that prices should be rehabilitated and increased throughout the world if we are to be lifted out of this depression?

Mr. Leon. Senator, if we could achieve an international money system, it would be a very ideal sort of thing. It would be just about as ideal as a universal language or a universal religion. But it is not quite as easy as all that. Now, the world is divided into about two parts; and in what we call the occidental world gold functions admirably, or should. I mean it is best suited to our needs. In the other half, the oriental world, the lowly individual status of people does not permit them to think in the same terms as we do. In other words, they can not reach up to the gold basis, and gold can not be successfully minted in the small——

Senator King. Units.

Mr. Leon (continuing). In the small units, you see, which are adequate to the very modest individual transactions of the people. When a Hindoo or a Chinese gets through working for a whole month at a very few cents a day he has just so much, and he can not command gold, but he can command silver; therefore, silver is especially suited to his needs.

If we recognize in our currency systems, either by means of fractional currency, if you like, or in any other way, the money of these other people with whom we trade, and whose importance is particularly great when we think of their ability to affect prices; in other words, if the instrument of exchange of the East is lowered, the costs are lowered. The costs of production are lowered, and all that is produced—this production being predicated upon not alone cheap labor but also cheap exchange, and enters the world market in successful competition with all goods produced in the occidental world and therefore destroys prices.

The Chairman. Mr. Leon, have you anything in mind, any plans whereby anyone could assist England in bringing back her pound to $4.86? I ask that because of statements which you have already made as to the actual necessity of it before conditions in this world are right. What is your idea as to what England can do to place her pound back to $4.86?

Mr. LEON. Senator, I am glad you asked me that. I am going to show you some figures which have gone recently in the fixing of the sterling rate. These figures I culled out of the London Economist of January 28, 1933. The floating debts of Great Britain on March 31, 1932, were 611,000,000 pounds, roughly.

The CHAIRMAN. Is that gold pounds?

Mr. LEON. Pounds sterling; there are no gold pounds; pounds sterling.

The CHAIRMAN. Pounds sterling?

Mr. LEON. The floating debt on January 21 1933——

Senator BARKLEY. Do you mean by the floating debt the debt of all the people or the Government?

Mr. LEON. No, no; the treasury's debt.

Senator GORE. The unfunded debt.

Mr. LEON. That is it. On January 21, 1933, it was £927,000,000, an increase of £315,000,000 in approximately 10 months. The British treasury accounts for it by a deficit of £157,000,000. There are two small items, one, loans to road fund of approximately £8,000,000; and, the other, bonds for war-loan conversion, of £18,000,000. Which leaves for the exchange equalization fund investment £129,000,000.

Senator KING. That is subtracted from the £150,000,000?

Mr. LEON. In other words, the British treasury has sold in the past 10 months £129,000,000. And that has kept the rate down.

The CHAIRMAN. You say sold that amount of sterling?

Mr. LEON. Yes.

The CHAIRMAN. Was it sold to the English people? Were the individual Englishmen the purchasers of that amount, or from what source was the money raised to purchase that sterling?

Mr. LEON. The money is raised in London by means of sales of British treasury notes. The proceeds of these pounds sterling belonging to the treasury are immediately utilized to purchase gold currencies, dollars, francs, Dutch guilders, Swiss francs, Belgian francs. So that the British Government borrowed from its people £129,000,000 and sold them in the exchange markets.

The CHAIRMAN. I wanted the record to show it. That is the only way that it could be done.

Mr. LEON. I submit this for the record.

The CHAIRMAN. Put it in the record at this point.

(The statement presented by Mr. Leon is here printed in the record in full, as follows:)

*Great Britain, financial year 1932–33; April 1 to January 21, 1933*

| | | |
|---|---|---|
| Floating debt: | | |
| Jan. 21, 1933 | | £927, 370, 000 |
| Mar. 31, 1932 | | 611, 955, 000 |
| Increase | | 315, 415, 000 |
| Deficit | | 157, 717, 000 |
| | | 157, 698, 000 |
| Less loans to road fund | £8, 807, 000 | |
| Less war loan conversion | 18, 975, 000 | |
| | | 27, 782, 000 |
| Exchange equalization fund investment | | 129, 916, 000 |

Source: The Economist, January 28, 1933.

Mr. LEON. Now, if you consider the volume of trade has contracted so much, and that the exchange market, of course, is much thinner than it would be under normal volume of trade, then you will realize what a weight of 129,000,000 pounds sterling is to all exchange. In other words, in my estimation the pound sterling would, if left alone, be selling at well upwards of $4 to-day. Well upwards. And by way of proof, or, rather, by way of——

Senator KING. Elaborating.

Mr. LEON. By way of elaborating, if you will, Britain is not the only Government indulging in these purely artificial operations.

Senator REED. What is the motive for it?

Mr. LEON. I explained it, Senator, in which I showed that the short-term objective is the creation of a price condition such that politically we will be more amenable in this country to such arguments for the reduction of debt as may be offered.

On January 7, this year, the New York Times published the following dispatch from Tokyo, January 6:

Yunosuke Yasukawa, director of the great Mitsui Bussam Kaisha, one of Japan's largest corporations, predicts in his review of business prospects for 1933 that President-elect Roosevelt may place an embargo on gold exports from the United States.

Mr. Yasokawa says:

"President Hoover's inflation policy has not ameliorated the distressing conditions in the United States. For this reason I expect that Mr. Roosevelt, after assuming office, may impose an embargo on gold.

"If he does so, the effect on Japan will be the abrupt rise of the yen to between 30 and 40 cents. This will give a shock to our financial world. We must keep the possibility in mind and prepare for it."

The CHAIRMAN. What is this from?

Mr. LEON. This is from the New York Times, January 7.

Senator GORE. The yen could not rise that much, could it? It is only 30 cents below par now.

Mr. LEON. The yen is now selling at about 21.

Senator GORE. Yes.

Mr. LEON. The weight which is maintaining the yen down is twofold. One is a very large credit expansion. And the other, operations similar to the operation of the equalization funo. It is a combination of both. You will recall this. The British have not indulged in a sixpence worth of currency expansion. And all of their credit expansion is completely offset by holdings of gold currencies.

Senator KING. Does that report from which you read indicate the debts due the British Government from France, Belgium, Italy, Poland?

Mr. LEON. That has nothing to do with debts.

Senator KING. I know it does not, but I wondered if it did.

Mr. LEON. No, indeed.

Senator KING. I was wondering if Great Britain had anticipated, in view of the deficits to which you referred, payments from her debtors and had failed to realize her anticipations?

Mr. LEON. No; I think the deficit naturally includes the $95,000,000 which they paid us in December.

Senator KING. Undoubtedly.

Mr. LEON. No question about that.

Senator KING. Have you any other suggestions to make, Mr. Leon, with reference to the present economic situation in the United States that would be calculated to relieve the depression?

Mr. LEON. Senator, there is only one thing that can relieve us all and that is a higher price level.

Senator KING. And you have indicated the measures to be adopted in order to secure that result?

Mr. LEON. I know of no other way to relieve the situation here for the reason that as long as Government is administrative it must have a price basis upon which to administer. If it does not possess it it can not administer.

Senator KING. Is there any danger that if there shall be a continued issue of bonds and the assumption by the Federal Government of obligations which may be denomiated as private in character, this attempt to bolster up railroads and banks and other organizations—is there any danger of the credit of the United States being impaired?

Mr. LEON. There is every rason why the credit of the United States will be impaired, because the railroads will never be bolstered up by anything except car loadings.

Senator KING. You might reduce the capital structure and that might contribute somewhat.

Mr. LEON. I am not a proponent of the reduction of anything.

Senator KING. If they went through the wringer and the capital structure was devaluated and brought into a proper juxtaposition with the real value some good might be accomplished by that?

Mr. LEON. I do not think so, Senator. We can go on deflating everything in sight. Every time we deflate anything we are contracting purchasing power. I am not a proponent of cutting anybody's salaries, including Government officials. I am for raising everybody's salaries, everybody's prices, because that will bring us up nearer to our debts.

Senator KING. You would raise us up by our boot straps, would you?

Mr. LEON. No, sir; I would not raise us up by our boot straps.

Senator BARKLEY. By whose boot straps?

Mr. LEON. By no one's boot straps.

Senator KING. If your policy were merely to increase prices and salaries, Government as well as private individuals, without increasing production and the productive enterprise of the country you would not get anywhere, would you?

Mr. LEON. Of course I would not try to do that.

Senator KING. No.

Mr. LEON. What I would try to do is to bring the price level somewhere near the debt level. In other words, if we permit a purely deflationary condition to be perpetuated the result is obvious.

Senator BARKLEY. Mr. Leon, I did not hear your full statement, I am sorry to say, but I gather that the substance of your final recommendation is for the Treasury to purchase $200,000.000 worth of silver and sell about the same amount of gold?

Mr. LEON. Yes.

Senator BARKLEY. How much silver is there in the world, do you know?

Mr. LEON. The estimates of either gold or silver stocks are nothing but guesses on the part of any one.

The CHAIRMAN. Well, you know how many ounces of silver have been produced in the world? You know that, of course.

Mr. LEON. Well, the best estimates, Senators, are good guesses. I have been in the bullion and exchange business all of my life, and I can assure you that having spoken to most authorities who get up interesting statistics there is nothing quite exact about that.

Senator BARKLEY. Give the result of these guesses.

Mr. LEON. The generally accepted figures for the gold stocks of the world were approximately 12,000,000,000 dollars, and the generally accepted figures for the stocks of silver are approximately 10,000,000,000 ounces.

The CHAIRMAN. Eleven billion ounces.

Senator BARKLEY. Eleven billion ounces?

Senator KING. Ten, he says.

Senator BARKLEY. At 50 cents an ounce, that would be about five billion dollars.

Mr. LEON. About five billion dollars.

Senator BARKLEY. Of course I suppose that your theory about this solution is that by the purchase of $200,000,000 worth of silver, which would be about one twenty-fifth of the amount of silver in the world, it would bring the price of silver up to a certain point, and by selling practically the same amount of gold it would drive the price of gold down on one end of the scale so that they would approximate each other?

Mr. LEON. Yes.

Senator BARKLEY. Do you think that the purchase of that comparatively small amount of silver and the sale of that comparatively small amount of gold would result in approximately a meeting of the two metals in relative prices?

Mr. LEON. I do, for this reason, Senator, that a thing of this sort would have a power of leverage far exceeding anything that we can conceive, for this reason. We know approximately what stocks are weighing on silver. The Indian stocks are virtually the only one on the face of the earth of any consequence which are weighing on silver and ever since these stocks have been placed for sale, that is to say, in early 1926, every incentive has been given to the normal users of silver to no longer take their profits in their money, because they knew that money was doomed, but instead to take it in gold. And there has been a flight from silver to gold. If you can induce or superinduce all normal users of silver to reverse these operations I feel certain that we will not be able to buy a single ounce of silver at 50 cents.

Senator BARKLEY. Upon what basis do you predicate your suggestion that $500,000,000 in new silver certificates be issued based upon $200,000,000 worth of silver?

Mr. LEON. I am not speaking of $500,000,000 of silver certificates, sir. I say $200,000,000 in silver certificates.

Senator BARKLEY. You use the figure here of approximately $500,000,000 in your statement.

Mr. LEON. I say that there are now outstanding approximately $500,000,000 in silver certificates.

Senator BARKLEY. I though you said you would increase them by that.

Mr. LEON. No; I merely suggest I would increase by $200,000,000 the issue of silver certificates, which are now outstanding in the sum of $500,000,000.

Senator BARKLEY. The net result, as far as money is concerned, would be a net increase in circulation of our money of $200,000,000?

Mr. LEON. Yes.

Senator BARKLEY. There would be no increase of certificates or Treasury notes payable in gold which now amounts to about $1,500,000,000? You would not lower or raise it by that operation?

Mr. LEON. I have given two suggestions for the financing of the purchasing of the silver: Either the issue of silver certificates in the sum of $200,000,000 or the utilization of part of the gold now held as reserve for gold certificates and United States notes, now outstanding in the sum of $1,500,000,000.

Senator BARKLEY. Do you think that the mere bringing together of the price of gold and silver to approximately a parity by this operation, which seems simple enough on paper, would be the magic wand by which the economic conditions of the world would start back uphill?

Mr. LEON. If there was any magic wand about it, sir, I would not talk about it. I am a very practical exchange person, you see.

Senator BARKLEY. Well, I should not describe it that way.

Mr. LEON. I am going to show you that the power of leverage can function. In 1924 when the franc was in full flight the then Prime Minister of France, Mr. Poincare, got a credit in America of $100,000,000 for the purpose of stopping the flight of the franc. He put the franc from 2 cents to 8.20, utilizing but a fraction of this $100,000,000. I am informed the sum was $36,000,000. I am merely indicating that because there is a power of leverage. To-day there exists a technical short interest in silver on the part of the normal users of silver who would only be too glad to reverse their operations if they were placed on notice that silver was not a doomed metal or a doomed exchange.

Senator BARKLEY. Does the increase in the circulating medium due to the printing of $200,000,000 worth of silver certificates based upon those new purchases play any important part in this restoration, in your mind?

Mr. LEON. In my assumption, sir, the price system is threatened entirely by the fact that to-day the world is measuring all values, all prices, in terms of a cornered metal—gold. And that to a very large extent the present stocks of gold are sterilized. And that by reversing the operations initiated in 1926 through the Indian silver policy, that would not alone bring back equilibrium in the important exchanges and through them in cost prices, but that would also take out of sterility such gold as is to-day locked up.

Senator BARKLEY. And it would be used, of course, only as the basis for currency? If it is sterilized the process of unsterilizing it would result presumably in increasing the circulating money in the world?

Mr. LEON. No doubt.

Senator BARKLEY. Assuming that that is true, how do you explain the fact that the increase in our circulating medium in the last three years by over $1,000,000,000 has been contemporaneous with the constant fall in prices and the depression in business and everything in the country?

Mr. LEON. Senator, I am sorry that you did not hear my statement, because I explained it fully there.

Senator BARKLEY. I will not ask you to repeat it.

Mr. LEON. I will repeat it in this wise; I think it bears repitition. Prices, that is to say world prices, can not respond to local instruments. They can only respond to international instruments. If you extend credit/or currency locally you are really attempting to raise one corner of the pond. To increase the whole pond you have got to use an international instrument. Gold and silver are the only two international instruments that we know of.

Senator BARKLEY. Well, there is also danger of all the water running to the lower end of the pond if you raise your own corner.

Mr. LEON. I do not say that we should raise our corner, sir; I say that we ought to try to raise the world level.

Senator GORE. Are you through, Senator?

Senator BARKLEY. Yes; I will suspend here for a moment.

Senator GORE. I did not hear the first part of your statement, Mr. Leon, but I inferred from what you were saying when I came in that you regard as one of the first indispensible conditions to world recovery some sort of international standard or measure of value?

Mr. LEON. I did not make myself clear, sir. I do not think that is possible.

Senator GORE. You do not think that is possible?

Mr. LEON. No, sir.

Senator GORE. And you think that you can not stabilize exchanges without some sort of common unit or common standard so that everybody would be talking about the same thing at the same time and know what they are talking about? I mean the leading commercial nations?

Mr. LEON. Yes. Everybody does talk about the same thing at the same time. And I might prove it to you in this wise. Britain to-day is saying that she is not going to go back to the gold standard except in her own good time. And yet by the operations on account of the exchange equalization fund she is now the possessor of a stock of gold for account of the British Treasury which is in excess of the total gold held by the Bank of England.

Senator GORE. I understood you to say that the depreciated currencies and controlled currencies and the fluctuating exchanges were obstacles in the way of world recovery?

Mr. LEON. Yes, sir.

Senator GORE. Then are they thinking about and talking about the same things or not? And if so, what is the standard and what is the word they use when they compare international prices so as to know what each other are talking about to-day, and that they mean the same thing three months from now when payments should be made in that one thing, whatever it is?

Mr. LEON. Senator, you can translate one in terms of another.

Senator GORE. Yes.

Mr. LEON. In other words, if you sit in London the only thing that fluctuates——

Senator GORE. Now you can do that day by day.

Mr. LEON. Yes.

Senator GORE. But you can not calculate three months ahead when all your standards are fluctuating up or down, crosswise or otherwise?

Mr. LEON. Oh, I admit that.

Senator GORE. Now, then, the world, the civilized commercial world, has come by common consent to accept gold heretofore as the international standard of value, has it not, in the measure and expression of prices?

Mr. LEON. I think that applies to the occidental world; yes.

Senator KING. Senator, when you said "heretofore" you did not mean back in 1816 when, in the Napoleonic time, they demonetized silver, because up to that time there had been the double standard?

Senator GORE. Yes; I mean the main civilized world. A sort of double standard that never did work.

Senator KING. Well, I disagree with you there.

Senator GORE. Now, then, one of the conditions precedent to the working of the gold standard has been the free flow, or the ebb and flow of gold between different countries in response to supply and demand—or in response to demand. That is indispensable to the working of the gold standard, is it not?

Mr. LEON. Yes.

Senator GORE. But you do not think that the restoration of the gold standard is essential, but some other standard or substitute would take its place?

Mr. LEON. On the contrary, I am all for the gold standard.

Senator GORE. You are?

Mr. LEON. Yes.

Senator GORE. And the world is too, for the present. But you do not regard that as one of the causes of existing disorder and trouble?

Mr. LEON. I do not understand you, Senator. I am sorry.

Senator GORE. You say you are for the gold standard, and the world is off the gold standard.

Mr. LEON. Yes; very largely.

Senator GORE. Does that account in anywise for the disorder that prevails and reigns in these disordered exchanges?

Mr. LEON. No doubt.

Senator GORE. Then, if the United States should lay an embargo on the export of gold would not that aggravate the existing disturbance and add to it?

Mr. LEON. On the contrary, the present intensification of disparity in the exchanges is due to purely artificial measures affecting the gold standard.

Senator GORE. Yes, sir; and would you not recommend, Mr. Leon, our embargo on gold as an additional artificial lever exercised with the ultimate view of coercing other countries to agree to some sort of international standard?

Mr. LEON. On the contrary, I look upon the artificialities represented by the exchange equalization fund as coercion on the part of aliens upon us.

Senator GORE. Yes; and this would be retaliation, would it not, in a sense?

Mr. LEON. No; it would be a measure of self-defense, but no retaliation.

Senator GORE. Well, it would be an additional artificial force, whether defensive or offensive? And exercised to bring about a different attitude on the part of other countries?

Mr. LEON. Well, I think that you can define self-defense any way you like. If somebody come to me with a stick and I have got a pistol I certainly do not want to use that pistol.

Senator GORE. Well, now, is your point for us to get more pistols and other countries get more pistols, or try to bring about some sort of truce and lay aside our weapons and carry on commerce on peace principles?

Mr. LEON. I stated in my statement, Senator, that I look for cooperation first. That is the thing that I want. But that if I can not get it, then I have to defend myself.

Senator GORE. Is not your suggestion for us to lay an embargo on export of gold simply going East with the ultimate view of getting West? You can go West and come back to the Atlantic coast here. And is not that the same theory that is involved in that suggestion?

Mr. LEON. I do not think so, sir.

Senator GORE. Well, that settles that. I inferred that you wanted to embark upon a silver policy in order to raise the price of silver in the Orient.

Mr. LEON. No, sir.

Senator GORE. Or in the world.

Mr. LEON. No. I want to use any instrument that I know of to get the price of gold down.

Senator GORE. Yes.

Mr. LEON. And I know of no other instrument that will do it except silver.

Senator GORE. Except to get silver up. Yes, sir. Now silver is cheap in the Orient, is it not? It is cheap everywhere.

Mr. LEON. It is cheap everywhere measured in terms of gold.

Senator GORE. Yes. And cheap in the silver-using countries of the Orient. That is true, is it not?

Mr. LEON. I do not know. That is not true. It is not cheap measured in terms of any commodity other than gold.

Senator GORE. That is what I am getting at.

Mr. LEON. Yes.

Senator GORE. But cheap silver in China means relatively high prices of their products, does it not?

Mr. LEON. Relatively high prices for their products, yes.

Senator GORE. Yes. Money is cheap in the Orient and prices are high. In the United States money is dear and prices are low. Now, then, does that principle work differently in the eastern and western hemispheres? You want to reduce the value of gold here and raise prices. You want to raise the price of silver in the Orient and reduce prices?

Mr. LEON. Right. In other words, bring about equilibrium.

Senator GORE. Now, then, ought we to sacrifice the Orient by giving them dear money—what we have got and do not want—and give them low prices instead of high prices in order that we can get high prices instead of low? My point is that it seems to me like there is something wrong when you want to invoke a principle that does in the Orient the reverse of what you want to do here. Now we are complaining that money is too dear and the prices are too low. I think that is true. You can talk about it in the abstract or in the concrete. Now you want to make prices high and money low here by making money dear in the Orient and prices low. It somewheres does not click.

Mr. LEON. Senator, you may forgive me for looking at the situation as an American citizen, from the American angle.

Senator GORE. I see.

Mr. LEON. I can not possibly break out crying about the situation in China when the situation is such as it is here.

Senator GORE. If you want to sacrifice the Orient on that altar, that is a definite policy that we can all understand, economic and moral as well, for that matter.

Mr. LEON. I do not want to sacrifice them.

Senator GORE. How much has gold appreciated?

Mr. LEON. The best way to look at appreciation of gold is to take a sort of a general commodity index as measured by gold, and you might say that gold has increased 100 per cent.

Senator GORE. Yes. It has doubled. Now then, gold is like any other commodity. It responds to the same law of supply and demand respecting value, the rise and fall of value, does it not?

Mr. LEON. Yes.

Senator GORE. Now, there are just two things that will make gold become dearer, as it has become dearer. One is an increase in the demand for gold; the other is a decrease in the supply of gold. The demand for gold in the world has not doubled, has it?

Mr. LEON. I should say that it must have as expressed in terms of all commodities or it would not have gone up.

Senator GORE. Do you not know, Mr. Leon, that under the business conditions of the world to-day there is not any demand for gold hardly, as compared with what it was several years ago?

Mr. LEON. I fail to agree with you.

Senator GORE. You think the demand for gold has increased in the world 100 per cent?

Mr. LEON. Yes.

Senator GORE. Then you would not attribute any of it to a decrease, of course, in the supply of gold, because the physical supply of gold has not decreased. Would you suggest and I rather inferred that you did, though I could not quite understand whether you thought the sterilization of gold would increase or decrease its efficiency. On what do you base your conclusion that the demand for gold has increased when international trade, for instance, is only one-third of what it was a few years ago, and our own business in this country is about 50 per cent? How do you reach the conclusion that the demand for gold has increased?

Mr. LEON. Because gold is a primary metal and the basis of a price system and of a credit structure. If you disturb the credit structure and the price structure, then every one will want the commodity of ultimate redeemability in all currency systems.

Senator GORE. Mr. Leon, is not the point in this whole business the collapse in credit, and is not that the reason the prices have gone down?

Mr. LEON. Well, I go further than that, Senator.

Senator GORE. And that we went perfectly wild in the use and abuse of credit and brought on an explosion, and that the depression to-day is a collapse of that credit structure? And the absence of confidence? Is that not the point?

Mr. LEON. Well, I try to go back of that, sir. I mean I just do not think that confidence is something which is quite so indefinite. And if credit has collapsed there must be a good reason for that collapse.

Senator GORE. Yes.

Mr. LEON. Now, there are a number of reasons, but I believe that the fundamental one has been the basic one of a disruption of your money systems.

Senator GORE. Do you not think that it was the excessive use of it that caused that?

Mr. LEON. There are many contributory factors, sir. A great many. But the basic factor is still there. Up to 1925, say, before it was decided to destroy this great mass of gold equivalent, gold was plentiful. Prices did respond in a very large degree to purely natural laws. But the very minute that you permitted——

Senator GORE. Now, Mr. Leon, you say that prices responded to a perfectly natural law. From 1923 to 1929 securities and real estate went up nearly 100 per cent—went up over 75 per cent. Commodity prices went down 11 per cent during that same period. Now, your law was not operating equally on all its subjects, because securities which were responding to this speculative period and your inflation of credit went up. Real estate went up—not during the whole period, but during a good deal of it. But commodity prices went down. Now, why should they behave in that sort of a fashion if it is a law? And does not that confirm the conclusion that it was the inflation of credit which finally blew up and brought us down in this crash and in this wreck, and it is a credit crisis and a credit collapse instead of an increased demand for gold or decreased supply of gold?

Mr. LEON. Senator, our credit expansion was a local expansion.

Senator GORE. You think it was?

Mr. LEON. Well, local in the sense that it was an American bull market in securities, if you like. I mean, the same thing did not exist in all parts of the world. Commodities, on the other hand, respond to international supply and demand; not local.

Senator GORE. And they went down because gold did what?

Mr. LEON. Because a certain large amount of gold equivalent was destroyed, thus rarifying the total stock of gold and/or gold equivalent as represented by gold and silver.

Senator GORE. Do you not think if we could bring about some sort of relationship to restore the international gold standard that would be the best thing to do?

Mr. LEON. That is what I am trying to do.

Senator GORE. Yes.

The CHAIRMAN. Mr. Leon, I want to ask you a simple question, and if you can answer it just answer it in as few words as possible. Supposing you were dictator, had absolute power in your hands affecting the currency and the trade of the country, what would you do in relation to silver and gold?

Mr. LEON. I would approach the British Government, which controls 49½ per cent of the people of this world through exchange.

The CHAIRMAN. That is the first.

Mr. LEON. And then I would say this: You have price control. We have the creditor position. All right; let us adopt the give-and-take policy, and first raise prices. Once prices are raised, international trade reestablished, capacity to pay both at home and abroad re-created, let us readjust the debts on the basis of a capacity to pay. Whereas to-day we are asked to accept the principle of the capacity to pay when there is no capacity to pay.

The CHAIRMAN. You are speaking now of foreign debts to our Government?

Mr. LEON. I do. International debts.

The CHAIRMAN. Well, they were settled on the capacity to pay once. Now, what would you do right to-day under the situation existing in the world to-day if you were dictator of our country?

Mr. LEON. I repeat, I would get an Anglo-American agreement for the purpose of raising the price level and restoring international trade, and I would not talk about anything else until that was restored.

Senator WALSH of Massachusetts. How can that be done? How can you get international agreement to raise price levels?

Mr. LEON. Senator, here is a chart of the disparity of exchanges, and here is your United States dollar [exhibiting the chart]. The gold countries totaling 336,000,000 people, and here are the numerical numbers of consumers weighing upon them. The control lies here. Here is the population of the world. The British control through exchange, through sterling exchange that many [indicating], and through silver that many [indicating], or 49½ per cent.

Senator GORE. How much silver and how much gold? Can you tell? Have you got those figures?

Mr. LEON. The British control of consumers and producers numerically is 49½ per cent of the world's population. If you can get an agreement between the control of 49½ per cent of the world's population and the creditor nation, you have got the control of the world.

Senator WALSH of Massachusetts. I do not see how you can get the agreement.

Mr. LEON. Well, we can only get agreements by trying to get agreements.

Senator WALSH of Massachusetts. That is true. You have got to have something concrete, though.

Senator KING. Let me say to Senator Walsh about that, that recently 100, or perhaps 200, of the leading statesmen, bankers, and members of Parliament have issued a manifesto in which they practically suggest this proposition, namely, that there should be an agreement between the United States and Great Britain with a view to stabilizing prices, and one of the methods to accomplish that is to rehabilitate silver. And they say that the United States and Great Britain and her Dominions getting together could accomplish that result.

Senator WALSH of Massachusetts. Following out the question of the chairman, I understood you to say that you did not accept the principle of deflation; that is, that if you were dictator you would not reduce any salaries and you would not reduce any employees in the Government service. Is that true?

Mr. LEON. Yes.

Senator WALSH of Massachusetts. So that if the post-office receipts of the country fell off by 25 per cent and there was not the need of the number of carriers and clerks that were formerly required, you would not reduce any of their wages or reduce any of their numbers?

Mr. LEON. Oh, no, Senator; no, indeed; no.

Senator WALSH of Massachusetts. What would you do? Increase taxes?

Mr. LEON. No, indeed.

Senator WALSH of Massachusetts. How are you going to avoid that, if you keep the expenses of the Government the same to-day as they were in prosperous times?

Mr. LEON. The way in which you are going to avoid raising taxes—there is not going to be anything in the world to raise taxes on unless you do change the fundamental conditions.

Senator WALSH of Massachusetts. I know, but there is a period of time when you have either got to borrow money to pay the current expenses or you have got to increase your taxes.

Mr. LEON. Yes.

Senator WALSH of Massachusetts. Which would you do?

Mr. LEON. I would do neither. I would try to raise prices first and try to do what I could about walking the tight wire until I had raised them.

Senator WALSH of Massachusetts. In other words, you would not increase taxes, you would not reduce taxes; you would let the Government drift along?

Mr. LEON. No, indeed. I am not for a drifting policy on the part of anybody. But I am for attacking the basic problem instead of everything else.

The CHAIRMAN. Mr. Leon, have you anything further?

Senator CONNALLY. May I ask the witness one question, Mr. Chairman?

The CHAIRMAN. Yes.

Senator CONNALLY. Mr. Leon, I did not have the advantage of your early testimony, but I shall not ask you to repeat anything about that. Your idea, as you said a while ago, is that gold has appreciated in value, regardless of causes, about 100 per cent?

Mr. LEON. As measured in terms of all commodities, approximately that.

Senator CONNALLY. As measured in terms of all commodities. Here in the United States a gold dollar will now buy twice as much as it would formerly.

Mr. LEON. Right you are.

Senator CONNALLY. Have you considered the matter of debtors and creditors and the inequity that results to the debtor by reason of that condition?

Mr. LEON. I have, sir.

Senator CONNALLY. Your view is that the only way prices can be raised is by international action, because the price level, according to your idea, is international?

Mr. LEON. Right.

Senator CONNALLY. Debts, however, are not international, necessarily?

Mr. LEON. Right.

Senator CONNALLY. Have you any plan to suggest that would aid the debtor in the inequalities that the Government has forced upon him by the undue appreciation of gold compared to his commodities which he must sell and with which he has to pay his debts?

Mr. LEON. I know of no other way excepting the raising of prices.

Senator CONNALLY. The raising of prices. Well, that is easily said. That is like restoring confidence; you press a button and restore it. What have you to say, so far as the United States alone is concerned, about reducing the value of the gold dollar so that debtors will have some method by which they can discharge in a fair degree of equity and justice their debts?

Mr. LEON. Senator, I have made the practical suggestion that the only commodity which needs stabilization is gold. It needs stabilization downward.

Senator CONNALLY. Certainly.

Mr. LEON. As we are the possessors of gold, we are obviously in a position of effecting the stabilization downward better than anybody else.

Senator CONNALLY. What have you to say about the Government of the United States reducing the value of the gold dollar by cutting down its content?

Mr. LEON. I have everything to say about that, because that follows the principle of depreciation.

Senator CONNALLY. Certainly.

Mr. LEON. Which everybody else can follow until we all reach zero.

Senator CONNALLY. Do you not think that it would be fair to bring the dollar down to commodity levels with other prices?

Mr. LEON. You could not possibly do it, Senator, for this reason: That if the principle of depreciation is established and further confirmed by us, then Japan or Great Britain or somebody else will attempt to achieve a further disparity by going still lower, and then we will be adjusting the commodity price level downwards by first cutting the dollar in half, and then cutting it again in half until we all reach zero.

Senator CONNALLY. Well, no. If we tie the value of the gold dollar to the commodity price level, why would it not stay there?

Mr. LEON. You can not tie the dollar to the commodity price level because they are both fluctuating units.

Senator CONNALLY. All right. If you varied the redeemability of the dollar from time to time in so many grains; not coin the gold into money, but put the bullion in the Treasury and redeem the gold certificates from time to time in certain variable grains in the dollar, depending upon the average price level of other commodities, why would not gold then be valued fairly and justly as a commodity and not attain this undue value by reason of action of the Government?

Mr. LEON. Well, Senator, I can not conceive a system, either a currency system or an economic system of any sort, which is going to vary monthly, daily, weekly, or——

Senator CONNALLY. Well, they did do it, did they not?

Mr. LEON. No; they did not.

Senator CONNALLY. Commodity values change, do they not, from time to time?

Mr. LEON. Commodity values change, right. We have to have some sort of a system which is going to be fairly lasting.

Senator CONNALLY. One more question: According to your idea, then, unless we do something internationally the debtors in the United States will have to pay $2 for $1 on their debts?

Mr. LEON. No; I think the debtors of the United States would pay nothing on their debts.

Senator CONNALLY. In other words, they would be absolutely liquidated or bankrupt, would they not?

Mr. LEON. Yes.

Senator CONNALLY. The creditors will either get twice as much or the debtors will pay nothing?

Mr. LEON. If the debtors pay nothing——

Senator CONNALLY. If the debtors pay nothing the creditors will not get anything, of course.

Mr. LEON (continuing). The creditors will get nothing.

Senator CONNALLY. But it means absolute wholesale bankruptcy for the debtors, or if it is collectable it means $2 for $1 for the creditor, does it not?

Mr. LEON. Yes.

Senator CONNALLY. That is inevitable?

Mr. LEON. Inevitable.

Senator CONNALLY. And your plan is to let it go?

Mr. LEON. No. My plan is to raise commodity prices so that the debtor can pay something; is in position to pay something. And that if readjustment is necessary he can readjust on the basis of the risen price level.

Senator CONNALLY. In other words, you would devaluate the present gold dollar by lifting commodity prices 100 per cent?

Mr. LEON. Yes; I would.

Senator CONNALLY. There are hundreds of commodity prices and gold on the same level?

Mr. LEON. Right.

Senator CONNALLY. You are in favor of bringing prices up to gold but you are not in favor of bringing gold down to commodity levels?

Mr. LEON. Just the reverse of the process. You can express it any way you like.

The CHAIRMAN. Thank you, Mr. Leon. Mr. Jackson Reynolds. At this point, however, before you begin, Mr. Reynolds, I desire to place in the record here a letter from Mr. Daniel Willard, president of the Baltimore & Ohio Railroad Company.

(The letter from Mr. Daniel Willard is as follows:)

BALTIMORE & OHIO RAILROAD CO.,
*Baltimore, Md., February 10, 1933.*

Hon. REED SMOOT,
*Chairman Committee on Finance,*
*United States Senate, Washington, D. C.*

MY DEAR SENATOR SMOOT: Your letter of the 8th instant, inviting me to appear before your committee and to give my views concerning the present depression and possible legislative remedies, is received, and I appreciate very much the compliment paid me by your invitation. I doubt very much if there is anything that I can add to what has already been said in this same connection that would be of any real help to your committee. I am willing, of course, to appear if you should still wish me to do so.

Responsive, however, to a suggestion contained in the third paragraph of your letter, I might say this: Naturally I have given the general situation much thought and I have read and listened to many suggestions as to what ought to be done or might be done to improve the existing conditions. It seems to me that whatever is done should be done primarily because it is hoped and believed that the doing of it will contribute towards relief of the unemployment situation, and by "relief" I do not mean a dole, but work for the men who are anxious and willing to work, but unable to obtain work.

With this in mind it has seemed to me that there could be no doubt about the desirability, in fact the importance, of taking early steps to balance the Budget. No individual can go on indefinitely living beyond his means, nor do I think a government can follow such a course with impunity. If we may believe the statements made in Congress and elsewhere, it would appear that the expense of government in this country during the present year will be upwards of, if not above, $15,000,000,000, and it is now being estimated that the Nation's income may be as low as $40,000,000,000, but even if it should be as high as $50,000,000,000 it would appear that 30 per cent of the Nation's income will be required to pay for the cost of government. If these statements are true it ought to be possible to reduce such costs by at least 25 per cent. Of course, the process will be difficult and painful, but we have all had to meet the same problem in connection with all other activities and it seems to me it ought to be met resolutely by those whom the people have selected to represent them in the several representative bodies authorized to deal with such matters.

If in addition to a substantial reduction in the cost of government it is deemed necessary to increase the amount to be raised by taxation, it seems to me that a sales tax uniformly applied, naturally small in terms of percentage, would be the best course to follow. Income taxes are already so high that we hear men constantly speaking somewhat as follows: "What is the use of risking my money in business in the hope of securing attractive profits when if I succeed in making profits they will be largely taken away by the government? A much easier course would be to invest my money in tax-free securities and escape all risk and worry."

The next and only other recommendation which I would make has to do with our so-called governmental debts. Personally I believe it would be better for us and better for the world, or that part of the world in which we are particularly interested, if all such debts relating to the war could be canceled. I have two reasons which seem to me to justify this conclusion.

My first reason is this: Certainly the Great War was our war after the 6th of April, 1917, whatever it may have been before that date, but it was upwards of a year later before we were able to make any substantial contribution in support of our Allies by furnishing soldiers for the battlefield. In the meantime we could assist them and did so by loaning them large sums of money with which to secure the things necessary to carry on the war with their own boys while ours were being trained. It so happened that I had a son in the Harvard Law School when our country entered the war. He left the school at once, entered the training camp at Fort Myer, received his commission as second lieutenant and was sent abroad in September, 1917. Most of the time he served in a battery in the Twenty-Sixth Division at the front. Happily he returned in 1919 without injury and in good health. My son was only one of the 2,000,000 sent abroad, but the fact that he and so many others came back without injury was due in part at least to our inability to send trained soldiers and equipment over in the spring of 1917, immediately after we entered the war, and to the further fact that English and French boys, among others, were bearing the shock of battle and losing their lives at a time when the only thing that we could do was to furnish money, much of which was spent in our own country. For these reasons and others I have always felt that the money which we advanced for the purpose of winning the war really meant that we were sending our money to the battlefield instead of our boys, and so far as I am concerned I do not want any part of whatever my share would be of any payments if made to our Government in that connection. That is my first reason for feeling that such debts ought to be canceled.

My second reason is this: It has seemed to me that probably nothing would do more to restore orderly conditions in those countries, particularly with which we ordinarily have close economic relations, than to wipe out as completely as possible all intergovernmental debts, and if this could be done it has seemed to me that that of itself would have a tendency to stimulate trade and commerce, broaden the market for our agricultural products, and also lead to additional employment for some of the men now unable to find it.

On the assumption that it would be impracticable and perhaps undesirable to simply cancel such debts as I have in mind, it seems to me that we should at least be willing to go as far in that direction as our associates in the war were willing to go and did go at the Lausanne Conference. Personally, however, I would prefer to accept the formula which was announced by Governor Smith some months ago. He may not have been the originator of the idea, but he was the first one to state it, so far as I know. I would favor first a moratorium so far as interest payments are concerned, for 10 or 20 years. In the meantime if any country increased its purchases from this country above the present basis, I would favor reducing that country's debt to the extent of one-fourth of such increased purchases, and it would be my hope that the result of such an arrangement would stimulate our foreign trade and lead ultimately to the extinguishment of all such governmental war debts.

There are undoubtedly many other things that ought to be done responsive to our serious economic and political conditions, but if the responsibility rested wholly upon myself to decide what to do first and now, I would do the two things I have mentioned and in the order in which I have mentioned them. I do not see how we can reasonably expect any return of confidence in this country to the extent necessary to stimulate a revival in business or how we can expect to see any substantial increase in our trade and commerce and in our consuming markets unless and until both of the things I have referred to above shall have been accomplished. Concerning these two matters I feel clear and certain in my conclusions. If I were to appear before your committee I could not add to what I have already said in this letter, and if it is agreeable to you I would be glad if you would accept this letter as my statement and excuse me from appearing in person.

Very truly yours,

Daniel Willard.

Senator Harrison. Mr. Chairman, in that connection, before Mr. Reynolds starts, I move that these answers from these persons who have been invited to appear before the committee, unless their answers are strictly confidential, go in the record, and that the clerk give them to the press.

The Chairman. Yes. Without objection, that will be the rule.

## STATEMENT OF JACKSON REYNOLDS, NEW YORK CITY

The Chairman. Mr. Reynolds, we will be glad to hear from you.

Mr. Reynolds. Mr. Chairman, I am at a loss to know exactly why I have been asked to attend here, but I am attending here in response to the summons to answer any questions. I have not presumed to prepare a statement for the information of this committee, because I am sure the committee is better informed than I am.

The CHAIRMAN. We would like to get the views, you know, of any of our leading men, not only of one industry but all of the industries of the country, and we did think, Mr. Reynolds, that you had some ideas, knowing the conditions in the country as they exist to-day, that you would be willing to express to the committee. Of course, you can make it as long as you want to or as short. But whatever ideas you have concerning the conditions that we find ourselves in or affecting the world conditions.

Senator WALSH of Massachusetts. Of course, he is at liberty to put his views in writing if he wants to.

Senator KING. As you know, there is a very serious depression in this country, and Congress wants to deal with it if it can. I am sure that any suggestions that you or other men are willing to offer would be welcomed by the committee.

Mr. REYNOLDS. Well, it is not from any reluctance to state what I think, that I am diffident about this, but a very modest estimate of my own competence and of my own view of the horizon. I do not know very much about the world. I do not know anything about this intricate exchange problem that you have listened to just now. I work in a bank and see some of the difficulties that confront the Nation and the customers of the bank in the present conditions.

Senator GORE. Have you any solutions for those difficulties that you could suggest?

Mr. REYNOLDS. I have not, and I do not believe anybody has except day to day work within his own jurisdiction to better the conditions within his own control. Subject to the application to Government affairs of very much the same principles.

Senator GORE. I infer then that you do not believe in the fairies?

Mr. REYNOLDS. I do not. I do not believe in the fairies.

Senator GORE. I agree with you.

Mr. REYNOLDS. And I do not believe in the omniscient capacity of any one man to point the way to recovery in this complex situation.

Senator REED. Do you think that can be corrected by Government action, Mr. Reynolds?

Mr. REYNOLDS. In my work in the limited sphere in which it takes place I am repeatedly impressed with two things that are a great deterrent apparently, to recovery, and I think one of them is more or less the corollary of the other. The corollary is somewhat in the negative. The principle is in the affirmative. But one stems from the other.

From my observation there was a terrible destruction in the war. We did not pay for it as we went along except with I. O. U's. All of which appear to be heading this way. And now we have got to pay for them. It will be a very long process, and I doubt if legerdemain or formulae will produce the payment.

My predecessor in this chair quoted the Romans about drinking poison from a cup of gold. I would like to quote one word from the Romans which is the infinitive *credere*, meaning to have trust in, believe in, to have faith in, to have credit in, from which we derive the word "credit".

I assume you have heard it so often from other witnesses that there is plenty of money in this country that you believe it in the medium of exchange. I believe it. There is plenty of credit in the world for those who maintain their credit. There is plenty of credit in this country for those who maintain their credit. And it seems to me that the keystone of this difficult arch with so many other stones in it is the growing belief that the highest credit is beginning to be dealt with in such a way that people are beginning to lose faith in it, beginning to disbelieve in it and beginning to discredit it.

If we take an individual, we none of us have very much faith or give much credit to the extravagant, spendthrift, prodigal man. I think it is the same with the Government, and I think that the Government appears to many of its thoughtful citizens as being on the road to spendthrift, prodigal dealings with its affairs.

And I come, therefore, to the major premise of my feeling of the difficulty as being that of the failure of the Government to live prudently within its income. And that until we do that we shall not get out of this difficulty. We shall not get out of it immediately if we do do it, but we shall make a greater contribution to getting on the road to recovery by doing it, in my opinion, than any other expedient we might adopt. That is the affirmative action to which I referred.

The negative corollary is that I think the Government should not create a new fear in the people that its currency is not entitled to faith and trust and credit. I said in the beginning that I did not believe any man could point out the way to recovery. I certainly can not. There are hundreds of contributing factors. The gentleman who preceded me reduces it all to one. And he may be right. I can not dispute him. But I think the situation is very much like that of the man who was interested in what particular tooth of a buzz-saw cut off his wrist. There are a great many teeth in the buzz-saw that produced that result. And it seems to me that with the very moderate equipment of brains that men have—all men, any man—that the simplest thing to do is to try and correct the thing that is most obvious and that we are most familiar with, and that we can do something about, and it is therefore that I have taken the very simple and homely suggestion of applying to the Government what I apply to my personal affairs, and have all my life, of living within my income. And while it is simple now to live within my income it was not always so. And I nevertheless do, and did when it was very difficult.

I do not think that I have any nostrum or necromancy for the problem, or anything further that I would add on my own initiative.

Senator GORE. Mr. Reynolds, with reference to your philosophy, which seems reasonable to me, do you not think if the Government of the United States would lend money to everybody that needs it or wants it, whether public or private, and would fix it so that nobody who had lent money in the past would collect it—do you not think that would revive confidence and restore credit and bring business and prosperity back?

Mr. REYNOLD:. I should not suppose so.

Senator GORE. Well, that is our theory here.

Senator WALSH of Massachusetts. You say that is a theory in the Senate?

Senator GORE. Well, Senator I do not want to get in the category of Barry, so this deponent will not say anything further.

The CHAIRMAN. Was that all, Mr. Reynolds?

Mr. REYNOLDS. Yes.

Senator BARKLEY. Mr. Reynolds, let me ask you this. Desirable as it is that we shall live within our income, from the standpoint of the Government—and I think it is just as necessary to do it as it is for a corporation or an individual to do so—it is more difficult to do it, I will say, because you have absolute control of your expenditures in your household; you can give the word and nothing is bought—but it is not quite that simple with reference to the Government. There are so many heads of the family, and so many calls upon it from otherwise legitimate sources which in normal times are respected, and in times like these almost all demands are legitimatized by propaganda on the one hand and by sincere effort on the other. But assuming that we could like within our income, which, to use the common expression, is to balance the Budget, will that of itself, without other actions, without other influences and agencies here and abroad, start the country or the world up the hill again? Is there any magic to the mere balancing of the Budget alone that will turn the tide? I am asking purely for information, because I agree with you entirely as to the limitation of our brains. That applies to all of us.

Senator KING. Especially the Senate.

Senator BARKLEY. Well, it is a cross-section, I imagine, of the country. More cross than a section.

Mr. REYNOLDS. I am not a soothsayer, and I, of course, have no more confidence in what I am now about to say than you will have when I have said it. I do not believe that balancing the Budget will immediately and in and of itself without any other concomitant reorganize the world on the old basis. I appraise largely what will follow from balancing the Budget by the knowledge of what has followed by the failure to balance the Budget, and repeated promises to do so without performance, the result of the discouragement over that prospect on the part of prudent, thrifty, thoughtful men. And I believe that if you put that process into reverse you would climb the hill that you descended very nearly to the height from which you started.

Again I say I would not think that would happen merely because of the balancing of the Budget, although a great deal of it would through the restoration of trust and confidence and faith that the Government was well run. But I think that it would have a reflex on other countries, on States, on cities, the cumulative effect of which would be almost as of the square of the direct incidence of that one balanced budget of this country.

I believe that a great deal of the difficulty of the exchange situation is due to the fact that other countries have not balanced their budgets. And this is a terrible example to other countries. If this great, rich country, which could balance its Budget—it is not impossible—does not, of course those countries which are poor and have more difficulty in balancing their budgets, will not do so, and the whole international situation is in a morass and will be until everybody does it. But we are in the best position to make the start on that road, and I believe if we did make the start we would have followers both here and abroad, and a very great change for the better would ensue.

Senator BARKLEY. We adjourned Congress at the last session with the announcement that we have balanced the Budget by the passage of a tax bill, which, so far as we knew, so far as any expert opinion that we could obtain from those that had a right to know and from whom we expected the knowledge—which so far as we knew had been balanced. But it was not balanced by any appreciable reduction in expenses, but by an effort to tax the people enough to bring the income up to what we were spending.

Is there any balancing of the Budget that can produce such a result that does not contemplate first the most drastic reduction of which we are capable before there is any effort to tax the people more in order to balance it?

Mr. REYNOLDS. I do not think there is.

Senator BARKLEY. And if we were able to balance it by an increase in taxes alone, would that bring about any appreciable improvement in the condition of the country merely from the knowledge that we were spending no more than we would bring in? Except to the extent that probably the bond market would not have to be burdened by any further Government financing?

Mr. REYNOLDS. I do not believe you can balance the Budget by any device of taxation. I do not think you can levy enoug taxes to balance your Budget.

Senator KING. You mean now? At present?

Mr. REYNOLDS. I mean now. Under present conditions.

Senator GORE. And the constantly declining price levels?

Mr. REYNOLDS. Everything.

Senator BARKLEY. I do not want to detain the witness. But there is one phenomenon that is difficult for me to understand. We talk about the so-called prosperous era and the great delusion, and the great illusion, and the great mirage, and all of those things that transpired from along about 1922 to about 1929, when everybody was feeling that we were in a wonderfully prosperous age, and that there would never be any end to it—except in agriculture. I do not think agriculture felt any such phenomenon. But during that so-called era of seven or eight years of increased prices and increased production and increase in everything, we increased our total indebtedness in this country until it is to-day anywhere from $150,000,000,000 to $175,000,000,000, involving an annual interest charge upon our net income of over $8,000,000,000, which, added to the Government expenses of about $15,000,000,000, takes $23,000,000,000 out of our total income now of about $40,000,000,000.

How do you explain the apparently paradoxical increase in our total indebtedness coincident with our increase in prosperity and the enjoyment of the results of all of our increased prices and increased production and increased trade with the world?

Mr. REYNOLDS. How do I explain the great increase of everything?

Senator BARKLEY. Of indebtedness especially? Why should not we then have been paying off our debts instead of increasing them?

Mr. REYNOLDS. Well, I should say that about ninety-nine out of a hundred haven't got sense.

Senator GORE. Do you not think you are kind of overestimating at that?

Senator BARKLEY. A little high.

Senator KING. Yes.

Senator BARKLEY. I will accept it in principle.

The CHAIRMAN. Senator, you had no reference to the reduction of the debts of the United States?

Senator BARKLEY. I am not talking about the United States debts. I am talking about the total debt of everybody in this country.

Mr. REYNOLDS. That is what my answer talks about. Everybody went into debt.

Senator BARKLEY. Everybody was increasing in prosperity, evidently—we were told that many people were—and at the same time their debts were increasing, their total indebtedness increased enormously during the 7-year period from 1922 to 1929.

Senator KING. It was intoxication, was it not?

Mr. REYNOLDS. Well, it was dementia without doubt, but a very normal dementia the way men's alleged minds are constituted. And there were opportunities then of vast profits, in very short times. And a man by borrowing $100,000 might be able to make $20.000 in two or three days. Therefore he borrowed them. And if he borrowed along toward the end of October he was left stranded.

Senator GORE. Is it not an historic fact, Mr. Reynolds, that people get into debt in good times and get out in bad?

Mr. REYNOLDS. That is it. And you can not get anybody to borrow now except in institutions for feeble-minded.

Senator BARKLEY. I have a feeling that one of the greatest agencies of depression, not only financially but spiritually and mentally and morally in this country to-day is debt and taxes. By debt I mean interest as well as principal. I do not like to ask a man who is as well recognized as you are in the financial world to answer a question of this sort unless you want to, but do you believe that we can pay these debts? That the people at large can ever get out from under this load of debt that is now existing? And we might, if we wanted to, take in the whole world. Is the world ever going to be able to pay its debts? Assuming that we could start back up the hill again and arrive at the peak where we were in 1929?

Mr. REYNOLDS. Well, I haven't a philosophical or a comprehensive mind. I think I can pay my debts. I have been very careful not to get very far in debt. I know a great many people who never will be able to pay their debts. Whether the second class or group outnumbers all those in the first class or not I do not know. I am inclined to believe that there is going to be, necessarily, a considerable revision of debts and a failure of the creditors to realize the amount stated in the bond.

Senator KING. Is it not a fact, though, Mr. Reynolds, that so many of the debts are in a circle; A owes B, and B owes C, and it goes around in a circle, and the dollar started out to pay the debt of A to B would discharge when it got around the debts of a large number of individuals? So that many of our debts will be simply washing out? Transfers?

Mr. REYNOLDS. Of course, that is axiomatic. But the difficulty is to get the dollar to start with. And that is going to be difficult.

I do not think I can generalize in answer to Senator Barkley's question. I think it will be a case of each debt having to be considered on its own basis. A coal mine may have a bonded indebtedness that looks high. If prices of coal are not brought back to the old levels, they can not pay that debt. Because the only way they can pay it is to mine the coal and sell it at a profit and work it down. So as to a debt on a farm. If an Iowa farm was sold at prices at the high and mortgaged for 66 per cent on that basis of prices, and the product can not be sold at enough to reap a profit over a term of years to pay on those high prices of that mortgage and original valuation, that debt will not be paid. Well, I do not know how much to the total part is contributed by the coal mine and the farm that may not or can not pay its given debt.

Senator BARKLEY. As a matter of fact, one of the things from which we are suffering now is the whirlwind reaped from the wind of too much credit. Do you agree to that?

Mr. REYNOLDS. I should say it was from the lunatic use of that credit in a great many cases. I do not think the existence or nonexistence of credit has very much to do with a given situation, except as it is employed. There is a statement frequently made that there is no credit now. There is plenty of credit, but it is not used. It can not be used—and I do not know that there was too much credit then—but it was employed by people that used it recklessly.

Senator BARKLEY. Well, of course, that is the very point. The fact that we are overwhelmingly in debt is evidence of the fact that there was credit. Otherwise we would not owe anything.

Mr. REYNOLDS. Yes.

Senator BARKLEY. What I want to ask in that connection is: Is there any way to regulate the use of credit so as to prevent the recurrence of the same thing at any time in the future?

Mr. REYNOLDS. I hold a rather heterodox view on that. Probably if I had more enlightenment I would not hold it, but my own view is that there is no way to regulate that. If you have credit it will never be used unless and until the user sees that he can make money out of the use.

Senator GORE. Or fancies he can.

Mr. REYNOLDS. Yes; fancies he can. On the other hand, it is very difficult, and I believe under our organization of society of laissez faire it is impossible to prevent people using credit when they do think they can make money out of it.

The CHAIRMAN. The demand has a great deal to do with it, does it not, and also the supply?

Mr. REYNOLDS. The hope of great profit or the despair that there are no profits produces on the one hand the use of credit and on the other the failure to use it.

Senator BARKLEY. Do you think that plus the balancing of the Budget, which has come to be a rather stereotyped term, an increase in the amount of our circulating money would contribute anything to the solution of this problem?

Mr. REYNOLDS. No, sir; I do not.

Senator BARKLEY. You do not adopt the theory that Gov. Bob Taylor is said to have had when he is said to have said in 1896 that he was for a little more gold, a little more silver, a little more greenbacks, and a sprinkling of counterfeit?

Mr. Reynolds. No. I think there is plenty of money in the sense of currency and the medium of exchange for all the operations.

Senator King. I want to ask a question of Mr. Reynolds. I do not know whether you care to answer it, Mr. Reynolds. Assume that the Government with its $5,000,000,000 of deficit during the past three years and an unbalanced Budget for the next year, should issue bonds, two or three or four or five billions more, to meet the demands of the R. F. C., these various corporations which have been set up, or perhaps new buildings, for furnishing food and clothing, and so on, to 12,000,000 unemployed, would there be a point at which the credit of the Government might be impaired so that its bonds might not readily be sold, or if sold, sold at a discount and a high rate of interest demanded? In other words, do we not face the possibility with continuous bond issues of impairing the credit of the country, particularly if the Budget is not balanced?

Mr. Reynolds. I believe you do.

Senator King. There is a limit to the Government's credit?

Mr. Reynolds. There is.

Senator King. And if the credit of the Government of the United States should now be impaired, or even psychologically, to say nothing of directly and really, would not the effect be disastrous to the whole economic fabric?

Mr. Reynolds. It would certainly be very discouraging to all thoughtful men.

Senator Couzens. May I ask Mr. Reynolds what he considers belongs in the budgetary items of the Government? I do not want him to be misled, but he knows more about making a budget than most of us do. Would you put in a budget nonrecurring items and attempt to balance them each year?

Senator Reed. Such as public buildings?

Senator Couzens. Yes; such as money advanced to the R. F. C. and to the home loan bank and to the Federal land bank? Would you put those in a 1-year budget or in the year that they were advanced?

Mr. Reynolds. I should have, Senator, a great struggle between my major premise of thrift and prudence on the one hand and the doctrine of theoretical accounts on the other.

Senator Gore. Of what?

Mr. Reynolds. Theoretical accounts on the other. If you ask me what I would do, I would do in the Government, if I had the whole control, just what I do about my personal affairs, and I would not spend in any one year more than I brought in that year, whether I built a house or bought an automobile or loaned money to my brother. I would not put out any more than came in. Now, that is what I would do if you ask me what I would do. And that is what I would do in the Government.

On the other hand I recognize the theoretical defensibility of the accountancy theory; that a physical structure like a Federal court building or a navy yard should be built out of an issue of bonds and amortized over the depreciation period. And that if money were temporarily raised by the Government to reloan on good loans which would be returned and at a rate which was in excess of the rate paid on the bonds, that you could create a sinking fund out of the payment of the loans to redeem the Government bonds that were made collectible against that kind of enterprise. And I think that is defensible accounting.

Senator COUZENS. Then you think it would be defensible if the Government were to eliminate from its Budget the sum of $500,000,000 advanced to the R. F. C. for stock?

Senator KING. For what, Senator?

Senator COUZENS. For stock in the R. F. C.; and $125,000,000 to the Federal land bank, and $125,000,000 to the home loan bank? You would be in favor of taking those out of the Budget and not try to balance those expenditures all in one year?

Mr. REYNOLDS. I would regard that theory as defensible. I think my practical, thrifty prudence would overcome my personal indorsement of that theory by practice. But if I were so far driven as to adopt the theory in spite of my practice of thrift and prudence, I should want to look at each one of those cases pretty critically and see just how justifiable it was to count on the return of that money to the Government. I would think you might not count on 100 per cent return, and I would want to have some margin of safety even on that theory.

Senator COUZENS. That might be true, but would it be fair to the taxpayers of 1933 to take out of them money to balance the Budget with those items in it, and the next year when it is refunded credit the taxpayers of the following year? They may not be the same taxpayers. I mean, is there any justice in trying to collect in one year all of the emergency advances that we are making, whether they are sound or not, on which we expect to have return in future years?

Mr. REYNOLDS. The mere statement of the argument demonstrates it. Of course I as an individual taxpayer to-day am getting the benefit of the great millions of expenditures that were made on my theory before my time. And so I am personally much more in favor of having my tax bill larger and continuing the present method, personally. But it is a very peculiar and unorthodox attitude, I presume.

Senator COUZENS. Well, I was not so concerned about the orthodox attitude as I was about the matter of justice between the taxpayers of one period and the taxpayers of another period.

Mr. REYNOLDS. Well, I could only look at it selfishly and personally. As a taxpayer I would rather adhere to our present method, although there is much to be said against it, and pay as I go, and pay my tax bill. And I would be perfectly willing to do that if you balance the Budget, on that theory.

Senator COUZENS. Of course, if we followed out your theory we would not have had any railroads, and we would not have had any great developments in industry and utilities; we would not have had them if we had not postponed to some later date the payment of the debts incurred to construct the properties, would we?

Mr. REYNOLDS. That is perfectly true as to individual financing.

Senator COUZENS. Yes. Of course, we assume when we advance these hundreds of millions of dollars and billions of dollars to the R. F. C. and so on, that we are going to get it back, the same as the railroad investors, the utility investors expected to get theirs back when they made their investments.

Mr. REYNOLDS. I can not answer your argument. Your argument is a complete demonstration. But you asked me my opinion.

Senator COUZENS. Yes.

Senator REED. Mr. Reynolds, if that method of accounting were adopted which Senator Couzens suggests would it not be only ordinary prudence to set up as current expenses very large depreciation funds each year?

Mr. REYNOLDS. Oh, certainly. Certainly. I stated that in my answer three or four answers back. You have got to amortize your expenditures on the depreciation basis.

Senator BARKLEY. Of course that would not apply to a loan.

Senator REED. We have got to provide for default.

Senator BARKLEY. Unless you assume that some of it is not going to be paid.

Senator REED. I assume that some of it is not going to be paid, that is, I do in all human experience.

Senator COUZENS. You might charge off some of the business as bad debts.

Senator CONNALLY. I want to ask two very brief questions, if no other Senator has any question. Mr. Reynolds, you spoke about balancing the Budget. Of course you meant to include also all State governments and the cities and counties and every tax-gathering unit, did you not?

Mr. REYNOLDS. No. I was addressing myself alone to the functions of this committee, as a Federal matter, but I did say that I was confident that it would be a great example; it would be adopted by all those bodies.

Senator CONNALLY. You realize, though, that the great load of taxes now on the average man is in the form of State, municipal, and county taxes, rather than Federal taxes, do you not?

Mr. REYNOLDS. I should think it was on the classification of men who owned property but did not have high incomes.

Senator CONNALLY. Yes. What I was going to get at was this: Do you not regard it as a fatal policy for the Federal Government to be financing counties and cities out of the Federal Treasury, as we are doing now under certain advances of the Reconstruction Finance Corporation?

Mr. REYNOLDS. Yes, sir.

Senator CONNALLY. Is that not fatal to their financial independence, and does it not encourage improvident expenditures, when counties feel that they can vote new bond issues, incur extravagant public expenditures, and then come up to the Federal Government and get the Federal Government to take over those bonds and finance them?

Mr. REYNOLDS. My judgment is, there is no doubt about that.

Senator CONNALLY. Do you not think we ought to discontinue that policy even in this critical period?

Mr. REYNOLDS. I hesitate to tell you what you ought to do.

Senator CONNALLY. Well, if you were doing it, what would you do?

Mr. REYNOLDS. I would discontinue it.

Senator CONNALLY. You would discontinue it?

Mr. REYNOLDS. Yes.

Senator CONNALLY. I think you are exactly right. I think the Federal Government when it embarks on financing States, counties, and municipalities is simply entering upon the road to ruin not only for the Federal Treasury but for the counties, the cities, and the taxpayers themselves.

Senator GORE. It takes away their incentive to economize or to reduce taxes.

Mr. REYNOLDS. Or their self-reliance or independence.

Senator KING. I hope you will use your powerful influence to restrain the State of New York from coming here and trying to borrow $95,000,000 from the R. F. C. when the State of New York pays 25 per cent of the taxes and ought to have the greatest credit of any State in the Union.

Mr. REYNOLDS. I have already exerted all the suasion I am capable of in that direction.

Senator GORE. If the officers and directors of the bank were elected by the borrowers from the bank and those who draw salaries from the bank it would exert a sort of a restraining influence on the officers and directors of the bank in policies of economy and retrenchment and so on. That is a practical difficulty here. We men have to get elected. And a great many men think their highest duty is to be kept in public life.

The CHAIRMAN. We thank you, Mr. Reynolds.

Senator REED. Are you going to hear Mr. Taylor before we adjourn?

The CHAIRMAN. Yes.

## STATEMENT OF MYRON C. TAYLOR, CHAIRMAN OF THE UNITED STATES STEEL CORPORATION, NEW YORK CITY

The CHAIRMAN. You may proceed, Mr. Taylor.

Mr. TAYLOR. Senator Smoot and gentleman of the committee: I am very much like Mr. Reynolds. I came this morning without any prepared statement. I was at some loss to know along just what lines to prepare myself. Naturally, my experiences in business life at the present time would be somewhat different than those of both of the gentlemen who just addressed you.

Senator GORE. Will you state your name and business?

Mr. TAYLOR. Myron C. Taylor. Chairman of the United States Steel Corporation.

In industry, that branch of industry in which I am principally concerned, the manufacturing branch, distinguished in many particulars from the agricultural or the railroad branches of industry, we adhere to certain old doctrines that have proven in the past to be worthy of respect, and are guided very much in our activities by the law of supply and demand.

We all know the effect of the war upon industry; its rapid development during war days. We know the heights to which the value of all manufactured commodities rose during that period. We are very familiar with the reaction that occurred early in 1921 and 1922, and in that reaction we learned a very good lesson.

If you recall, at that time industry was burdened with very heavy inventories on very high price levels. And, but for factors which intervened to limit the term of that depression industry would have received a blow from which it could not very well have recovered, except for more general and more drastic reorganizations than took place. Those which took place were severe and widespread.

The reaction which occurred in 1929 was slow in gaining momentum in industry, and it was not until well into 1930 that we felt the full effects of it. But inventories had largely been liquidated. And the prosperous years that intervened between 1922 and 1929 were generally taken advantage of by industrialists to correct their capital structure where it was top-heavy and to conserve its quick assets.

And so industry came into the depression well fortified, speaking generally, to withstand a considerable siege. We have withstood three years of that siege. We have retreated from one position involving price of commodities, cost of production, distribution of resources to stockholders and readjustment of wages only as conditions forced that readjustment. Industry is undertaking at the present time to hold its present position. It is undertaking to hold it with confidence. Confidence born in part from the experience through previous similar depressions that when the basic conditions in this country particularly, and in a secondary sense, as we believe, in the world, right themselves, industry will forge ahead.

In our two related industries, agriculture and railroading, we have a very great interest. Agriculture is not governed by the same rules that manufacturing is, because apparently overproduction does not decrease the effort to produce. Overproduction and declining prices in manufacturing tend to reduce production and to stabilize prices, within reason.

Our fear in respect to agriculture, which we look upon as the source from which all our lives gain inspiration in an economic sense, is that it does not take quite seriously enough the problem which faces it, and it looks more to relief through finding funds to purchase at rising prices its overproduction than it does in going to the root of the difficulty and limiting production.

I have always been influenced by Joseph's interpretation of Pharaoh's dream and similar events at different periods in history, which have always recurred in due course, and which I think, in spite of serious effort by the producers themselves, may in due course repeat themselves in our day, and solve, for the time being at least, this difficulty.

A combination of conditions has produced large crops——

Senator BARKLEY. If I may interrupt to ask you a question there, Mr. Taylor. Is it not a fact that falling prices in agricultural products frequently stimulate overproduction in order that the farmer may obtain a certain amount of money needed, and the more he produces the nearer he can approximate it?

Mr. TAYLOR. I am afraid it is. But this miracle that we are hoping for, though it may work harm to that particular individual whom you desribe, might restore the value of the product and therefore relieve that situation.

Senator COUZENS. Mr. Taylor, have you given any thought to any way whereby over the years commodities might have some relation to the purchasing power of the dollar?

Mr. TAYLOR. I have thought a great deal about it, sir. But I think, so far as I have been able to explore the subject, that the law of supply and demand as related to commodities generally determines that question. The medium by which products are exchanged follows in due course.

Senator COUZENS. Is there any justification in the difference between what a person having a dollar in 1929 could get for his dollar and what he can get to-day? Is there not something wrong with our system that permits that wide range, and is there not something that can be done to remedy it? I am just looking for information.

Mr. TAYLOR. I have no remedy in mind, sir, of an artificial character.

Senator COUZENS. I am not concerned particularly with whether it is artificial or whether it is natural. If it could not be by artificial methods, let nature work so that that great discrepancy would not occur?

Mr. TAYLOR. I know of none.

Senator BARKLEY. Do you think that any artificial situation produced this result, either in legislation or governmental policy or the attitude of the people?

Mr. TAYLOR. I think the attitude of the people during the period of our great prosperity produced this result. I think it would again.

Senator BARKLEY. Do you think that the artificial barriers raised by nations against the exchange of products has had anything to do with it?

Mr. TAYLOR. I think it has something to do with it, at the present time particularly.

Senator BARKLEY. If we could remove whatever artificial handicaps had been imposed, not in this country alone, but all over the world, it might help, might it not?

Mr. TAYLOR. That would be by a stabilization in all countries on a particular level.

Senator BARKLEY. You say a stabilization——

Mr. TAYLOR. A stabilization of exchange upon a satisfactory level.

Senator REED. I think Senator Barkley was speaking rather of tariff than exchanges.

Senator BARKLEY. Well, I know how dangerous a subject that is to even hint at. But still if we are going to deal with realities we ought to deal with it. We ought not to avoid something that has to do with this situation because it is unpleasant. I do not want to avoid it.

Senator REED. I was only injecting the suggestion because Mr. Taylor was speaking of one thing and you were speaking about another.

Senator BARKLEY. I had in mind other things besides tariffs. I know that that is a word that is verboten now almost, in connection with an investigation intended to get facts. I thought it probably would not be improper to entertain the idea.

Mr. TAYLOR. I understood you to stress the fact that through foreign competition increasing quantities of goods were invading our markets, because of the exchange situation. It was that to which I referred.

Senator KING. Of course, we are invading the markets of other countries to the extent of more than $300,000,000 in our favor last year.

Mr. TAYLOR. Yes.

Senator COUZENS. Mr. Taylor, have steel prices gone down in the same relative amount as other commodities have?

Mr. TAYLOR. Yes, sir.

Senator COUZENS. They have gone down in the same relative amount?

Mr. TAYLOR. Not to the same relative extent as products of the farm, because the products of the farm are all under the 1914 level. Substantially under it. Steel prices are at 135 as compared with 100 per cent in 1914.

Senator COUZENS. Is that not too high when other prices are lower than the 1914 scale?

Mr. TAYLOR. It is the lowest of any other commodity with relation to 1914, sir.

Senator LA FOLLETTE. How is it, Mr. Taylor, in relation to the 1923 to 1926 average which is taken as 100 by the Bureau of Labor in its estimates and also by the Federal Reserve Board?

Mr. TAYLOR. Well, it is substantially lower. I am carrying in my mind always the relation between steel prices and wages at the varying times when the price of wages fluctuated. Those periods were 1914, 1922, and 1929.

Senator LA FOLLETTE. But in the statistics publihsed by the Government agencies that attempt to chart the fluctuations in prices, most of them accept the 1923 to 1926 average as 100 in their index.

Mr. TAYLOR. We are very much below the 1922 price base in the steel industry.

Senator CONNALLY. Are you as much below it as agriculture?

Mr. TAYLOR. No, sir.

Senator CONNALLY. You are not?

Mr. TAYLOR. No, sir.

Senator COUZENS. Why is it, Mr. Taylor, that the railroads continue to complain about the maintenance of the price of rails at $40 a ton? I have talked with railroad officials and they have spoken about the maintenance of that rate and the uniformity of it.

Mr. TAYLOR. Well, that is an old question, sir; it is rather an involved one; but I may say to you that as long as my relation to the company has existed the price has fallen or risen with the price of labor. And to-day our labor is on the basis of prices of 1922. Our labor is 156 per cent of the 1914 base. Our rails are at the same.

Senator COUZENS. I understood you to say that steel prices were at 135?

Mr. TAYLOR. Yes.

Senator COUZENS. And that rails were at 156. Is that it?

Mr. TAYLOR. The prices of all steel products are at 135.

Senator COUZENS. But the rails are at 156?

Mr. TAYLOR. Yes, sir; I was speaking of all steel products in the country. That takes in products of all plants of all sorts.

Senator GORE. Did you say rails or wages are at 156?

Mr. TAYLOR. Wages are at 156, Senator Gore.

Senator GORE. That is what I thought you said.

Senator COUZENS. And he said rails also.

Senator GORE. I thought he said they were back——

Mr. TAYLOR. Back to the 1922 price.

Senator GORE. That is what I understood.

Mr. TAYLOR. Yes.

Senator BARKLEY. How does that 156 compare with the purchasing power of the laboring man's dollar? In the necessaries of life, I would say?

Mr. TAYLOR. Do you mean by that food only, or clothing?

Senator BARKLEY. No, I mean everything. If you take an average comparison of the cost of those things to-day and in 1914, how do they compare? Just as a matter of information. I was wondering how that 156 compares with the purchasing power of the laboring man's dollar.

Mr. TAYLOR. I think in all necessary commodities we are slightly above the 1914 base. On food alone I think we are below it.

Senator BARKLEY. Do you mean that the price of the necessaries of life for the average home has gone down more than the price received by the wage earners?

Mr. TAYLOR. Yes, sir. Substantially.

Senator REED. The purchasing power of the day's wage is higher to-day than it has ever been, is it not?

Senator LA FOLLETT. But that does not give any real reflection of purchasing power unless you know what is in the pay envelope at the end of the week.

Mr. TAYLOR. That is quite true. But what is in the pay envelope at the end of the week is determined by the amount of work that can be distribued among the workers.

Senator LA FOLLETTE. Yes, I appreciate that. But in making a statement as to the purchasing power of the wage it has always seemed to me that the figure of what the base is or what the rate is, is not as important in these days as is the amount that is in the pay envelope.

Mr. TAYLOR. Well, one is a method of calculating used by industry in arriving at our conclusions. The other is a fact for which we have sought in vain for a remedy.

Senator LA FOLLETTE. I appreciate that. I am not wanting to get into a controversy with you, Mr. Taylor.

Mr. TAYLOR. I realize that.

Senator LA FOLLETTE. I simply wanted to bring that fact out, because after all it seems to me that purchasing power is in part a very important factor in this situation.

Mr. TAYLOR. Unfortunately the condition you describe exists. And to remedy it industry has quite generally given relief. Our corporation last year in its welfare work spent $16,000,000. In its direct relief in administering food to the needy among its employees we spent between five and six million dollars.

Senator CONNALLY. May I ask one question? What percentage of the total output of steel rails in the country does your company and its subsidiaries total?

Mr. TAYLOR. I should think 38 per cent.

Senator CONNALLY. Your company and its subsidiaries control about 40 per cent of the total output of rails?

Mr. TAYLOR. Of course in the last year or two, Senator, we have not produced any to speak of.

Senator CONNALLY. Well, your ratio would still be the same?

Mr. TAYLOR. I think so.

Senator CONNALLY. I was asking if the ratio was not the same. You said that since you have been connected with the company the prices of rails and wages have maintained the same relative level?

Mr. TAYLOR. Yes.

Senator CONNALLY. When one goes down the other goes down?

Mr. TAYLOR. Yes.

Senator CONNALLY. That would seem to indicate a control, would it not? In other words, if your company is able to maintain the price of rails in the same ratio as its wages it would seem to indicate that other factors which have operated on the reduction of other commodity prices did not affect your company to the same extent as it has other companies? In other words, would that not seem to raise the implication that you were able to control your price of rails by just figuring what your wages would be and fixing it accordingly?

Mr. TAYLOR. We make a price based upon that reasoning.

Senator CONNALLY. That is what I say.

Mr. TAYLOR. If the customer does not purchase, why, we are very much out of luck, you might say.

Senator CONNALLY. In other words, you have the economic power and ability to fix the price of your rails where you want to fix them, and in doing that you fix them on the basis of your wages?

Mr. TAYLOR. Well, I should not say that we have any power to fix prices at all, Senator.

Senator CONNALLY. Well, you have fixed the price of your own rails?

Mr. TAYLOR. We make the price as respects our own product.

Senator CONNALLY. Yes, certainly.

Mr. TAYLOR. But we do not go beyond that.

Senator CONNALLY. No. I mean your own prices for rails are fixed, based on what your wages are costing you?

Mr. TAYLOR. Naturally, in part.

Senator CONNALLY. Yes.

Senator KING. And in competition with other companies that may bid against you?

Mr. TAYLOR. Well, we estimate the cost—I am speaking now of an estimated cost—and competition naturally controls the business in the last analysis.

Senator CONNALLY. But the fact that rails have not gone down as low as other steel products, and the fact that you have been able to maintain this ratio exactly between prices of rails and wages, would seem to indicate that other factors had not operated on your concern in the same way that they have on other commodities?

Mr. TAYLOR. Well, there has not been any business. That is the answer, sir. We have not had any business offered to us.

Senator CONNALLY. Well, that does not change the facts? Those are the facts, are they not?

Mr. TAYLOR. The fact is that the asking price to-day is as it was in 1922, having been reduced from the 1929 estimate.

Senator GORE. What was the peak price, Mr. Taylor?

Mr. TAYLOR. The peak price was $44.

Senator CONNALLY. And rails are $40 now?

Mr. TAYLOR. Yes, sir.

Senator CONNALLY. Other commodities have gone down, as testified by other witnesses, 50 per cent measured in the average commodity level of the dollar, and yours have declined about 10 per cent, from $44 to $40.

Mr. TAYLOR. That is as it stands at the moment.

Senator CONNALLY. That is what we are talking about—at the moment.

Mr. TAYLOR. Yes.

Senator BARKLEY. Did you say that you were not selling any steel rails now?

Mr. TAYLOR. We have not been doing any business, so to speak, for the last two years.

Senator BARKLEY. So you are in the same position as the farmer. You do not know what the price is?

Mr. TAYLOR. We do not know. We do not get a chance to compete.

Senator BARKLEY. Then you naturally take what the market will stand?

Mr. TAYLOR. Yes, naturally.

Senator KING. I would like to ask you one question, Mr. Taylor, if you care to answer it. In the light of the existing depression and with the problems before Congress, the demands for inflation and demands for large appropriations for the unemployed and for municipalities and States, and the demands of the Reconstruction Finance Corporation to extend credit to a multitude of activities—if you care to express an opinion, what suggestions would you have to make as a guide to Congress to determine a national policy, or to be calculated to help us to get out of this depression? That is a big order, if you care to answer that.

Mr. TAYLOR. I would not care to answer it just that way, but I do believe that at the present moment uncertainty is playing a great part and is a great factor in the revival of our affairs. I believe that, as Mr. Reynolds said, if the Government would put its own house in order as an example to the community, balance its budget, and live within its income, it would go a long way towards reviving public confidence. I think the fear of tampering with the money system is one that spells a good deal of uncertainty in the public mind. I do not believe many people know really what is meant by inflation. And so many forms of it are suggested that even discriminating people may have doubts.

Senator BARKLEY. Mr. Taylor, right there let me ask you about this budget balancing theory. I agree with you as to the desirability of that from an economic, political, and moral standpoint. But as a matter of fact the Government was not only balancing its budget, but it was more than balancing the Budget when this debacle began. When we started down hill we were balancing our budget, and had been for a long time. Now if the balancing of the budget did not prevent the beginning of this decline, how is that alone going to start us back up? That is the thing I would like to know. I am for it if that is the secret of it.

Mr. TAYLOR. Well, I referred to it as an element of uncertainty in the public mind. I think Mr. Reynolds demonstrated very clearly the action of an individual with respect to his private affairs, and how sound and sane that is. I think that is true with respect to our corporations. I think it is true with respect to our Government.

Senator BARKLEY. Well, that is a sound principle anywhere in the world, not to spend any more than you take in, unless like in the case of the railroads, in their early history, and I imagine in the case of your own corporation, that it had to borrow money with which to make capital investments and build plants, and the industrial development of the country would not have progressed as rapidly if everybody had paid as they went. We understand that. I appreciate fully the soundness of the theory always where it is possible, of spending no more than you take in. But I have not been able yet—it may be I am obtuse on the subject—to vision just how the mere fact that we spend no more from the Government standpoint than we take in is going to start everybody else's business, turn it around and start it back up the hill again and restore prosperity. If I thought that is the only thing that was wrong with this country I would be much happier than I am.

Mr. TAYLOR. I do not believe that is the only thing that is wrong, Senator.

Senator GORE. Mr. Taylor, on that point. I figure that if the Government abuses its credit, sooner or later its bonds will go down.

Senator KING. That is it. That is the point.

Senator GORE. And when United States bonds go down, State, county, municipal, and corporation bonds will go down. When their bonds go down sooner or later their stocks will go down in a distress market. Now, it sometimes happens that bonds go up and stocks go down and sometimes stocks go up and bonds go down. But in a distress market like this, if bonds continue to decline stocks will decline, and if stocks decline commodities will continue their decline. Now, that is the way I relate this balancing of the Budget to the return of prosperity.

Senator KING. Surely.

Senator GORE. We have got to stop this decline, and not only stop it, but reverse it. And we can not do that if the Government abuses its credit and its bonds go down. That aggravates it. That is the way I figure it out. I may be wrong.

Senator LA FOLLETTE. I would like Mr. Taylor or anybody else to tell this committee how you can balance the Budget of a corporation or government when you are on a slide.

The CHAIRMAN. Only by taxation.

Senator LA FOLLETTE. If your national income, production of wealth, shrinks as much in the next year as it has in the last year, any estimates that you make for balancing this Budget will be just as cock-eyed as the ones that were made by the Treasury last spring. And it seems to me that the horse is before the cart. Have you not got to get a bottom into this situation somewhere before you can begin to predicate estimates upon a balanced Budget or how to balance a Budget? I would like to get the witness's suggestion on that point of view.

Mr. TAYLOR. I think the surpluses of raw materials are our greatest menace. I think the carry-over of our crops is a great menace to the stabilization of values. That is a very difficult thing to correct.

Senator LA FOLLETTE. Well, I simply want to point out that that does not answer the question. We have been on a slide ever since 1929, and every little while people come out and tell us that we have reached the bottom, and that we are going to start back, and apparently it has been predicated on the theory that there is some theoretical point marked "X" where this constant see-saw comes to rest and that you do not descend any further. But until that point is reached I am unable to understand how a government, however willing to accomplish the purpose and to apply a broadax to its expenditures, can get its budget into actual balance.

Senator REED. The important thing, Mr. Taylor, is, is it not, that we show a real intention to balance the Budget as far as possible? Whether we actually accomplish it in any year seems to me to be of less importance.

Senator LA FOLLETTE. Well, we showed a very clear intention to balance it last spring.

Senator REED. That is true.

Senator LA FOLLETTE. We tore our hair in this committee to find ways and means of balancing it, and we thought we had balanced it, after the Treasury had adjusted its estimates no less than three or four times while the bill was going through the Congress.

Senator REED. That is right.

Senator LA FOLLETTE. If that is the answer for this depression it seems to me that those who advance it as the primary objective to be attained in the midst of this crisis are under necessity of demonstrating why it did not have the desired effect last spring and why and how it can be accomplished now while we are still on the toboggan going 60 miles an hour.

Mr. TAYLOR. It seems to me that the simple rules that we apply in our own lives are those to apply here. When our resources begin to shrink and our obligations begin to press upon us—that we live more simply, that we curtail expenditures, that we try to bring ourselves into a state of balance.

Senator BARKLEY. Strict adherence to that rule, however, would have prevented the organization of the Reconstruction Finance Corporation, which was a thing that was pressed upon us by business of all kinds. It would have prevented whatever we have done in the way of construction to give employment to labor. And I am somewhat confused as to just at what point the Government shall cease to lend its credit, which means money ultimately, to take the place of private credit agencies in normal times.

Now, if you had been a Member of Congress, would you have carried your theory to the extent of voting against the Reconstruction Finance Corporation organization; would you have voted against the $500,000,000 that we gave it outright out of the Treasury and the $3,000,000,000 that we gave it potentially by the sale of Government securities from which it has obtained all the money which it has lent to business, because it has not sold a single debenture of its own? Would you have voted against the $125,000,000 to be pumped into the stock of the farm-loan system, and all these other business agencies which were aided by the Government, on the recommendation of the business men of the country that it would tend to stop bank failures and receiverships of railroads, insurance companies, and all that? Would you carry your theory of balancing the Budget to the extent that the Government should do nothing along the lines we have been attempting to do in the last year?

Mr. TAYLOR. I should have voted in favor of the organization of the Reconstruction Finance Corporation.

Senator REED. We have been fighting a rear-guard action too, Mr. Taylor, just as you say industry has. We have voted public buildings, hoping that that would provide employment. Most of us realize now that it was ineffective and that it really raised our debt and did not make much difference in the employment situation. We voted money for the Reconstruction Finance Corporation. I personally am sorry. I think we have merely postponed the day of clearing up the sore spots.

Mr. TAYLOR. Yes, but at that time you would have had a crisis on your hands.

Senator REED. Yes, that is right. At that time it seemed to be the wise thing to do.

Mr. TAYLOR. You would have had disaster.

Senator LA FOLLETTE. But, Mr. Taylor, that was based upon the theory that there was a bottom somewhere, and that it was not too far off. The same arguments were made in favor of the Reconstruction Finance Corporation that are now made in favor of balancing the Budget. I am as anxious to get out of this depression as any man, of course. But what I am anxious to have demonstrated to me is first of all whether this new objective that has now been set up as the next thing we must attain is actually going to accomplish the results, and if so, how it may be done while we continue to have a constant decline in purchasing power, in commodity prices, and a diminution in the total turn-over of business?

Mr. TAYLOR. Well, Senator, I can only answer you as to the attitude of mind of industrialists generally. They are confident people, hopeful people. They believe in the future. They believe in the future of this country. They believe in its inherent strength. And they are going to use every ounce of their energy to pull this thing out so far as it lies within their power to do it.

Senator LA FOLLETTE. Well, they have been doing that all the time, have they not?

Mr. TAYLOR. Now, I do not believe that you should at this moment show lack of faith in the future.

Senator LA FOLLETTE. I am not showing any lack of faith, if you will excuse me, Mr. Taylor. What I am trying to do is to be a realist in this situation. We have been told that psychology would remedy this depression business, and I am getting a little bit skeptical of that technique, and I want to have something more than the mere assurance that it is going to help to restore confidence, and also I am interested to know how it may be done while the slide keeps on.

Mr. TAYLOR. Well, we are all of us trying to find the remedy.

Senator BARKLEY. In our efforts to make the income and outgo equal would you limit that to the ordinary, normal expenses of the Government, and set aside these extraordinary emergency expenses as being a little different, and pay for them over a period of years by the issue of either long or short term Government obligations, or would you pile them on top of the normal expenses of the Government and try to balance all of it year by year as you go?

Mr. TAYLOR. No; I think you would have to amortize a certain portion of that.

Senator BARKLEY. You think that in the nature of capital investment?

Mr. TAYLOR. Yes.

Senator BARKLEY. I agree with you.

Senator LA FOLLETTE. I would like to ask Mr. Taylor one more question, if he will suffer the interruption.

Mr. TAYLOR. Yes.

Senator LA FOLLETTE. In reading some of the things which you said during the course of this depression, Mr. Taylor, I have gotten the impression that you believe that all costs should be deflated to the point where there is a profit at the present prices. Is that a fair statement?

Mr. TAYLOR. At the present prices of certain commodities. But I do not think that applies to agriculture.

Senator LA FOLLETTE. No. Well, let us except that. I would be interested to know upon what theory you assume that more goods would be sold, assuming that all costs were deflated to make a profit at the present price level, when all manufacturers are unable to sell the goods which they now produce?

Mr. TAYLOR. I do not believe in a radical readjustment, and have not so acted. Ours has been an orderly, rather slow, you might say, readjustment in our costs. There has been a school, very active during the past two years, in favor of a more radical readjustment. And I have not believed in that.

Senator LA FOLLETTE. Well, I may be dumb. But assume that it takes place and that you now have got all costs deflated down to the point where there is a profit at the present price level. Upon what theory, or what are the reasons for assuming that more business will be transacted when at this very time all manufacturers that I know much of anything about are having difficulty in selling their goods?

Mr. TAYLOR. The theory is that by reducing the price sufficiently you can inspire buying even under this condition.

Senator LA FOLLETTE. But has that not been exploded in this whole experience that we have been through since 1929? Is it not a fact that people, instead of buying at the reduced price, wait to buy because they think the price is going lower, and that people really buy when prices start in the other direction in order to make a profit?

Mr. TAYLOR. Well, that has happened.

Senator BARKLEY. May I ask Mr. Taylor one question. With reference to balancing the Budget. I believe that last year your company paid a dividend, although it had a considerable deficit?

Mr. TAYLOR. Yes, sir.

Senator BARKLEY. What was the theory of it? And does that harmonize with your theory now?

Mr. TAYLOR. The theory was that our resources were adequate to continue the dividend, probable future demands of the company considered.

Senator BARKLEY. Rather than withhold it as a further reserve for the future?

Mr. TAYLOR. We felt that our reserves, unless the depression lasted interminably, would be sufficient to carry us through.

Senator BARKLEY. Of course, as a corporation, you can accumulate these reserves.

Mr. TAYLOR. Yes.

Senator BARKLEY. But as a Government we can not do that.

Mr. TAYLOR. Yes; I realize that. I realize your difficulty. It is very difficult for us who have only a fragment of your great problems in our minds to frame an answer that would be a solution. I am very sorry I can not give you a better one.

Senator BARKLEY. You are not by any means alone in that situation.

The CHAIRMAN. The committee will now adjourn and will meet in executive session at 2 p. m.

(Thereupon, at 1 o'clock p. m. Wednesday, February 15, 1933, the committee adjourned to meet in executive session at 2 o'clock p. m.)

# INVESTIGATION OF ECONOMIC PROBLEMS

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**THURSDAY, FEBRUARY 16, 1933**

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
*Washington, D. C.*

The committee met at 10 o'clock a. m., pursuant to adjournment on Wednesday, February 15, 1933, in room 335 Senate Office Building, Senator Reed Smoot presiding.

Present: Senators Smoot (chairman), Watson, Reed, Couzens, La Follette, Thomas of Idaho, Harrison, King, George, Walsh of Massachusetts, Barkley, Connally, Gore, and Costigan.

The CHAIRMAN. The committee will come to order. Hon. John F. Hylan. If you will be as brief as possible, because we have about 200 witnesses that would like to be heard, and, of course, our time is limited. March 4 is not so very far off.

Mr. HYLAN. But, Senator, I want to go into it, because I have tried here to work out something which I consider constructive.

The CHAIRMAN. We will be very glad to hear you.

## STATEMENT OF HON. JOHN F. HYLAN, FORMER MAYOR OF NEW YORK CITY

Mr. HYLAN. In response to your request, it gives me pleasure, both as a duty and as a privilege, to appear before the Finance Committee of the United States Senate, which has been directed to study and analyze the causes of the present industrial depression, and to suggest possible legislative remedies to meet the trying conditions which the people of this country and of the whole world are now facing.

We are in the midst of the greatest depression in human history, although the banks have a superabundance of currency and credit while millions of people have no work, money or credit with which to purchase food or clothing or to pay their debts and taxes.

The primary cause of the depression, as I see it, is a scarcity of currency and credit money caused by the maladministration and defective operation of our monetary system. Whether such unjust operation was executed designedly, I do not know, but it has left bankruptcy, misery, and beggary in its wake.

In addition to appearing personally, I am authorized to represent the World Monetary Reform League as its president. The World Monetary Reform League takes the position that modern progress has outgrown our present monetary system which we condemn as grossly inadequate and improperly administered by the big bankers for the needs of industry, trade, and commerce. We take the position that business stagnation, industrial depression, unemployment, and starvation are the direct results of a world need of a sufficient, scientific medium of exchange administered for the benefit of the masses and not for the private profit of any group.

In my statement, I may use the ideas, language or phrases of others. I do not claim them as my own, but merely utilize them combined with my views, in a desire to give to the Senate committee all information available, to aid, if possible, in the solution of the economic condition which has brought us so much human suffering.

I want to say at the outset that I am not an economist; I am just an ordinary citizen trying to dope out the cause of the depression and the remedy for it. I read the stabilization report in the Sixty-ninth and the Seventieth Congress, and most everything I could get on the question of money and the depression.

Studying the ill effects flowing from the Federal laws, we find the basic evil to be the private control of our currency and the operation of our present monetary and banking system, tolerated, permitted, and fostered by laws intended to be beneficial and for the good of the people, but which in their operation, have been twisted and diverted from their original purposes, resulting in an oppressive and intolerable situation, that must be immediately corrected and remedied.

The CHAIRMAN. I suppose in this statement of yours you refer to each one of them and tell the action necessary to overcome the difficulties?

Mr. HYLAN. Yes, sir.

When the constitutional convention granted to the Federal Government the right to "coin money, regulate the value thereof, and of foreign coin," it certainly intended that this power should be exercised by the Federal Government direct, and not farmed out to private profit-making corporations.

Money, in ample volume and circulation, is one of the greatest of all human necessities, and its issue and control is therefore essentially a governmental function. It should function without any hope or desire for profit by those administering it. The private banking system has complete control of our cash and credit circulation, with few governmental restrictions. This is the economic life of the Nation. Control of the cash and credit circulation of a country is the master of its people. This control should never be placed in the hands of any private or corporate group operating for profit.

In the two great crises of this country gold money fled into hiding. It was only by resorting to other kinds of money that the soldiers of the Revolution and the Civil War were paid.

During the Civil War the "Gold Ring" cornered gold and attempted to force the Federal Government to pay extortionate prices for it, but Lincoln's administration resorted to the issuing of greenbacks, which by increasing the volume of money eased the financial stress and enabled our Government to prosecute the war to a successful conclusion.

THE WORLD'S SUPPLY OF GOLD

The so-called "gold standard" is based on an utter fiction. As a matter of fact, there is not enough gold available on earth to redeem all our own paper money issues in gold much less those of other countries.

The entire quantity of gold is not sufficient for monetary purposes. According to the statistics of the United States Mint, there is only about $22,500,000,000 worth of gold in the world. Of this, $11,000,000,000 has been used in the arts and manufacture, leaving available for all monetary purposes only approximately $11,500,-000,000.

As a result of this gold shortage the bankers have supplemented gold with paper or fiat money which the public is led to believe can be redeemed in gold. If the holders of the other forms of money should decide to call on the Government or the Federal Reserve Bank for the redemption of same in gold, the public would then realize how they have been deluded by the so-called "sound money" propaganda of the banking control.

While this country legally maintains the gold standard, neither the United States nor any other country ever has been, or can be, on an actual gold basis. The assumption is that no matter what form of currency we have now in circulation, we can demand and receive gold for it. This is absolutely untrue or incorrect.

The fact is that the amount of gold would not be sufficient to redeem the other forms of money, and the big bankers who cry loud for sound money know it. The bankers know that this country is not, strictly speaking, on a gold basis and never has been; but its monetary system is based mainly on "fiat" bank deposit credit money out of which they are making tremendous profits.

The volume of gold, the basis of our monetary system, is not large enough to support the superstructure of the paper money issued by and printed by the United States Government for the bankers at their request and for their profit.

The easy money policies adopted by the Federal Reserve Bank during 1926–27 were intended not only to influence the domestic situation, but also to assist the European central banks to maintain the gold standard, which had been impaired by the tremendous inflation which followed the adoption of the gold exchange standard in 1922, the subterfuge adopted by the international bankers to allow European countries having no gold to make paper money and to operate under the gold standard. That is, the issuing of additional paper money having as a reserve currency of other countries payable in gold on demand or approved paper payable in gold at maturity, was used to bolster up the crumbling gold standard.

In explanation I wish to say that there was a conference held in Europe in 1922 where all the representatives of the larger banks congregated, and they wanted to take in some of these European countries under the gold standard, but they did not want to distribute any part of the gold that they controlled, so they made an arrangement whereby they took them in under what they called the gold exchange standard, where they had no gold as a reserve. But the currency they issued there was based on paper of the Federal reserve payable in gold at maturity, or currencies of other countries payable in gold on demand. The Federal reserve——

The CHAIRMAN. Before you proceed with that. What countries have you reference to?

Mr. HYLAN. Well, I have reference to Poland and Austria and some of those central European countries.

The CHAIRMAN. That grew out of the war, did it not, the World War?

Mr. HYLAN. No; it was after the war.

The CHAIRMAN. Yes; but was not the cause of it? Was that not the principal cause of it?

Mr. HYLAN. No; not necessarily so.

The CHAIRMAN. All right.

Mr. HYLAN. They wanted to extend the gold standard to the other countries. Get more trade and business.

The CHAIRMAN. There is no need of going into it now. You may proceed.

Mr. HYLAN. They took these countries in under the gold exchange standard, and they had no gold as a basis for the money that they issued there, no reserve like in the gold standard countries. That is, they inflated the so-called gold standard. And this paper approved by the Federal reserve, payable in gold at maturity, for which they issued Federal reserve notes to different banks, they took that paper out of one pigeon hole and put it into another, and earmarked it, and sent a cablegram to Austria or to Poland, and they would issue $3 of paper over there for every dollar that paper represented here. That is just a narrative of this idea of bringing these countries in under the gold exchange standard. They had no reserve for the issuing of this paper money there.

Senator KING. In Russia, in 1923, when I was there, the Soviet authorities, seeing the futility and the unwisdom of the continuation of the paper money, the ruble having gone down to the vanishing point, conceived the importance of trying to have a gold standard, because it was the standard employed in the world. They acquired by the sale of goods and by other processes a considerable amount of paper money, that is, they showed me their huge piles of American gold notes, British pounds, and French francs, and so on. And upon that paper money which called for gold—they treated that as gold—they acquired some gold, some silver, and they then said, "We are going to the gold standard and base the future issue of our currency upon the gold standard." And they did. They issued the chervonetz, the new gold coin—they coined a few of them—and the chervonetz paper money. They only issued against that gold reserve 40 per cent paper. It was all right and held its parity in relation to the world as long as they did not issue other paper money. But when later on they began to issue their fiat money and disregarded the limitations imposed by the gold and the paper money which was gold exchange of other countries then the chervonetz, which had circulated at par, went down to the vanishing point.

So Russia was not forced to the gold standard by any conference in Geneva or elsewhere, but they saw the necessity of stabilizing the exchange if they wanted to trade, and therefore they established the gold standard.

Mr. HYLAN. I am not opposed to the gold standard, but the administration of it by the bankers.

Before the breakdown (which forced many countries to go off the gold standard) gold coin and gold certificates had been withdrawn from circulation and monetary gold had been concentrated largely in the big banks. Such gold was converted into gold bullion and stored in bank vaults, cutting down enormously the volume of gold currency.

Senator WATSON. Mr. Mayor, you made a rather significant statement: That you are not opposed to the gold standard, but its administration by the bankers. Are you elaborating on that in your statement?

Mr. HYLAN. Sir?

Senator WATSON. Are you elaborating on that point? And if you are not, what did you mean by that?

Mr. HYLAN. Well, I am not opposed to the gold standard. I mean this, that they are pyramiding credits on a pin point of gold. They are issuing too much paper money for the reserve that they have in gold.

The CHAIRMAN. That is not the banks. That is the Government.

Senator WATSON. Do the banks control that?

Mr. HYLAN. Well, I know the banks are more or less connected with it through governmental channels.

The CHAIRMAN. All right.

Mr. HYLAN. During the last 10 years the gold standard has been maintained only by a gold-economizing or gold-stretching policy, if I may so term it; that is, a policy of substituting for gold reserve something other than actual gold as an excuse to issue paper money. But when France and our own Federal reserve began to withdraw gold from circulation on a large scale and when the United States ceased to export capital to foreign countries, the drain on the gold reserve of other countries caused the breakdown of the international monetary system, forcing many countries off the gold standard.

The great demand for gold for reserve and for the payment of obligations payable in gold caused the sudden increase in the value of gold. This caused a corresponding fall of the entire general level of commodity prices.

### INFLATION BY CENTRAL BANKERS

A committee of international experts at Geneva, on February 8, 1933, suggested a world economic conference to further camouflage the machinations of the gold manipulators and delude the American people and others in an attempt to effect a redistribution of world gold stocks by calling upon nations which held large amounts of gold, particularly the United States and France, to part with a portion of their gold stocks for the benefit of nations not so well supplied with this monetary metal, to bolster up and reinstate the gold standard in the bankrupt European countries. The scheme is to reduce the reserves, the gold backing for their currency note issues, from a 40 per cent reserve to 25 per cent reserve, thus further increasing the volume of paper or fiat money. This scheme of the central bankers to make additional paper money, based on a pin point of gold, is to frustrate the activities of those who are fighting for real sound money. It is a subtle form of inflation on a world-wide scale for the benefit of the bankers only.

The greatest sham of the age, successfully operated all over the world, which has made all mankind its victim has been the plan of inducing foreign governments to adopt the gold standard under the pretense of establishing their currencies, making them large loans at high rates of interest. This has already brought many of these countries to the verge of bankruptcy and greatly contributed to our present ruinous plight.

This scheme of big bankers is sufficient proof of the shortage of gold, as well as of their utter selfishness in its control and manipulation.

The great industrial scientists, economists, and thinkers of the past, such as John Locke, David Hume, and John Stuart Mill, spoke in no uncertain language as to the cause of depressions and the effect of money conditions upon industry, trade, and commerce. Lessening the quantity of money, these authorities point out, inevitably increases the quantity of commodities required for its exchange. Prices and commodities rise and fall in proportion to the increase or diminution of money. When gold goes up, everything else goes down.

Sir William Dampier-Whetham, in Lloyds Bank (Ltd.) Monthly Review for July, 1931, in an article on the connection between business depression, unemployment, commondity-price drop, and money, says:

> The practical effects of rising or falling prices are easily analyzed, and have been clearly illustrated by the history of the last 30 years. If prices are rising faster than costs, goods become more valuable while being made or stored; fixed charges, defined in terms of money, become less onerous in terms of goods and services; profits are made, enterprise encouraged, and wealth increased.
>
> If prices fall owing to a cheapening of production, the result depends largely on the elasticity of the market. If prices fall owing to a scarcity of money, or to a failure of new investment to keep pace with the savings—that is, if the value of money grows greater—the effects of rising prices are reversed.
>
> People with fixed incomes from bonds or sheltered wages gain as prices fall; but the farmer, the manufacturer, and other active producers find the market always against them; costs lag behind prices, charges fixed in terms of money, whether public debt or private loans, need a larger and larger fraction of the produce of industry to pay them, profits are turned into losses, enterprise is checked, and unemployment becomes rife. These effects react on their causes, lowering demand and thus prices.

Edward Owings Towne, in his recent book on monetary economics, setting forth the cause and cure of industrial depressions, entitled "Wake Up World," states:

> In modern practice where bank-deposit credits have in great measure, particularly in the United States, superseded the use of actual cash currency, the rule is exactly the same, viz: The greater the amount of such credits the higher the price of commodities. When deflation of bank credit takes place the inevitable result is to lower the prices of the products of industry. By deflation is meant a forced diminution of credit by refusal of creditors to extend maturing or callable obligations or to make new loans without prohibitive increase in interest rates, or by other devices to reduce the amount of the currency-credit substitute for actual basic money in circulation. When credit crumples up, or currency is curtailed, the purchasing power of consumers is diminished, business activities are halted, and industrial paralysis follows as a necessary consequence.

PANICS, PRICES, CONTRACTION OF CURRENCY, AND CREDIT

In the United States in 1837 a serious panic occurred, followed by an industrial depression that lasted for many years. The immediate cause of the panic of 1837 was a drastic order by President Andrew Jackson requiring all payments for public lands to be made in gold and silver. This destroyed confidence in the circulation of bank notes, which were the principal media of exchange. Bank notes contracted from $149,000,000 in 1837 to $58,000,000 in 1843. Every bank in the country suspended specie payments. Accompanying prices and falling land values came business stagnation and all the other symptoms of trade disruption that follow in the wake of monetary stringency. In 1849 important gold discoveries in California, and a little later in Australia, brought an increase in the world's circulating medium and an enormous revival in industry occurred. Prices rose, business became profitable, enterprise found an outlet in railway and steamship building and in the opening up of new territories to agriculture and attendant development. Remarkable industrial progress was made, until it seemed that at last the world had attained permanent prosperity.

But in 1871 Germany adopted the gold standard; the United States in 1873 demonetized silver; France, Switzerland, Belgium, Italy, and Greece in 1873 limited the coinage of silver; and in 1875 Holland, Sweden, and Norway adopted the gold standard. The consequent growing need of gold reserves, with inadequacy of decreasing supply, caused a gold scarcity followed by a most serious industrial and trade depression that continued for 8 or 10 years and in England and the United States was without precedent.

Later came the disastrous panic of 1893. There was no relief until 1897–98, when the gold discoveries in Alaska and South Africa started a world revival and brought about a financial normalcy that lasted, with temporary setbacks, until 1914.

To the careful student of the history of monetary panics and their attendant circumstances, it is easily observable that no monetary crash ever occurs that does not follow a curtailment or diminution of the medium of exchange, or the undue expansion of credits upon too narrow a base of real money. If the monetary basis is too small and credit is piled upon credit, the day of reckoning will surely come. The structure will topple and fall with a crash, and with stunning suddenness the country will find itself overwhelmed by financial disaster. Slowly, and with great pains and care, must the structure be rebuilt on a broader basis and with more substantial superstructure, before industry resumes its normal conditions and sanity and prosperity take the place of misery and despair.

AS GOLD RISES COMMODITY PRICES FALL

Let me quote from the interim reports of the gold delegation of the League of Nations:

> A persistent and world-wide price decline of commodities may be taken as a fairly conclusive evidence that the course of prices is positively and undesirably affected by an inadequate supply of gold (p. 39).

The report further declares that their figures on the state of the gold-mining industry were derived from the opinions of experts who say that there is a prospect of a slight increase in production for the next few years, then a gradual decline up to 1940 and thereafter a rapid reduction in gold output. The report further states that in all probability there will be a gold shortage by 1934.

If we measure the value of the dollar by wheat, there are two factors to be considered to determine the value of the dollar. One is the number of cash and credit dollars in circulation, the other is the number of bushels of wheat offered for sale. With a given quantity of wheat on the market, the price of the wheat may be increased by increasing the amount of money, cash, or credit in circulation. Or the price of wheat may be decreased by increasing the amount of cash and credit circulation. The same rule will apply if you take any other product as an example.

While I know this proposition is elementary, the masses have trusted the bankers so long in the manipulation of their money and the regulation of the value of their property and the prices of the commodities they produce, that it will do no harm to refresh the memory of those interested in industry and agriculture who are more seriously affected by the contraction of currency.

We often hear well-informed people says that there is an "overproduction of commodities" and that there are "more men than jobs."

There is, in fact, no overproduction of commodities, nor are there too many human beings born to do the work of the world. But there is an underproductin of money with which to purchase commodities, the products of farms and factories, and to pay labor for the work that is needed. The representatives of 125,000,000 people go out of their homes in the United States daily for money, the greatest of all necessities, the possession of which means comfort and stability to the family.

If each one had a little more money, or some means of earning it, he or she would purchase more of the commodities produced, thereby increasing the demand for commodities, and business would become more active.

The amount the average person consumes is determined by the amount of cash or credit he has with which to pay for the things he wants. Give him more cash or credit and he will consume more. The average citizen of this country has never reached the limit of his consuming power because he has never had sufficient means to meet it.

It is difficult to convince people that too much wheat is produced while millions are hungry and in actual want of food.

## FEDERAL RESERVE ACT AND ITS RESULTS

The passage of the Federal reserve act in 1913 was clearly in response to a demand for a more flexible currency; one that would meet more adequately the demand for an expanded currency and credit and afford a means of discounting commercial paper, which would, domestically at least, expand and contract approximately according to the amount of wealth available for distribution and to establish a more effective supervision of banking and currency in the United States and for other purposes, such as safeguarding against panics and money stringency.

The results of the passage of this act have been so great and portentious as to be almost immeasurable. It is very doubtful whether President Wilson and his advisors had any conception of the consequences that were to flow from this gigantic concession to the banking powers.

Let us recall, in outline, the magic wrought by the Federal reserve system that the bankers have worked out by experience and practice.

The reserve bank has authority to issue Federal reserve notes to member banks in the ratio of $2.50 of notes to $1 of reserves. So when a member bank deposits $100 cash with a reserve bank, the latter must retain $35 as a reserve against the deposit and may lend on the basis of the remaining $65 in the form of Federal reserve notes two and a half times that amount—$162.50, or in the form of deposits 2.85 times the amount $185.25.

But this is not all. Money borrowed from the reserve bank may in turn be loaned to a customer by the member bank. Thus a member bank having received a cash deposit from a customer, may deposit it with the reserve bank and thereby increase the latter's lending power of $162.50, which the member bank may then borrow and lend to its customers.

The lending power of the member bank may be increased still further, if the loan to its customer merely gives rise to a deposit account and not a cash payment, for against a deposit the member bank needs to keep on the average only a 10 per cent reserve with the reserve bank. Thus the $100 in cash deposited, by being turned over to the reserve bank enables the member bank to lend $1,000 additional to its customers in the form of deposit credit.

At the same time, this addition of $100 to the reserves of the reserve bank increases the latter's own lending power, for after setting aside the $35 as reserve against the $100 deposit, the reserve bank can lend in the form of deposit credit an additional $185 (2.85 times $65). This additional loan of $185 will increase the member bank's reserves by this amount and the latter in turn will be able to increase its own lending of deposit credit by 10 times this amount, that is, by $1,850. So that the $100 deposited in cash with the member bank has increased its lending power directly by $1,000 and through borrowing at the reserve bank $1,850 more, the total increased lending power thus amounts to $2,850. The difference between the $1,000 and the $2,850 represents the additional lending power introduced into the situation by the Federal reserve bank.

The commercial paper discounted for a customer, except for a farmer, must mature within 90 days. This enables the banks to take the interest discount out in advance every 90 days and loan it to another customer, which gives compound interest every quarter, instead of yearly.

Although probably unforeseen by the originators of the Federal reserve legislation, by a reasonable construction of the act, the law permits the commercial banks to function as savings banks under the time-deposit provision of the law.

There are approximately 1,500,000 persons in New York State who have time deposit "thrift accounts" in commercial banks. The "thrift department" is now a feature of almost all the commercial banks functioning as member banks of the Federal reserve banking system. This is a direct invasion of the field of legitimate savings banks whose depositors' funds are safeguarded by much more stringent provisions of the law than those of the commercial banks.

Hundreds of millions of savings deposits are held by commercial banks, whose deluded depositors think that they are fully protected the same as they would be in a legitimate savings bank.

It requires a colossal failure, like that of the Bank of the United States, to open their eyes and reveal to them that the so-called thrift department, where they have been cajoled into placing their savings, is only a delusion and a snare, and that in case of the bank's failure, they must take their position in line with the ordinary commercial depositors and receive no preferred or greater dividends in the settlement of the bank's affairs. In the meantime their deposits have been entered on the books of the bank as time deposits, and as such have enabled the banks to loan their bank deposit credits to the extent of thirty-three times the amount of the depositors' savings. In other words, on the deposit of $100 in cash in the thrift department, the member bank is allowed to loan its credit for $3,300.

No one, at that time, knew or realized what powers were granted to the individuals who were to compose the Federal Reserve Board. No one realized that this powerful board, through its control of currency and credit, could by the inflation of credit and interest rates on loans, encourage and, in fact, aid the orgy of Wall Street speculation such as that experienced in 1929, taking from thousands of people their ready cash and savings and almost every available asset they could turn into money. On the other hand, no one could anticipate that, through deliberate deflation of the quantity of money and credit currency, all kinds of property would lose its value, causing ruin and destruction to those who had invested their life savings in property, stocks, and bonds.

Who will contend that the Federal reserve system has been administered in the interest of legitimate business and industry?

Who can deny that the Federal reserve administration, in cooperation with the central bankers of Europe, was utilized to secure control of gold and regulate circulation of all kinds of money, currency, and credit in this country and abroad?

The volume of gold and its production being limited, the basic monetary metal was easily controlled. According to the report of the United States Mint, approximately $22,500,000,000 worth of gold has been produced since Columbus discovered America in 1492. This figure does not include the gold which may have been hoarded in India and some of the other Asiatic and African countries of which there seems to be no record. Eleven billion dollars' worth of this amount had been utilized in the arts and manufacture of commodities, leaving less than $12,000,000,000 in monetary metal for the people of the world to do business with operating under the gold standard. And along with that in contracts and other obligations payable in gold there are between four hundred and five hundred billion dollars of contract that are supposed to be paid in gold.

After the Federal reserve legislation became operative, credits were easily obtained and widely used. From 1915 to 1920, despite the destructive influence of a World War, America never saw such an era of prosperity.

In every department of human life, from the lowest to the highest, there was a miraculous improvement. Never before in the history of civilization were the necessities and luxuries of life so abundantly and so easily obtained.

The cost of living during this period was high, but the means of meeting that cost were adequate and satisfactory. Enterprise was stimulated throughout the country. Labor was employed, wages the highest on record. In a word, credit and capital were abundant to move profitably the wealth produced by the teeming masses of America. Nearly everybody was making money; everyone was prosperous.

Bankers were more than generous in their loans. They inflated credit, collected interest and bonuses, until practically all of the real primary money was owned and controlled by them, and the gold safely stored away in the vaults of the big banks.

## BANKS' DEALINGS WITH THE AVERAGE MAN

In order to understand how the masses were fleeced in the stock-market crash in 1929, and what caused the closing of 10,000 banks of all kinds in the United States with losses of billions of dollars to the people, let us briefly outline banking operations beginning with the man who earns the dollar. The laborer, the mechanic, and the housewife, in our well-organized system of banks and branch banks under the Federal reserves, seldom go to the commercial discount and collection departments. They go straight to the window marked "Savings." They receive credit for their deposits in their bank books and the amounts received are recorded in the time-deposit book of the bank.

The people who go to the windows marked "Teller" are in a somewhat different class. They represent local trade, commerce, and industry. Their accounts are current, called checking accounts or credit balances. They bring both cash and checks to deposit; and besides making deposits they may often tender their own checks to be cashed at the same time. At the end of the day, the man at the "Teller" windows count up what they have received and what they have paid out, and the difference is recorded in the bank's books as an increase or decrease of demand deposits.

A bank pays interest, so that bank lends its deposits. For each actual dollar of other people's money on demand deposits received, a bank may lend from seven to thirteen times as much bank deposit credit money. In actual operation, in normal times, bank deposit credit loans average about ten times as much as the money deposited by the bank's customers.

Lending to local people is the safest kind of lending but the first thing the local bank does with a part of its surplus credit is to deposit it in a big New York City bank. The New York bank, in turn, may either lend it to a broker on the Stock Exchange who lends it to a speculator, or it may lend it to a foreign bank where the interest rate is very high or the bank may buy foreign Government bonds. It is used then for any purpose the foreign Government may see fit.

Big and little banks all over the country perform the same act of multiplication, all in the same general way, lending their surplus until, in many instances, too much has been loaned on things which afterward turn out to be bubbles.

If the bank has multiplied credit in the ratio of 10 for 1 and its depositors begin to withdraw their cash, the little local bank must call in loans and deposits with the big banks. It calls upon the New York bank to return the amount the local bank has sent it in loans or deposits.

The New York bank has loaned that money on call to the big Wall Street brokers and must call in their outstanding loans. If the banks that supply the Stock Exchange with credit all call at the same time for that credit to be returned, because thousands of local banks all over the country, where the credit came from, are calling upon them to return it, the Stock Exchange brokers are sunk. They must say to their customers: "We can not carry your securities any longer on credit. If you can not pay for them in cash immediately we shall have to sell them for what they will bring to save ourselves."

This causes panic on the Stock Exchange, similar to the one in 1929. The broker's loans collapsed first; in the stampede to sell in order to pay debts, stocks crashed and this started the long train of events which is still going on, including the fall of commodity prices. Selling, at first normal, soon turns into distress selling, which is forced selling to preserve one's solvency. The more stocks and commodities are sold because of lowering prices, the more prices sink and compel further selling.

In many instances, the New York bank has loaned the credit to a bank in Berlin or some other part of Europe, or perhaps to South America, and can not get it back. It is obliged to return the credit to the small local bank. In that case the New York bank must sell some securities out of its own reserve investments. But if all the New York banks are doing the same thing at the same time, the effect on the Stock Exchange is even worse. The banks will be selling bonds where speculators would be selling stocks, and the effect upon the mind of the country from a fall in bonds is much more distressing.

The local bank may get its credit back from the New York bank and find that it is not enough because its depositors continue to withdraw their money.

Then the local bank begins to sell its foreign bonds, which were purchased through the solicitation of expert salesmen and the New York investment banks. It finds quoted at 30 the same bonds for which it paid 90. If the bank sells them at 30, it will lose forever two-thirds of its credit loaned to the foreign government through its purchase of such bonds.

The bank must then sell its United States Government bonds. Even these prime securities have declined in price under the selling by thousands of other banks, all in the same dilemma.

Having sold its United States Government bonds, the local bank continues for a while, paying off its depositors, telling them everything will be all right, hoping for the best. The bank examiners from the Comptroller's office come unexpectedly to look at the books. They find that the bank has sold its best assets and, to make the books balance, it is carrying bad assets at the values it paid for them; the foreign bonds now selling at 30 or even less still valued on the books of the bank at 90 or 95. The examiners decide the bank is not solvent and that it will have to close.

Pyramiding of credit and collecting profits in interest by the banks with too small a deposit or base of real money is a most dangerous policy for the welfare of those who deposit real money. Pyramiding paper money on too small a volume of gold reserve and the bolstering up of bankrupt foreign countries with the wealth of the people of this country have resulted in the breakdown of the people's wealth. That is the fundamental cause of this depression.

The business of creating paper money and credit on a pinpoint of gold and setting it free in the hands of big bankers and others is one of the most dangerous schemes of money manipulation that has ever been foistered upon the producing business interests and the people of any nation.

Senator REED. Mayor Hylan, we have a number of other witnesses who have come from considerable distances, and we can not give a witness more than an hour, if we are to let the other witnesses be heard; and there are only five minutes left of the first hour.

Mr. HYLAN. This is very important. I would like you to hear this.

Senator REED. I know; but what the other witnesses have to say is also very important. So I am going to ask you to come down to your concrete suggestions. You can put that all in our record, and we will read it and the country will read it; but it is not fair to the other witnesses to take a portion of their time.

Senator WAGNER. I hope that you will give the mayor a little more time. He has an important message.

Senator BARKLEY. Considerate to him as well as to the others.

Senator HARRISON. We were a little late getting started this morning, it is true; but we have on the calendar for to-day five people who are here to be heard. But if the mayor can eliminate some of these details.

Mr. HYLAN. I will hurry along as rapidly as I can, because there are facts here at least that you ought to hear, whether you agree with me or not.

SAVINGS SUNK IN SPECULATION

During the recent years of prosperity every possible means was employed by the investment bankers to induce the producers to part with their savings. High-pressure salesmen, through alluring and misleading propaganda, induced them to invest in stocks and bonds of all kinds. New issues, split-ups in corporations, capital increases and rights to buy stock, all expanded and inflated the number of shares that represented the real value of the corporations in which the people were advised to invest. In many instances the bankers and brokers encouraged the public to borrow in order to make additional investments.

In these instances all that the people received for their paper money, which they believed could be exchanged for or redeemed in gold in countries under the gold standard, was nicely engraved paper stocks and bonds. To get the paper money away from them so they could not demand gold for it, they were induced to part with this paper money for stocks and bonds on which the Government stamp was lacking and on the presentation of which they could not demand gold.

Loans upon loans were made; commissions, interest, and bonuses were collected by banks and bankers; debts accumulated; obligations were refinanced, until at the present time there are international obligations, Federal debts, State, municipal, and public obligations totaling over $500,000,000,000.

Foreign countries and their people owe to our Government, the money lenders, and the people of the United States more than $17,000,000,000.

### A DEBT BURDEN OF $220,000,000,000

The monetary obligations of the people of the United States, Federal, State, and municipal governments, along with private debts and interest-bearing obligations, have increased to the enormous total of $220,000,000,000. Each year, each month, each week, each day adds to the growing mass of interest-bearing obligations, all of which are promised to be paid in monetary gold, of which the world possesses at the present time less than $12,000,000,000.

The speculative orgy in Wall Street absorbed most of the people's money. They took money out of the savings and other banks. They pledged their industrial and other good securities which they had purchased at high prices and bought additional stock on margin.

Of the Latin American bond issues that had been recommended to investors by the very best Wall Street banks and their bond-selling affiliates—of these alone, I am informed, 56 issues, aggregating more than $800,000,000, are in default, and the fate of others not actually in default is very uncertain.

One by one the international bankers appeared before committees of inquiry of the United States Senate, all saying that at the time they were issued they thought the bonds were good, and all alike disavowing further responsibility. They had not guaranteed the bonds or the validity of them. They were not responsible for how the money was spent or misspent; the borrowers were responsible. And as for the foreign-bond delerium in this country, that was something the people, the private investors, had done to themselves.

These international and investment bankers call themselves "merchants," with respect to the sale of bonds and stocks to the public. All they have to offer now are disavowals and regrets—very cold comfort to the investors who lost billions through their urging and advice.

A member of the most powerful private international banking house in giving testimony said to the Senate committee:

> We are merchants. That is what we are, just like any merchants in the grain business, in the cotton business, or anything else.

He said:

> Speculation was in the air, and the speculators wanted to buy, buy, buy, and the bankers and brokers dealing in securities supplied that demand. I think they were trying to supply what the customers wanted. I think the banker is like the grocer; he supplies what his customers want.

It is a sad state of affairs in our country when men of a trusted group, as the bankers were, can sell the public gold bricks and then in an endeavor to evade responsibility hide under the assumed title of "merchant."

American investors did not demand that the investment banker search the world for foreign borrowers. It was the big bankers and their foreign allies who initiated these foreign bond issues and reaped huge profits from them. Foreign bonds were extensively advertised. The big banks forced them on the smaller banks. They pressed upon the investor through costly selling organizations, by house-to-house canvass, even by radio ballyhoo, their merchandise, stocks, and bonds beautifully engraved.

The people are amazed at the recklessness of American bankers in selling to the public foreign and other securities in which millions of trusting investors lost their lifetime savings, and then these bankers ask the people to have confidence in them by parting with more of their savings. So long as the Government did not object, Wall Street went on bringing out German bond issues faster and faster, for German industry, German agriculture, German ports. It kept hundreds of representatives in Germany soliciting all of these sources for bonds to sell to the American public.

The investment bankers bankers had solicitors in almost every country in the world, bartering away American credit for the commissions and bonuses they could get out of such deals.

### LENDING OUR BILLIONS TO EUROPE

While the banks were lending money to Europe to extend European agriculture they were also extending credit for economic engineering to restrict the products of American manufacturers, plunging them into debt; they were loaning billions to European countries to build up their plants and factories to compete with us in foreign trades. These huge loans made the people of foreign countries debtors of American investors to the extent of billions and bound the borrowers to pay nearly a billion dollars annually in tribute money. Having gotten our money—some $17,000,000,000 of it—they now default, saying they can not pay principal or interest, leaving us with the bag to hold.

The American bankers in lending American credits to Europe did not insist upon—did not demand—an increase in the American export trade. The most extraordinary act was the lending of our credit to our debtors in order that they could make payments to us on their debts. American loans to Germany enabled Germany to pay reparations to the Allies. Reparations from Germany enabled the Allies to pay interest on their war debts to the United States, hardly touching their own pockets. We were the victims of this vicious circle.

Nations which borrow American money actually needed for constructive purposes seldom incur obligations beyond their capacity to handle. They may be expected to pay their debts. But doubtful or inadequately secured foreign loans are extremely risky. Here the responsibility rests heavily upon the investment banker. The banker should never be lured either by the desire for profit or the desire for reputation to recommend an investment which he does not have every reason to believe is good and will be paid.

Because of the argument for endless world prosperity as a product of unlimited credit bestowed upon foreign trade, the banks loaned billions of American credit to our debtors, to our competitors, and to our customers. They loaned credit to competitors, who loaned it to their customers. The bankers loaned credit to Germany, who loaned credit to Russia for the purpose of enabling Russia to buy German commodities.

Railroad and other bonds were about to mature. The central and investment bankers saw an opportunity to get back dollars with a purchasing power worth from 62 to 80 cents more than the dollar they originally loaned so that refused to extend the loans. Then some one suggested the Reconstruction Finance Corporation to substitute public credit for private credit. The people's money was loaned by the Government through the Reconstruction Finance Corporation to the railroads and others to pay these obligations to the banks when they matured. The banks thus were enabled to unload on the Government many undesirable loans and get rid of a big burden of frozen assets or unprofitable issues. They rode the Reconstruction Finance Corporation for hundreds of millions.

After many years of floundering and only a short time before the World War, the formula for the most efficient credit and national wrecking machine—if viciously operated—that was ever invented was discovered. This was the Federal reserve system, diverted from its original purpose and manipulated so as to give us a financial government of the banks, by the banks, and for the banks.

### THE DISTRESS OF DEFLATION

The industrial, agricultural, or economic equilibrium program was inaugurated and, from the viewpoint of its powerful sponsors, the big bankers, worked to force prices of commodities and the value of property far below real values and cost of production. To-day we have the highest valued dollar and the lowest property and commodity values in history. Bankruptcy, business failure, unemployment, and misery prevail.

In enforcing their economic equilibrium policy by the forcible reduction of the prices of commodities, the international bankers and their allies are reducing the wages of American workmen to the level of the pauper labor of Europe, thereby depriving labor of its just wage and lowering the standard of living in the United States. The distributing and giving of doles seems to be a part of the scheme to keep the people quiet and subservient while the economic equilibrium surgeon is performing the operation.

Under this scheme a large part of the money in circulation has been withdrawn. Deflation is in progress. The price of practically everything has fallen below the cost of production. The value of the dollar went up and the prices of commodities, farm lands, real estate, and property generally have fallen to extremely low levels, spreading financial distress and bankruptcy throughout the land.

The confidence of the people in the financial institutions of this country has been destroyed. They have lost faith not only in the bankers and brokers, in stocks and bonds, but also in the laws upon which they had fondly believed their prosperity was firmly fixed.

Woe to those who have betrayed this trust! When the unemployed and those who have lost the result of their life's labor and the savings put aside for their families, understand how it was done and who did it they will drive out those who betrayed them even as Christ himself drove the greedy money changers from the temple.

Senator REED. What would you do about it, Mayor?

Mr. HYLAN. I will give you the remedies in a few minutes—my idea.

### A CHANGE OF POLICY IS IMPERATIVE

This depression has blasted the hopes of millions of Americans. The 1929 stock speculative orgy was the revival of the same kind of scheme as the French people experienced when John Law put over his Mississippi Bubble and the Earl of Oxford put over on the British people the South Sea Bubble, where the investors lost all their savings and the governments became involved in their financial frauds.

The governors of the Federal Reserve Board, their officers and advisory council in May, 1920, met in executive session and decreed that the circulating medium must be restricted, credits must be drastically curtailed, that all temporary currency must be withdrawn.

When this was determined upon, the bank officials did not call an international conference to determine that there should be deflation. They met in the United States. The conference was composed wholly of American bankers. There was established by them, for the banks of the country, a maximum or what they termed a base line of credit beyond which a progressive and graduated discount rate should be applied. There followed the deflation which drove down values by billions and caused thousands to lose their stores, factories, farms, and homes. Far more disastrous results have followed the deflation caused by the panic and depression of the past three years.

We are told from time to time that there is more money in existence in America to-day than there was during the time of prosperity and that there should be no attempt to increase the currency supply and the circulation of it or expand the credit of the country.

If the volume of money in the United States is as great to-day as it was from 1915 to 1920, where is it and why is it not put in circulation to relieve distress?

VALUES DESTROYED, THEY WOULD NOT RESTRICT PRODUCTION

After unloading upon the people stock and bonds at highly inflated prices and getting real money for this paper, the policy was changed. Those responsible brought about the destruction of market values of all kinds of property and commodities. Through their equilibrium policy, they aim to compel the producer to produce only the volume and quantity of goods which the public now have money to purchase. They want them to maintain an equilibrium between production, distribution, and consumption. By this policy the producers will be prevented from making things that the people need because there will be too many things to sell rather than because there will be too many things to use. The people who need them must do without because they have no money with which to buy.

At a luncheon of the English Speaking Union held in London in June, 1931, Professor Sprague, economic adviser to the Bank of England, said that there were two ways of overcoming the depression; one way, by increasing the volume or quantity of the metallic medium, gold money; and that the Bank of France, the Bank of England, and the Federal Reserve of New York were against this method, and added: "The central banks could do that if they were convinced that it was advisable." The other method was the industrial, agricultural, or economic equilibrium plan favored by the central bankers, which would require a world dictator to carry out.

Not satisfied with control of the monetary metal, gold, the big bankers have set out to secure control of the production and distribution of the necessities of life. And I regret that I haven't time to go into that more carefully.

Interest has played a great part in bringing the world to its present plight. To one who gives a little thought or attention to this subject the result of figuring interest, compounded and recompounded, would be astonishing. It is largely through accumulations of interest that the financial obligations of the world have increased to the enormous total (according to reliable economists) of over $500,000,000,000.

ABRAHAM LINCOLN'S WARNING

Abraham Lincoln, in a speech in the hall of the house of representatives, Springfield, Ill., December, 1839, discussing the subtreasury scheme as a means of collecting, safekeeping, transferring, and disbursing the revenue of the Nation as contrasted with a national bank for the same purpose, contended that the subtreasury would keep the money collected in iron boxes, locked up in idleness (thereby taking it out of circulation) while if it was deposited in the national bank the money could be kept in circulation among the people by making loans to those wishing to borrow it until such time as the Government was obliged to use it.

In referring to the policy of the subtreasury, he said:

> More than half of all the specie belonging to the fifteen millions of souls who compose the whole population of the country, is thrown into the hands of the public officeholders, and other public creditors, composing in number perhaps not more than one quarter of a million, leaving the other fourteen millions and three-quarters to get along as best they can, with less than one-half of the specie of the country, and whatever rags and shin plasters they may be able to put and keep in circulation. * * *

When one hundred millions, or more, of the circulation we now have shall be withdrawn, who can contemplate without terror the distress, ruin, bankruptcy, and beggary that must follow. The man who has purchased any article—say, a horse—on credit, at $100, when there are two hundred millions circulating in this country, if the quantity be reduced to one hundred millions by the arrival of pay day will find the horse but sufficient to pay half the debt; and the other half must either be paid out of his other means, and thereby become a clear loss to his creditor.

What I have here said of a single case of the purchase of a horse will hold good in every case of a debt existing at the time a reduction in the quantity of money occurs, by whomsoever, and for whatsoever, it may have been contracted. It may be said that what the debtor loses the creditor gains by this operation; but on examination this will be found true only to a very limited extent. It is more generally true that all lose by it—the creditor by losing more of his debts than he gains by the increased value of those he collects; the debtor by either parting with more of his property to pay his debts than he received in contracting them, or by entirely breaking up his business, and thereby being thrown upon the world in idleness. * * *

Dr. Nicholas Murray Butler, in an address delivered before the Economic Club of Chicago, on April 15, 1932, said:

Deflation has gone on to an extent which is without parallel, and every day the value of what we do and of what we own is falling not only in those countries which are without a supply of gold but in those like France and the United States, which have gold in superabundance.

If Doctor Butler had applied the same logic to the superabundance of gold he referred to—which is deposited in the vaults, in iron boxes, locked up in idleness in the Bank of France and the Federal Reserve Bank of the United States, out of circulation—as Abraham Lincoln did to the people's money locked up in idleness in the United States Subtreasury and out of circulation, he would then realize why the value of what we do and of what we own is falling in France and the United States as well as in those countries which do not have as large a supply of gold.

If Congress would profit by the sound reasoning of Abraham Lincoln, with reference to the quantity of money and its actual circulation, and enact proper laws, the hoarding; the locking of it up in idleness by the banks; the revelry in high finance; the orgy of profit making; the carrying out of the industrial, agricultural, or economic equilibrium program of the international bankers to curtail and control farm and industrial products; and the resultant unemployment, distress, ruin, and beggary would end. Such a return to common sense and sound reasoning would bring prosperity again to our millions. There is only one way to stabilize the general level of prices and restore and continue prosperity, and that is through honest monetary regulation, if the gold standard is to be continued.

### FAIR INCREASE IN CURRENCY IS NOT INFLATION

There is an equitable limit to the quantity or volume of currency that should be maintained to keep a proper ratio between money and commodities, commerce and population. Increase beyond this normal or equitable limit would be "inflation" so far as regards the volume of money, but "deflation," so far as the purchasing power of the money is concerned. Decrease in the quantity of money below this normal or equitable limit would be "deflation" in the quantity or volume of money, but "inflation" in its purchasing power.

The volume of primary money is not now sufficient to stabilize the price of commodities; therefore a reasonable increase in this volume would not be inflation and could not fairly be construed.

The stock argument of those who are opposed to a proper volume of currency and its circulation among the people, as a means of restoring confidence and commodity prices to normal conditions is that of Germany's inflation of the mark. The answer is that Germany was a defeated, bankrupt, and debtor nation without a gold reserve or other national resources on which to base her currency. Prior to and during the war, many of the wealthy took their gold and other valuables out of Germany and deposited such securities in other countries. After the war, realizing her deplorable condition, she began to issue marks to pay her obligations, and as the obligations increased, she continued to print additional marks. It has been said that Germany deliberately inflated its currency. It was part of German strategy to dispose of her war debts by repudiation, just as France did to the extent of four-fifths, and Italy to the extent of three-fourths.

We can profit by one lesson from the expansion of currency in Germany, France, and Italy. Commodity values increased with the volume of inflated money.

The situation in the United States is entirely different. One-third of all the monetary metal in the world is in the vaults of the bankers and the United States Treasury. We have a superabundance of wealth and commodities, raw materials, and other national resources, and are the world's greatest creditor Nation. Our dollar and the manipulation of it by the Federal reserve, under its policy and that of the central bankers is utilized destructively, resulting in unemployment, suicides, loss of homes, farms, foreclosures, bankruptcies, and unbalanced budgets. It compels the debtor to produce three times the volume of commodities to secure that dollar to pay what he justly owes.

Any further taxation on earned incomes as a means of balancing the Budget will retard the restoration of prosperity instead of hastening it. We will never be able to balance the Budget until commodities, raw materials, and other values are restored in proper ratio to the dollar.

Senator HARRISON. Do I understand from that that you do not favor an increase in taxes if it is necessary to balance the Budget?

Mr. HYLAN. Some taxes, yes. But I do not favor placing any further burden on the man who produces. The producer of the country. The man who goes out and extends his business and employs help and builds up the country. He ought not to be taxed to death.

The irresistible conclusion must be reached that, fundamentally, the present industrial and trade depression was caused and still exists by reason of an insufficient and inadequate world and national medium of exchange, and by the attendant circumstances of the deflation of currency and credit resulting from the control which the Federal Reserve Board has exercised over currency and credit.

President Hoover, in his address at the Lincoln Day dinner in the Waldorf Astoria Hotel, New York City, on February 13, said:

> If the world is to secure economic peace, it must break vicious fiscal and financial circles.

I agree with him, and I think that the 12,000,000 people out of employment, and millions of others who are affected by the depression, are beginning to realize the viciousness of this financial circle. Central bankers and other big bankers, their control over the monetary metal, gold, their control over currency and credit and the circulation of it, along with the contraction of credit currency as well as the new scheme inaugurated by them to secure control and regulate production of the necessities of life, through their industrial, agricultural, or economic equilibrium programs, are the links in the vicious circle which must be broken before economic peace and prosperity can be restored.

If any one questions the power exercised by the central banking group, I refer them to the report of the gold delegation of the League of Nations, page 15, paragraph 34, which reads as follows:

> The successful operation of any banking system, whether central or commercial banking, must depend upon the acceptance of certain common principles and conventions by all its members. Thus, if an important commercial bank decides suddenly to modify its average cash reserve ratios, it may force on the whole system an inflation or deflation of deposit currency proportionate to the extent of that change and to its own importance in the banking community. In central banking, the greatest influence is exercised by the banks of those countries which are large exporters of capital, for they are able to influence both the flow of funds to or from, and the rates of interest in, other money markets. In recent years, this power has rested mainly with the United States of America, the United Kingdom, and France.

There are, of course, numerous other contributory and incidental causes of the depression, such as trade, exchange and tariff restrictions and the tremendous burden of public debts.

The battle for the possession and control of the monetary metal, gold, among the international bankers will continue and the people will be obliged to suffer because of depression as they now suffer until the people through government channels take control of the currency system of their country.

## REMEDIES

What then can be done to remedy the manifest evils of our present condition? What measures must be taken if we are to be rescued from the ruinous monetary policy and the economic equilibrium program of the central bankers?

The first thing to be considered is the need of a substantial and adequate supply of currency and credit, and its proper circulation among the people.

I agree with former Senator Owens. The remedy is to expand and control the expansion of currency and credit and to counteract the unjust, the unsound, the ruinous contraction of currency and credit which has taken place, thereby restoring the peoples' confidence not alone in the monetary system but in our Government as well.

The Federal Reserve banks could have given the country relief by the vigorous expansion of credit and currency since the man-made catastrophe of November, 1929, took place. Instead they contracted credit and currency. This policy has exerted its ruinous consequences upon the people of the United States. It is indefensible and, if persisted in, may lead to remedies much more drastic than the public interest requires.

The Secretary of the Treasury could remedy this deplorable condition, if he would, by issuing legal tender Treasury notes, not redeemable but interchangeable with gold, and using such notes to redeem or purchase United States bonds and pay other governmental obligations. This would afford a saving of interest on bonds and would furnish an adequate medium of exchange which can not be cornered but which can be definitely and positively controlled by Government action in behalf of the people of the country.

These Treasury notes could be put in circulation by redeeming the bonds aforementioned and by paying the current expenses of the Government in lieu of levying additional taxes upon the people or further penalizing honest business interests.

When this money flows into the hands of the people, some of it, of course, would go into banks. If it did, it would go into the banks as demand deposits of the people, subject to check, which would add to the volume of available currency. Such deposits could not be canceled by calling loans. If the banks would deposit it with the Federal reserve banks it would add to their reserves and entitle them to issue approximately ten times as much new credit as they deposit; so that credit conditions would be made still easier for the banks and their fear of not being able to get currency against the demands of depositors would be abated.

The real value of the proposed remedy is to reestablish confidence in the country, to cause the value of commodities to rise, and to make people understand that the hoarding of currency, however justified for private reasons or otherwise, is against the public interest and, ultimately, against the interest of the hoarders themselves.

If it is clear that the policy of the Government is to expand the currency then those people who have put their investments in such form as to secure the advantage of a rising market would invest in stocks and bonds and in property. Those waiting to see if the expansion of credit and currency is going to take place and who have been keeping their funds liquid for a rising market would invest when the stability of the market becomes assured.

The United States, through the medium of Congress, should appoint a committee to make a survey and study of the monetary question to determine if there is enough gold available in the world to produce the volume of real money and credit required to meet the needs of the Government and incidentally, those nations operating on the gold standard.

Such a committee could invite the representatives of the gold standard and gold exchange standard countries to participate if they wish.

If it is found that there is enough gold available and it is deemed wise to continue to operate under the gold standard, there are four outstanding suggestions which will help to restore our prosperity and to maintain stable property values and commodity prices:

First. Actual possession, control, and regulation by the Government directly of a sufficient quantity of monetary metal to establish and maintain such a volume of currency and reserve for credit money as is decided upon and to redeem all kinds of paper or token money issued.

Second. A larger volume or quantity of standard, primary, or basic money, as well as bank credit currency, to maintain a proper ratio between currency, property, and commodities, and to meet the needs of an ever-increasing population and the tremendous expansion of world and domestic commerce to maintain in so far as possible a stable level of prices.

Third. A wider and more active circulation of such currency among the masses—those who do not borrow from banks, those who must have some real money in their possession—thereby creating a greater purchasing power among the masses.

Fourth. A stronger, more stable credit basis of reserve, and the control by Congress (not by bankers) of the expansion and contraction of currency and credit, if possible.

If it is found that there is not sufficient available gold to maintain a proper ratio between the necessary volume of money and commodities and the additional uses for money (as well as the maintenance of a proper redemption base and credit reserve for international and domestic purposes) and it is deemed advisable to continue a commodity money basis, then another metal should be given the same recognition as gold (through an act of Congress) so that a proper equilibrium can be maintained between money, property, commodities, and the expansion of commerce, and also to provide for a proper redemption base and credit reserve.

If this is not done, then the only remedy would seem to be a reduction of the metallic content of the gold dollar. That is, a decrease in the number of grains to below 25.8 now contained in the dollar. This would presuppose that the Government should obtain the ownership and control of all monetary gold in the country before the decrease in the metallic content should be put into effect, as otherwise the great banks which own the gold would profit to the extent of billions of dollars by such operation.

Federal reserve notes are issued to the Federal reserve banks and national-bank notes are issued to the national banks by the Government upon deposit of Government bonds which, issued by the Government and sold to the people, bear interest, burdening the people with millions of dollars of interest annually. The people buy these bonds from the Government, realizing that the Government is the security back of these bonds, and no one seems to be afraid to purchase them. Why should they fear to take at face value any currency issued by the Government, behind which is precisely the same security, which has the full backing of the Government and people of the United States, and which carries no interest-bearing obligations, placing no further interest debt upon the Government and its taxpayers?

To put money into circulation, great public works—Federal, State, and municipal—should be instituted, putting to work millions of people. Instead of issuing interest-bearing bonds, the Government could issue a sufficient amount of Treasury notes to enable it to extend credit to States and municipalities taking part in the public works program and could pay the labor of millions of people now out of work who would gladly accept the Treasury notes in exchange for their labor and services. Trust to the unemployed in this country to take this money from Uncle Sam and convert it into food and clothing for their children and dependents.

The unemployed will secure work through such a plan and will take these Treasury notes in payment for their service, inasmuch as the Government is behind them. This money can be made legal tender to pay obligations such as income tax, taxes to be paid to the municipalities and to the State governments, and when this money finally gets back to the Federal authorities it can be cancelled or reissued, according to the necessities of the situation. In the meantime, the people will be put to work. They will be able to purchase food, clothing, and other necessities of life, which will help the producers and business interests to make a profit.

The debt of the country during the World War was increased to over forty billions in the sale of interest-bearing bonds and other ways to help Europe win the war. Won't the bankers let the Government help the 12,000,000 unemployed Americans with a Treasury note issue which will save millions in interest and help balance the Budget, as well as send millions back to work?

The suggested remedies would help to stabilize property values and commodity prices. Producers, the manufacturers, and the farmers can then operate at a profit and be assured that the value of their property and their savings, measured in basic, yardstick money, will not disappear or evaporate as the sun melts the snow.

### CONCLUSION

In conclusion, may we not hope that the incoming Congress will see that the control of currency and credit shall be taken away from the banks and bankers in the United States and that such control be restored to the Government; that ample currency and credit may be made abundantly available for the American people, enabling them to build up industry, employ labor, stabilize the prices of property and commodities, and relieve the present depression and distress; and that tariffs may be so adjusted that trade barriers may be removed, and markets found for our surplus, restoring profitable trade with our own people and other nations, and that our country resume its leadership among the nations in progress and civilization?

I thank you for giving me so much time.

The CHAIRMAN. Thank you.

We will next hear Mr. E. D. Duffield, Newark, N. J.

## STATEMENT OF EDWARD D. DUFFIELD, SOUTH ORANGE, N. J., PRESIDENT OF THE PRUDENTIAL LIFE INSURANCE CO.

The CHAIRMAN. Give your full name and address for the record.

Mr. DUFFIELD. Edward D. Duffield. South Orange, N. J.

Senator REED. You are president of the Prudential Life Insurance Co., are you not?

Mr. DUFFIELD. I am president of the Prudential Life Insurance Co.

Senator REED. And acting president of Princeton University?

Mr. DUFFIELD. Yes, sir.

Mr. Chairman and members of the committee, at the outset I want to say that in accepting the invitation of the committee to appear here I had a real feeling of diffidence because I realize how little I can contribute to the problem which you are seeking to solve. I am not a political economist, and I do not claim to be an authority on international finance, or, indeed, an authority on economics.

Senator HARRISON. We may get some good out of you then.

Mr. DUFFIELD. I really felt that the best service that I could render the committee was to discuss in an informal way the problem which is presented to you in the light of such business experience as I may have and in connection with the situation that presents itself to us during the period of this depression. And I have more hesitancy because I realize the difficulty and possibly the impossibility of the task which is presented to this committee. We have grown so accustomed to expect Government to take care of everything that we are, I suppose, generally looking for Government to provide a means to escape from the dilemma in which we find ourselves which possibly and indeed probably it can not do solely and by itself.

It seems to me, Mr. Chairman, that the fundamental difficulty which prevents a resumption of ordinary activities is a general lack of confidence. What we are faced with is a fear of the unknown. We are fearful of what may happen in the future, and as long as that situation continues it is impossible, in my opinion, for business to advance, for industry to become active and for agriculture to secure the fruits of its endeavor. People are fearful, and when people are fearful they are not willing to risk the future, and yet all business, all commerce depends, as I see it, upon a stabilized situation, at least to a degree.

When men are confident of what may happen they face that situation, meet it and proceed. And therefore it seems to me that the problem that presents itself not only to legislative bodies but to individuals, is a restoration of confidence and a dissipation of fear.

Therefore in the few words that I want to say I want to address myself to that subject. I realize that much that I may say you are familiar with quite as well as I, and I say so, I trust, with a full recognition of the fact, but nevertheless with a purpose to indicate where to some degree, at least, confidence may be restored and fear may be dissipated.

I want to suggest to you three matters, two of which I desire to treat of very briefly, and the third which possibly by reason of the business in which I am engaged I might develop at somewhat greater length.

I will say at the outset, and I say this with a great degree of hesitancy, that I believe the thing of primary importance is the balancing of the Federal Budget. I say that, as I said, with hesitancy, because I do not question that every member of this committee agrees with me. I do not question that, speaking generally, every Member of Congress agrees with me as to the necessity and desirability of balancing the Budget. But it is a factor in the uncertainty which confronts the country that the Federal expenditures have for a period of years now exceeded their receipts. And that has not been unique with the Federal Government. It has been the same with the State governments, it has been the same with the municipalities, it has been the same with private organizations and individuals. And the necessity of that being accomplished is not merely to regulate Federal finances, as I see it, but it is also to act as an example to State governments, to municipal governments, and, to corporations and individuals.

My hesitancy is due to the fact that I believe an honest effort has been made not only in Congress but in the State legislatures to solve this problem. The difficulty with the problem arises out of a lack of agreement as to the methods to be pursued, and that again I think on analysis was almost inevitable. What must be done, of course, is either to reduce expenditures or to increase receipts or to do both.

Now, the minute that that problem is stated you have the situation that what you, sir, might think is a necessary feature of government I might think is unnecessary, and therefore I would be in favor of dropping that or curtailing that, while you would be in favor of continuing it. On the other hand, there may be some proposal of curtailment of some governmental feature in which I was interested and which you might thing was unessential, and therefore I would not be in favor of curtailment in that particular..

The same thing is true with regard to the raising of taxes or the increasing of revenues. Nobody is in favor of taxing themselves. Everyone is in favor of taxing some one else. No increase in revenue is possible without being burdensome to some one, and as long as some one finds that it is burdensome some one objects to that particular form of increased governmental revenue.

Therefore, as I say, in referring to this I am not doing it in a critical attitude, but I merely feel that I should refer to that as one of the causes which is occasioning the present uncertainty, the present lack of confidence, and the present unrest which prevents a restoration, as I see it, of commerce and through commerce an increase in the activities of business and industry.

The CHAIRMAN. And those are the very questions that we desire you to discuss. And we appreciate it greatly.

Senator HARRISON. We are glad you know our difficulties.

Mr. DUFFIELD. Well, I certainly do.

Senator REED. Most people do not, Mr. Duffield.

Mr. DUFFIELD. I think it is perfectly obvious, Senator, and the only suggestion that I can make to this committee to meet that is that I think that a repetition of the necessity of a give and take policy in order to arrive at the conclusion which all will agree is desirable, is quite essential.

I will say further that I do not believe that the ready solution which is always offered of a curtailment of salary furnishes any solution to the problem either in the State or Nation. A certain amount can be done, but you can not balance the Budget by reducing the salaries paid to those who are working for the Government. You can cut off activities. You can remove those and find that they are unnecessary. But I do not believe that the solution which is so readily and universally offered, of a reduction of salary as meeting this whole problem, is any solution at all.

I suggest as the second matter which it seems to me is causing public unrest and public uncertainty is the fear that in some way our monetary system will be radically changed. You can not expect business to develop where those who are engaged in it are uncertain as to what will be the value of the circulating medium at the time in which the business is transacted. There must be some reasonable certainty as to conditions existing in the future in order to enable business to be conducted and in order to enable men to risk their capital in the hope of a profit and a return.

And so I say again that the discussion, the fear that there is in the minds of many that some radical change will be made in our whole monetary system and that there will be an alteration in the value of the dollar is another cause of uncertainty which in my opinion interferes with a resumption of normal activity.

Senator La Follette. Mr. Duffield, how are you ever going to eliminate that fear when the constant decline of business and the increased suffering increased the agitation for some monetary approach to this problem?

Mr. Duffield. Well, Senator, frankly I can not discuss with you, because you are more familiar than I with the technical question of the effect, or the method, or those matters which go into the gold standard, and the continuance and maintenance of it, and the importance of it. I would be glad to do it, but I am quite sure that it would be ineffective. The point I want to make is——

Senator La Follette. I am not trying to argue about inflation, as to whether it is desirable or undesirable. But it has been the history of all past depressions, and it is showing itself in this depression, that as the situation becomes more critical the agitation and discussion of this thing which you think creates uncertainty and fear increases; and what could Congress do to allay or prevent that public discussion? I can not see anything that we could do about it.

Mr. Duffield. Well, the difficulty with that is, Senator, as it seems to me, that if it were once assumed that we were to begin inflation—we hear a great deal about controlled inflation—but the difficulty is, Where will you control inflation? For the basis of my argument it might be that a stabilized dollar at 70 cents would allay and would create a condition in which, if business were assured that it would remain at 70 cents indefinitely, would enable the business man to risk his money and buy his goods and start with the hope of making a profit. The difficulty, as I see it—and I am speaking now as a layman and not as an expert—is, Where do you stop? The minute that you reach the basis of 70 cents the debtors are not relieved. The pressure increases.

Senator La Follette. You misunderstand my question, Mr. Duffield. I do not care to argue with you about the desirability or the undesirability of inflation as an attack upon this depression. But you have mentioned it as one of the factors of fear and uncertainty which ought to be eliminated, and the point which I am trying to bring out and to bring to your attention is that as the situation becomes more desperate there is more and more agitation—even if it did not occur in Congress it occurs in the public mind—for an inflationary approach. I can see it in my own mail, and I am sure my colleagues would bear me out, that more and more indication of the wide-spread interest in inflationary procedure is coming in to us. Now, we can not do anything to stop the public from thinking about inflation and talking about it.

Mr. Duffield. No, Senator, but I think that if Congress could assure the country that the pledges in the two platforms for sound money would be carried out without alteration or change, and that the monetary system would not be radically changed, confidence would be restored, that business would be conducted on a monetary system where the same value which exists to-day would exist six months from now. I think under those circumstances the fear which now exists would be relieved, and I believe that hoarding which now is being accomplished would be eliminated. And I believe that the draft upon us made now by foreign countries would be lessened to a degree that the strain would be removed. And I believe that the extension of credit which would result by such a declaration from Congress would expand credit to a point which would alleviate the situation of tight money which may be created by reason of the fear which has been occasioned, by reason of the very pressure to which you refer.

That is the best answer I can give you, Senator.

Senator LA FOLLETTE. Assuming that everything you say is true, for the sake of the argument, Congress might pass a resolution to-morrow reaffirming the position taken in the party platforms, but that is not going to prevent the same Congress or the next Congress from taking up a serious discussion of monetary procedure. And in the meantime the agitation goes on over the radio and in the public prints and in meetings and discussions. I do not quite see how we are going to stem the tide of this discussion about the monetary inflation.

Mr. DUFFIELD. Senator, do not misunderstand me. I said at the outset that I do not believe Congress in and by itself can cure this, nor do I blame Congress nor criticize Congress for the creation of this uncertainty. But I do believe it is something which Congress should have in mind, and I believe that Congress in cooperation with the individual citizen could allay this appeal for a varying currency instead of a constant one, and if it would do that it would go far to restore credit, which in turn would meet the needs of the country with its present circulating medium.

Senator LA FOLLETTE. You are expressing a wish rather than giving us any means of carrying it out.

Mr. DUFFIELD. Well, I think you have indicated very clearly, Senator, the limits to which Congress can go. And I, for one, do not expect Congress to accomplish every result necessary to the restoration of prosperity.

Senator REED. Mr. Duffield, you have suggested that Congress could do something to allay this agitation. I want to ask you what you have done? Have you explained to your policyholders that any of these schemes of inflation would mean that the value of their dollars would shrink? That they, who have paid you good dollars would get back bad dollars? Have you?

Mr. DUFFIELD. Well frankly, Senator, I have not. I am not sure that I should not have. The reason that I have not has been that it seems to me that this whole discussion creates a situation which is disastrous and injurious, and I have felt that so far at least, it was unwise to endeavor to enter into the field of argument. But I think you are perfectly correct, and at a later stage of what I have to say I would desire to cover that point.

Senator REED. We talk about inflation as being a levy on the creditor class, and most of the people who write to me I am sure do not realize that the big creditor class of this country are the people who get paid on Saturday night and the people who have insurance policies and the people who have bank accounts.

Mr. DUFFIELD. Of course, Senator, the life-insurance business is the largest debtor there is in the country. There is no question of that.

Senator REED. $103,000,000,000 of life insurance in force somebody told me. Is that right?

Mr. DUFFIELD. I should say that that is approximately correct.

Senator HARRISON. Mr. Duffield, may I ask you, as I understand, your first suggestion here is to balance the Budget?

Mr. DUFFIELD. Yes.

Senator HARRISON. To draw in our expenditures to meet our receipts, and so forth. That that is what ought to be done first. What would you think would be the effect on business generally and the restoration of confidence if we assume that during these remaining days of this Congress there is not a great deal of legislation to be passed; that certain matter must go over; and assume that an extra session of Congress will be called quite early; if in this extra session of Congress there should be a constructive program laid down and the Budget should be really balanced, mostly through cutting with an ax and retrenching, and so forth, and then passed these constructive measures we might agree upon whether we did agree upon them or not, but passed them quickly, in two months' session; take up just that program, take up nothing else, and adjourn Congress quickly—do you think that it would have any effect upon business and the restoration of confidence?

Mr. DUFFIELD. I think, sir, that nothing that could be done could have a greater effect. I think that a factoı at least is the fear of attempting to do by legislation what necessarily must be done by economic laws. Or in other words, an interference. I believe that if, as you say, this Budget were balanced, that business would then have a chance to recognize the factors as its problem and could prognosticate a future with a fair degree of certainty. Have I answered your question?

Senator LA FOLLETTE. Is it a fair assumption from your statement, Mr. Duffield, that you are in favor of letting this depression run its course?

Mr. DUFFIELD. Well, Senator, it is difficult to answer that question yes or no. And after all, it will or will not, without regard to whether I favor it. I believe that there are certain things which can be done by legislative enactment, and I believe that there are certain things which necessarily must happen by reason of economic law.

Senator LA FOLLETTE. Did you favor the creation of the Reconstruction Finance Corporation?

Mr. DUFFIELD. I did, for the purpose for which it was created.

Senator LA FOLLETTE. Well, that was an interference with the process of deflation, was it not? It was an attempt to maintain the capital and debt structure of certain institutions.

Mr. DUFFIELD. I think the Reconstruction Finance Corporation creation was justified upon the ground that I do believe that by legislation we should endeavor to prevent unnecessary injury from what in the broader sense must be cured by economic law. And there the question of time is of the greatest importance. For example, if you take a perfectly solvent institution which may not speedily be able to liquidate its assets, but can, if given time—I believe that governmental aid to that institution is thoroughly justified.

I see little or no advantage in aiding an institution which under no circumstances or conditions can avoid a final bankruptcy. And, therefore, between those two it seems to me that there is a clear function.

Furthermore, I believe that Government may properly extend aid to the States or to the municipalities who necessarily are burdened with the care of the unemployed. I believe that the extension by Government of aid to those who during this period find themselves out of employment and unable to support themselves is not only a proper governmental function but a governmental obligation.

Senator LA FOLLETTE. I am assuming, for instance, that the administration of the Reconstruction Finance Corporation has been very conscientious. I am not seeking to criticize it in any way at all. But it was an agency created for the purpose of maintaining the solvency of institutions of various kind which at the time that the loans were extended were assumed to be in the category that you have indicated were eligible for governmental assistance. And yet the constant downward trend of business conditions has entirely altered that situation, as witness the fact that many banks which the Reconstruction Finance Corporation thought at the time could be saved received loans and have failed. The same is true of railroad corporations. And I do not quite see how anyone is going to be in possession of sufficient vision into the future to carry out the sound suggestion as to the determination of which group of institutions should be helped and which should not.

Mr. DUFFIELD. Well of course, Senator, that is the difficulty with the administration of any matter which is entrusted to human beings. We all make mistakes, and I assume that looking back at it the Reconstruction Finance Corporation would realize that possibly it had made some mistakes. My question was merely directed to the justification of the creation of that institution.

Senator LA FOLLETTE. What it comes down to is this, is it not: That we have constantly proceeded here upon the theory that some time or other these various economic factors would come into balance, and that that would be the bottom of the depression. And usually we have estimated that it was a month or two months or three months away. But that time has not come yet. Here we are, for instance, confronted with the situation so far as the capital debt structure of the railroads is concerned. How long should Congress go on, in your judgment, tailing up and trying to support that capital structure? When is the time going to be reached when you would have Congress or the executive agency created to administer the act say: "It is perfectly obvious that we can not sustain the structure forever, and we might just as well let it proceed through the wringer of deflation and reorganization"?

Mr. DUFFIELD. Well, the difficulty in answering that question, Senator, is that I do not think that you can apply a universal rule to any particular railroad, for example. I do not think you can say that all railroads should be denied aid because some railroads possibly can not weather the storm. I think you have got to use the best judgment that you have at the time as to whether with a reasonable anticipation of the future of the road to which aid is granted can, if aid is granted, carry through. You have got to use the best judgment that you have in administering that fund to determine whether or not another road can not under any circumstances carry through. And undoubtedly if either you or I were administering that fund we would make mistakes, but I think that our obligations would be to use the best judgment that we can.

If I may use an illustration, Senator—I think that the service of the Reconstruction Finance Corporation is exactly that in a situation where some one is sick of pneumonia, for example, where you would bring in oxygen in order to keep the patient alive. The oxygen does not cure pneumonia. Now I think the purpose to utilize the Reconstruction Finance Corporation was to keep the patient alive during the disease until the economic situation had cured, and that I think for that purpose it served a very useful end, and still does.

Now you ask me how long, and I do not know how long. I can not tell you. I doubt if any one can tell you.

Senator COUZENS. Could you estimate the amount of money that the R. F. C. was justified in putting up before that determination could be reached?

Mr. DUFFIELD. I think this committee is far more competent than I to determine how great a strain the credit of the United States can stand in order to keep this economic structure of ours in status quo.

Senator COUZENS. Would you say that we were justified in advancing up to twenty billions of money to maintain that structure?

Mr. DUFFIELD. I hesitate, Senator, to make any statement as to amount. I have tried to indicate the question of principles, but I am not, as I said at the outset, an economist, neither am I familiar with the details of governmental business, and I would hesitate to say as to the amount.

Senator COUZENS. What is the extent of money that you have in your corporation that you control?

Mr. DUFFIELD. In railroad securities, sir?

Senator COUZENS. No, in all.

Mr. DUFFIELD. Do you mean the amount of our assets?

Senator COUZENS. Yes.

Mr. DUFFIELD. Something over $2,500,000,000.

Senator COUZENS. And from that wide experience you could not advise us how far we were justified in going and issuing Government securities to maintain capital structure?

Mr. DUFFIELD. I really do not think I could, sir.

Senator COUZENS. Well, you are imposing a great deal of responsibility upon a lot of us poor laymen if you can not advise us how far we are justified in going.

The CHAIRMAN. I think that there may be a wrong impression drawn from what was said in relation to the R. F. C. It is true that there have been a few cases, but we must stop and think of the many cases—100 to 1 cases—that if they had not received the assistance, more than likely they would have failed. And I think the results of the Reconstruction Finance Corporation, as far as successful loans are concerned, are as great as any of us anticipated they would be.

Mr. DUFFIELD. I entirely agree with you, Senator.

Senator COUZENS. I would like to point out to the witness and the chairman also that no determination can yet be reached, because we have not yet reached the end, as to the estimate of these loans.

The CHAIRMAN. That is true, Senator. And that would happen, and would have happened long before now, in my opinion, if it had not been for the R. F. C. and Government assistance.

Senator COUZENS. Well, maybe we would have been better off if it had happened, Senator.

The CHAIRMAN. I do not think so.

Senator COUZENS. Sometimes we had better have a leg off early than wait until gangrene sets in.

The CHAIRMAN. I think we would have had our head off instead of a leg.

Senator KING. Mr. Duffield, do you not think that the loans which have been extended by the R. F. C. in the past and those which may be extended in the future would have secured better results, and will secure better results in future, if they contemplate, or rather if they are more interested in, giving jobs to men than in bolstering up capital structure?

May I say, just so that you may understand my view, that I have rather felt that if we could put men to work we would put dollars into circulation, increase the purchasing power, and the celerity, as you know, of the circulating medium is what contributes to the vitalization of our industries, and therefore that the loans which may be extended in the future ought to be rather with the view of furnishing work than for the purpose of bolstering up insolvent organizations?

Mr. DUFFIELD. Well, if you limit it to insolvent organizations, Senator, I will agree with you.

Senator KING. Well, those the capital structure of which concededly needs to be scaled down and reorganizations ought to be effected.

Mr. DUFFIELD. I will say certainly, Senator, that where any organization is so capitalized that it is practically certain that it can not meet its obligations that there is no value in adding to its obligations, and that where a man is hopelessly in debt you are not helping anybody by increasing his debt.

Now, with that limitation it is as near as I can come to definitely answering your question, because where you are talking about capital structures I can conceive of a local bank the saving of which would be more important than the erection of a post office or even than the erection of a dam, which would employ labor in the town. Therefore, unless you have an individual case, I can not answer your query in a more definite way than I have tried to do it.

Senator REED. Each case has to stand on its own merits.

Mr. Duffield. I think so, Senator.

Senator Reed. Where a bank is helped merely to postpone its ultimate closing up, certainly it is a wrong to the depositors for the Reconstruction Finance Corporation to take all its good assets as collateral.

Mr. Duffield. I entirely agree with that statement, Senator.

Senator King. Mr. Duffield, is there not a limit to the credit of the Federal Government?

Mr. Duffield. I believe there is.

Senator King. Of course, as you know, whenever the R. F. C. makes a loan it has got to get the money from the Government of the United States. Your company has not taken any of the securities issued by the R. F. C.?

Mr. Duffield. No, sir.

Senator King. Nor has any organization in the United States.

Mr. Duffield. None whatever.

Senator King. In other words, the Treasury has had to carry the entire load of all of the debentures, or whatever you denominate them, that have been issued by the Reconstruction Finance Corporation?

Mr. Duffield. Yes.

Senator King. And it is obvious that if additional issues are given out by the Reconstruction Finance Corporation the Government will have to purchase those. Now, if that should continue indefinitely, and if these deficits of the Government, which are now approximately $5,000,000,000 in five years, should continue indefinitely, will there not come some period when the credit of the Government will become impaired?

Mr. Duffield. I should say so. Assuming, of course, that this depression continues.

Senator King. Yes; sure.

Mr. Duffield. Assuming that, and that the demands on the Reconstruction Finance Corporation are continuing, I should say that there could not be any argument.

Senator King. Do you not think then that one of the obligations resting upon Congress is, so far as they possibly can, to determine what further issues might be made of Government bonds without reaching the limit of the strength of the Government to bear the structure?

Mr. Duffield. I think that not only should it be done but I think it is quite essential it should be done.

The difficulty I had in answering the question of the Senator some time ago is that I think that that is a question which the political economist or one who is capable of analyzing government credit far more efficiently than I could best assist you in.

The Chairman. Would not the ultimate purchaser finally decide that question, as to whether the Government bond was going to be good or not, in his judgment?

Mr. Duffield. I suppose that is true, Senator. But when it comes to that, as far as I am concerned, I would take counsel. I mean to say frankly that if the question of purchasing Government securities were presented to me as the head of my own institution I would not rely on my judgment, and for that reason I had hesitancy in answering that question. I would seek the advice first of those who I felt could intelligently advise me, and I would be governed accordingly.

The CHAIRMAN. And that is about the same that every purchaser of Government bonds does now. In other words, he is not going to purchase any Government bonds unless he has gone into the ability of the Government to redeem those bonds, and if in his opinion the Government has not that ability he will not buy the bond.

Senator REED. Well, the present quotations of the United States Government bonds indicate that nobody has lost faith in us yet.

Mr. DUFFIELD. Absolutely, Senator. There is no question about that.

Senator COUZENS. Has your company borrowed from the R. F. C. at all?

Mr. DUFFIELD. No, sir.

Senator COUZENS. Have you any record there of the number of farm mortgages that you have foreclosed?

Mr. DUFFIELD. Yes, sir.

Senator COUZENS. Have you given it to the committee?

Mr. DUFFIELD. No. But if you will permit me, Senator, the next point I want to discuss will cover the whole mortgage question, and if I might be permitted to present my views I will be glad to answer that.

Senator REED. May we not have Mr. Duffield take that up at 2 o'clock? It is almost 12. Some of us have to be on the floor when the Senate convenes.

Mr. DUFFIELD. That will be entirely satisfactory to me. But I merely want to suggest that I would like in the presentation of this question of the mortgages, which of course we are vitally interested in, to present my views, and I think I have some data here that will, I believe, answer the inquiry of the Senator.

The CHAIRMAN. You have that right, Mr. Duffield.

We will adjourn until 2 o'clock.

(Thereupon, at 12 o'clock noon an adjournment was taken until 2 o'clock p. m. the same day, Thursday, February 16, 1933.)

AFTER RECESS

The committee resumed its session at the expiration of the recess.

The CHAIRMAN. The committee will come to order. Mr. Duffield, I would like to have you proceed now.

## STATEMENT OF E. D. DUFFIELD, REPRESENTING PRUDENTIAL LIFE INSURANCE CO., NEWARK, N. J.—Resumed

Mr. DUFFIELD. Senators, I endeavored to suggest this morning certain things which seemed to me have affected the confidence and that create fear in the way of uncertainty. I want to suggest a third ground which is, in my opinion, even more important, and that is the fear that through legislative enactment the binding effect of a contract may be destroyed. I think our whole economic structure largely rests upon the fact that there shall be no impairment of a contract once made.

By that I do not mean, of course, to say that the creditor should in all instances and in all cases enforce his contract to the letter. There are many cases in which not only leniency but consideration and even self-interest would require a modification or alteration of the original obligation. But to destroy or modify or change or weaken the binding effect of a contract once entered into, in my opinion, might even destroy the basis on which our whole economic structure is built.

And of course I speak in this connection largely from the situation in which I am, as the head of an institution which has been a large investor in the obligations of individuals and the obligations of corporations. But I am in no different position than I would be if I were the trustee of the estate of a single woman or the guardian of a single child. The fact is that a life insurance company does act as a trustee for more than half of the people of the United States, and the funds which have been entrusted to it are in the highest degree charged with a trust. The position, as I view it, of the life insurance companies is exactly the position of a common-law trustee, and the primary obligation is to safeguard and conserve the trust estate which has been committed to their care. That I think will not be disputed by anyone.

I do want to call attention to the fact that wheher an individual trustee or whether a corporate trustee or whether a trustee such as a mutual life insurance company, an aggregation of individuals, is handling trust funds which have been restricted by statutory enactment and by policy annunciated not only by the Federal Government but by the State governments in the handling of their trust funds to obligations of indebtedness, whether it be bonds of corporations, whether it be bonds secured by mortgage on private property, statutory enactment has wisely limited them to a certain definite class of investments.

That was done, I take it, for a purpose. It was done in order that the corpus of the estate might be safely protected. It was done to prevent speculation with trust funds. It was done to require the trustee to surrender that income which he might have obtained by investing in common stocks or equities or by buying real estate and borrowing money from others in order to finance it, so that at all times the corpus entrusted to him by his cestui que trust should be safe and secure.

When I speak to you to-day I speak in the position of a trustee, and I speak not only as the representative of my company which stands as a trustee for perhaps one out of six individuals in the United States, but for the life insurance business which stands as trustee for more than half of the people, for banks and trust companies and private executors and trustees, all of whom have been limited to a certain definite form of investment with the purpose of safeguarding against all hazards the corpus of the estate committed to their care.

We hear frequently a discussion of a readjustment of the debt and the scaling down of the debt. I am not sure that I know what that means. If it means scaling down all debts, it, of course, means the scaling down of the debts which, for example, our company owes to the millions of people who have entrusted their funds to us, who have made sacrifices of their own interest in order to protect those who are dependent upon them. I do not think it is suggested that that should be done. I trust it is not. But you can not scale down the debt of one class and refrain from scaling down the debt of another class, without creating a situation which would render it impossible for the trustee, whether he be individual or corporate, to discharge his trust and fulfill his obligation.

As I have said, that does not mean that the trustee might not be obligated in the discharge of his trust to give consideration to the situation in which the debtor finds himself. It does not mean that the trustee should not use that wisdom which he has in order to protect a situation which will enable the debtor to discharge his debt in full. It does not mean that he is not in a position to, at times, compromise that debt in order that the debtor and creditor may both be conserved; but it does mean that his position as creditor should be recognized as such, and that his position as trustee should not be invaded by a suggestion that the property of his cestui que trust should be treated in one way and his obligation to his cestui que trust treated in another.

The difficulty with the situation, I think, and one thing that has disturbed investment, is that by legislative enactment a uniform rule should be applied; in other words, that the necessitous debtor, the one who finds it difficult to meet his obligation, should be treated in exactly the same way as the man who is thoroughly competent and capable of meeting his debt in full; that uniform aid should be extended to those who need it and to those who do not need it at all. And while I would be the last to belittle the situation which exists in connection with the mortgage question in the country to-day, and while certainly no one in my position can be oblivious to the distress and disaster which have occurred to those who have been required in the past to acquire loans, nevertheless I think we ought to have a clear perception of exactly what happens. Figures can show just what proportion of our people are in that situation.

I want to suggest to you, therefore, that my strong feeling is that these are cases which should be dealt with individually; and I do not think there is any danger in doing so. I do not believe a trustee, whether, again, he be representing an individual and protecting the estate of a single woman, or whether he be corporate and protecting the estate of a large number of people, wants to acquire these properties. This money was not loaned for the purpose of purchasing real estate. It was loaned for the purpose of having interest paid on it during the time it was not needed to meet the obligations which it seeks to provide.

And, therefore, I suggest that the real problem in the case of the needy debtor is to provide him adequate time in which to fulfill his obligation and adequate opportunity to develop, if it is a farm, or to pay if it is a home, the debt which he has created. I think his interest regulates that. I do not believe it would be seriously urged that where individuals have gone, for example, into an investment for profit and are thoroughly capable of meeting the loan which they have made in order originally to finance this enterprise, who have adequate security in the real estate that they have, should be relieved of that obligation either as to the postponement of the time in which the debt is to be paid or a reduction of the interest to which they agree.

Senator KING. Then, as I understand you, a general law, for instance, by the State of New York or any other State, granting a moratorium upon all mortgaged property; that is, obligations secured by mortgages or trust deeds, granted for one or two years, you think would not be just?

Mr. DUFFIELD. I think it would not be just; that is, a general moratorium. I think that the interest accomplishes that result.

If I may be pardoned for referring to my own company with which, of course, I am much more familiar than I am with others, although I think what I shall say will apply generally, in the summer of 1931, before there was any suggestion of legislative moratorium, we reached the conclusion that the financial condition of many of those who had mortgaged land was such as rendered it wise for us to adopt a general policy; and I will give you some figures in detail; but I want to impress you with the fact that this was done in 1931, and it was not done from a philanthropic motive; it was done because we believed it economically a wise thing to do and which we could do with a due regard to our obligation as trustee.

What we did was to decide in each individual case where the mortgage was maturing and the mortgagor was unable to meet his interest installments or his taxes—what we did was to discuss his situation with him. In large areas we removed the intermediary of the agency and used our own branch offices there in order to deal directly with the debtor, and I think I may say without fear of contradiction that in every case where the individual was the owner of the farm and where he showed an ability to utilize that farm and to operate it, and where he did not himself say that he wanted to abandon the plan, we refinanced him by paying his taxes, by writing a new mortgage covering his installments of interest, and starting him off again from scratch.

The result of that has been that we have had substantially little difficulty, notwithstanding that we are in the fourth year of the depression. I may say—and I want to go somewhat into detail—that out of over a billion dollars invested in mortgages, 89 per cent of those mortgages are paid up on interest within six months. In other words, there are only 11 per cent that are in distress at all.

The CHAIRMAN. Is that of to-day? According to a report that I received six months ago, it was the fact then.

Mr. DUFFIELD. That is true as of December 31, Senator.

Senator KING. Are most of those mortgages to which you referred and which are included in that billion dollars, on farms?

Mr. DUFFIELD. No, sir. Possibly I had better quote these figures and then we will have a basis for discussion.

Senator KING. It has been intimated to me during the past two or three days that there is a concerted movement on the part of a certain number of persons with large means to take advantage of this situation, particularly in respect to business buildings and apartment houses, and that many business properties and apartment houses are being foreclosed and acquired by small groups pursuant to this concerted plan. Have you found any evidence to support the contention that there are persons organized to take advantage of this unfortunate situation?

Mr. DUFFIELD. I have not, Senator; and yet I am not certain that I would be in a position to know, for this reason: I have always felt that the best service that we could render in the investment of our funds was the encouragement of the individual to acquire property; and of this billion odd dollars that I am speaking of, our average loan is only six thousand odd dollars. We have encouraged people to buy farms; we have encouraged people to purchase their own homes; we have believed in the private ownership of property and that it has been conducive to a better citizenship, and we have therefore developed our whole local plan on the small loan to the owner-owned and occupied farm and the owner-occupied home; and while we have a few large loans, I think, if my memory serves me correctly, at least 93 per cent of all of our loans are of the character that I have indicated, and the balance would be of the other kind. So that while I know of nothing of that character, Senator, I really would not be, probably, in a position to know if it were true.

Senator KING. A general moratorium throughout the United States upon all obligations, especially mortgage indebtedness, say, of two years, you think, if I apprehend your position, would rather impair the ability of many of these trustees, such as insurance companies, to meet their dues?

Mr. DUFFIELD. It would interfere, of course, Senator, with the whole structure. There is no question about that.

Senator KING. And the value of the insurance policy held would not have its face value, and it would lead to a great deal of apprehension on the part of these holders as to the value of their own life-insurance policies which they have sacrificed, perhaps, to obtain and to maintain.

Mr. DUFFIELD. Exactly, Senator; and I can think of nothing that would be more disturbing.

Of course, I am not prepared to say, nor do I believe it to be a fact, that a 2-year moratorium would prevent the meeting of obligations by some companies. I think that there would still be honest men who would pay their interest even though they were not compelled to do so. I still believe that there are honest debtors who would want to discharge their debts, and I still believe that we would be able to secure an income. But what would inevitably happen would be that the cost of insurance would be radically increased in every case of a mutual life insurance company. It certainly would be radically increased in any attempt to arbitrarily reduce the interest rate.

I think it might be helpful to you if I gave you a few figures in order that you may see the situation, because our picture is not different. It might vary slightly.

We have at present 163,965 loans. Of this number 37,568 are on farms and 126,397 are what we call city loans, which means urban or suburban homes and houses. Of course, included in that are some large loans where we have loaned on buildings of a larger character. But, as I say, over 90 per cent of all our loans are of the character that I have described. So when I speak of " city " you will know I mean the small home, and when I speak of the farm I mean the owner-occupied farm.

Those loans on farm lands amount to $201,419,000. The city loans amount to $908,666,000, making a total of $1,110,085,000.

The percentage of mortgage loan investment is 18.2, invested in farm mortgages, and 81.8 per cent invested in city mortgages.

The number of loans delinquent in interest six months or more are 4,000, or 11 per cent; 2,100 of the city loans, or 1.6 per cent, and 3.8 per cent of the total.

The number of loans in the course of foreclosure to total holdings is 2,400, or 6.5 per cent of farms; 3.3 per cent of city property, and 4 per cent of the total.

The per cent of loans in satisfactory condition on farm lands is 82.5 per cent. That means that interest is not in arrears over six months. Of the city loans, 94.6 per cent, or a total of 92 per cent.

The 89 per cent quoted previously referred to volume of loans as translated in dollars, whereas the 92 per cent refers to the volume as translated in numbers.

The CHAIRMAN. Have you a report on delinquencies?

Mr. DUFFIELD. As I say, Senator, I think it may be said that where a foreclosure has been made it had been made either on a showing by the mortgagor on his recognition that the situation was hopeless, or where he has deliberately disregarded any question as to mortgaged property and has failed to exercise that reasonable care in its conservation which should mark it.

The CHAIRMAN. In other words, he lost hope and lost all faith in the property himself?

Mr. DUFFIELD. Yes. The point that I am making is this, Senator, that with 92 per cent of this large amount of loans in a satisfactory condition, any arbitrary rule of dealing with it, with the resultant serious consequences which are obvious, is one that certainly would destroy confidence to a higher degree than it has yet been destroyed. In other words, it seems to me that whether you are dealing with the bond of a railroad or whether you are dealing with a mortgage on a single piece of property, the recognition that the trustee purchasing that obligation purchased it in order to safeguard the corpus of his estate should be taken into consideration.

What would happen if that were not true? Supposing that the securities were scaled down in order to meet the situation of the individual debtor. In the case of the corporation it would be an enhancement in value of the common stock. But if this depression terminates, as I believe it will terminate, what is then the situation? The speculator, the man who has invested for income without regard to safety, is restored not only to his original position, but has the advantage of any gain in property. But the obligation once scaled down remains there, and the trustee is left with his security fixed on a depression basis from which he can never recover. So therefore it would seem to me, Mr. Chairman, that no more serious question can be met in this discussion or taken into consideration when we discuss the situation of the debtor than what is also the situation of the creditors. Who are the creditors? That scaling of debts has not been shown by any figures here apparent to afford benefit to a large enough percentage of the entire class of debtors to indicate any real need therefor. With those cases self-interest will compel that they shall be treated with leniency in order to provide a means and an opportunity for them to restore their situation in order that they can, and as they will when they can, meet the obligation that they have assumed.

The CHAIRMAN. That is very plainly put and is a very sensible conclusion.

Mr. DUFFIELD. There is nothing more that I can suggest, Senator.

The CHAIRMAN. Thank you very much, sir.

## STATEMENT OF DR. H. C. DICKINSON, PRESIDENT OF THE SOCIETY OF AUTOMOTIVE ENGINEERS, WASHINGTON, D. C.

The CHAIRMAN. You live in Washington, do you not?

Doctor DICKINSON. Yes, sir.

The CHAIRMAN. What is your business?

Doctor DICKINSON. I am an engineer and scientist. I am at present the president of the Society of Automotive Engineers. However, I come to you as a private individual with no interest other than the interest of the general public, so far as I can say.

The CHAIRMAN. You may proceed. Make your statement as brief as you can, because we have a very long list of witnesses.

Doctor DICKINSON. Gentlemen, in order to make this statement as brief as possible, I have prepared a portion of it, which I shall ask the opportunity of reading because it can be done more quickly than I can do it extemporaneously. I want to say in advance, however, that the material here presented was presented in the form of a presidential address in Detroit to this society about three weeks ago, and I have copies of that material. Also, I wish to say this, that as an engineer I have taken the utmost pains to see that everything that is said and recorded here is correct. It is the result of a study of basic economic problems for the past several years and has been checked carefully by consultation with perhaps a hundred or more of the best thinkers I could find; and as a result I may say that I am certain, as is everyone who has been over the material, of the essential soundness of what I shall give you. I am much more certain of that than I am of my ability in a very short time to make it clear to you; but as the material is written and in more or less extended form, I shall trust to that to make anything clear that I can not make clear myself.

We should get nowhere in science or engineering if problems were handled in the manner in which economic problems have always had to be handled. Progress in science has always been based upon the simple statement and use of basic laws. No such laws, with perhaps one exception, are generally recognized in economics.

It is my purpose to show that the competitive economic system of a nation is in fact a mechanism, following, as does a machine, certain general laws; that severe inflations and depressions arise from a definite instability in the balance between capital goods and consumables, and that this instability can be controlled through adjustment of the mechanism itself without disturbing the present competitive system and with far less intereference with personal freedom of action than we are accustomed to at present——

Senator KING. And without involving technocracy?

Doctor DICKINSON. Absolutely. This offers a means of securing throughout the population, continuous prosperity, stabilized at any scale of living which the population desires to maintain by its hours of labor.

A clear view of the existing economic situation requires first the statement of a few fundamentals some times overlooked.

The primary economic object of any system of society is to promote the efficient production and distribution of goods and services, the products of industry. Otherwise, aside from the purely social advantages, there would be no factor tending to concentrate population.

The law of supply and demand in its general sense appears to be universal so long as there is competition. The few exceptions are fancied. Despite all efforts to the contrary, through attempts to control competition, and so forth, the relationship between supply, demand, and price is always controlled in the long run by competitive factors.

Any economic unit or social unit such as a city or a nation which is mainly selfcontained as regards outside trade, can be considered for certain purposes as a single industrial plant, with the difference, however, that both the producers and the consumers of the product constitute the same population.

In Figure 1 the United States is represented as such an economic unit. It consists of a population of some 123,000,000, of which normally about 40 per cent, or 48,000,000, are producers, i. e., "gainfully employed"; these and the remaining 60 per cent are the consumers. The latter consist mainly of those members of the family or group who are not working for direct wages; typically the mothers, children, and old people.

The total product of this industry, expressed in 1929 dollars as net income, was then worth some $86,000,000,000. Expressed in terms of present price levels this product would be worth about $60,000,000,000 as compared with $40,000,000,000 for the net incomes of 1932.

This is substantially a self-contained system, for although there is a considerable amount of foreign trade, amounting at times to 10 per cent of the total business, the net outgo of goods and services in the nine years between 1922 and 1931, inclusive, was less than 0.8 per cent. This represents a net export of the products of industry of less than 1 per cent during a period of maximum export.

To this degree of exactness the population of the United States over this period consumed exactly the equivalent of what it produced in the way of goods and services. The currency mostly has remained in circulation or in hiding. The liquid credits which constitute a considerable part of the "money" have contracted with decreased demand.

However, it should be emphasized that wherever goods or services were produced and exchanged for money all the goods and services and all the money remained in the United States except for the fraction of 0.77 per cent which represented the net foreign business. This was a net export of goods and services in exchange mostly for foreign loans, not for money, and represented the amount of such product produced but not consumed within the United States.

It should be noted here that we do not overlook the important effect of foreign commerce, representing at times the exchanges of goods and services to the extent of 10 per cent of the total national product. This effect comes about through the reaction of foreign trade on the distribution of incomes, which we shall discuss in the next paragraph.

It will be seen that such disturbances are not important, so long as national and international conditions are reasonably stable; but, like taxes and interest charges, they may become very serious when price levels and industrial conditions are changing with abnormal rapidity. In any case, however, the disturbance effects of foreign competition are of exactly the same sort as those of competition within the Nation.

Distribution of incomes, which is a measure of the distribution of goods and services among the population, is determined under present competitive system by a complex array of economic forces involving a large measure of chance or accident. The net result is a distribution of incomes which is closely analogous to the natural probability curve familiar in the physical sciences.

In Figure 2 is shown such a probability curve. The small circles represent the relative number of incomes in each income class as shown by the best data at hand. These data are not very reliable, and the departure of the points from the curve are as likely to represent errors in the data as departure of incomes from the probability curve.

Money as used in all modern countries is a means whereby this general distribution of product is accomplished. For this purpose money serves primarily as a medium of exchange. It is closely analogous to what are known as catalysts in chemistry. Money is not consumed or used up in the process of exchange, but simply passes from one person to another.

This characteristic of money strongly suggests two of the most important "laws" of the physical sciences, viz, the "conservation of matter" and "conservation of energy"; and without the knowledge that when a given amount of matter or of energy disappears at one point an exact equivalent necessarily appears somewhere else, many of our engineering problems would not be solved.

"Conservation of money," with certain limitations stated below, is an equally essential element in the solution of most problems of national economics.

This leads, for instance, to the often repeated and but rarely accepted fact that taxation is solely a process of redistribution.

Senator KING. By "conservation of money" you do not mean to say that it must be gold or silver or paper or any particular creation by legislation?

Doctor DICKINSON. No, sir. I have defined that very carefully in a paper which I will give you a copy of.

(The paper referred to by the witness was subsequently filed with the committee.)

Senator KING. You accept the academic definition, do you not, that money is real purchasing power?

Doctor DICKINSON. Oh, yes; certainly.

In fact, taxation constitutes only one of the multitude of processes whereby incomes are distributed, as explained above. Taxation neither directly increases or decreases money. It may be grossly unjust or unwise in the process of redistribution, or again it may be highly advantageous. Taxes also may be so collected and spent as to avoid redistribution or to promote a distribution which is highly advantageous to the entire population.

In any modern monetary system money consists of currency and liquid credits. The latter includes all sorts of negotiable paper, such as checks, drafts, and so forth, which circulate as money in exchange for goods or services. Thus the total amount of money in circulation at any time is variable through the expansion or contraction of these credits, and no accurate figures can be given for this total amount without drawing some arbitrary line between credits which circulate as money and fixed credits such as make up the bulk of "frozen assets" in times like the present. A sharp distinction, however, is not necessary for this discussion, as will be seen later.

It is a familiar fact that money as a medium of exchange must serve two other purposes: (a) As a standard of value, and (b) as a symbol of value.

A standard of value is necessary, for instance, to permit of keeping accounts and quoting or standardizing prices.

As a symbol of value money can be kept in hand for periods of time before exchanging it for goods or services. This makes possible the hoarding of money.

Both these functions are essential to modern business processes, but both are the source of serious difficulties, not the least of which are due to frequent lack of clear understanding of what money really is. In any modern system money is practically devoid of any intrinsic value. Even gold owes its value almost entirely to its monetary status. This use of gold being pretty much world-wide, however, its value is thereby better standardized than that of currency resting on the credit of a single country.

Referring again to the manner in which the product of goods and services is distributed as incomes, Figure 3 is a typical curve of income distribution. It is calculated directly from the probability curve shown in Figure 2. I have dotted the portion which represents a rough approximation of the percentage of savings which are a part of our income. The bottom of this income curve comes out at about $3,000 salaries for present purposes. The shaded portion represents the amount of savings. This portion of the curve [indicating] represents savings.

There are two things that can be done with savings. I have pictorialized this because it was presented to an audience of engineers. Savings can be utilized for what I have termed as social capital—for things that do not draw interest, such as our own individual houses, our personal property, our national roads, national parks, our schools, and public buildings. They are all social capital. They do not pay interest, in general, except in the process of acquiring them. If we put our savings into social capital, they no longer enter into economics, because they do not draw interest.

In this figure is shown, on a relative scale, the total of all incomes in each income class. The highest point of the curve represents the sum total of all incomes in the particular class plotted on the horizontal scale. This maximum point occurs at about $2,200 incomes. The total area under the curve indicates the total income of the country.

For the present purposes this income is assumed to contain the sum of all net incomes plus any payments of interest which are deducted before net incomes are computed.

The shaded portion of the curve represents total savings from incomes of different classes as estimated by the insurance companies.

The use to which these savings are put is one of the most vital elements in the problem of national economics.

In Figure 4 are represented two leaky jugs, representing the necessary depositories of all savings except such as may be hoarded in kind.

The contents of the jug marked "economic capital" represents the total accumulated savings which are represented by capital, i. e., capital goods on which interest is obtained. Those of the jug marked "social capital" represent all those things such as roads, parks, schools, public buildings, and personal property which have resulted from savings devoted to personal or general social purposes, and on which no interest charge is made.

It is clear that savings, unless hoarded in kind, necessarily go, so to speak, into one of these two jugs. Both jugs are shown as leaky to represent the fact that capital goods of all kinds wear out or become obsolete. The contents of these jugs may increase or decrease depending upon how much is put in and how much leaks out.

Senator KING. Your social capital, as you denominate it, is an expense as well as an ultimate loss?

Doctor DICKINSON. It is an expense.

Senator KING. An annual expense for the maintenance of it?

Doctor DICKINSON. Not necessarily.

Senator KING. For these schoolhouses and churches and what not there is expense incident to the maintenance of those buildings.

Doctor DICKINSON. That is all a part of our investment in social capital. That is, it requires a certain amount in every case. It includes the cost of keeping them going.

Social capital which does not earn interest does not come directly into the economic problem. Economic capital, however, is an essential element, and needs to be evaluated. So far as we can determine there are two definable values of the total of national economic capital, i. e., capital goods, as here defined. One is the capitalized value of its earning power at some accepted rate of interest and the other is its sale value. These two figures may or may not be equal and their relative amounts are important as will appear later.

For the present purpose interest is used to designate the returns on capital as such, exclusive of profits or losses which may result from good or bad management. In other words, it is what one would have to pay for the use of money for long periods without the element of risk as to principal. So defined the interest rate taken as an average throughout the Nation does not vary greatly in the absence of any serious economic disturbances.

In fact the normal interest rate is, we believe, determined over long periods of time through the operation of the law of supply and demand and can not be greatly modified by artificial measures, except locally or temporarily.

For any total amount of income as depicted on Figure 3, there is necessarily some total amount which can be used to pay interest on the total amount of capital in the Nation.

There are just two ways, so far as I can see, of stating value. One is, how much can it earn; how much can we receive in the way of interest for it? The other is, how much can we sell it for? And that is an important distinction which I shall emphasize later, namely, how much will the capital earn, and how much can it be sold for?

I have expressed this situation in the form of an equation which perhaps may not be so apt to this purpose as the same thing expressed in words. The amount that can be received in the way of interest for capital is absolutely fixed by the amount of income which we can earn; that is, by the amount which we can take out of earned income to put into interest, or by the amount of use which somebody can make of the total capital. Beyond that point capital is of no more value, no matter what we do with it. In other words, I have assumed that for this purpose when we have reached a point where all the use is being made of capital that can be made of it or we are paying all the interest that we can pay on it, this jug is full.

What happens if we save more than can be used? Obviously something must be done with those savings. Putting them into this jug [indicating] does not increase our income at all. In other words, it is useless. And here is where the fundamental difficulty in our economic system lies, and this can be remedied if we attempt to put more into this jug [indicating].

In other words, if we attempt to buy securities beyond the point where there is room for them, the price of securities rises, and that means that we acquire additional savings.

Of course, it is a matter of actual fact that those savings accrue very largely to the people in the upper brackets of this curve (indicating) who can not spend it all for consumables and must reinvest them. Therefore the reinvestment further increases the value of capital, and we have a system that is distinctly unstable. As we say in mechanics, it is unstable like a trunk standing on its edge. It is all right when you hold it in its place, but if it is allowed to drop, that is another matter.

Prices reach a point where people begin to realize that they are buying securities at a price such that the actual earned return on those securities is much below an acceptable rate of interest, maybe 2 or 3 per cent instead of 5 per cent, as might be normal. When that occurs, then we have the beginning of a panic which we had in 1929. Panics of that kind have occurred throughout history, and they will continue to occur if we allow this thing to take place.

Senator KING. All of which means, if I understand you, and reducing it to very commonplace phraseology, we went on a wild spree with surplus, with anticipated profits and with some real profits, and bought a lot of worthless securities that had reached high market values, and when securities fell the so-called capital vanished.

Doctor DICKINSON. Senator, I should not quite say we bought useless securities. We did buy some useless securities and we paid a great deal more for them than they were worth.

Senator KING. We bought a great many securities that were valueless.

Doctor DICKINSON. Yes. That was part of the program.

If more savings are put into the jug the total real value of the contents is not increased unless the total amount of incomes is increased, or else a larger percentage of the total income is paid out as interest. As there is a limit to this process there is likewise a limit to the value, based on earnings, of total capital. This we may designate as a full jug. If more savings are poured in, the jug overflows or leaks faster and the savings are lost; not necessarily the same savings, but a like amount.

Thus we arrive at a very important postulate now emphasized by various eminent economists but apparently totally neglected in practical economics. This is, that the total real value of capital can never exceed that on which current incomes or business can pay returns. When economic capital has reached this maximum the jug is full.

The inherent instability about this matter, however, seems to have been generally overlooked.

Suppose that there is a small excess of savings over what is needed to offset the leak in the jug and provide the 4 per cent or so required annually for normal growth of industry (in the United States). This surplus will be invested, unless the owners hoard it or put it into social capital; but there is no more room for it in the "economic" jug, so this runs over. No one finds this out immediately, though, for the following reasons: The act of investment in capital beyond that normally needed raises the price, though not the earning power of capital. This rise in price permits sale of capital at a profit which profit in turns goes partly to increase apparent savings which demand further investment. This process takes place through expansion of credit and represents not a real rise in value but an unearned increment of capital value above its earning power. This process, therefore, is highly cumulative, increasing in intensity as times goes on.

The CHAIRMAN. Doctor Dickinson, I want to call your attention to the fact that we have to leave in about five minutes in order to vote.

Doctor DICKINSON. I did not know that the time would be so short. I shall not be able to give you, then, the definite proposal which I have. I can not begin to tell you the whole story in five minutes, Senator. But I have plotted here from the figures available two curves which represent the present situation. An analysis of this whole problem simmers down to a conclusion that the present situation is brought about mainly by a lack of distribution resulting very largely in or at least accompanying an unemployment of personnel.

Therefore in order to see where we stand at the present time I have plotted these two curves, one of which is in terms of gold dollars and one of which is in terms of purchasing dollars, showing where we stood in the 20 years previous to 1929 as regards the proportion of our people employed. About 39 per cent at least of the population was employed on an income in gold dollars of $750 per year per individual in the United States, or in terms of present purchasing dollars, about $460. At present our income has dropped to about $350.

Senator HARRISON. That is, per capita?

Doctor DICKINSON. Yes, sir. It is a little less than that, because we have gone far below this.

The other possible solution at the present tme, other than the scaling down of debts, about which you have just heard a discussion, is to bring back this employment situation along the same curve.

There is one way in which that can be done. Individual companies can not increase their employment. The nature of this curve [indicating] is such as to show that at this point [indicating] when an employee was discharged the loss in national income was exactly equal to his salary. When this point [indicating] was reached the loss in national income when a man was discharged was twice his salary. When this point [indicating] was reached the loss in national income was three times his salary. If we reach this point [indicating] the loss in national income is four times the salary. In other words, there is a tremendous margin between the cost of employing people and the amount of net income which we experienced if they are unemployed.

That offers the key to a complete and certain method of recovery. The only necessity for recovery is to see that employment is increased. Any number of people have proposed means whereby that can be done; any number of proposals have been given. The first thing we must do to stop unemployment is to prevent any further decrease in employment anywhere. The next thing that we must do is to increase employment through any means whatever——

The CHAIRMAN. Can you tell us how to do that? You say it ought to be done.

Doctor DICKINSON. I can tell you various ways. One method is to employ the private employing agencies, such as the various companies, to increase their employees——

The CHAIRMAN. You may proceed here with your statement, and it will be in the record. The reporter will take it and we will recess at this time. The balance of the day will be spent in hearing Mr. Wood, who has a confidential statement to make.

Doctor DICKINSON. May I ask one favor? The importance of this is recognized by some two or three hundred people who have read it and who consider it the most important thing that has been proposed yet. That is not my evaluation of it, but theirs. I would like to ask if it would not be the pleasure of this committee to suggest or appoint a small group of the best men that you have who may be able to sit down with me and let me give them a complete statement.

The CHAIRMAN. The committee will take that up later. Anything further that you want to state you may state now, and the reporter will place in the record.

(The committee then recessed until 4 o'clock p. m., and the witness continued his statement as follows:)

Doctor Dickinson. The proposal which I have to make contemplates not only the recovery from the present depression but a complete system of treating the economic situation in such a way that we can be sure of not falling into another difficulty of the same kind. And this is the key to the situation.

The annual income of the individual and the Nation is made up of net earnings plus or minus the increase or decrease in the value of our capital as a whole. The result may be positive or negative, depending upon whether earnings are going up or down. When an inflation occurs the selling price of capital increases above its earning power; and a remedy for an inflation can be found in preventing that increase.

Such a remedy would consist in determining by means of a public agency, nonpolitical in character, when this condition occurs and, at such time, levying a special stabilization tax on the difference between the real value of capital and the sales value of capital. Such a levy would amount at most to 50 per cent of the difference and should not exceed a fraction of a per cent of capital value. Such a levy must be expended for such things as social capital, and such expenditure for social capital should be encouraged. Those who are taxed should be encouraged to spend for social capital of their own account. In other words, the tax should be remitted to anyone who will so spend the surplus which can not be invested. It might be, for instance, in bonuses to employees or in public works or in any accepted form of social capital.

If a panic occurs, the price of capital falls below its earning power. This situation is not a serious matter and has often occurred, resulting in what have been known as Wall Street panics, without having any appreciable effect on the general welfare. If this condition cures itself promptly, no remedy is necessary. If it does not cure itself promptly, we fall into a cumulative depression. Such depression is cumulative because the loss of net national income exceeds the gain in individual income by the discharge of personnel.

Such a point was reached in the present depression early in 1930. Early in 1931 this differential was 2 to 1. At this point the discharge of employees to the extent of a million dollars reduced the national income by $2,000,000. Near the beginning of 1932 the factor was 3 to 1.

This factor, by the way, results purely from an analysis of statistics, contains no theoretical deductions whatever, but contains the assumption that the fall in prices was the result of reduced employment. This assumption is not entirely correct, because the fall in prices was partly the result of international conditions.

If we assume that the fall in prices was solely a matter of international conditions, and not at all dependent upon conditions within the United States, the factor at the middle of 1932 was 2 to 1 instead of 3 to 1. The actual factor necessarily lies between these two figures.

It results, therefore, that any process whereby funds can be spent for the reemployment of personnel will yield a net profit to the

Nation of from two to three times the expenditure. Such funds can be secured by any one of several means. We suggest that for this purpose funds be borrowed from the surplus of several billion dollars now available in the banks at a rate of possibly from half a billion to $700,000,000 a month, and employ any of the various acceptable means for increasing total employment or for the purchase of consumable commodities, which amounts to about the same thing, and this process will necessarily with mathematical certainty result in an increase in national income of the order of two to three times the amount expended.

It therefore constitutes a form of investment which the National Government can make, but which no individual business can make of itself, which will yield a net profit of from 200 to 300 per cent. This loan should not be amortized by bonding, because Government bonding will increase the total net national indebtedness which at the present time probably is far higher than is safe. Therefore these loans should be amortized as rapidly as possible from the profits of the transaction which accrue to the public.

These profits accrue in two ways: As an increase in net national income of two or three times the expenditure, and also as an increase in the real value of capital to the extent of probably many times the expenditure. Therefore these two sources of income should be used for amortizing the temporary loans necessary to bring about recovery.

This can be done through the medium of a nonselective tax on earned increments plus a levy on the increase in the sales value of capital.

It is indeterminate how much of the money expended in reemployment will accrue as net income or how much will accrue as increase in capital values. Therefore the proportion of the expenditure to be amortized from these two sources should be determined from the results of the process.

In any case the cost of recovery will be borne in the form of a comparatively small percentage of the accruing gain to the country and, if properly distributed, can be done without entailing an expense to any individual. The results in profit to the Nation should shortly bring about a return to normal prosperity. So far as we are able to estimate, at the rate here suggested, the normal prosperity should be restored in about 18 months' time.

The plats which have been shown of the trend of unemployment as related to national income suggest that the Nation is reaching the danger point beyond which a drastic decrease in fixed indebtedness will be necessary. The proposed method of rehabilitation would avoid the necessity of any such drastic change.

There are two other points which I wish to emphasize. One is that the underlying cause leading to all national disasters, such as those of Rome and Spain and Europe during the dark days, has come about through an increasing burden of debt which has reached such dimensions that the earnings of business were all absorbed in the payment of returns on capital.

In relation to this matter it should be emphasized that the only reason why a burden of debt of this kind can become destructive is that it is related to the use which is made of interest. If it were possible to prevent the overinvestment of interest or to share that interest on indebtedness so that all or nearly all is expended for consumables, the destruction of national integrity through a burden of debt would become impossible.

The method proposed above for preventing inflation carries with it a means for controlling this situation.

The proposals here made, taken together, constitute, I believe, a complete system whereby disastrous inflations and deflations can be controlled and made to retain an equilibrium. We believe also that the means necessary for accomplishing this result could be incorporated in a permanent form of legislation put in the hands of an administrative body without giving them individual discretion and could be so administered as automatically to accomplish the results here stated.

We believe, also, that if this can be accomplished it necessarily makes possible complete recovery from the present depression and also the realization of permanent stabilized prosperity.

Taxation as a means for accomplishing a result of this kind must be looked upon as a method which can not be utilized by individuals because of the nature of competition between individuals but can be utilized by the National Government or could be utilized by all industries together through common consent.

(The charts and graphs referred to by the witness in the course of his remarks were filed with the committee.)

(The committee, then, at 4 o'clock p. m., met in executive session.)

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# INVESTIGATION OF ECONOMIC PROBLEMS

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**FRIDAY, FEBRUARY 17, 1933**

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
*Washington, D. C.*

The committee met, pursuant to adjournment on Thursday, February 16, 1933, at 10 o'clock a. m., in room 335, Senate Office Building, Senator Reed Smoot presiding.

Present: Senators Smoot (chairman), Couzens, La Follette, Metcalf, Harrison, King, George, Walsh of Massachusetts, Barkley, Connally, and Gore.

The CHAIRMAN. The committee will come to order. Mr. Houston.

## STATEMENT OF DAVID FRANKLIN HOUSTON, PRESIDENT OF THE MUTUAL LIFE INSURANCE CO. OF NEW YORK, NEW YORK CITY

The CHAIRMAN. Mr. Houston, give your full name and address for the record.

Mr. HOUSTON. David Franklin Houston; 34 Nassau Street, New York City.

Senator HARRISON. Let the record show that Mr. Houston is ex-Secretary of Agriculture and ex-Secretary of the Treasury. What is your present business?

Mr. HOUSTON. President of the Mutual Life Insurance Co. of New York.

The CHAIRMAN. You may proceed in your own way.

Mr. HOUSTON. Mr. Chairman and Senators, I am greatly honored by your request to come before the committee to-day, and I accepted not so much because I thought I could be of any assistance to you gentlemen but because you asked me to come and I did not see how I could decline.

In your telegram you asked me for some views on the causes of the present depression and some suggestions as to courses of action.

I need scarcely say that it seems obvious that the background of the present depression is the Great War; the enormous financial costs to the leading nations of the war, the direct costs alone exceeding $186,000,000,000, the indirect costs exceeding $81,000,000,000, the total more than $286,000,000,000 during the war. Added to that I think we must take note of the enormous destruction of human life. More than 9,900,000 known dead. Over 6,000,000 men seriously wounded. Fourteen million other men wounded. Making a total of 30,000,000 men.

We must add to those figures the estimated losses in other directions. The upsetting of governments. The dismemberment of nations and the setting up of a number of new nations.

We might also add as an item which has complicated the situation advances which have caused disruption of international exchange by certain of the Allies to others and by Germany to some of her allies. The total of those advances was $22,000,000,000.

The CHAIRMAN. That is outside of the advances made by Germany?

Mr. HOUSTON. The total, as I have the figures—and these are not, probably, complete; I took them as of the latest date available—the advances of the Allies, the United States, Great Britain, and France, were about $19,700,000,000, and of Germany about $2,375,000,000, making a grand total as of the date for which I have these figures of over $22,000,000,000.

The CHAIRMAN. I stated that because I always understood our advances were about $22,000,000,000.

Mr. HOUSTON. Of loans?

The CHAIRMAN. Not only the loans, but what was advanced in other ways. I did not mean the cost.

Mr. HOUSTON. Now, you gentlemen are quite familiar with the mounting burdens that this Government had. In 1916, before we entered the war, the ordinary receipts of the Government were about $782,000,000. And by 1920 they ran to about $6,700,000,000. The ordinary expenditures mounted from about $742,000,000 in 1916 to nearly $19,000,000,000 in 1919.

It has been stated that in the three years following our entry into the war this country spent in the neighborhood of twelve or fourteen billion dollars more than it had spent in its entire preceding national history. And our debt, as you know, increased from approximately a billion dollars to over $26,000,000,000. And State and local receipts and expenditures correspondingly increased.

That picture, I think, gives a hint not only as to the political disruptions but as to the economic burdens that the world has been called upon to assume, which are still with us in a great many directions.

Following the armistice, as is, I think, always the case after a war, there was a period of hope, of optimism, it being generally assumed that when the fighting had ceased the war was over, instead of assuming that the war had left us with a legacy that we would be struggling with for generations. This spirit was manifested, I remember, in a conference that was held in Washington in December. It was apparent that men in industry, thinking that peace had come, were ready to set up again. Of course, during the war many plants had been unduly expanded. Prices had greatly increased—had doubled, very nearly—and wages in many directions had more than doubled. Other plants set up at an undue rate. And yet, it seemed clear pretty early in 1919—in fact, in the latter part of 1918—that world trade would be greatly decreased and that there would be a decline of price, not only for industrial things, but for agricultural products. It was quite obvious that Europe would not have the money to pay for what she really wanted or for what she had been buying. And that as the submarine was out of the way she would begin again to seek things from other nations from which she could not get them during the war, and from which she had been accustomed to get them.

Some warnings were issued to that effect but, notwithstanding that, the expansion both of agriculture and of industry continued.

The farmers of the Nation especially had been urged to produce, to increase their acreage in leading cereals and in animals, during the war, and they responded very nobly. But after the armistice came, instead of returning to pre-war practices as they were urged to do, they continued to produce an undue amount, especially of wheat and cotton and some other things.

In the period of 1911–1915, for instance, the acreage of cotton was 35,000,000.

Senator HARRISON. In the United States?

Mr. HOUSTON. Yes. That is the average. In 1916–1920, 35,000,000. In 1921–1925, 37,600,000. In 1926–1930, 44,700,000.

As to wheat, 1911–1915, the acreage was 52,000,000; 1916–1920, 58,000,000; 1921–1925, 57,000,000; 1926–1930, 60,000,000.

Agricultural exports which had run to $3,800,000,000 in 1920 began to recede, until in 1922 they were $1,900,000,000, and dropping in 1931 to $1,000,000,000.

All exports which in 1916 were $5,500,000,000, rose to over $8,000,000,000 in 1920, dropped to $4,500,000,000 in 1921, and $3,800,000,000 in 1922.

There was an unmistakable land boom.

Senator HARRISON. Have you the pre-war figures there on exports?

Mr. HOUSTON. Yes, sir. In 1913 it was $2,450,000,000. In 1916 (the European war having broken out in 1914) it was $5,500,000,000; had risen to $5,500,000,000, and then rose, as I said, by 1920, to $8,200,000,000. Would you care for the imports?

Senator HARRISON. No. I just wanted to get the pre-war exports?

Mr. HOUSTON. Farmers continued their activities on a large scale. Many of them began to buy lands at very high prices. Values mounted enormously, and they went into debt for very large amounts.

In 1910 the values that I have taken from the statistical abstract were $6,300,000,000. In 1920, $13,800,000,000. Dropping about 1925 to $10,800,000,000 and by 1930 to $10,300,000,000.

And the debt on the farms which incurred debt—and I may say that I am now speaking only of farms operated by owners—was reported at $1,700,000,000 in 1910, at $4,000,000,000 in 1920, four and one-half billion dollars in 1925, receding slightly to $4,100,000,000 in 1930. And the largest increases were in the section of the country that is normally regarded as one of the most prosperous and the best farm section, the North Central States. I may say that these States showed the largest increase in the land values, and also in the debts incurred.

The CHAIRMAN. Can you give us the percentage of increase?

Mr. HOUSTON. I think I can give that in a moment.

I have seen a recent statement by Doctor Englund of the Department of Agriculture giving his estimate of the total mortgage debt. As I said a moment ago, those figures were for farms owned and operated by the owners. Total mortgage debt in 1910 of $3,300,000,000. That includes the debt on farms operated by the owners, on tenant farms and farms operated by managers. In 1920, $7,800,000,000. In 1925, $9,300,000,000. Receding by 1930 to eight and one-half billion dollars.

The North Central States to which I referred—for those States I have the estimate of the same authority—had 59 per cent of the total debt, 33 per cent of the number of farms and 51 per cent of the value of lands and buildings. And it is estimated that of the total debt 56 per cent was on farms operated by owners, 40 per cent on tenant farms, and 4 per cent on farms operated by managers.

If the committee has not the figures it may be interesting to note his estimate of the creditors. The Federal land banks in 1928—that is the last year for which he gave the figures—had 12.1 per cent of the mortgages for $1,146,000,000; the joint-stock land banks, 7 per cent, for $667,000,000; commercial banks, 10.3 per cent, for $1,020,000,000; mortgage companies, 10.4 per cent, for $988,000,000; insurance companies, 22.9 per cent, for $2,164,000,000; retired farmers, 10.6 per cent, for $1,000,000,000; active farmers, 3.6 per cent, for $339,000,000; other individuals, 15.4 per cent, for $1,453,000,000; and other agencies, 7.2 per cent, for $685,000,000, making a total as of that date—which has since decreased—of $9,463,000,000.

Senator HARRISON. Doctor Englund testified before a subcommittee of the committee on banking and currency, and I think that proportion is about maintained up to date.

Mr. HOUSTON. Yes.

Now, Mr. Chairman, it is rather important to note, I think, that the number of individual holders of these mortgages is very large. Outside of the owners of the insurance companies, who number perhaps sixty-odd millions, the other individual holders are about 750,000. So that they, together with the owners of the mutual insurance companies own about $4,900,000,000, or nearly half. And, of course, I need not say that the policyholders, of whom there are more than 60,000,000, are the owners of those companies.

There came the slump, the decline of foreign trade, marked decline in agricultural exports, falling prices—industrial prices beginning to fall in the preceding December and continuing through 1919.

Then there followed another period of expansion, of reckless speculation and gradual weakening of the financial structure. Money rates, as you recall, for secured time loans went to 10 per cent, and from 6 to 7 per cent for commercial paper. And the reserve ratio in 1920 dropped to the minimum required by law for the system, and in the case of some of the reserve banks below the minimum. There was, of course, the large dip in agricultural prices in 1920.

After 1922, and especially after 1923, a period of recovery began. It mounted rapidly until October, 1929. It was characterized by the things that usually characterize these depressions—over expansion of industry—not only of industry, but of agriculture. Large credits extended, not only here but abroad. Large loans to foreign countries. And a mounting of expenditures, especially in State, local, and city units, public and private.

The CHAIRMAN. Have you the percentage there of increase during the period from 1925 to 1929 on the expansion of State, county, and city expenditures?

Mr. HOUSTON. I am sorry to say that I have not got complete figures for that.

The CHAIRMAN. I thought perhaps you could give the percentage.

Mr. HOUSTON. I can not give you that, Senator. But take a few indices of the mounting of production. Automobile production in 1915 was 895,000. By 1918, the year of the armistice, it had risen to 943,000. In 1919, 1,650,000. In 1920, 1,900,000. In 1923, 3,750,000; 1928, 4,000,000; 1929, 4,800,000; dropping in 1930 to 2,900,000.

The registration of automobiles in 1915 was 2,446,000. In 1920, 9,223,000. In 1928, 24,500,000. In 1929, 26,500,000. In 1930, 26,500,000. And the most recent hint that I have had as to the present registration is about 23,500,000, or enough to carry the entire population of the United States in one trip.

Another hint I think may be found in a direction in which expansion was needed but which perhaps proceeded more rapidly than was wise, and that was in highway building. In 1914, $24,000,000 in highway construction. In 1919, $107,000,000. In 1921, $397,000,000; 1925, $649,000,000; 1926, $622,000,000; 1927, $707,000,000; 1928, $827,000,000; 1929, $910,000,000; and in 1930, $1,140,000,000. Or in that period a total of $4,500,000,000.

Senator HARRISON. That is State, local, and Federal government?

Mr. HOUSTON. Federal aid and State and local. Now of course I need not say that I was very much in favor of improved highways, and I administered the Federal aid road act for some years, but you can overdo even a good thing, or do it too rapidly.

Take another hint. Building construction. I am sorry that I have not the figures for the war or preceding periods, but in 1925 it was $6,000,000,000. In 1926, $6,400,000,000; 1927, $6,300,000,000; 1928, $6,600,000,000; 1929, $5,750,000,000. Or a total in five years of $31,000,000,000.

Now, unquestionaly, human nature and human wisdom were weak in that field. There are many communities in America, from New York City, Chicago, Los Angeles, down to smaller cities, that I might mention, that greatly overbuilt, overbuilt ahead of any need, and of course complicated the situation.

Coincident with this began a period of speculation which was amazing. Prices even of good stocks and other securities mounted far beyond what they should have reached on any basis of earnings or reasonable prospects, and on some other securities far beyond that, and it was nation-wide; so far as I have been able to ascertain there were few communities in America in which people of all classes were not speculating, and many of them on margins, and it was practically impossible to head them off, and there were some people who were not disposed to try to head them off. As in many other fields of course there was high-pressure salesmanship, but aside from that, even when you tried to stop them it was difficult to do so. Some of us who urged caution in the latter part of 1928 and during 1929 were told that we were out of date; that we were in a new economic era, and that economic law had been set aside, but they found to their sorrow that they were mistaken.

The thing ran its course, and then came the collapse of stock prices in October of 1929.

Senator LA FOLLETTE. Mr. Houston, before you get any further in your historical analysis. Assuming for the sake of the argument that all that you say concerning the overenthusiasm which characterized the building industry and highway development is true, do you or do you not believe that the expansion of the construction and the expansion of the highways and the expansion of the automobile industry contributed to pulling us out of the slump of 1920–21?

Mr. HOUSTON. I think that is a difficult question to answer. It helped to set up trade activity, but going beyond what seems to me to be a reasonable point it simply precipitated a worse situation, as overexpenditures either on the part of private individuals or Government agencies always do.

Senator LA FOLLETTE. I was anxious to know whether or not you felt that those industries expanding construction, the automobile, the building of highways, contributed to the turn which came after the slump of 1920–21, or not?

Mr. HOUSTON. I should rather think, Senator, that they were a reflex of the fact that the turn had come.

Senator LA FOLLETTE. In other words, it is your opinion that if there had been no expansion in the automobile industry and in highways and in construction of all kinds that we would have come out of the slump anyway?

Mr. HOUSTON. Yes. We would have worked out of it anyway. And if we had proceeded with due caution we might have gone on without anything like the phenomenon that we witnessed in 1929. But human nature, of course, is fallible, and human wisdom is limited, and it is very easy to see the mistake after the event.

Senator LA FOLLETTE. In your opinion did the automobile industry expand too rapidly?

Mr. HOUSTON. I think so. I think most things did. I am not criticising the automobile industry as such, but I think that most things did. I think we as individuals and public servants throughout the Nation overdid expenditure in an excellent thing like highway construction. Did it too fast. But that is nothing new. We have always done it.

Mr. Chairman, it may not be entirely without value if I were to remark here that the public seems to think, and perhaps naturally, that this is about the only period in which the Nation has been in trouble. Now, I do not underestimate the difficulties that individuals are in to-day, that enterprises are in, and that governments are in, or the problems that you gentlemen have to solve. But we have had one or two other depressions ranking pretty close to this and in some respects presenting difficulties that we have not yet had to encounter. May I just briefly refer to them?

The CHAIRMAN. We will be glad to have you do so.

Mr. HOUSTON. Let us go back to the good old days of the 1830's. There we had a course of reckless overexpansion, internal improvements, canals, the taking up of public lands, reckless speculation in public lands, and coincident with that, as you gentlemen remember, the fight on the Second United States Bank. In that period, especially with our State banking system, which was the only thing we had aside from the Second United States Bank, our laws and our banks were even weaker than they are to-day. And, furthermore, that depression, like most others, was world-wide and not local. Europe was in trouble. Her people became frightened as to what was happening in this country and began to withdraw their American securities. The farmers were in trouble. There had been several years of cereal-crop failures. They had little or nothing to sell. Land values collapsed. And this was accentuated by the action of the Government in issuing the specie circular which withdrew specie from where it was needed to where it was not needed. The sales of public lands fell off from $25,000,000 in 1837 to $900,000 in 1843. It is stated by an economist that 50 per cent of all land in the country changed hands; and all the land in Alabama.

Senator HARRISON. Did that affect one section more than it did another, or was it pretty generally universal?

Mr. HOUSTON. No; it was universal. I have just spoken of the land troubles. Nine-tenths of the factories in the East, it is estimated, closed down. Fifty-thousand men in Massachusetts alone in the shoe factories were thrown out of work. New York City was characterized as a dead city, with 20,000 idle people, and the militia was called out to suppress riots.

The CHAIRMAN. What was the population of New York at that time, do you remember?

Mr. HOUSTON. I do not remember. It was relatively small.

Senator HARRISON. The proposition, though, of unemployment at that time was as large as it is to-day?

Mr. HOUSTON. I should think so.

Senator BARKLEY. But life was much simpler.

Mr. HOUSTON. That is true.

Senator BARKLEY. That was before the steam engine and the steamboat had come into use, or soon after they were brought into use. Of course, the whole social structure was much more primeval than it is at present, and to that extent was not so complicated.

Mr. HOUSTON. That is true. But, on the other hand, the people had less reserves than they have now. I will touch on that if I may a little later.

It has been stated that from one-half to two-thirds of the clerical force in the city of Philadelphia were thrown out of work. Some of the Western States, what were then Western States, were on the verge of bankruptcy, and several States repudiated their indebtedness.

Of course, there was a banking collapse. The banks in New Orleans went first, and then those in New York City and Philadelphia. And in 1837 the country had 758 banks, and 680 of them suspended. There was a partial resumption in 1838, and in 1839 840 banks were in the country and 759 of them suspended.

The currency of the Nation contracted from $149,000,000 to $83,000,000. The Government, as you remember, could find no safe place in which to put its money, and founded the independent treasury system which has only recently been transferred to the Federal Reserve.

Now, I shall not go into the panic of 1857.

Senator HARRISON. How long did that panic in the 1830's last?

Mr. HOUSTON. From 1837 to 1842. Five years.

The panic of 1857 ran the same course. Had very many of the same incidents. The only peculiarity about it was that it was characterized by overexpansion of railroad building, the taking up of lands, speculation in lands, stimulated in no small part by the discovery of gold in California coincident with the discovery of gold in Australia.

And there was this interesting thing. The banks assumed that the gold from California was going to stay in this country. I happened to make a special study of that, and of all the volume—I can not remember the exact amount, but it was large—that poured out from the California mines between 1848 and 1857 only $10,000,000 stayed in this country. You can trace it to England, and through England to France, where it displaced silver, which went to India.

Senator HARRISON. Was that not due largely to the fact that London at that time was the great financial center?

Mr. HOUSTON. And because of her trade relations; yes, sir.

Senator HARRISON. This one in the 1850's lasted how long?

Mr. HOUSTON. That lasted only a very short time. And we had hardly begun to recover from it when the Civil War came on.

Now came four years of fighting. Our own people engaged in the most serious struggle, I suppose, up to that time in the world's history. We had hardly started the fighting in the North before there was a suspension of specie payments. And there was the same mounting of expenditures, in proportion I think approximately as great as during the late war. Our Federal expenditures in 1860 were only $60,000,000. The average between 1861 and 1865, in the Union alone, was approximately $700,000,000 and the receipts $161,000,000.

And of course the debt mounted. In 1860 it was $64,000,000. In 1865 it was $2,700,000,000. And at the beginning of the war the total wealth of the Nation was only $16,000,000,000.

Prices, of course, had mounted. The war had been financed largely by borrowing. Greenbacks were issued, I think, up to about $432,000,000. And the South was left with her economic strength impaired 60 per cent, and a disruption of her social and economic system.

Now, again, after the peace a wave of optimism swept over the Nation. This was followed by a period of expansion, enormous railway undertakings, and a riot of speculation.

Senator HARRISON. What year did that start after 1865?

Mr. HOUSTON. There were symptoms of trouble as early as 1870.

Senator HARRISON. But the expansion started immediately after the war?

Mr. HOUSTON. Yes. Just as it did after the late war. And railways were built ahead of the need of the moment and of population. The cost of this construction between 1867 and 1873 is estimated to have been $1,700,000,000. The railway construction in that period was 32,000 miles, or more than the Nation had in 1859.

Now, it had some good aftereffects, because if those railroads had not been extended to the Mississippi, as they were, we would not have had poured out the subsequent flood of products from the

Middle West which made the resumption of specie payments possible. But there was overexpansion in iron, steel, and textiles and oil refineries and flour mills, and in State, city, town, and county expenditures.

There was the same reckless issue of securities. This country and Europe were flooded with them. There was much borrowing in the East. And again warnings were unheeded. And I have no doubt that those who gave warnings were told that they were in the new economic era.

In 1872 the reserves in New York City were deficient. On September 8 nine New York banks failed. On September 20 the New York Stock Exchange closed for the first time in its history. And then there was a suspension within the suspension. Specie payments had already been suspended and again, as in 1861, they had to resort to the use of clearing-house certificates. Checks had to be made payable through the clearing house. In New York City limits were placed on the amounts of deposits that could be drawn out. Then Boston, Philadelphia, Baltimore, Washington, Chicago, St. Louis followed, and then the rest of the country.

Senator BARKLEY. What year was that?

Mr. HOUSTON. In 1873. By September 27 it had become general throughout the Nation.

Senator HARRISON. September 27, 1873?

Mr. HOUSTON. That was 1872—September 27, 1872. The people were alarmed. They began to hoard, they began to try to draw out of the banks, and in the next year, 1873, there were 5,000 commercial failures, for $228,000,000; in 1878, 10,000; and in the period from 1873 to 1878, 47,000. And it appears that in proportion the number of commercial failures at that time—in 1878, I think it was—was approximately the same as in 1932, in proportion to the number and wealth.

It has been stated that 89 railroads went into the hands of receivers. Trade fell off from 25 to 50 per cent. Five hundred thousand railway men alone were out of work. That from 300 to 700 iron and steel plants closed down. And that in a population of approximately 38,00,000, 3,000,000 of men were out of work. Relatively few women were working in industry then. That is the proportion, 3,000,000 to about 38,000,000.

And during that period we had the reverse of the situation that we are now in. The country was struggling to get a sound money system. The national banking system had been created, but had never had a chance to get started satisfactorily. We had no gold. And the Congress provided in 1875 that specie payments should be resumed in 1879. And by reason of the fact that our exports for several years exceeded our imports, and we imported gold, we resumed specie payments in 1879, and then prosperity began to reappear.

Senator HARRISON. So that panic lasted about six or seven years?

Mr. HOUSTON. With symptoms in 1870, but acute in 1873, it lasted through 1878. About five years in the acute stage.

Senator LA FOLLETTE. Do you know what happened to production? Have you any data on that period of how much it fell off?

Mr. HOUSTON. I am sorry that I have not the figures for that, Senator. But of course the North was not as hampered in that field as the South was, but I should think that the decline was considerable. I could get the figures and supplement those if you wish.

Senator LA FOLLETTE. I will be glad to have you do so. I have seen data—I do not know how accurate it is—to indicate that we have never had in these previous depressions such decline in the percentage of production, and I wondered whether you had looked into that aspect of it?

Mr. HOUSTON. That is true in certain industries. I will take that statement back. I was then thinking of a great enterprise which did not exist as such at that time; but I should be very much surprised if in the main the decline was not fairly comparable.

You are more familiar with 1893. That also did not appear without warning. There was a good deal of speculation here and abroad. Failures appeared in England. The Baring Brothers failed in November of that year. In this country a number of private bankers and brokers failed. Resort was again had to clearing-house certificates.

The CHAIRMAN. That was coming for two years, though, was it not?

Mr. HOUSTON. Yes. I will come to that.

The CHAIRMAN. People in the world, I suppose, knew that it would arrive, though they did not know how soon.

Mr. HOUSTON. Prices of agricultural staples were low. The farm debt was heavy. There was again reckless financing of railroads and many went into receivership.

There had been an agitation for cheap money. And then the passage, as you remember, of the silver purchase act in 1890. That caused apprehension here and abroad, and the usual phenomenon followed.

This depression was world-wide. Our exports dropped $14,000,000 in six months in 1890. Gold began to go out of the country. The circulation contracted $29,000,000 in six months. And Europe began to call for her securities. Railroads began to fail. The stock market collapsed on May 4. In six months 3,400 commercial failures for $169,000,000. Banks began to suspend, and on June 15 clearing-house certificates were resumed. And there was little improvement in the situation until 1896.

In 1907 we had a bankers' panic, but that does not——

Senator HARRISON. Before you leave the other. This depression in the nineties lasted about four or five years?

Mr. HOUSTON. It began in 1890. The symptoms of trouble appeared in 1890. And it disappeared after 1896.

Senator BARKLEY. Do you attribute its disappearance mainly to the discovery of gold in Alaska?

Mr. HOUSTON. I am speaking of 1893.

Senator BARKLEY. I thought you said it disappeared after 1896. Maybe you have not reached that point.

Mr. HOUSTON. 1896.

Senator BARKLEY. Are you going to discuss that in your statement, as to whether the discovery of gold in Alaska in 1896 had anything to do with that?

Mr. HOUSTON. No; I have not followed that, Senator.

Senator HARRISON. You have gotten down, Mr. Secretary, to 1907?

Mr. HOUSTON. Yes.

Senator HARRISON. Had you finished with that?

Mr. HOUSTON. Yes.

Senator HARRISON. That lasted how long?

Mr. HOUSTON. That was very short. I do not remember the exact time.

Senator HARRISON. Would you be able to tell the committee during these series of depressions what, if anything, stands out preeminently that was done by the Government to help to bring about economic normalcy?

Mr. HOUSTON. I am going to touch on that.

Broadly speaking, there was nothing different in the course of these depressions from the course of the depression that we are now in. There was the same overexpansion, the same speculation, the same proposal for relief—similar proposals for relief—I should not say the same—of spending of more money and attempts to tamper with our monetary system, some of which were more or less successful.

Senator BARKLEY. You mean the tampering was successful?

Mr. HOUSTON. Yes. There were even proposals for changes in our governmental system, our social system, as we have at all times. And in this, of course, for planning boards to plan for the Nation, groups of men. I have not found so many who know how to plan for their own individual enterprises as to justify me in thinking that they could plan for all the activities of the Nation. And many of these proposals come from people who have made no particular success of their own individual plans and have not been charged with large responsibilities. They have even proposed the overturning of our system of Government without telling us where we are to look for a better or giving us any concrete suggestion that would certainly bring improvement.

I am not one of those, Mr. Chairman, who think that this country is in quite as desperate a situation as some people think it is. I do not think it is the worst time in the history of the world, and I do not think, broadly speaking, it is as bad in some respects as the country has been in preceding depressions.

Of course if we compare this country with Europe we find it in so much better condition in most respects as to admit of no comparison. Our wealth still exceeds that of perhaps the four leading nations of Europe. Our savings in savings banks and in time deposits are somewhere between twenty-four billions and twenty-eight billions of dollars are very much larger in proportion than those of any other people. And we have around from 50 to 70 per cent of many of the most valuable things in the world, with only 6 per cent of the population. Nearly 50 per cent of our people live in homes which they own, and more could live in them but many of them prefer to rent. And at the last date for which I have the figures, 60 per cent of the arable land was still cultivated by owners. Now those figures can not be duplicated in any other country in the world.

Another fact that has interested me as bearing on what we try to do for the people. I suppose the only way to try to bring about equality of opportunity, or one of the most effective ways, is to try to increase equality of capacity, and it seems to me that we have omitted nothing to do that. This Nation, so far as I can get the figures, examining the budgets of all the nations in the world, with 6 per cent of the population spends more for education than all the rest of the world put together.

Senator BARKLEY. Do you think we are getting our money's worth?

Mr. HOUSTON. Not in all directions. I think we are trying to educate many people who are not educable. I used to be rather innocent in that field. I used to think that everybody could become educated. I have come to doubt it. While I believe in keeping the door of opportunity open, I think after a boy or girl demonstrates that he or she can not or will not profit by the opportunities the door ought to be closed. And I think we are wasting a good deal of money in that field. Still I prefer to err on that side than on the other.

I might add that the people of this nation are covered by 73 per cent of the insurance of the world. They are covered by more than $103,000,000,000, which, of course, so far as the companies are concerned, is a liability to be paid over 25 or 30 years. The companies having assets of around $19,000,000,000, and as a little hint of what the people still can do, they took out $14,000,000,000 of insurance last year. They paid in premiums $3,500,000,000. And they received in policy loans, which shows one of the resources which I referred to a moment ago, over $2,000,000,000. Their beneficiaries received $1,925,000,000.

Senator BARKLEY. Right there. I suppose that those figures could not be considered as net? I imagine that many of the policy loans were obtained for the payment of premiums and that there would be an overlapping there?

Mr. HOUSTON. These are cash payments. Those are net cash payments.

Senator BARKLEY. Can you tell whether after a man borrowed money on a policy he used part of it to pay his premium?

Mr. HOUSTON. Well, he might, of course, if he gets the cash.

Senator BARKLEY. Yes. Of course it would be cash payments.

Mr. HOUSTON. Yes.

Senator BARKLEY. But it may be that a considerable portion of that $2,000,000,000 that was borrowed was used also to pay the $3,500,000,000 of premiums.

Mr. HOUSTON. Some of it, but I do not think a very large per cent.

Senator HARRISON. In the case of certain people that I know—and a number of the members of this committee—a large proportion.

Mr. HOUSTON. Yes; in many cases. The beneficiaries received $1,925,000,000, and living policy holders in all forms, including the policy loans, dividends, and so forth, $4,250,000,000.

I simply cite those things to indicate that we are not in the condition that I think some people think we are.

There are three or four things that seem to me to be somewhat more striking in this depression. In the first place, for some reason or other, the people have either been induced to look or do look to the Federal Government and the Federal Treasury for their salvation. That is almost a new phenomenon. They have been taught to believe that prosperity can be implemented from Washington, and that the Federal Treasury in some mysterious way, without going broke, can take care of all of them.

Then, I think it is also true that, perhaps, there are more and better organized minorities assaulting you gentlemen than we have ever had before in the history of the Nation.

Senator BARKLEY. The word "assaulting" there is well advised.

Mr. HOUSTON. Yes. I have watched it. And it seems to me, gentlemen, if these tendencies are not held in check it will become not only more menacing but must of necessity, if it is yielded to, result in the wrecking of the Federal Government.

The CHAIRMAN. I wish you were on the Appropriations Committee.

Mr. HOUSTON. I am glad I am not. I know something about the problems that you gentlemen have had in the past and some of the difficulties you have now, and I can only say that you have my sympathy.

I think that is all I care to say in the way of trying to sketch the causes of the present depression, the character of former troubles, and some of the incidents.

Senator LA FOLLETTE. Mr. Houston, may I ask you whether you feel that the activity of the Government through the Reconstruction Finance Corporation was justified or not?

Mr. HOUSTON. I think perhaps in larger measure than that of almost any other of the agencies.

Senator LA FOLLETTE. You think then, there are certain devices which the Federal Government should employ to aid in the situation?

Mr. HOUSTON. I think on account of the increasing decline of confidence among the people and the threatened runs on banks, that some aid of that kind carefully extended on proper security was a step in the right direction. I think that the answer would depend—and I have no knowledge of my own—on whether it was properly done.

Senator LA FOLLETTE. I am not seeking to go into that aspect of it. But it just occurred to me that if, for instance, there had not been some action by the Government in that connection some of these reserves which you indicate as available at this time might not now be available.

Mr. HOUSTON. I quite agree with you. I do not mean to say that there were not certain things that the Federal Government could do and there were not things that it had done that were not desirable. I think they have been—some of them.

Senator LA FOLLETTE. Well, I thought your statement might be taken as a sweeping statement.

Mr. HOUSTON. It might have been, yes. I am glad you asked the question.

I have nothing new, I think, to tell you gentlemen. I believe that it is of the utmost importance that the credit of the Federal Government shall be maintained at all hazards. I know it is easy to say that the Budget ought to be balanced. It is another problem to do it, and I am sure that you gentlemen realize that as fully as anybody, and that you will omit nothing in the way of reducing expenditures and increasing receipts, where it is possible, to maintain the credit of the Federal Government. And, incidentally, so far as possible, avoid any unnecessary appropriations. I do not need to dwell on that. It would be offensive to the intelligence of the committee.

I am equally convinced that there would be nothing quite so harmful and that would so quickly precipitate even greater chaos than any tampering with our monetary system. We are very fortunate, I think, in the main. This is the only time in any great depression when the country has carried on as long as it has in a depression with what might be regarded as a reasonably sound monetary and banking system. It is the only time in which practically all of our banks have not suspended. Now, we have had bank failures, unfortunately. But if one were to wake up in the morning and find that every bank in every city and town in America had suspended we would begin to think we were in trouble. And that happened in preceding depressions.

Senator La Follette. May I ask you right on that point, Mr. Houston, as to whether or not there was any difference in the situation so far as the use of credit for the transaction of business is concerned between the earlier depressions and this one?

Mr. Houston. No; I think that broadly speaking the mounting use of bank credit was the same in each instance.

Senator La Follette. You think proportionately there was no difference?

Mr. Houston. No real difference. They were less able to stand any strain than they are to-day.

Senator La Follette. It has been my impression that to a certain extent bank failures were less significant per se in the previous depressions than now because of the larger employment of credit as a means of transacting business.

Mr. Houston. Well, of course, you are quite right in suggesting that the use of credit—bank credit and checks as a medium of exchange—has grown. But I should say considering the relative strength of the banking system to-day and in former periods the number of failures is less significant, considering the relative strength of the banking systems in the different periods.

Senator La Follette. Well, yes; but what I had in mind was that an entire collapse of the banking structure now, in view of our greater reliance upon bank credit as a means of transacting business, would have a more devastating effect than it had, say in the panics of the early eighteen hundreds. That is the point that I had in mind, and I wanted to get your reaction to it, as to whether or not, in other words, the use of bank credit has not become a very important factor in our transactions?

Mr. Houston. It has. But it has always been important, and it was very marked during the period from 1923 to 1929, and that meant a very rapid turn-over. But since 1929 the use of checks has tended to decline, because the banking operations have slowed down very markedly. And most of the banks of which I have any personal knowledge are in very strong position, in very liquid position, and are ready and anxious to take care of good loans if they can find them. But the difficulty they encounter is in finding loans that prudent bankers should accept. Now, perhaps, they make mistakes in conservative directions just as in other times they make them in optimistic directions.

Senator Barkley. Mr. Houston, are you able to make any comparison with reference to bank suspensions in the panic of 1837 and in this one as to the ability of the bank to reorganize and open up for business again?

Mr. HOUSTON. May I come to that in a moment?

Senator BARKLEY. Yes.

Mr. HOUSTON. I was speaking of what seemed to me to be the necessity of maintaining the integrity of our monetary system, and I said that I thought we are quite fortunate in the position in which we found ourselves. We have, as you know, about 40 per cent of the world's gold—around $4,000,000,000. And we have even to-day 2.3 billions of dollars more money in circulation than we had before the war. And as much as we had, I think at the peak.

Senator BARKLEY. If you will permit me right there, Mr. Houston. In to-day papers there is a statement issued by the Treasury showing that on February 15 the amount of money in circulation was $5,854,000,000, which is the highest amount ever in circulation in the history of the United States. That represented an increase of $149,000,000 in one week.

Mr. HOUSTON. That is a later date than the one that I used here.

There are those who have suggested that we go off the gold standard. We worked very hard for a good many years in the seventies to get back on it, and with the strength of our present position I should deem that highly unwise, and I know of no nation in Europe that would not be glad to return to it if it could, and which does not envy us our present position. And there are some gentlemen in one country in particular who have been very insistent, for reasons that one can easily imagine, to get us off the gold standard.

The CHAIRMAN. Have you any objections to naming the parties?

Mr. HOUSTON. One of the gentlemen, who has been rather partial to our inflating since Versailles, was Mr. Keynes, and another was the former Chancellor of the Exchequer, Mr. Reginald McKenna. I happened to see him in 1923 and he was then insistent that we ought to, and he has been at it ever since. I could understand his reasons.

The CHAIRMAN. I think others do.

Senator HARRISON. For the benefit of the record, will you not give us the reasons?

Mr. HOUSTON. Well, if they could pay what they owe us for about one-tenth of the price, they would like it very much.

Senator BARKLEY. Who would not?

Mr. HOUSTON. Who would not! I remember when I happened to be in Germany in 1923, just across the border, as a souvenir I bought a billion-dollar mark for 75 cents.

Senator BARKLEY. I got a $100 bill changed there in 1921 and it took three wheelbarrows to get it back to the hotel.

The CHAIRMAN. I saw a mortgage in Berlin for $25,000 paid by $1.65 United States money.

Mr. HOUSTON. Well, Senator Harrison knows that in our own section of the country, in the latter days of the Confederacy you could not haul enough in a wheelbarrow to pay for a meal.

We have had, as I said a moment ago, in spite of our general strength, quite a number of bank suspensions. I think the public naturally pays more attention to the suspensions than it does to those that continue. In 1931 we had 2,290 banks to suspend, with deposits of $1,700,000,000 in round numbers. Of these 1,781 were State banks with deposits of $958,000,000. But at the end of the year we had nearly 20,000 banks still going, with deposits around

$50,000,000,000. And I think if the public realized those facts they would be a little less panicky than some of them are.

Senator BARKLEY. How did those deposits compare with the highest amount of deposits at any other one time?

Mr. HOUSTON. I do not recall any amount higher than $54,000,000,000. I would not like to state that as the maximum. That is my recollection.

Senator BARKLEY. We have close to $48,000,000,000 now?

Mr. HOUSTON. Between $48,000,000,000 and $50,000,000,000. I do not know the exact figures. It is hard to get accurate figures.

And I think the Secretary of the Treasury is right in suggesting that if we can be certain of maintaining the credit of the Federal Government—and I think we can—and that we are going to continue with a sound monetary system, that we ought to have a refunding operation to reduce the interest charges.

Then I think that it is of the utmost importance that the people of this Nation must realize that by hook or crook they must get a stronger banking system.

Now, of course, we speak of a banking system, and we pride ourselves on having passed the Federal reserve act. I need not remind you that that covered only a fraction of the banks, and only around—well, I do not remember the exact fraction, but the smaller fraction of the bank resources. So that we have the picture of a smaller number of the banks but with large resources under the direction of the Federal Government, and the larger number of the banks with immense resources under 48 other jurisdictions. And I think it is clear that some of those laws are not as strong or never have been as strong as they should have been, and I have no doubt that they could greatly strengthen, as I think they should do, their banking control and inspection.

I do not believe that we have as much banking talent in the Nation as we have banks. And the banking talent is quite as important as the financial set-up of the bank itself. I think we have entirely too many small, weak banks.

Now I know it is a very difficult matter. The Federal Government has not jurisdiction over all of them. The States are very slow to act. There is a very strong lobby always against any attempt to lessen the number of small banks, to extend branch banking with strong banks, but I am thinking of the small depositor, who perhaps would lobby against it with the others, and he is the one most intimately concerned. I can not see why this Nation has not enough intelligence in its verious governmental authorities to establish a banking system in the interest of the small man, especially so we will not have utter collapse as we have had in preceding depressions, or numerous suspensions, as we have had in this depression.

It is difficult to take the requisite action, but in some way we must do it. Canada was harder hit by the war than we are, and was weaker. Great Britain was harder hit by the war than we are, and her trade was shot to pieces. And yet they have not had a bank suspension during this depression. That means two things: A sound banking system with sufficiently strong banks, and somehow higher requirements for banking talent. Or at least they seem to have it.

Senator HARRISON. You have studied the Glass banking bill. Do you think that will improve the banking structure?

Mr. HOUSTON. That, while it has many good features, naturally could not attack the whole problem. It would still leave a large gap.

Senator HARRISON. You think it is in the right direction?

Mr. HOUSTON. Yes.

Mr. BARKLEY. Is the answer to your suggestion unified banking system?

Mr. HOUSTON. Either that—I do not see any other answer to the question, to be frank.

Senator BARKLEY. Of course we all shy away from that suggestion——

Mr. HOUSTON. So do I.

Senator BARKLEY (continuing). Because of the difficulty of ever accomplishing it and of the unpopularity of attempting it among all those who pride themselves on the maintenance of local control over local credit and banks. But if that is the answer, the sooner somebody breaks loose on it and is bold enough to suggest it the better it will be. I do not know that I would ever espouse that cause, but if that is the only answer I at least want to consider it.

Mr. HOUSTON. I think it is worth considering it. I am not prepared to say how it can be done or that it should be attempted. But I think we ought not to have any independent bank that is not strong enough at least to be a member of the Federal Reserve System.

Senator BARKLEY. When we think about our banking system we all know that it is a ridiculous position that our people are in here in the strongest nation in the world financially, and from nearly every other standpoint, but we have had more bank collapses than have occurred in all the rest of the world combined.

Mr. HOUSTON. Well, I think it is a reflection on our intelligence and courage.

Senator HARRISON. Are we to infer, Mr. Secretary, when you talk about protecting the depositors, that we ought to have a guarantee of bank deposits?

Mr. HOUSTON. No. I think that any guarantee of deposits is a premium on bad banking at the expense of good banks. I think the remedy lies in another direction, and in the direction that I have tried to point. I think it has usually worked badly wherever it has been attempted.

Another subject that I approach and really do not see the need of discussing, because I am not optimistic that we shall get anywhere, is some attempt somehow to break down the water-tight economic compartments in which the world is increasingly attempting to operate, and it can not be done.

Senator LA FOLLETTE. You mean you can not break it down or they can not operate?

Mr. HOUSTON. You can not do it; not with benefit to the people. Of course since the war there have been a number of new nations created. Europe has 14 nations that have the average area of South Carolina, which is of the same size as Scotland, and the average population of Ohio. And each of them has its nationalistic set-up, its barriers of every kind. And other nations since the war have increasingly imposed barriers of one sort and another. Of course if a person does not believe in international trade I have no argument with him. But if he does, if he thinks that there are advantages, I will say to him that I think the sooner the world realizes that it can not restore full prosperity by continuing to attempt to operate in water-tight economic compartments, the better. If it prefers that, why then they will have to take their medicine.

Senator HARRISON. Plainly speaking, you think there ought to be a revision of our tariff laws and an enlargement of our trade?

Mr. HOUSTON. Efforts should be made as far as possible in attempting to secure revision of restrictions abroad which have been mounting and which are even more depressing there because of the small units. In our country, operating over a large continent with a population of 122,000,000, we can get away with it in some measure, although I still believe for us an expansion of trade would result ultimately in benefit not only to industry but also the farmers.

The CHAIRMAN. Are we not holding our percentage of trade, our foreign trade, as compared with the foreign trade of the world?

Mr. HOUSTON. I think so.

The CHAIRMAN. I think you will find it is a greater percentage—I mean, taking into consideration the amount of trade of the world, our foreign trade has held better than any other country in the world.

Mr. HOUSTON. Well, of course, they have been badly shot to pieces.

The CHAIRMAN. Certainly.

Mr. HOUSTON. And the times are abnormal. But, without desiring to argue the matter, Senator, I still believe that there must be some breaking down of these water-tight compartments.

Senator HARRISON. You had better get off of that subject.

Mr. HOUSTON. Yes. We have been debating that subject for 144 years, have we not?

The CHAIRMAN. All I wanted to call your attention to was that, as far as percentage of trade of the world is concerned, we are better off than any other country in the world.

Senator BARKLEY. Well, is it a fact that we want the facts about this whole situation except on one subject, and that we have got to steer clear of that?

Mr. HOUSTON. No.

Senator BARKLEY. I hope not.

Senator HARRISON. Are you going to discuss stabilization of exchanges in your statement?

Mr. HOUSTON. No.

Senator HARRISON. Have you anything to say about stabilization of exchanges?

Mr. HOUSTON. Nothing except that they will become stabilized when trade becomes more normal, and that is the only way I know of doing it.

The CHAIRMAN. I do not know of any other.

Mr. HOUSTON. You can use artificial devices and they will break down, but if you can once return trade toward some degree of normalcy the exchanges will rectify themselves, and I know of no other way of doing it.

I believe that it is urgent that there be some legislation, Federal and State, in respect to the railroads, along the lines, broadly speaking, of the report of the recent agency, and especially to place their competitors on a just basis of competition. Now, I am not attempting to say what it is, but in respect to convenience and necessity, in respect to burden of taxation, in respect to service, and in respect to rates, I think legislation in that direction will be helpful.

There is one thing at least that I should do in respect to agriculture.

The CHAIRMAN. Before you get on to the question of agriculture, have you any suggestion as to the competition of railroads with the trucks using the public domain?

Mr. HOUSTON. If the conditions of competition are equitable; no. The only thing I am suggesting—and I am not trying here to indicate the terms of equity—is that it should be equitable. My own personal opinion is that the trucks are not as heavily taxed. They run on highways, rights of way which the public generally provides. They pay license taxes and gas taxes which help to provide the highway, but of course the railroads have to provide their own rights of way and maintain them, and then have enormous taxes in addition. But I shall not try to settle that. You require of the railroads a certificate of convenience and necessity. I do not see any reason why a truck, a bus, should not have the same requirement. You regulate the railroad's charges. You prevent rebates. Undoubtedly the trucks take commodities at lower rates, and the cream of it in many cases. Now, I realize the necessity of these things. We have got to have them. But all I suggest is that they be put on a comparable or proportionately just basis with respect to regulation.

Senator BARKLEY. Do you believe, Mr. Houston—if you do not want to answer this you do not have to—do you believe that the railroad situation can be permanently solved and the railroads pulled out of their present difficulties on the basis of present capitalization?

Mr. HOUSTON. Some of them; no.

Senator BARKLEY. On the whole, your answer would be in the negative?

Mr. HOUSTON. Some of them may. Undoubtedly there has got to be a readjustment in many directions. Nor do I believe that in the main they can be saved by Federal relief any more than other people are going to be saved, in the long run. Some of them have got to go by the board.

Senator LA FOLLETTE. How long do you think we should keep on tailing-up this unsound debt and capital structure?

Mr. HOUSTON. Well, I think the sooner some of them reorganize the better. I can not answer without looking over the list of them.

There is one thought in my mind, Mr. Chairman, as to the farmer. In one section of the country, of course, the problem is the large indebtedness. In other sections it is a problem of better farming. If every farmer in this country did what the best farmer does and makes it a point to be self-sufficient first of all, produce what he eats and feeds, and then puts his surplus labor and capital into special crops we would not have much of a problem. He can be the most independent class in society at all times. Now they are not doing that.

I have statistics here, prepared for me by the Department of Agriculture, showing the production of a number of States of leading crops and the percentages per annum. I asked for that when I first went to the Department of Agriculture in 1913, and I had it checked up in 1930. In very many States it shows a very pathetic situation. I do not want to take time to read that.

The CHAIRMAN. I would like to have it put in, because that is one of the most important questions in this country to solve. I do not know whether it can be as long as the farmer wants to raise just what he wants to raise no matter what the market may be for it. Of course there may be something that he can be shown that would be of benefit to him and to the country at large.

Mr. HOUSTON. I can give a hint without taking much time. Take my own State of North Carolina. These statistics were as of 1930, so I do not know the figures later. The department gives me cattle per farm per annum in North Carolina, 1.9. Dairy cows per farm per annum, 1. Hogs, 2.9. Sheep, three-tenths of 1 per cent. Chickens, 31. Eggs, 1,458.

Now, if you contrast that with some of the States out your way you will see there is a difference. Iowa, of course, is in rather a serious situation, mainly because of the indebtedness on many of her farms, but as against 1.9 cattle per farm Iowa had 18.

Senator BARKLEY. That is not in percentages but in cattle?

Mr. HOUSTON. That is the number per farm per annum.

In North Carolina the cattle, as I said, 1.9. Iowa, 18.

Dairy cows, North Carolina 1; Iowa, 6¼.

Hogs, North Carolina, 2.9; Iowa 46½.

Sheep, North Carolina 0.3; Iowa 5¼, round figures.

Chickens, North Carolina 31⅓; Iowa, 160.

Eggs, North Carolina, 1,458; Iowa, 9,530.

Those people have their living.

Before the war the Department of Agriculture in contact with the land grant colleges and certain leading farmers had begun to work out a program for balanced farming, especially in the section of the Nation where the farming was not sufficiently diversified, and they were getting ready to put that program over when the war came and short-circuited it. I would like to see the Department of Agriculture and the land grant colleges and the best farmers checking it up, the agricultural press and other agencies launch such a program to induce the farmers to become independent by producing what they eat and feed, and then putting their surplus labor and capital in special crops, and then they would not glut the market. I do not know any other broad program that is going to do very much good.

The CHAIRMAN. That has been understood for years past and preached to the farmer and no result as yet.

Mr. HOUSTON. I know that. But I still think it would be worth while putting on that kind of a program.

I think the matter of allied debts has been given undue prominence. I think it has been a relatively small factor in the whole situation. I know that it has complicated the exchanges. They have had difficulty in paying in goods and they haven't the gold. I personally would not cancel those debts, but I would be willing to discuss adjustments of them provided they can show that America can have any compensation out of it.

Senator LA FOLLETTE. Do you have in mind something more specific than the contribution to improvement of world conditions?

Mr. HOUSTON. Well, that is the main thing I had in mind. One of the things.

Senator LA FOLLETTE. As I understand it they argue now that if we would readjust or cancel, that we would participate in the benefit of the improvement of world conditions.

Mr. HOUSTON. So would they. Most of their arguments make me very weary.

Senator LA FOLLETTE. Well, I just wanted to bring that out.

Mr. HOUSTON. For instance, Mr. Chamberlain argues that if we would cancel our debt to England they would cancel an equal amount of their debts. That is very fine for England, who would stay even while we would hold the bag for the whole amount. And so with the other nations. I am not prepared to attempt to suggest what considerations we might ask for, and I doubt whether it would be wise at this time to attempt them.

Senator LA FOLLETTE. I am not suggesting that you do.

Mr. HOUSTON. That is about all that I have in mind, Senator.

The CHAIRMAN. We thank you very much.

Senator BARKLEY. Did you discuss inflation at all? I was a little late in getting in here and did not hear all you said. Did you discuss that in your remarks?

Mr. HOUSTON. Only indirectly by suggesting that we maintain the integrity of our monetary system.

Senator BARKLEY. Yes; but have you given thought to the various plans for inflation, like the remonetization of silver, or the reduction of the gold basis for the issue of money from 40 to 25 per cent, or the revaluation of the gold ounce, or any of those?

Mr. HOUSTON. I have given for a good while thought to suggestions at any time for inflating our currency, and I can not think of anything that would more quickly precipitate a crash and a collapse than efforts in that direction. And I think the talk about it, which, as was said yesterday I think by some member of the committee, is by no means confined to Congress, but is rampant throughout the Nation, is already doing a vast amount of harm.

Senator BARKLEY. Yes. Take my own situation. I am getting more letters on that subject than any other subject, except for applications for office. And they are serious letters. They are from people who are in desperation, and they are honest letters. I made a statement in reply to one, for instance, on the subject of what we were talking about a while ago—the scarcity of money—that we have more money in circulation now than ever before. That it has increased over a billion dollars since 1929. It is more than a billion dollars greater than it was in 1928 when we were supposed to be most prosperous. And the reply to that suggestion was in perfectly good faith, that that is true, there is more money in circulation theoretically, but it is all locked up in the banks, which is true. But if we were to increase our circulating medium by two or three or five billion dollars more would it or not find its way to the same place where the money is now locked up that is in circulation or is supposed to be?

Mr. HOUSTON. Well, of course in the first place it would not correct the inequality of price. If it had the effect of raising prices, which under certain conditions it might not do, but normally would do, the prices that were still too low would remain too low relatively; the prices that are high would remain high, and temporarily the only tihng it would do would be to help the debtor at the expense of the creditor, and ultimately to wreck the debtor as well as the creditor, because if it were politically an expanded monetary system it would lead to chaos. I have no doubt that if there were serious danger of legislation of that kind going through, that we would have a collapse that would make this look like 30 cents.

Senator LA FOLLETTE. Is it a fair assumption that your position, Mr. Secretary, is that you feel that the best thing that can be done is to let the natural course of business run on uninterfered with and unchecked?

Mr. HOUSTON. Broadly speaking.

Senator LA FOLLETTE. Thank you.

Senator GEORGE. Mr. Houston, does that not involve deflation all along the line? Does it involve deflation throughout the whole credit structure—fixed debt?

Mr. HOUSTON. Deflation?

Senator GEORGE. Yes.

Mr. HOUSTON. Well, I hope not.

Senator GEORGE. Or reductions?

Mr. HOUSTON. I hope not. I hope that if the action that is likely to be taken, the course of action that has been suggested before this committee by a number of people is followed, that the decreasing inventories and other things will soon lead to an upturn and, broadly speaking, the individuals and institutions of the Nation will work upward as they always have in the past. How much longer this is going to last at this bottom I am not prophet enough to make a prediction, but I think we will come through it, and I think we will come through it very much as we have formerly done.

The CHAIRMAN. Thank you, Mr. Houston. We appreciate greatly your statement.

Mr. HOUSTON. Thank you.

The CHAIRMAN. You have here two articles showing the situation in the past depressions and how nearly comparable they are to present conditions.

Mr. HOUSTON. The state of mind of the people and statements that were being made about the depressions at that time.

The following article was recently brought to my attention and I am passing it on to you as a matter of interest. This article is reprinted from Harper's Weekly, volume 1, page 642, of the issue dated October 10, 1857.

### 74 YEARS AGO; THE LESSON OF THE DAY

It is a gloomy moment in history. Not for many years—not in the lifetime of most men who read this paper—has there been so much grave and deep apprehensions; never has the future seemed so incalculable as at this time. In our own country there is universal commercial prostration and panic, and thousands of our poorest fellow citizens are turned out against the approaching winter without employment, and without the prospect of it.

In France the politlical cauldron seethes and bubbles with uncertainty; Russia hangs, as usual, like a cloud, dark and silent upon the horizon of Europe; while all the energies, resources, and influences of the British Empire are sorely tried, and are yet to be tried more sorely, in coping with the vast and deadly insurrection, and with its disturbed relations in China.

It is a solemn moment, and no man can feel an indifference (which, happily, no man pretends to feel) in the issue of events.

Of our own troubles no man can see the end. They are, fortunately, as yet mainly commercial; and if we are only to lose money, and by painful poverty to be taught wisdom—the wisdom of honor, of faith, of sympathy, and of charity—no man need seriously to despair. And yet the very haste to be rich, which is the occasion of this widespread calamity, has also tended to destroy the moral forces with which we are to resist and subdue the calamity.

Good friends, let our conduct prove that the call comes to men who have large hearts, however narrowed their homes may be; who have open hands, however empty their purses. In time of peril we have nothing but manhood, strong in its faith in God, to rely upon; and whoever shows himself truly a God-fearing man now, by helping wherever and however he can, will be as blessed and beloved as a great light in darkness.

And also this:

OH, WE OF LITTLE FAITH!

Bear in mind the date of this—1886, 45 years ago. From the first report of the United States Commissioner of Labor:

The rapid development and adoption of machinery have brought what is commonly called overproduction, so that machinery and overproduction are two causes so closely allied that it is quite difficult to distinguish the one without taking the other into consideration.

In England, Belgium, and France railroads and canals that are really needed have been built, Germany is provided with a full network of railroads, and in the United States railroad construction has been out of all proportion to the increase of products to be carried.

Harbors and rivers are sufficiently developed, and warehouses, water and gas works, tramways, etc., are largely provided for; the Pyrenees and Alps are tunnelled. And the Suez Canal has been built.

Terrestrial and transoceanic lines of telegraph have been laid and the merchant marine has been transformed from wood to iron. The nations of the world have overstocked themselves with machinery and manufacturing plants far in excess of the wants of production.

This full supply of economic tools to meet the wants of nearly all branches of commerce and industry is the most important factor in the present industrial depression.

It is true that discovery of new processes of manufacture will undoubtedly continue, and this will act as an amelioration influence, but it will not leave room for marked extension, such as has been witnessed during the last 50 years, or afford employment to the vast amount of capital which has been created during that period.

The day of large profits is probably past.

In 1886, then, we were fed up. We were through. From the surfeit there could be no recovery. Everything had been thought of.

"Technological unemployment" was with us for good. Invention and discovery had reached their limit. Industrial progress was stymied. Maybe a few things might be conjured up, but not enough to count.

In that year New York was a city of less than two and a half millions; Chicago, of less than a million. The preceding census showed Cleveland at 160,000, Detroit at 116,000 and Los Angeles at 11,000.

It would take a volume to describe the things that have come into the life of America since then.

What one can't foresee is hard to believe, so to-day, as then, we have the feeling that the Commissioner of Labor had back there—the feeling that we're stopped.

And 45 years from now some viewer of the past will smile, as we smile now, at the shortsightedness of a generation that was.

The CHAIRMAN. The statement of agricultural statistics for specified States, calendar year 1930, may be printed in the record at this point.

(The statement above referred to, presented by Mr. Houston, is here printed in the record in full, as follows:)

*Agricultural statistics for specified States, calendar year, 1930*

[Division of Statistical and Historical Research]

| Item | Unit | Alabama | Georgia | Mississippi | North Carolina | South Carolina | Indiana | Iowa |
|---|---|---|---|---|---|---|---|---|
| Farms, Apr. 1, 1930 | Number | 257,328 | 256,252 | 312,453 | 279,723 | 157,894 | 182,092 | 216,361 |
| Value of farm products (crops), 1929 | 1,000 dollars | 240,404 | 300,040 | 285,413 | 334,415 | 175,581 | 237,937 | 510,688 |
| Value of livestock products, 1929 | do | 53,708 | 74,470 | 53,511 | 76,592 | 34,391 | 261,018 | 609,186 |
| Wheat: | | | | | | | | |
| Production | 1,000 bushels | 40 | 588 | 68 | 4,288 | 538 | 29,058 | 8,937 |
| Value | 1,000 dollars | 54 | 794 | 92 | 4,674 | 705 | 20,630 | 5,797 |
| Cotton: | | | | | | | | |
| Production | 1,000 bales | 1,495 | 1,625 | 1,500 | 795 | 1,040 | ------- | ------- |
| Value | 1,000 dollars | 67,275 | 75,562 | 75,000 | 39,352 | 51,480 | ------- | ------- |
| Corn: | | | | | | | | |
| Production | 1,000 bushels | 29,505 | 45,494 | 19,895 | 51,865 | 26,978 | 110,197 | 360,750 |
| Value | 1,000 dollars | 28,325 | 39,125 | 19,497 | 48,234 | 24,280 | 67,220 | 209,235 |
| Tobacco: | | | | | | | | |
| Production | 1,000 pounds | ------- | 104,994 | ------- | 535,195 | 94,170 | 11,382 | ------- |
| Value | 1,000 dollars | ------- | 10,814 | ------- | 73,322 | 11,300 | 1,593 | ------- |
| Cattle: | | | | | | | | |
| On farms January 1 | Thousands | 688 | 846 | 902 | 521 | 250 | 1,333 | 3,922 |
| Per farm | Number | 2.7 | 3.3 | 2.9 | 1.9 | 1.6 | 7.3 | 18.1 |
| Dairy cows: | | | | | | | | |
| On farms January 1 | Thousands | 354 | 350 | 410 | 285 | 140 | 721 | 1,340 |
| Per farm | Number | 1.4 | 1.4 | 1.3 | 1.0 | 0.9 | 4.0 | 6.2 |
| Hogs: | | | | | | | | |
| On farms January 1 | Thousands | 804 | 1,154 | 620 | 803 | 390 | 2,637 | 10,041 |
| Per farm | Number | 3.1 | 4.5 | 2.0 | 2.9 | 2.5 | 14.5 | 46.4 |
| Sheep: | | | | | | | | |
| On farms January 1 | Thousands | 68 | 49 | 34 | 88 | 15 | 769 | 1,131 |
| Per farm | Number | 0.3 | 0.2 | 0.1 | 0.3 | 0.1 | 4.2 | 5.2 |
| Chickens: | | | | | | | | |
| On farms January 1 | Thousands | 6,655 | 7,233 | 6,909 | 8,769 | 4,159 | 18,735 | 34,713 |
| Per farm | Number | 25.9 | 28.2 | 22.1 | 31.3 | 26.3 | 102.9 | 160.4 |
| Eggs: | | | | | | | | |
| Production 1929 | Millions | 336 | 325 | 305 | 408 | 174 | 1,340 | 2,062 |
| Production per farm | Number | 1,305.7 | 1,268.3 | 976.1 | 1,458.6 | 1,102.0 | 7,358.9 | 9,530.4 |
| Value | 1,000 dollars | 8,131 | 8,385 | 7,106 | 10,526 | 4,785 | 32,428 | 46,395 |

| Item | Unit | Kansas | Nebraska | Ohio | Colorado | Idaho | Montana | North Dakota |
|---|---|---|---|---|---|---|---|---|
| Farms, Apr. 1, 1930 | Number | 166,055 | 129,532 | 219,659 | 60,563 | 41,678 | 47,563 | 78,050 |
| Value of farm products (crops), 1929. | 1,000 dollars | 310,568 | 337,967 | 291,743 | 139,321 | 110,000 | 96,475 | 192,511 |
| Value of livestock products, 1929. | do | 278,270 | 328,168 | 288,358 | 93,214 | 60,025 | 84,615 | 95,354 |
| Wheat: | | | | | | | | |
| Production | 1,000 bushels | 158,862 | 73,275 | 28,716 | 21,780 | 28,223 | 33,698 | 99,807 |
| Value | 1,000 dollars | 88,945 | 38,656 | 21,818 | 11,595 | 14,676 | 16,332 | 51,038 |
| Corn: | | | | | | | | |
| Production | 1,000 bushels | 76,164 | 235,695 | 88,816 | 37,142 | 2,301 | 3,252 | 19,058 |
| Value | 1,000 dollars | 44,937 | 120,204 | 59,507 | 23,028 | 1,611 | 2,146 | 10,101 |
| Tobacco: | | | | | | | | |
| Production | 1,000 pounds | ------- | ------- | 46,376 | ------- | ------- | ------- | ------- |
| Value | 1,000 dollars | ------- | ------- | 5,704 | ------- | ------- | ------- | ------- |
| Cattle: | | | | | | | | |
| On farms Jan. 1 | Thousands | 2,961 | 3,001 | 1,670 | 1,330 | 606 | 1,164 | 1,270 |
| Per farm | Number | 17.8 | 23.2 | 7.6 | 22.0 | 14.5 | 24.5 | 16.3 |
| Dairy cows: | | | | | | | | |
| On farms Jan. 1 | Thousands | 725 | 625 | 926 | 244 | 178 | 188 | 506 |
| Per farm | Number | 4.4 | 4.8 | 4.2 | 4.0 | 4.3 | 4.0 | 6.5 |
| Hogs: | | | | | | | | |
| On farms Jan. 1 | Thousands | 2,826 | 5,086 | 2,078 | 495 | 255 | 302 | 681 |
| Per farm | Number | 17.0 | 39.3 | 9.5 | 8.2 | 6.1 | 6.3 | 8.7 |
| Sheep: | | | | | | | | |
| On farms Jan. 1 | Thousands | 659 | 1,208 | 2,105 | 3,495 | 2,260 | 4,200 | 720 |
| Per farm | Number | 4.0 | 9.3 | 9.6 | 57.7 | 54.2 | 88.3 | 9.2 |
| Chickens: | | | | | | | | |
| On farms Jan. 1 | Thousands | 23,596 | 14,803 | 24,954 | 4,872 | 2,662 | 2,713 | 5,669 |
| Per farm | Number | 142.1 | 114.3 | 113.6 | 80.4 | 63.9 | 57.0 | 72.6 |
| Eggs: | | | | | | | | |
| Production, 1929 | Millions | 1,581 | 883 | 1,929 | 350 | 237 | 227 | 328 |
| Production per farm | Number | 9,520.9 | 6,816.8 | 8,781.8 | 5,779.1 | 5,686.5 | 4,772.6 | 4,202.4 |
| Value | 1,000 dollars | 32,885 | 18,366 | 51,504 | 8,155 | 5,332 | 5,108 | 6,560 |

The data for this table have been compiled from the following sources: Number of farms from press release of Bureau of Census dated Oct. 15, 1930. Value of crops and value of livestock from the September, 1930, issue of Crops and Markets, which are the latest available. Wheat, cotton, corn, and tobacco production and value from the Dec. 1, 1930, crop report of the Bureau of Agricultural Economics, Department of Agriculture. Livestock on farms from the Jan. 1, 1931, livestock report of the Bureau of Agricultural Economics, Department of Agriculture. Chickens and eggs from records of the Division of Crop and Livestock Estimates.

The data per farm were computed by dividing the number of the particular class of livestock on farms or production of eggs by the actual number of farms reported as of Apr. 1, 1930.

The CHAIRMAN. We will next hear Mr. John L. Lewis.

## STATEMENT OF JOHN L. LEWIS, PRESIDENT OF THE UNITED MINE WORKERS OF AMERICA, INDIANAPOLIS, IND.

The CHAIRMAN. Mr. Lewis, will you give the reporter your name?

Mr. LEWIS. John L. Lewis.

The CHAIRMAN. Whom do you represent?

Mr. LEWIS. President of the United Mine Workers of America. Residence, Springfield, Ill. Office address, Indianapolis, Ind.

The CHAIRMAN. You may proceed, Mr. Lewis.

Mr. LEWIS. Mr. Chairman and gentlemen of the committee: The political stability of the Republic is imperiled. In excess of 12,000,000 wage earners are unemployed. In certain industrial States the percentage of unemployed equals 40 per cent of the enrolled workers. Of the remaining 60 per cent a large number are employed on a part-time basis, and are the victims of a continuous schedule of wage cutting. Those who are employed, directly or indirectly, must inevitably bear the burden of supporting the millions to whom employment is unavailable. The cost of maintenance of government, and the support of nonproductive institutions is, therefore, day by day being passed to the continuously decreasing number of citizens who are privileged to work.

Our Republic and our institutions can not be expected to exist under the progressive accumulation of ills which result from our inability to properly organize our economic processes. Manifestations of widespread unrest and discouragement almost akin to despair, are daily becoming more violent. Over wide areas insurance companies and other investors find the population in rebellion against the usual processes of recovery from debt defaulters. Violent resistance to evictions for rent default is daily more evident. Disorder and rioting, because of the inadequacy of public relief, is increasingly prevalent. Continuing bank failures, with their consequent train of human tragedies, add to the sum total of bitterness of a population sick with waiting and deferred hope for intelligent economic and financial leadership. A student of history will find, in many respects, a duplication of these appalling conditions in the misery of the French people antedating the French Revolution. The Bourbons of France, like some of the modern Bourbons in our own country, indulged themselves in idle chatter and continued to believe in their own security, notwithstanding the suffering and degradation of the masses. They paid for their error and their inaction with their heads.

The appalling social and political problems arising from the present emergency are of a fundamentally economic concept. The restoration of order in our economic and industrial household is primarily essential to any intelligent dispositon of the social and political problems of the nation. We are victims of our own national short-sightedness, by failure in the halcyon days of prosperity to intelligently plan for the future. A horde of "small-time" leaders in industry and finance, like the freebooters of old, vied with each other, looted the purse of the population, and diverted the proceeds to their own interests.

Now that the day of adversity has come, these same leaders are destitute of competent suggestion to safeguard the present or the future, and they expect the population of this country to remain quiescent while they utter ponderous platitudes about balancing the Budget and the necessity for further wage reductions. The very application of their wage-cutting fallacy further reduces the national income to a point where the population can not sustain itself and the National Budget can not remain balanced. The balancing of the Budget will not in itself place a teaspoonful of milk in a hungry baby's stomach or remove the rags from its mother's back. It must be obvious to any thoughtful person that the National Budget can never be permanently stabilized in the face of ever-growing unemployment, shrinkage in business volume, mounting inability to pay taxes, and consequent depreciation of national income.

If democracy and corporate participation in industry are to survive in America, labor must have an opportunity to exercise its industrial rights for the protection of itself and our democratic and economic institutions. An emergency now exists which is more critical than would be the case if a fleet of a foreign power were at this moment bombarding the defenses of one of our major ports. The very foundations of democracy and integrity of American institutions is threatened. Labor should be granted the right of collective bargaining, with representatives of its own choosing in those major industries of the country where this right is now withheld.

In large areas of the coal, textile, lumber, and steel industries workers are denied the rights of collective bargaining and are treated more or less as serfs, compelled to accept any wage, no matter how inadequate, declared by a harassed employer existing on the verge of financial bankruptcy. Democracy in these industries is supplanted by an industrial autocracy.

Senator WALSH of Massachusetts. Has the depression resulted in reducing the policy of collective bargaining in the coal industry?

Mr. LEWIS. To a very great extent, Senator.

Senator WALSH of Massachusetts. Practically wiped it out, has it not?

Mr. LEWIS. In large areas of the bituminous coal industry where collective bargaining was formerly recognized, the increased pressure on the operating end of the industry and the financial end of the industry has caused them to drive out the union wherever possible in order to reduce their wage to try to keep their mines out of the hands of the sheriff.

Senator WALSH of Massachusetts. That is pretty general throughout the whole industrial life of the country, is it not?

Mr. LEWIS. I think that is a fair assumption, Senator.

Legalized collective bargaining will permit the workers of America to exercise their birthright of participation in the fixation of the prices of their services and the conditions of employment.

Labor should be given greater recognition in the affairs of government, and its spokesmen should be given representation upon boards and commissions exercising governmental functions. During the period of the World War labor was given such recognition, and inasmuch as the Nation is now confronted with an emergency even more grave than was the case during the years of 1917 and 1918, labor should again be given its seat at the council table.

If given the right to organize in our major industries, labor can police those industries against Communism, or any other false and destructive philosophy, more efficiently than can the Government itself. American labor has in the past demonstrated its patriotism and its desire to stand behind and protect the accredited institutions of our land.

If labor is accorded its fundamental rights it can render great service in the present crisis.

EMERGENCY ACTION

In consideration of the obvious circumstances, Congress should pass a joint resolution declaring a state of national emergency, to effectuate intelligent organization of the industrial and financial activities of the Nation.

A board of emergency control should be created. It should be composed of representatives of industry, labor, agriculture, and finance. It should be given plenary emergency power, under the direction of the President.

The board should be instructed to reduce the hours of labor, and the number of days in the work week, to a point where the industrial machinery of the Nation can substantially take up the slack of unemployment, and under conditions where labor is accorded the right of collective bargaining through representatives of its own choosing.

This board should also be instructed to stabilize the prices of agricultural products and other commodities to a point that will express reasonable return to the producers thereof.

The board should be given such other instructions as to fundamental economic planning and other matters, in accordance with the judgment of the Congress.

The foregoing recommendations may be criticized by some as being a form of dictartorship repugnant to the American concept of government. Nevertheless it is the form of procedure resorted to by our Nation during the crisis of the World War, when the enemy was 3,000 miles from our shore. To-day the enemy is within the boundaries of the Nation, and is stalking through every community and every home, and, obviously, this proposal is the most democratic form of internal regulation that can be devised to deal with our economic and industrial collapse.

The CHAIRMAN. Are there any questions of Mr. Lewis?

Senator BARKLEY. Mr. Lewis, I am very much interested in your suggestions, especially with reference to agriculture and the stabilization of agricultural products to the point where the producers can obtain a profit. Would you care to go into some detail about how that would be brought about?

Mr. LEWIS. I have dealt here, Senator, with the principle which I think is an entirely practical arrangement. Obviously commodity prices, agricultural prices and prices of certain other commodities, have decreased to the point where there is no return to the producer thereof and he finds himself involved in circumstances which are gradually driving him to despair. I have in mind that in the coal industry an emergency board of control could stabilize the price of coal in the coal industry at a point that would enable the operator to pay a reasonable wage for his labor and enable the producer of the coal to procure a reasonable return upon his investment through the establishment of minimum prices.

I have in mind that substantially the same principle can be followed in the agricultural industry. As to the details of the application of that principle in the agricultural industry I would much prefer that advice be sought from the farm leaders and the spokesmen for the agricultural industry who, of course, are naturally much more versed in the details than I would be myself.

Senator BARKLEY. Congress attempted to do what you had in mind in some respects by setting up the Farm Board, and it was called the agricultural stabilization act, with the results of whose operations you are familiar, and its failure. I am not saying that as a criticism of the personnel of the board or its policies. I felt from the beginning that the law itself was fundamentally inadequate. They probably did the best they could with what they had to work with. But taking that as an example of the effort to stabilize farm products I was wondering whether you had worked out in your own mind any method by which it could be done?

Mr. LEWIS. Of course, the attempt at stabilization of the farm prices through the action of the Government board and subsidy brought the Farm Board in competition with the lesser prices of all other commodities, and it was simply a question of the Government going into the open market and purchasing what might be called a surplus of the farm production, and in the face of the general situation affecting the commodity markets of the nation and the world it was found to be not as effective as had been anticipated.

I think, however, that within the proposals made in this memorandum we are suggesting another principle, that plenary powers be given an Emergency board that would promulgate minimum prices. During the war period our emergency board promulgated maximum prices of certain commodities, with respect to wheat, coal, cotton, and other things. In this instance we are not suffering from maximum prices or a robbing of the public or the excessive prices charged by producers, but the Nation is suffering from the inability of the producer of the commodity to receive a fair return. I think that we have a slightly different principle involved.

Senator BARKLEY. Such a board as you suggest, with plenary power as you suggest, would involve the conferring upon that board complete control of all industrial, agricultural, financial, and labor operations of the country?

Mr. LEWIS. Within the necessary limits of the suggestion made. I have this in mind, Senator——

Senator BARKLEY. Would you confer upon such a board the power to say to a farmer that he should not raise more than a certain acreage of wheat or corn, or not more than a certain number of cattle, so as to lessen the production or the surplus that he may have, or of cotton and things of that sort?

Mr. LEWIS. If it were found after competent investigation that such an action was beneficial and necessary to the stabilization of farm prices I can conceive that with the cooperation of the agricultural industry such authority might well be given an emergency board of control.

Senator BARKLEY. Would that involve the same policy towards industry; that if the board found that there was a surplus of steel products or of clothing or shoes, would you confer then upon them the power to bring about a lessening of that production?

Mr. LEWIS. I would if the rationalization of industry would require that action.

Senator BARKLEY. How would you take up the slack in the increased unemployment brought about by the curtailment of production in such case?

Mr. LEWIS. I rather think it would operate in the reverse direction, Senator. For instance, I suggest here that one of the first responsibilities given the board of control would be to reduce the hours of labor and the number of work days in industry.

Senator BARKLEY. I am fully in sympathy with that and have been for some time. The situation is bad enough now, and I am wondering whether if such a board were given power to curtail employment where they found that there is already enough of any particular product on hand, if that would not accentuate the unemployment situation and make it necessary to spread out still farther among those available for work the work that could be done?

Mr. LEWIS. I doubt whether it would, Senator, because in the final analysis it is a fair assumption that after all no more steel will be produced than the country will consume within a definite period of time, and no more coal will be produced than will be burned, and no more corn or wheat can be raised after all than the country can consume or hold in storage.

Senator BARKLEY. I think that is more true with relation to clothing and shoes than it is wheat and corn.

Mr. LEWIS. I think you are right there.

Senator BARKLEY. Because each farmer may hope that the other farmer is going to cut down his acreage while he may increase his if it is necessary to raise a certain amount of money, and the cheaper the price the more of the product is necessary to get that amount. It is not an organized industry.

Mr. LEWIS. That is true. May I point out this fact, Senator, that the rationalization of industry by the cutting down of the hours per day and the number of days per week will spread all employment.

Senator BARKLEY. Of course. It will also spread purchasing power, which is very important.

Mr. LEWIS. It will spread purchasing power. And approximately ten or twelve million workers who are now unemployed and almost completely out of the market as buyers and consumers will again come back into the market with their families and dependents, and we will have a situation where practically 48,000,000 people of this country of high and low degree will begin to consume farm products, which in itself will be a tremendous contribution to the agricultural industry.

Senator BARKLEY. Going to the coal industry, with which you are more personally identified——

Mr. LEWIS. Quite so.

Senator BARKLEY. And I am, of course, coming from Kentucky, concerned with the coal industry, from the standpoint of the coal miner—it is a long story, but could you in a few words give the cause of the collapse of the coal industry in the United States?

Mr. LEWIS. Yes. Overdevelopment of the industry during the war period, when demand for coal was inflated. The diminished demand for coal due to the development of the fuel-oil industry, the natural gas industry, the extensive pipe-line systems of the country, hydroelectric power, and due to the tremendous strides made in the improved internal combustion, more power being derived from a pound of coal than ever before. All of those things have contributed to diminish the demand for the bituminous coal products throughout the country, with competition intensified by this idleness thrown on the industry through lessened demand and the six or eight thousand corporate entities producing coal all fighting with each other and cutting the ground from under each other in a competitive way, to sell their coal in the market.

Senator BARKLEY. Putting aside the questions arising out of the depression and accentuated unemployment, but taking the normal stretch of time, what can the Government do specially to aid the coal industry with its relationship to these other activities like oil and gas and hydroelectric power without repressing those developments? Is there any legitimate field in which the Government can aid the coal industry without correspondingly repressing the others?

Mr. LEWIS. I am quite certain that the coal industry can be stabilized without reflecting unduly upon the interests of the oil industry or the gas industry or the hydroelectric power industry. If the coal industry were rationalized, it could operate with some return to the operators in the industry for the tonnage they produce. As it is now, the bulk of the tonnage has actually been sold at less than the cost of production. We have pending in Congress at the present time a coal stabilization bill which provides for two things as an aid to the coal industry. The right of the operators in the industry to form coal sales agencies for selling coal so as to increase their realization, cut down their selling expense, and be free from prosecution under the antitrust laws for forming these coal sales agencies under certain checks and limitations that will protect the public. On the other hand it permits the employees of the industry to organize and collectively bargain with the employers, which would stabilize from 60 to 70 per cent of the major labor cost of the industry and enable the operators to stabilize their production costs, and in the end get a return upon their investment.

Senator BARKLEY. In view of the overdevelopment of the coal industry during the war, which, of course, had its effect upon the overdevelopment of both ends of it, from the operator as well as the labor standpoint and assuming there is a surplus of labor in the coal fields, would you spread out whatever labor there is available among all those now available for coal mining or would you attempt to divert some of that surplus coal labor into other channels?

Mr. LEWIS. Well, we would have to permit labor to work out its own destiny, as it always has. A miner can not stay in the coal industry unless he is employed by some operator in that industry who is trying to operate a mine. And if that operator relinquishes the attempt to operate the mine the individual miner is detached from the industry and must make his own way in the world.

Senator BARKLEY. As a matter of fact, the shorter hours and less week days is almost an academic question now in the coal fields.

Mr. LEWIS. That is true, sir.

Senator BARKLEY. Because they are not getting much work at any time.

Mr. LEWIS. That is true, Senator.

The CHAIRMAN. If that is all, we thank you, Mr. Lewis. We meet at 2 o'clock, when Mr. Taber will be before the committee.

(Thereupon, at 12.15 p. m., an adjournment was taken until 2 o'clock p. m. of the same day, Friday, February 17, 1933.)

AFTER RECESS

The committee reconvened at the expiration of the recess, at 2 o'clock p. m.

The CHAIRMAN. The committee will come to order. Is Mr. L. J. Taber present? Take the chair, Mr. Taber.

## STATEMENT OF L. J. TABER, COLUMBUS, OHIO, MASTER THE NATIONAL GRANGE

The CHAIRMAN. Mr. Taber, you are a resident of the District of Columbia, are you?

Mr. TABER. My name is L. J. Taber. I am master of the National Grange, Columbus, Ohio.

The CHAIRMAN. You may proceed.

Mr. TABER. The causes of this depression are many, some of them intricate and some not yet revealed, but the fundamental cause is apparent to all. We have violated the laws of God and the laws of economics, and are paying the penalty. The measures necessary to restore normal conditions are some of them still shrouded in mystery, but the essential step is that with common sense we apply economic justice to all groups alike.

Any nation expanding with the rapidity with which ours developed must inevitably make mistakes, grant undue privileges, and fail to provide machinery to equitably distribute the wealth created in such a prodigal amount and with such great rapidity. A part of the price of national expansion has been permitting unsound distribution and the exploitation of our natural resources. Inevitably a day of reckoning would have overtaken our Nation, but world conditions greatly hastened the penalties inescapable to a people of our rapid growth and expansion.

The prime cause of all our troubles can be traced back to the World War. This fire started by ambition and hate that burned in Europe until it consumed their accumulated savings of a century and burdened the world with debt and was extinguished only with the blood of millions of the best young men of the world. The aftermath of geographic dislocation, unwise territorial distribution, unsound burdens of debt and reparations created economic conditions such that retribution was almost certain to overtake us.

A debt-ridden and almost bankrupt world went on a drunken orgy of speculation. In this country, overcapitalization and speculation were rampant, many believing that playing a bull market was the easy road to wealth and that the old-fashioned virtues of thrift, economy and toil had become obsolete.

The maldistribution of wealth increased our difficulties. Millionaires grew like mushrooms and fortunes sprang up as if by magic. Combination, mass production, chain merchandising and installment buying made their appearance. The report of the Commissioner of Internal Revenue for 1929 shows that 504 men had an aggregate net taxable income greater than the total farm value of the cotton crop grown upon 45,000,000 acres and the wheat crop produced upon 55,000,000 acres during the ensuing year. Clearly the inequitable distribution of wealth was a major factor in precipitating the depression.

The machine age inventive genius and scientific development caused productive ability to outrun consumptive capacity. We have learned well how to produce and in part how to distribute, but have forgotten that unless mass consumption and mass production go hand in hand, disaster is inevitable.

The failure to provide a stable medium of exchange has remained the root of many of our difficulties. An honest dollar must mean a dollar's worth, 100 cents, no more or no less; one just a debtor and creditor alike. A fundamental cause of the collapse of 1929 and the three years of disaster that have overtaken the Nation was the failure of America to do justice to agriculture. The farm problem was allowed to grow more acute until the purchasing power of agriculture was almost destroyed and a large group of our people were brought to the verge of bankruptcy while the Nation was yet in seeming prosperity.

As master of the National Grange, an organization that for 67 years has sought equality for the farmer and at the same time the good of all, I shall address myself specifically to the problems of the farmer. Agriculture has been basic in every civilization. It produces the food, the clothing, and most of the shelter of mankind. No amount of invention, no amount of scientific discovery, no amount of congesting in cities ever has or ever will enable a nation to get away from its direct relation upon the soil. Farm prosperity is synonymous to national well-being. Prosperity and stability can not return until the farmer purchasing power is restored.

Mr. Chairman, I would like at this point to put in the record the resolutions adopted by the National Grange dealing with this problem, marked "Exhibit A."

The CHAIRMAN. They may be put in the record.

(The resolutions referred to are as follows:)

POLICIES ADOPTED BY THE NATIONAL GRANGE AT ITS SIXTY-SIXTH ANNUAL SESSION, WINSTON-SALEM, N. C., NOVEMBER 16–25, 1932.

COOPERATIVE MARKETING AND SURPLUS CONTROL

Whereas the American Nation has led the world in agricultural exports, more than one-half of the Nation's exports having been agricultural products, the farmer has beyond question proven his efficiency in production but has suffered by the necessity of buying in a highly protected market while selling the products of his efforts on a basis of foreign competitive prices; and

Whereas the records show that during the years 1919 to 1929 when practically all other industries enjoyed the greatest prosperity in the history of the Nation, agriculture lost over 30 per cent of its wealth, and from the years 1921 to 1929 bank failures increased from 43 per year to 583 per year; and

Whereas the failure to protect agriculture destroyed the purchasing power of 40 per cent of our people engaged in agriculture or directly dependent thereon, thereby causing material losses to industry, commerce and labor; and

Whereas if agriculture is given adequate protection and encouragement, national prosperity will be hastened: Therefore be it

*Resolved*, That we reaffirm our faith in the principle of cooperative marketing and properly administered cooperative agencies under farm control.

We heartily approve that portion of the agricultural marketing act which encourages cooperative marketing and commend the action of the Federal Farm Board in giving assistance to the cooperative organizations.

We believe that a public board or commission can better serve agriculture if bipartisan in character.

We urge the adopton of a sound policy of surplus control, including debenture, a simple form of domestic allotment, or some other practical plan designed to relieve the evils of agricultural surplus, and authorize the executive committee of the National Grange to cooperate with representatives of other organizations and groups in developing such a policy for agricultural relief.

### LAND-GRANT COLLEGES

Whereas the land-grant colleges through the extension service have rendered outstanding service to American agriculture; and

Whereas under stress of tax reduction and the opposition from commercial interests there is danger of the Federal act being so amended as to handicap this service through reductions of funds or congressional restrictions: Therefore be it

*Resolved by the National Grange*, That we favor the continued Federal financing to the extent that this service shall not be impaired in rendering a uniform public service to agriculture. Be it further

*Resolved*, That the extension service in the various States be financed solely from public funds.

### VOCATIONAL TRAINING

Believing that the broadening of the offerings of public education in America so as to provide practical vocational training for the millions of boys and girls, men and women who can never take advantage of a college education, has been one of the great developments in education in the twentieth century, we desire to go on record as favoring the teaching of vocational agriculture, home making, and trades and industries by the public schools of the country.

We urge the extension of this program until every boy, girl, man, and woman in the rural areas is given an opportunity to take courses, preparing them to more effectively meet the intricate problems of home and farm.

### PHILIPPINE INDEPENDENCE

*Be it resolved by the National Grange*, That we reaffirm our support for legislation granting at an early date independence to the Philippine Islands.

### MOTOR TRANSPORTATION

1. The interest and safety of the public require enforcement of proper restrictions regarding the size, weight, and speed of all vehicles moving over the public highway.

2. Such regulations should be uniform as between the several States and there should be reciprocity between the States based on such uniformity.

3. The power to regulate is a police power lodged with the States. As a basis of regulation, we commend to all the States adoption of the uniform code for the regulation of traffic recently approved by the American Association of State Highway Officials and the United States Bureau of Public Roads.

4. Each motor vehicle should be taxed its fair share of the cost of the highways which it uses. The State should be the sole taxing agency.

5. Every special tax collected for highway improvement should be conserved for that purpose alone. Consequently, no gasoline tax diversion should be permitted.

6. No taxation or regulation of motor vehicles should be permitted which has for its purpose any increase in cost or restriction in use, in order to equalize competition between motor transportation and other forms of transportation.

#### FEDERAL TAXATION

1. No reduction in the Federal income tax.
2. Maintain and increase the estate tax, and allow the States to retain a portion of the tax collected.
3. The collection of a limited tax on luxuries.

#### STATE AND LOCAL TAXATION

1. Utilization of a State income tax as a means of better distribution of the tax burden.
2. Limitation of all special assessments against real estate.
3. Laws to control the debt incurred by taxing units.
4. A study of budgetary control laws now in force, to the end that more local governments might utilize such to advantage.
5. Utilization of the gasoline tax and motor vehicle license revenue for the reduction of the local general property tax by applying a portion of such State funds for local road purposes, except that in such States as have substituted a license fee for a property tax on automobiles, a portion of such license proceeds may be used for general tax purposes.
6. Special commodity taxes, particularly on luxuries, where such additional revenue is necessary to replace large delinquencies existing in property taxes.
7. The elimination of inefficient and unnecessary units of Government and the introduction of better business practices in all Governments.

We oppose:

1. Issuing bonds to cover current expenses.
2. General sales taxes.
3. The diversion of gasoline taxes to purposes other than highways.

#### TAX ON TOBACCO

Whereas there is duplication, overlapping and pyramiding, in the field of taxation as between the Federal Government and the several States; and

Whereas a subcommittee of the Ways and Means Committee of Congress is now making a study of this subject in the hope of pointing the way to needed reforms in this connection; and

Whereas many States are now taxing manufactured tobacco products, already taxed by the Federal Government to the extent of approximately $400,000,000 a year: Therefore, be it

*Resolved*, That in the interest of simplicity and economy in the collection of these taxes, to prevent evasion, and to effect a fairer and more equitable distribution of the proceeds of Federal taxes on manufactured tobacco, we recommend that taxes on manufactured tobacco products should be collected by the Federal Government, that one-sixth of the sum thus realized should be returned to the States on the basis of population, and that in the allocation of such funds to the States there be deducted the amount of all money collected by the States on manufactured tobacco products.

#### VETERANS' RELIEF AND TAXATION

In considering ways and means of reducing taxation, the welfare of the Nation demands that we should scrutinize carefully our disbursements for the relief of veterans and their dependents. Therefore, be it

*Resolved*, That the National Grange is opposed—

1. To the payment of the cash bonus at this time.
2. To the paying of benefits to veterans who have no service-connected disability.

#### POSTAL REGULATIONS

Whereas during the last Congress there were a number of measures sponsored by the Senate economy committee and others that threaten to seriously curtail the service of our rural mail; and,

Whereas among suggested measures are a revival of the old contract system, the suspension of equipment, maintenance allowance for one year; a flat reduction of 10 per cent in the postal appropriation bill that would mean the dismissal of from thirty to forty thousand postal employees; the consolidation of 8,000 rural routes, and the placing of 9,000 rural routes on the triweekly instead of daily service; and, Whereas during the last hours of Congress a special Senate economy committee was appointed that will continue to make recommendations through the coming Congress; and,

Whereas there has been a consolidation of rural routes resulting in a saving of nearly $4,000,000 annually since August, 1925: Therefore, be it

*Resolved*, That we are opposed to any movement, intent or practice, that will in any way endanger, hinder, or interfere with the regular and efficient distribution of mail to rural communities, and that we oppose the free use of the mail to other than postal employees in the discharge of mail service.

### AGRICULTURE FINANCE

Whereas existing credit facilities have broken down, resulting in excessive tax and mortgage delinquencies and foreclosures with untold loss and suffering; and,

Whereas one of the greatest needs of agriculture is a sound system of credit providing amply for the needs of production, marketing and capital investment, at a rate of interest comparable to farm prices, we believe that the problem demands two types of treatment, one dealing with the emergency which exists, and the other designed to improve and perfect the agricultural credit facilities so that they can operate to the best advantage in normal times: Therefore, be it

*Resolved*, That we recommend the following:

### EMERGENCY LEGISLATION

1. Loans through the Reconstruction Finance Corporation to existing private loan agencies where necessary and with satisfactory guaranty that money will be used for purposes intended, sufficient to enable them to carry deserving borrowers through the period of ruinous prices.
2. Sufficient appropriations be made for the reserves of land banks to enable them to carry deserving borrowers through the period of ruinous prices.
3. Establishment of an emergency holding corporation to acquire, hold, and dispose of lands now owned or hereafter acquired by Federal land banks, such corporation to operate under the supervision of the Federal Farm Loan Board.
4. A Federal guaranty of Federal farm loan bonds, with provision for refunding existing loans at the lowest rate of interest possible and strengthening the democratic control of the system through increasing the responsibility of associations to prevent any possibility of political domination.
5. Permitting land banks under original or subsequent appraisal, to consolidate the debts of the borrower, arising from the mortgage, under a new mortgage, such mortgage to be acceptable by the registrar, upon approval of the Federal Farm Loan Board, when adequate reserves are set up for all such additions.

### PERMANENT PROGRAM

Legislation for a permanent program consisting of amendments to the Federal farm loan act to provide—

1. For the elimination of duplication in governmental agencies making farm loans, including the joint-stock land banks whose assets should be merged with the Federal land bank system as rapidly as can be done with full justice to the borrowers, the bondholders, and the stockholders, in such manner as to preserve the cooperative features of the system under farmer control.
2. For the removal of certain restrictions from the requirements concerning mortgages as follows:

(*a*) More flexible amortization terms should be provided, permitting short-term loans with irregular or balloon principal payments, to make possible handling loans on properties not suitable as security for long-term regular amortization loans.

(*b*) The terms of eligibility should be broadened to permit a farmer-producer to borrow upon land which he is not personally operating.

(*c*) The purposes of the loan should be broadened to permit the use of the proceeds of the loan to meet any debts of the borrower within the discretion of the Federal land bank.

(*d*) The final discretion as to the acceptability of loans should be left to Federal Land Bank Board in all matters excepting as to the value of the physical security.

3. For increasing the permissive spread between bond rate and interest rate to 1½ per cent, using substantial portion of increase to augment the

income of associations. It is suggested that not less than one-eighth of 1 per cent be paid to associations to enable them to function as intended under the act, and increasing the reserves of both Federal land banks and farm loan associations.

4. For amending or ruling to provide that the words "agricultural purposes" as used in subdivision 5, section 12, of the act with reference to determining the value of the land shall be construed as including horticulture and all types of farm production, provided that where specialized crop returns are used as a principal factor in determining value a satisfactory record of production over a term of years must be shown.

5. For class B stock in associations whose capital is impaired to the point where new loans through the association have become impossible; such stock to be issued when five or more qualified borrowers are available with acceptable applications totaling $10,000. Such stock to constitute a separate issue to be subject to assessment for losses incurred from class B loans only, and to be issued only upon approval of the Board of Directors of the Federal Land Bank and the Federal Farm Loan Board.

6. For more flexible provisions with reference to initial loan charges so that associations may be permitted to collect enough from applicants to cover appraisal costs on small loans.

7. That upon completion of the above program, the bonds of any land bank under Federal charter be accepted as legal tender at face value in lieu of cash in payment or balances on mortgage loans made through it bearing the same or lower rate of interest, where the loan is being paid in full, whether such banks are solvent or in the hands of the receiver and whether the borrower is in default or not.

### INTERMEDIATE CREDIT

We favor amendments to Federal intermediate credit act expressly providing for the establishment of cooperative agricultural credit associations with rediscount privileges and for rediscounting acceptable agricultural paper of credit unions.

### MONETARY STABILIZATION

The report of last year on monetary stabilization directed attention to the serious situation of agriculture by reason of fluctuation in monetary values. It was recommended that steps be taken to secure restoration of the wholesale price average of 1926 as computed by the United States Bureau of Labor Statistics and the stabilization of the price level as nearly as practicable at that point. In order to accomplish this, the following recommendations were made:

1. An increased purchase in large volume of securities in the open market by the Federal reserve banks.
2. Reduction of rediscount rates by the Federal reserve banks.
3. Reduction of the legal minimum gold reserve ratios of the Federal reserve banks to point materially below the present 35 to 40 per cent legal ratios, to the end that the surplus gold in the United States may be exported without endangering the gold standard.
4. An international monetary conference for the purpose of (*a*) stabilizing the gold price of silver and (*b*) stabilizing the purchasing power of gold in terms of the average of wholesale prices of commodities.

Subsequent events indicate the soundness of the above recommendations: Therefore, be it

*Resolved*, We demand that Congress take proper steps to expand the currency to such an extent as to raise the commodity prices to the average level obtaining from 1921 to 1929, to the end that both public and private debts may be justly liquidated, and to furnish us with a medium of exchange whose value shall be stable from year to year.

Mr. TABER. While the depression is only a little more than three years old, so far as it relates to industry and finance, it is necessary to emphasize the fact that agriculture has been in serious distress for 12 years. In order to get a clear perception of unparalleled difficulties confronting the farmer to-day, we must go back to the time of the World War.

The period of 1914 and 1917 found American agriculture in a fairly prosperous condition, because prices of farm products had been gradually advancing since the beginning of the century. The consuming power of our own people was overtaking farm production. From the time when the United States entered the war, in April, 1917, the highly important part devolving upon the farmer was emphasized in governmental and military circles.

Attractive posters bearing the legend, Food will win the war, were on display throughout the agricultural sections of the country. Prices were lifted and appeals were made to the patriotism of the farmer, and production campaigns were waged in every nook and corner of rural America. Every possible effort was made by the Government to convince the farmer that it was his duty to expand his acreage, purchase improved machinery, and produce the largest possible amount of food. The farmers responded in the most magnificent manner to this call for increased production, and in addition furnished more than one-fourth of the fighting men for the Army. The food produced under great difficulties and at high cost on American farms helped save the cause of democracy and bring victory to the Allies.

While the war was in progress, the farmers were assured again and again that they need have no fear of overproduction, and that even if hostilities should cease, there was a starving world overseas which would take all they could produce. This speeding up of production resulted in the accumulation of large supplies of foodstuffs which after the close of the conflict had to compete with commodities that had piled up in Argentina, Australia, and other distant lands, and which were now moved to the markets of the world.

With domestic markets glutted with food, and confronted with a rapid decline in foreign demand, prices for farm products took a drop, and this tendency was accelerated by a general clamor for lower costs of living. A crusade was launched through the office of the Attorney General to bring down the prices of farm products. Leaders of farmers' cooperative associations in many sections of the country were placed under arrest and prosecuted under the antitrust laws. Government stocks of food were advertised at bargain prices through the agency of the Post Office Department, and Government wool was sold at auction to the highest bidder. It was announced that these supplies would not be exported, but would be thrown on the home market, while retailers were encouraged to dispose of them at cost.

All this was in marked contrast to the treatment accorded industry by the Government. After the war, the Government paid claims aggregating more than $500,000,000 to the holders of war contracts. But there was no indemnity paid to the farmer. To add to the difficulties confronting agriculture under these circumstances, the Federal reserve system inaugurated a policy of deflation through successive advances in discount rates, which, to all practical intents and purposes, left the farmer without credit and compelled him to throw his crops on the market for anything they would bring. Hundreds of thousands of farmers went bankrupt through no fault of their own during 1921–22. With slight interruptions, the agricultural depression continued until the crash of 1929. Since then what had been a depression has become a disaster.

The oldest unanswered problem confronting the American people is that of doing justice to the farmer. In the famous document submitted by Alexander Hamilton to Congress in 1791, he recommended a protective tariff as an agency of developing our infant industries and providing revenues for the Government. He also pointed out that tariff legislation might handicap the producers of raw material, especially agriculture. To correct this inequality, he recommended that a portion of tariff revenue should be used as a bounty on agricultural exports as a means of offsetting increased costs to agriculture. Congress adopted the first portion of Hamilton's recommendation, later adding provisions for the drawback and for manufacturing in bond, so that they need not handicap American manufacturers in their efforts to compete in the markets of the world.

Unfortunately, the second part of Hamilton's recommendation, the providing of some offset or means of doing justice to agriculture, was not enacted.

Senator KING. Would a debenture measure up to that recommendation?

Mr. TABER. A debenture is that recommendation. I will proceed, Senator, and show that in just a moment.

Thus, with this complement to our tariff structure ignored, we have maintained a lopsided policy, leaving the products of the major portion of the plowlands of the Nation without direct tariff protection.

The opening up of new and cheap land, the limitless fertility of our soil and the improvement in agricultural machinery enabled the American farmer to hold the export market for approximately a century without serious difficulty. In the nineties this issue again made its appearance in the form of what was then called the Lubin idea, which found only partial recognition in sugar bounties, proposals for reciprocity, and similar minor amendments to tariff legislation. But in the nineties, as back in the very beginning of the Government, nothing was done to reach the heart of this problem.

The CHAIRMAN. I did not quite understand your statement that agricultural products had no protective tariff, at the beginning of your statement.

Mr. TABER. This was my statement. I will repeat it, Senator.

> Thus, with this complement to our tariff structure ignored, we have maintained a lopsided policy, leaving the products of the major portion of the plowlands of the Nation without direct tariff protection.

The CHAIRMAN. They have got all they asked for.

Senator HARRISON. On some of them you got protection.

The CHAIRMAN. Then you ought to have used different words than that.

Senator HARRISON. He says "lopsided." That is a very appropriate word.

Mr. TABER. I think it is appropriate, but I am perfectly willing to state that——

The CHAIRMAN. If you can find out what "lopsided" means.

Mr. TABER. All right, Senator. I will define what lopsided means by saying any system that directly reaches one portion of our citizens and does not directly reach the other portion is lopsided.

The CHAIRMAN. That has reference not only to agriculture. That may apply to anything, or any law.

Mr. TABER. Senator, I can not withdraw my belief——

The CHAIRMAN. I do not ask you to withdraw it.

Mr. TABER. I can not withdraw my belief that our tariff policy has been lopsided. I can not understand why Congress, composed primarily of Representatives from the rural districts in 1791, took the first part of the Hamiltonian philosophy and failed to take the second part, which provided that part of the tariff revenues should be used for compensating benefits to agriculture. The only answer I have ever been able to find, in the writings of the times, was this, that the wars of Napoleon, the high prices of farm products, and the unsettled conditions in Europe made a market such that this was not an issue. But be that as it may——

Senator KING. Without desiring to project a partisan tinge to this testimony, may you not explain the failure to relieve this lopsded situation during the past years since the Civil War, by reason of the fact that nearly all the farmers persisted in accepting the orthodox theory of tariff and supported people who voted the highest tariffs?

Mr. TABER. Senator, I shall not answer your question as you want me to.

Senator KING. I want the facts.

Mr. TABER. I will simply say, however, that some farmers, and some of their representatives, have gone to the fountain source of protection, and to their amazement have found the apostles of this fountain source have not followed it to its ultimate conclusion.

Senator HARRISON. Why do you point to the chairman of this committee when you say, "the apostles of this fountain source"?

Mr. TABER. I did not intend to point to him.

The CHAIRMAN. All the chairman can say is that in the Smoot-Hawley tariff law, the farmer got exactly what the farmers' representatives asked for.

Mr. TABER. Except the debenture.

The CHAIRMAN. That is not a tariff.

Mr. TABER. The debenture is as much drawback as is a part of the tariff, Senator. They are complements.

I shall proceed, to save time.

The struggle for the equalization fee, the determined fight made by the Grange for the export debenture and the discussion of the domestic allotment legislation in this Congress are all chapters in this century and a half old struggle to do justice and bring equality to the American farmer.

Ever since the first session of Congress, our Government has been constantly tinkering with economic laws through patent grants, tariff acts, restrictive, permissive, and protective legislation, and during this century and a half most of these benefits have gone to others than the farmer.

I will say to my distinguished friend across the table that it has not made any difference which party has been in power.

We have been spending hundreds of millions of dollars in river and harbor development. This has benefited the Nation. Millions of dollars have been expended in locks and experimental barge service. Large sums are spent in lighting airways across the continent. High prices are given for the carrying of mail in the hope of developing the merchant marine. The Government delegated some of its constitutional authority of issuing money to the national banks and the Federal reserve system. This may have been sound, but others have benefited more than the farmer. Our Government has granted the right of eminent domain, has given large tracts of land, and has set up special machinery for the development of railroads and interstate commerce. In the way of protecting our ideals, we have set up stringent immigration restrictions. Authors and inventors have been protected by copyright and patent privileges. Thus for a century and a half our Government—and I might say practically without interruption—has interfered with the operation of economic laws and in this program, others have been benefited more than the farmer. In seeking to maintain on American soil a higher standard of living than obtains in the rest of the world, we have built such a fabric of protective, restrictive, and permissive legislation, and administration, that it can not be destroyed without affecting national welfare. Agriculture must secure the same privileges and opportunities that others enjoy.

The first step in the Grange program for stability and prosperity is lifting farm prices and increasing farm purchasing power. We have no choice in the matter. We are compelled to either demand the same type of price lifting machinery and governmental assistances that is given to other interests or we must seek a lowering of tariffs and a readjustment of all restrictive legislation granting special favors to other groups.

Senator HARRISON. As between the two, which is the better plan, in your opinion?

Mr. TABER. Senator, if I thought it possible, I think it would be infiinitely better to remove every vestige of restrictive, permissive, and special legislation. But, as I have indicated, we have built such a fabric over such a long period of years, and we have done it with the determined purpose, as I shall show later, of maintaining a higher standard of living in America than obtains in the rest of the world.

Senator KING. Something like a fibroid tumor that ramifies all through the physical body?

Mr. TABER. That is hardly a good comparison. It is the same in one way, but in another way, if those special privileges go to all, none are injured.

If we are going to build this artificial standard, we must include all in the artificial standard, and that is my plea, and the point I am trying to stress.

As to the first step in the farm program, I can only speak for the Grange, but I am glad to say that the Farm Bureau, the Farmers' Union, and organized agriculture are in fine agreement on the main principles, and I think we all agree that the first step is lifting prices.

Senator KING. Without desiring to interrupt your statement, if you are going to treat this later I shall not press it, but have you reached a conclusion as to the importance or necessity, in the proper rehabilitation of agriculture, of foreign markets for agricultural products?

Mr. TABER. I will handle that later, if it suits you just as well.

Senator KING. Very well.

The CHAIRMAN. Then, as I understand your position, it is this, that if they have free trade in everything else, the farmer is perfectly willing to have free trade on his products?

Mr. TABER. You are right; and if others are protected, we are going to fight, as long as there is a vestige of strength left in us, to have protection for ourselves.

Senator HARRISON. If every other industry uses stilts, you want stilts too?

Mr. TABER. Yes; and if they have a parachute, I want a parachute, too.

We must bring equivalent tariff benefits to surplus-producing commodities either through the export debenture, through a simplified domestic allotment, the equlization fee or a combination of these methods. Foreign markets must be restored, and new markets found. Through research we must develop new uses for farm products and guide production with intelligence and information.

Another step in lifting prices will come through reduction of distribution costs and giving the farmer a larger share of the consumers' dollar. Cooperative marketing is yet in its infancy. The final solution of our marketing problems will not come until our major farm crops find their way to market through farmer-owned and farmer-controlled marketing agencies, beginning with the farmer producer and approaching as near the ultimate consumer as conditions will permit.

Supporting figures to prove the necessity of lifting farm prices are unnecessary. However, we submit the fact that the value of our farms and their equipment shrank from $79,000,000,000 in 1919 to approximately half that figure at present-day levels. Farm income has declined from approximately $12,000,000,000 in 1929 to $5,000,000,000 to-day. The latest price index of the Department of Agriculture places all farm commodities at 51 per cent and the things the farmer buys at 105 per cent of the pre-war level. In other words, the farm dollar to-day is worth approximately 49 cents—and some people wonder what is the matter with the farmers.

The second step is to bring stability to agriculture, the Nation, and the world is a stable and honest monetary system. Agriculture demands a dollar worth 100 cents, no more and no less. A dishonest dollar is one that requires more than 100 cents with which to pay a dollar's debt, or one that permits the payment of the same debt for less than 100 cents. Uncontrolled inflation will lead to greater suffering and disaster than deflation. We must recognize the fact, however, that we will either reflate or repudiate. Inexorable economic laws require reflation of our volume of currency and credit or the tragedy of bankruptcy and possible repudiation will stalk through the land.

We hear much of rubber money. It is my understanding that rubber will contract the same as expand. Agriculture is suffering from iron debts and rubber money. What has happened to agriculture in the way of debt paying ability at the present level of commodity prices is graphically told in the subjoined table. The Bureau of Agricultural Economics of the United States Department of Agriculture is authority for the statement that the farm barometer in January, 1933, stood at 51. Comparing to-day's farm prices with the former price index, the table below shows in terms of what the farmer has to sell just how much he has to pay in the way of farm crops for each dollar borrowed during each of the years indicated in the table. [Reading:]

| A dollar borrowed in the year— | If paid in January, 1933 |
|---|---|
| 1916 | $2.29 |
| 1917 | 3.45 |
| 1918 | 3.92 |
| 1919 | 4.10 |
| 1920 | 4.02 |
| 1921 | 2.27 |
| 1922 | 2.43 |
| 1923 | 2.65 |
| 1924 | 2.63 |
| 1925 | 2.88 |
| 1926 | 2.67 |
| 1927 | 2.57 |
| 1928 | 2.73 |
| 1929 | 2.71 |
| 1930 | 2.29 |
| 1931 | 1.57 |
| 1932 | 1.12 |

(January, 1933, equals 100.)
(Compiled from records of Division of Statistical and Historical Research.)

Senator King. Of course, labor would be subjected to the same pressure. It would take several days' labor now, aside from some of the building trades, to pay the obligation which was contracted in the period you have indicated.

The Chairman. A carpenter who is getting $11 a day is not hurt at all.

Senator King. I say, except for these building trades. Some say they are a special class.

Mr. Taber. The third step in our program is the reduction of interest rates and the providing of an ample reservoir of credit to take care of the needs of agriculture in this crisis.

The wholesale foreclosures of farm mortgages, which has been darkening our land and wrecking the homes and lives of our people must stop. The full power of the Federal Government must be invoked to bring this about in an orderly and effective way.

By reason of conditions for which in the main he is not responsible and which are utterly beyond his control, the American farmer to-day finds himself in the most difficult financial and economic situation that has confronted agriculture since the founding of the Republic.

The alarming increase of tax sales and foreclosures during recent months threatens the very foundations of American institutions. In the last six years, every tenth farmer in the United States has lost his farm through mortgage foreclosure, tax delinquency, or bankruptcy.

The last census indicates that there is a farm mortgage debt of about $9,241,000,000, with an average rate of interest of 6.1 per cent. All other farm debts approximate $3,000,000,000 and the interest rate on this additional debt ranges from 6 to 12 per cent—and I know of cases where it runs to 20 per cent. The total annual outlay for interest on the farm debt is more than $800,000,000.

The two chief cash crops of the American farm, wheat and cotton, were valued at approximately $600,000,000 for the year 1932, a sum just about sufficient to pay the interest on the mortgage debt alone.

A reduction of one-third in the interest rate on an amortized loan running for 35 years has the same effect as a reduction of more than one-third in the total face of the debt, and yet it will not adversely affect general security values.

In other words, if we reduce the interest charge on a debt of $10,000 from 6 per cent to 4 per cent, if that is an amortized 33-year loan, we are doing the same service for the farmer as though we marked his mortgage down from $10,000 to $6,000, and we have done none of the dangerous things of continuing instability and difficulty along that line.

Senator HARRISON. The committee on Banking and Currency brought out a bill, as I understand, to carry out that idea to some extent, is not that true?

Mr. TABER. Of course, I am not discussing particular bills, Senator, but in the main the purpose of the Hull bill, as I understand it, which is to provide a reservoir of credit to prevent foreclosures, and at a rate of interest not to exceed 4 per cent, is a step in the right direction. The bill may need further amendments. I have not seen it in its completed form.

It is apparent that the farmer can not continue to pay 6, 7, and 8 per cent interest at prevailing commodity prices. Farm prices must come up or interest charges must come down, and the first step toward security is a 30 or 40 per cent reduction in interest charges to carry farmers through this period of ruinously low prices. This can be done through emergency loans, through the reamortization of loans and through the postponement of principal payments.

The increased farm mortgage indebtedness in the United States has been estimated on the basis of special studies at various earlier dates as follows:

| | |
|---|---|
| 1910 | $3,320,470,000 |
| 1920 | 7,857,700,000 |
| 1925 | 9,360,620,000 |
| 1928 | 9,468,526,000 |
| 1930 | 9,241,390,000 |

This debt is distributed as follows:

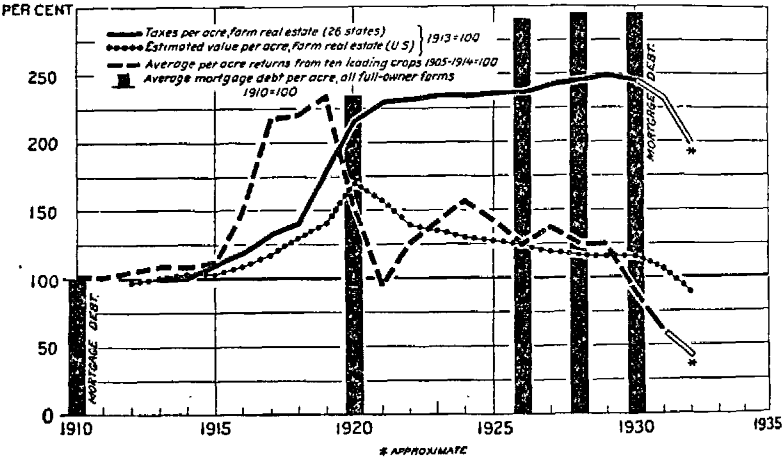
| Lending agencies | Percentage held by each agency | Amount held by each agency |
|---|---|---|
| | *Per cent* | *Millions of dollars* |
| Federal land banks | 12.1 | 1,146 |
| Joint-stock land banks | 7.0 | 667 |
| Commercial banks | 10.8 | 1,020 |
| Mortgage companies | 10.4 | 998 |
| Insurance companies | 22.9 | 2,164 |
| Retired farmers | 10.6 | 1,006 |
| Active farmers | 3.6 | 339 |
| Other individuals | 15.4 | 1,463 |
| Other agencies | 7.2 | 685 |
| Total | 100.0 | 9,468 |

(Bureau of Agricultural Economics.)

I have here a table or chart showing the returns per acre of 10 leading crops and taxes, land values and mortgage debt per acre of farm real estate.

(The chart referred to is as follows:)

RETURNS PER ACRE OF TEN LEADING CROPS AND TAXES, LAND VALUES AND MORTGAGE DEBT PER ACRE OF FARM REAL ESTATE




The CHAIRMAN. Do you think the Government can pass legislation affecting a private loan to a farmer?

Mr. TABER. Senator, of course we can not—and I think we all rejoice in the fact that in America we can not pass legislation changing contracts, but the Government does have a very definite responsibility and opportunity. We can, in the condition in which we find ourselves to-day, reduce interest rates to the farmers. We can protect the borrower, and we can protect the Government. The Grange resolutions on that point which are in the record, I think, clearly point out the steps that our organization wants taken, and in the main we are in harmony with the other farm organizations, although we may differ in details.

Here is what we propose: First, let us unify the farm loan system. Second, let us issue low interest rate bonds, guaranteed by the Government, and substitute those for the present high interest rate bonds that have doubtful Government responsibility, by having printed across the back of them something to the effect that, "This bond is an instrumentality of the Government."

Then we can reduce the interest charge to the farmer from 6 per cent to 4 per cent. At the same time, we can set one-half of 1 per cent aside as a reserve to protect the Government, and I have figured, since the beginning of the farm-loan system, that if we had set aside one-half of 1 per cent, all the losses on farm mortgages could have been absorbed out of that one-half of 1 per cent.

In other words, we can do justice to agriculture by giving it a lower interest rate. We can do justice to the bondholders, who have a certain misunderstanding, at least, of Government responsibility as to bonds issued under the Federal Land Bank system; and lastly, we can do all of this without danger of financial obligation to the Government.

Senator HARRISON. Did you read or hear the testimony of Mr. Baruch with reference to the mortgage situation?

Mr. TABER. I did not hear Mr. Baruch's testimony, but the newspaper story would indicate something very similar. He proposes 3 per cent bonds, and I propose 2½. He would propose a spread of one-half of 1 per cent, which is not sufficient. I would set aside one-half of 1 per cent spread for the Government, and 1 per cent for the institutions.

Senator HARRISON. But the principle is the same.

Mr. TABER. The principle is the same. It is a matter of detail.

Senator KING. You mean that there will have to be some governmental agency set up which, as far as possible, would bring into one organization the various agricultural loans, so that, instead of having half a dozen Federal agencies, extending credit to the farmers, you would have one Federal organization through which the loans and credits to the farmers might be handled.

Mr. TABER. Yes, Senator. You are using my exact words later in that discussion.

This farm mortgage crisis can be relieved and in time corrected by providing an ample reservoir of credit from the Reconstruction Finance Corporation or otherwise to make immediate loans to farmers to pay delinquent interest and taxes and prevent foreclosures, through the unifying of the farm-loan system, the issuance of low-rate Government guaranty bonds and exchange them for the higher interest bearing unguaranteed bonds, reducing the interest rate on outstanding mortgages from approximately 6 to 4 per cent. Payment on principal should be withheld for a 2-year period. Mortgages should be reamortized where the farmers have a sound investment, and a reservoir of credit provided for new loans. This will stabilize farm values and give the farmers of the Nation a fighting chance to save farms and homes.

Here is a farmer who has had taxes and delinquencies pile up. The law is too inelastic. Under the law, we have difficulty in taking care of this farmer. What we should be allowed to do is to write this farmer a new mortgage, if his investment is still sound, taking care of some of these deficiencies and delinquencies, and reamortizing it over a longer period, which would give lower interest rates and lower principal payments. Then we should provide by law that there need be no principal payment until prices lift.

This is a very simple, constructive program. I do not want to seem facetious, but it is so simple that I am just afraid it will not be done. It is very apparent that we can take the steps to avert a tremendous crisis, and render great service.

Senator KING. Mr. Taber, do you not underestimate the magnitude of the task which you impose on the Government if your plan is carried out, in view of the fact, as you have indicated, that the farm mortgages are approximately $7,000,000,000? I am making no criticism at all of your plan, but your plan would contemplate that there must be a readjustment. Many of these organizations have extended credit, and Eastern moneys have been loaned, as you know, in many of the agricultural States. In my State, a great deal of money has been loaned upon farms by organizations which have furnished the money and taken mortgages and then sold the mortgages in the East, which would mean an approach to, or a contact with all the mortgagees in the United States, those who are private persons, and these Federal banks and joint-stock land banks. It would really mean a reformation, in a way, or modification of existing contracts which relate to $7,000,000,000 of indebtedness, the lowering of the interest, and perhaps the granting of moratoria with respect to many of these loans. Have you appreciated the magnitude of that situation, and that task?

Mr. TABER. I certainly have, Senator, but the trouble with us is that we try to do everything the hard way. We can make this a very difficult problem, and we can make it a rather simple problem. I have put into the record, and I will now read, the distribution of these $9,400,000,000 mortgages:

Federal land banks, 12.1 per cent; joint-stock land banks, 7 per cent; commercial banks, 10.8 per cent; mortgage companies, 10.4 per cent; insurance companies, 22.9 per cent; retired farmers, 10.6 per cent; active farmers, 3.6 per cent; other individuals, 15.4 per cent; other agencies, 7.2 per cent.

Now, Senator, we are going to commence our program entirely on the 17 per cent. It becomes effective automatically without difficulty, and we will start on the 17 per cent without impossible difficulty, now in the Federal farm-loan system by revamping that system and providing the machinery, that will automatically expand. There is no difficulty about it at all. It simply means cooperation between the farmer borrower and the lending bank. Bonds are substituted. The people that do not substitute will wish they had. There is no worry about that, because the unguaranteed, uncertain, high-rate bonds will be exchanged for the low interest rate Government guaranteed bonds.

The CHAIRMAN. Take the joint-stock land banks. The Government is not responsible for them at all. You would include those, and let the Government take all those loans they have made, some of which are worthless.

Mr. TABER. I would not do that, Senator.

The CHAIRMAN. That is what your proposition is.

Mr. TABER. No, Senator. I have not taken the time to go into details. That is not the proposition. The proposition would be that the Federal land-bank bonds—begin, first, with the Federals.

The CHAIRMAN. The Government is responsible, in a way, for them. They were set up. The Government is not responsible at all for the joint-stock land banks that you put in there, making the 17 per cent.

Mr. TABER. That is true, but they were each organized under Government control and supervision. Every farm loan has been made by a Government-appointed inspector, and the bonds are issued by the Government, and have on the back of them, "This bond is an instrumentality of the Government." Whether it is 12 per cent, or 17 per cent, we shall not bother to discuss, because, if there is not a provision that protects the Government, of course, we are hoping that no action be taken. No good American wants anything done that does not protect the Government.

Senator KING. You would not ask for the redemption of those joint-stock land bank bonds which have been taken in by the various organizations at 30 cents on the dollar?

Mr. TABER. I would give actual value for them.

Senator KING. Not par value?

Mr. TABER. No. That, again, will make it easy to carry out this plan. I would give the value. If they have sold for cash for 50 cents, we would assume that is somewhere near their value. If they have sold for cash at 90 cents, we would assume that that is somewhere near their value. That matter of adjustment is not the fundamental thing I am emphasizing. I am emphasizing the fact that these bonds are now out; they now bear approximately 5 per cent interest; and they now have on the back of every one of them, "This bond is an instrumentality of the Government."

These bonds now have back of them farm mortgages held in the registry for the district in which the bank is located. The farms were appraised by an appraiser appointed by the Federal Farm Loan Board. The mortgages were submitted to the Federal Farm Loan Board for approval. They are held by an instrumentality of the Government, and there is, an indirect if no direct responsibility. I am not saying that there is a direct responsibility. I am saying that there is a moral responsibility. Let us forget that phase of it. That is not what I am discussing. I am discussing the principle of doing justice to the farmer, and finding a way whereby we can bring in a lower rate of interest in an orderly manner, without the dangers that we do not like to discuss, that are in evidence.

I want to give the farmer, Senator, the advantage of these depreciated bonds, and there is an orderly way to do it. It can not be done by some of the proposals that have been made, because the speculator would get the benefit. I want the farmer to get the benefit, and this program reaches the farmer and not the speculator.

Senator KING. Permit me to say, by way of parenthesis, that I think the Federal Government, when it learned that those bonds, upon the back, bore the authentication to which you have referred, that they were Government bonds, was derelict in failing to enjoin the issue of those bonds in that form.

Mr. TABER. A constitutional lawyer like you, Senator, knows why that was done. It was done to continue the tax-free permission. You have read, of course, Judge Hughes's opinion, and you have also read the words of Woodrow Wilson relative to encouraging people to buy this type of investment.

But the point I am trying to make, Senator—and I want it clearly understood—is that I am not trying to make the point of protecting any bondholder. I am trying to make the point that we have the stage set to give the farmer, without loss to anybody, a lower rate of interest. Whether the percentage is 12 or 17 per cent, I shall not enter into a discussion of that with the distinguished Senator. I think it is 17 per cent, and you think it is 12, but we will pass that. We take care of this group.

Then, through the issuance of more bonds, through the providing of a reservoir of credit, insurance companies, banks, and others will either find a method of reducing interest rates to their farmer borrowers, or these farmers, as conditions may be, will transfer themselves from commercial banks and from these other classes, and find themselves in the cooperative farm-loan system, a revamped organization, revitalized and put in shape to serve agriculture.

Agriculture has not gone to the dogs, bad as conditions are, and there is some value in farm lands, and that is going to come back more quickly than we realize, if we will be just to the farmer.

What I want to give to the farmer is a fighting chance to save his farm and home.

These three essential steps of lifting prices, providing an honest dollar and reducing interest rates are emergency steps that can not be postponed if agricultural conditions are to be stabilized. They alone will not cure all farm ills, but they are fundamental to recovery and can be enacted into law at this session of Congress or in a special session later to be called.

It is apparent that there will be no stability or permanent recovery in prices until the discussion of foreign war debts is brought to a stop and a definite policy is established.

I agree with some speakers who have preceded me, and certainly disagree with others.

These debts are honest; they should be paid, and should not be canceled. On the other hand, we were foolish to allow these debts to stand in the way of returning prosperity. Nations that can not pay should be given credit on purchases of farm products or other commodities in the United States. Payments from the war debt should be used to open markets and promote international trade.

There is too much discussion and thought of the foreign situation and a failure to recognize that America's greatest market is at home. Bring back the purchasing power of the millions of farmers and they will absorb many times as much goods as was exported from the United States in our greatest year.

We talk about finding a new market, with the equivalent of a nation of 40,000,000 in population in agriculture, just waiting for a chance to buy billions of dollars of the products of industry, if we only give them something to buy with.

Of equal importance is the fact that more than 12,000,000 unemployed and their dependents, aggregating approximately 30,000,000, are not now consumers. In other words, a market greater than any potential market in the world is here at home and can be developed by a sound program of reconstruction. It must not be forgotten that there will be no enduring prosperity until all groups prosper. We will all go up or go down together.

In reference to our home market, it is well to remember that restrictive quotas, embargoes, and high tariff rates in many nations are starting a mad race of nationalism that if continued will in reality put a Chinese wall around each of the nations of the world. We can probably stand this better than others, but we should seek by treaty arrangement and by world conferences to develop world cooperation. If this can not succeed, as a last resort we must put a high tariff on every commodity of ever kind and sort coming into this country.

The program of national readjustment must give first emphasis to a stable banking structure, and the revamping of the credit machinery of the Nation. We should give careful consideration to a system of Federal depositories where the public will know that its money is safe or some other system of protecting deposits. It may be necessary to separate the functions of deposit from the loaning facilities of banking. It is believed that through the Reconstruction Finance Corporation and other steps, bank failures are largely a thing of the past but it must not be forgotten that the darkest picture in this depression has been written by the failure and collapse of our banking leadership and facilities. There can not be enduring prosperity without amendment and adjustments to our banking system.

In this same connection, it will be necessary to revamp the rural credit structure of the Nation. It is unsound to have 8 or 10 separate agencies making loans to agriculture. The Federal seed loan function should be removed from the Department of Agriculture and lodged in the central credit agency when established. It is unsound to prostitute a research and educational department to the functions of loaning and collecting money. Agriculture will be better served when all loaning facilities dealing with agriculture are brought under one head.

Senator KING. May I interrupt you right there?

Mr. TABER. Certainly, Senator.

Senator KING. Suppose that Congress—wisely, I think—should pass a law to-morrow suspending the further operations of the Agricultural Department in the loaning of this $80,000,000 or $90,000,000 which we provided for a few days ago, for several weeks, until there could be a unified organization for the purpose of extending these credits. Do you think postponing it for three or four weeks or a month would involve serious injury to the farmers?

Mr. TABER. It would in some sections, especially in the South. When I was in New Orleans recently, and in South Carolina, I saw them planting gardens, in southern South Carolina.

Senator KING. Evidently they are planting without recourse to this seed loan organization, then?

Mr. TABER. That is true, Senator.

I feel strongly that there ought to be a unification—so strongly that I would be willing to make a very substantial sacrifice to bring it about. I think perhaps we could find some way that this regrouping could be accomplished. Think of the Reconstruction Finance Corporation, the Federal farm loan agency, the joint-stock land banks, the intermediate credit banks, the Department of Agriculture, and all of these other ramifications that are developing. It means duplication, working at cross purposes, and an unsound loaning policy. We ought to set up a great central agency to which we would take all loaning agencies from the Farm Loan Board, the Reconstruction Corporation, the Farm Board act, and all other agencies.

Reduction in the cost of government, efficiency, and economy must keep pace with progress. Hundreds of millions of dollars can be saved and efficiency can be increased by further regrouping and reoroganization. Agriculture has as much or more at stake than any other group in this reorganization, however. We must demand that all departments dealing with the surface use of land be brought under the Department of Agriculture so that land use, conservation, reforestation, and sound national development can go forward in harmony with present and future needs of agriculture.

I want to pause to say that I believe that reorganization of the functions of government is the greatest challenge of the present, but I can see tremendous injury done to agriculture unless we intelligently keep in the Department of Agriculture those agencies that deal with the use of land. For instance, the Bureau of Irrigation and Reclamation ought not to be in a different department from the department that discusses problems of markets and agricultural welfare. It all ought to be brought into the Department of Agriculture. Until we do that, we are going to have continual waste, continual duplication, and we will be working at cross purposes, to the injury of agriculture.

Senator KING. Of course, you would not supersede the effective agricultural organizations within the States, for example, such as that in the State of Pennsylvania and the State of New York, particularly in Pennsylvania? The agricultural organization of Pennsylvania has done effective work, and the farmers of Pennsylvania generally speaking, are better off than the farmers, perhaps, in any other part of the United States, and there has been less of Federal bureaucracy manifested there than in any other State.

Mr. TABER. Yes. I am very familiar with that Pennsylvania situation. The director of agriculture there is a former master of the Pennsylvania State Grange, and a personal friend of mine.

Senator KING. Perhaps that accounts for the improved condition there.

Mr. TABER. I would not say that, Senator. He is a good fellow, just the same. He belongs to your political faith, however.

Senator KING. That is to his credit.

Mr. TABER. Transportation costs remain a continuing burden upon the farmer. It must not be forgotten that the farmers' transportation bill is gerater than his tax bill, and while the farm dollar is at 51 per cent of pre-war, rail transportation costs are at 155 per cent. Agriculture must be protected in its right to enjoy the cheapest and most efficient methods of transportation that science and inventive genius can provide. Instead of burdening motor transportation with new and restrictive legislation, it may be well to relieve burdens now imposed upon the railroads.

One of the greatest causes of the continuation and severity of the depression is the loss of confidence of many of our citizens. While there have been disappointments and severe losses and heartbreaking suffering, yet we must remember that fundamentally there has been nothing lost in the resources of the Republic. Many of us do not now have property that we once thought we had, but the resources of soil, forest, mines, lake, and stream all remain. There has not been lost anything that is fundamentally worth while to the welfare of America a quarter of a century or a half century hence, unless we permit ourselves to lose confidence, courage, and hope.

No amount of reflation or protective legislation, no amount of artificial stimulation will bring permanently better times unless we restore and maintain the confidence of the people of this country in our resources, in our Government, and in the ability of ourselves to complete the difficult task of readjustment and reconstruction.

Our difficulties are not insoluble, our readjustments can be made, and while there is no time to delay because of the gravity of the situation confronting us, yet there should go forth from this committee and the men here assembled a clear understanding that in this greatest crisis of our history the indomitable spirit that has created the Nation and carried it through other struggles will bring it again to a time when prosperity and well-being and happiness of our citizenship will be greater than ever before known.

Senator, if I may, I would like to submit, as an appendix to my discussion, a partial report of the executive committee of the National Grange dealing with Federal depositories. We have had Mr. Albert S. Goss, of our committee, make a study of whether there is any possibility of expanding the suggestion I made a while ago of seeking banking stability, if there is a solution in providing for banks of deposit, and separating the functions of deposit from the loaning functions of our banking structure.

Senator KING. That is, to have commercial banks separate from savings banks and investment organizations?

Mr. TABER. This report looks into the possibility of going further than that, to see if we can provide a system of Federal depositories.

Senator KING. You mean to expand the Postal Savings banks?

Mr. TABER. Somewhat along that line.

The CHAIRMAN. Under the control of the Government?

Mr. TABER. Under the control of the Comptroller of the Currency.

The CHAIRMAN. That would be the Government.

Senator HARRISON. Mr. Taber wants to put it in the record.

The CHAIRMAN. I have no objection to that.

Mr. TABER. I would like to introduce that as an appendix.

(The report referred to is here printed, as follows:)

### PARTIAL REPORT ON FEDERAL DEPOSITORIES

The 1931 session of the National Grange passed the following resolution:

"Whereas during financial depression the confidence of the public in our banking institutions becomes shaken, requiring the banks to pursue a rigid collection policy in order to attain a safe margin of liquidity, and

"Whereas such a policy at a time when obligations are hardest to meet tends to hamper and curtail industry, still further shaking public confidence and adding to a vicious circle of causes of depression, and

"Whereas our present banking system has proved utterly inadequate to cope with widespread depression, resulting in unprecedented bank failures with hundreds of millions of dollars loss to innocent depositors, and

"Whereas rural communities have been particularly hard hit, due to the nonliquid character of the credit needed for agriculture, and agriculture is in urgent need of a system of credit calculated to meet its needs:

"*Resolved*, That the executive committee of the National Grange make or cause to be made a special study of the Government depository system of banking under which the accepting of deposits and making of direct loans shall be separated, the Federal Government to operate all banks of deposit, making loans to banking institutions only, which institutions shall receive no deposits, but confine their operations to lending money, rediscounting the securities received through the Federal depository bank in a manner similar to that of the intermediate credit system, and that said committee be instructed to report its findings to the 1932 session of the National Grange."

The difficulties and expense attendant upon such a study, if conducted by one committee made up of representatives from all sections, caused the executive committee to appoint 3 study committees, 1 in the Atlantic States, 1 in the Central States, and 1 in the far West. Even though thus localized, none of the subcommittees have been able to meet frequently enough to complete their studies or render any final report, but the data received from them has been of material assistance to the executive committee in conducting its studies which are not complete.

The studies of the Federal depository system soon developed the fact that the banking question was inseparably linked with the problem of monetary stabilization for approximately 90 per cent of our medium of exchange consists of bank credits. The following table shows the amount of money in actual circulation, and the amount of deposits in National, State, and private banks, loan and trust companies, and in mutual and stock savings banks, on June 30 of each year as shown:

| | Money | Deposits | Ratio deposits to money |
|---|---|---|---|
| | | | *Per cent* |
| 1922 | $4,463,172,111 | $40,234,704,000 | 89.0–11.0 |
| 1923 | 4,823,274,772 | 42,872,868,000 | 88.8–11.2 |
| 1924 | 4,849,307,433 | 46,432,714,000 | 89.5–10.5 |
| 1925 | 4,815,207,508 | 50,304,176,000 | 90.5– 9.5 |
| 1926 | 4,885,266,064 | 52,411,616,000 | 90.7– 9.3 |
| 1927 | 4,851,321,131 | 54,634,449,000 | 91.2– 8.8 |
| 1928 | 4,796,626,257 | 56,603,578,000 | 91.5– 8.5 |
| 1929 | 4,746,296,562 | 55,934,569,000 | 91.5– 8.5 |
| 1930 | 4,521,987,962 | 57,571,121,000 | 92.2– 7.8 |
| 1931 | 4,821,933,298 | 54,017,551,000 | 91.1– 8.9 |
| 10-year average | | | 90.6– 9.4 |

It must be borne in mind that hoarding has caused a large, but unknown, amount of money in circulation to go into hiding during the last three years. So the ratio of bank credit to money in actual circulation has been far larger than the figures shown, being estimated by some to be as high as 94 per cent.

It can readily be seen that if over 90 per cent of our medium of exchange consists of bank credits, anything which restricts the free use of such medium is of utmost importance in considering the whole monetary problem, and unquestionably an unsound banking system is one of the basic causes of the instability of the purchasing power of the dollar. The importance of stabilizing the purchasing power of the dollar is apparent when we realize that we must pay our debts with a gold dollar or its equivalent, while the means of acquiring that gold dollar have decreased with the fall of commodity prices. This is effectively illustrated by the condition of the agricultural industry.

Agriculture has debts of nearly $15,000,000,000 which were incurred to enable production to proceed, with the expectation that the debts would be paid through the sale of the crops produced. The lowering of commodity prices makes it more difficult to pay these fixed debts. The impossibility of paying these debts out of the proceeds of crops sold at present prices is realized through a study of the following table which shows, in terms of the average farm commodity values, the amount the farmer would have to produce to-day to pay debts contracted in the years shown. The average farm commodity price for June is taken, for this is the season when crops begin to move to market and when liquidation of debts begins:

| Index | Year | Equivalent payment required to-day | Index | Year | Equivalent payment required to-day |
|---|---|---|---|---|---|
| 103 | 1913 | $1.98 | 142 | 1924 | $2.73 |
| 101 | 1914 | 1.94 | 143 | 1925 | 2.75 |
| 104 | 1915 | 2.00 | 129 | 1926 | 2.48 |
| 146 | 1916 | 2.81 | 138 | 1927 | 2.65 |
| 192 | 1917 | 3.69 | 137 | 1928 | 2.63 |
| 203 | 1918 | 3.90 | 133 | 1929 | 2.56 |
| 220 | 1919 | 4.23 | 117 | 1930 | 2.25 |
| 152 | 1920 | 2.92 | 80 | 1931 | 1.54 |
| 119 | 1921 | 2.29 | | | |
| 130 | 1922 | 2.50 | Average | | 2.65 |
| 132 | 1923 | 2.54 | | | |

Interest at 6 per cent equivalent to 15.9 per cent.
Interest at 7 per cent equivalent to 18.5 per cent.
Interest at 8 per cent equivalent to 21.2 per cent.

It must be obvious to all that there is no hope of agriculture paying back $2.65 for every dollar borrowed, or even of paying from 15.9 per cent to 21.2 per cent interest on debts which on their face bear interest of from 6 to 8 per cent. Such a condition, if not remedied, means bankruptcy for the industry.

This condition has destroyed the normal purchasing power of the farmers and those directly dependent upon agriculture. It is estimated that these constitute 45 per cent of our population. It is impossible to destroy the purchasing power of 45 per cent of any people without bringing down disaster upon the whole people. It is significant that 85 per cent of the bank failures in America have occurred in towns of less than 5,000 population. It is estimated that prior to 1929, approximately 95 per cent of the failures were in rural areas. The farmer can not pay his debts unless he can farm profitably and unprofitable prices have caused an epidemic of bank failures. Bank failures restrict the free movement of bank credit, which is over 90 per cent of our money. Restricted money means high-priced money, which is another way of saying low-priced commodities. The whole money problem is so inextricably interwoven in this bank problem that no comprehensive study of our banking system can be conducted without viewing the whole problem of monetary stabilization and its effect upon the economic life of the Nation.

A dollar of stable purchasing value is essential to the orderly conduct of agriculture, commerce, and industry. Since over 90 per cent of our money is bank credit, a stable banking system is at the root of the stabilization problem. The following table of bank failures shows clearly the failure of our banking system to provide stable bank credit:

| | | | |
|---|---|---|---|
| 1916 | 56 | 1924 | 912 |
| 1917 | 41 | 1925 | 542 |
| 1918 | 28 | 1926 | 946 |
| 1919 | 45 | 1927 | 662 |
| 1920 | 47 | 1928 | 491 |
| 1921 | 364 | 1929 | 642 |
| 1922 | 394 | 1930 | 1,345 |
| 1923 | 290 | 1931 | 2,298 |

In addition to the failure of our banking system to provide stable bank credit, it is estimated that over $2,000,000,000 of direct losses have been suffered by a public compelled to use the only facilities provided and we have suffered a loss of untold billions through the failure to provide adequate credit for carrying on the normal business of the Nation. No other major nation on earth has a record of failures remotely approaching this. It is suggested that this record and the dire consequences justify the conclusion that some fundamental changes in our banking system are essential to the establishment and maintenance of stable business conditions.

Such changes should be designed to accomplish the following purposes:

1. Provide a place where our people can keep their money with the best possible assurance that they can get it when wanted.

2. Provide a dependable source of credit for individuals and industry on a sound basis.

3. Maintain a supply of money and credit sufficient to meet legitimate regional and seasonal requirements.

4. Curb or control speculation with other people's money.

5. Prevent investment of other people's money in questionable securities. both domestic and foreign.

6. Avoid foreign complications through financing with other people's money for profit of private bankers without regard to international complications which might result therefrom.

It at once becomes apparent that protecting the money of our people and the life blood of commerce is as much a public function as protecting their physical property or their persons, which is the primary purpose of government. Any system of intrusting the protection of our lives, our homes, our factories or other property to private interests in order that they might profit thereby, interests which might fail to function when most needed, is unthinkable.

In its essence, government consists of a group of people who band themselves together to protect their lives and property and to guarantee freedom of individual action. The founders of the Nation recognized this principle when they wrote into the Constitution a provision giving Congress the power "to coin money and regulate the value thereof." (Art. I, sec. 8 (1).) Any government which protects the lives and physical property of its citizens without protecting their money, or the value of their money, fails of its main purpose. The unprecedented bank failures and the disastrous break in commodity prices clearly indicate that the Federal Government has failed to provide an adequate system of banking, first, to protect the money of our citizens, and, second, to regulate the value thereof so that it performs the functions intended. This is essentially a governmental function.

To bring about these results, the resolution under study proposes the following changes in our banking system.

1. The separation of the two functions of our banking system: (*a*) The custody of funds of depositors, (*b*) the lending of money.
2. The establishment of Federal depositories to assume the custody of depositors' money and to conduct the checking business.
3. The lending of depositors' money by Federal depositories only to properly capitalized rediscount agencies upon approved securities.
4. Banks, as now operating, to receive no money on deposit for their own account, but only as agents for the Federal depository.
5. Banks to constitute the lending agency of our banking system, lending their own capital and rediscounting their paper through the Federal depositories.
6. Federal depository to be a bureau of the Treasury Department under the supervision of a Federal depository board similar in make-up and powers to the Federal Reserve Board. Such bureau to issue currency under regulations similar to those now in effect in our Federal reserve system.

The essential differences between the operation of such a system and the existing banking system would be as follows:

Little or no change would be required in the physical property of existing banks or the relations of depositors or borrowers with bank officials or employees. Under proper contracts and bonds, banks would act as fiscal agencies for Federal depositories receiving deposits, and conducting the checking departments of the system, holding all money so deposited for the account of the Federal depository. The same personnel would probably handle the funds as at present, the banks performing these functions as agents for the Federal depository for a compensation stipulated in a contract with the Federal depository board.

Instead of lending the depositor's money direct, banks would have available for lending only their own capital and surplus, plus what money they would borrow. These borrowed funds would be obtained chiefly through rediscounting the notes of their customers with the Federal depository in a manner similar to that now in practice in rediscounting through the Federal reserve system.

Banks would be compelled to pay a rate of interest on all borrowings sufficient to maintain the system, but as offsetting features would be freed from the expense of (*a*) maintaining the checking and depository branch of their business; (*b*) maintaining reserves sufficient to meet the demand of depositors through normal or unusual withdrawals.

It is suggested that the following improved conditions would result:

1. The depositors' money would be held in trust by the Treasury of the United States. Loans therefrom would be made only under regulations of the Federal depository board and the laws of Congress. This condition now prevails in discounting with the Federal Reserve System where losses have been held to a negligible amount. The depositor would thus be protected from (*a*) wildcat banking; (*b*) exceptional regional demand for money in excess of

regional deposits; (c) bank runs by a public which has lost confidence in local management or local conditions.

2. The borrower who is entitled to credit would be protected from untimely curtailment of credit caused by the need for establishing a high degree of liquidity to meet prospective bank runs, unexpected withdrawals, adverse local crop conditions, or other causes likely to affect the amount of local deposits.

3. All deposits being under control of one board, money could be made available when and where legitimate demand required. This is particularly true in rural sections where seasonal production or marketing demand often exceeds the facilities of local banks whose lending capacity depends chiefly upon the amount of deposits. Many rural communities are entirely without local credit facilities because the fluctuating nature of deposits makes local banking unprofitable. Under the Federal depository system, agencies with capital to lend would undoubtedly occupy this field, providing needed credit facilities with profit to all concerned. Lack of such credit is now largely responsible for early crop dumping and other unsound marketing practices.

4. Speculation with other people's money could be controlled. The wild flight of money to Wall Street for speculative purposes is too recent to require extended comment. Legitimate credit for agriculture and industry was severely crippled by banks lending money to Wall Street on call in order to get exorbitant rates of interest, frequently running in excess of 15 per cent. The legitimate business and commerce of the Nation, which is dependent upon the supply of money, was hampered, and in many cases ruined, by diverting this money from needed channels to speculative channels for private profit. Under the Federal depository system, none could profit by such diversion and any such shifting of credit on a large scale would be under the control of the Federal depository board, whose sole interest would be to keep the credit facilities of the Nation in balance with the Nation's needs.

5. Investment of other people's money in questionable securities could be prevented. The practice of many of our banks in underwriting questionable securities, both domestic and foreign, then unload on the public, through rigging the market, is also too recent to require extended comment. Such practices have no place in any institution intrusted with the custody of the people's money and could not longer be conducted with the depositors' money under the Federal depository system.

6. Foreign complications due to large-scale financing by private bankers could be avoided. Complications arising from loans made by our so-called international bankers have at times brought the Nation to the verge of war, and at the present time are complicating the problem of repayment of our foreign war loans. No private bankers for private profit should be permitted to lend the people's money to foreign interests when such loan might complicate the relations between nations, or when the money so loaned is needed at home to promote legitimate business and hold interest rates at a reasonable level. The Federal depository system would correct these abuses.

The Federal-depository plan presents possibilities for curing many of the most serious defects in our present banking system—defects which have been largely responsible for the financial debacle which has brought so much distress to America. There are some questions of doubt in the minds of your committee, which it is believed should have further study.

It is essential to preserve the private interests of bankers, or money lenders, as a buffer between the borrowers and the Federal depository, in order to prevent the play of politics from affecting the consideration of credit. The extension of credit must be completely divorced from any political pull or favoritism. Further study is necessary to determine whether the private banker or money lender would find in the proposed system sufficient inducement to employ his funds for lending purposes under the provisions of the proposed plan.

Your committee believes that there should be greater control by the Federal Government over the lending of other people's money, but has some doubt about the ability of the small and needy borrower with little more than his character as security, to secure needed loans under the proposed system. Means must be found for caring for this type of credit.

Your committee believes that if such legislation is enacted, it should be made permissive rather than compulsory so that its workability could be fully demonstrated in practice before being made compulsory. Your committee, therefore, recommends that this material be printed in pamphlet form and that the study of the proposed system be continued.

Senator HARRISON. Mr. Taber, before you finish, you talked about sound money. I take it you are not in favor of this country going off the gold standard?

Mr. TABER. I believe, Senator, that we can do justice without going off the gold standard. I am rather amused at people that talk about the glories of what we have done, and come back and say, "We are still on the gold standard."

I want to say this, Senator: If there is nothing we can do toward bringing a more stable dollar; if there is no solution, other than what one of the speakers suggested this morning—continued deflation—civilization is not worth while. If there is not wit enough in the people of this civilization to prevent the continued recurrence of depressions and difficulty and disaster, and if we know nothing more than to let deflation go to its final conclusion—disaster—and then seek to build up, we just are not statesmen—financially, politically, economically, or otherwise.

Senator HARRISON. If I understand you, you think these suggestions you have made, if they could be worked out rationally, would be so helpful that we would not have to go to the other extreme?

Mr. TABER. That is what I believe, Senator.

Senator HARRISON. And that applies also to bimetallism?

Mr. TABER. I am rather compelled, in a hearing of this kind, Senator, to stick to my bible, which is the journal of proceedings of the National Grange, and follow its policy as outlined in the Grange resolutions.

Senator HARRISON. That is a pretty good bible; is it not?

Mr. TABER. It is a pretty good bible. It is not as good as the Bible I take to Sunday school, but it is a pretty good one.

The Grange proposal is that we should at once call an international conference to try to stabilize the value of silver. The greatest tragedy, outside of the things happening in the United States, was changing the money of a thousand million people in the Orient to a commodity. There is some way that we can use silver in supporting our standard.

Senator HARRISON. It has been suggested here that if France, England, and the United States could act together and purchase a certain amount of silver, $200,000,000 or $500,000,000—or various amounts have been suggested—that might help the situation. Would that be your viewpoint?

Mr. TABER. I think, Senator, that will help. I still think, Senator, we will have to do more than that. I am not quite ready to go the full length of such legislation as the Rankin-Thomas bill. Neither do I find myself permitted by the Grange resolutions to go quite as far as those who would cut the grains of the gold dollar in two. But when we recognize that every great nation except ourselves, without a single exception, is either off the gold standard or managing its currency, it looks as though we can not possibly set ourselves up on such a pedestal, and have anything but low prices and disaster.

The other day I told the man at the bank, when I got some money, not to give me any bad money. He said they never had any in the bank, but I noticed I had two greenbacks, one silver certificate, a Federal reserve note, bank notes, and some other types of currency in my change. I think we have been unnecessarily fearful about adulterating, as they say, the quantity of our money. I take a greenback, that has no promise to pay in gold, with the same cheerful desire that I take a silver certificate, or one of those more ornate bills that says, "Payable in gold coin."

Senator KING. Mr. Taber, Congress passed three bills, one under Mr. McKinley, as I recall, one under Mr. Roosevelt, and one on the last day Grover Cleveland sat in the White House, each one of which declared in favor of international bimetalism and maintenance of gold and silver at a parity, and declared in favor of the calling of an international convention for the purpose of establishing bimetallism. One of the bills appropriated $100,000 for the purpose of meeting the expenses of such a convention. The last session of Congress passed a resolution requesting the President of the United States to call an international conference for the purpose of dealing with the silver question. The Democratic platform drawn at Chicago pledged its nominee to call an international silver conference at Washington for the purpose of rehabilitating silver.

Do you not believe—if you care to express an opinion, which you might be prevented from expressing by the action of your organization—do you not believe that if such an international convention were called, and the nations of the world, particularly the commercial nations of the world, should agree at that convention, for the rehabilitation of silver, to open their mints to the free coinage of any silver bullion that might be presented, at the ratio of 16 to 1 or 20 to 1, and the silver was coined, or the silver certificates issued where bullion was deposited, with the provision that they should be legal tender, that that would largely increase, and perhaps nearly double the basic metallic structure of the world, and furnish additional money, and thereby tend to increase prices? Do you not think that would be a wise thing?

Mr. TABER. Senator, that is almost in harmony with Resolution No. 4 that I put into the record, that we recommend the calling of an international conference for the purpose of stabilizing the price of silver and stabilizing the purchasing power of gold in terms of the average wholesale prices of commodities. We believe in such a conference. We have declared again and again for it, and we see no reason why it should not only be called, but we feel that a disaster has been permitted to be accelerated, because the Government itself has failed in its responsibility of doing everything humanly possible to bring the stabilizing influences of a broader metallic base.

Senator KING. On which to rest the currencies and credits of the world.

Mr. TABER. Yes. Senator, if there are no other questions, in conclusion I want to reemphasize the belief of our organization in economy, in reorganization and in the reduction of the expenses of the Government; but we do not believe that it is economy to destroy essential services.

We believe that such institutions as agricultural extension, vocational education, agricultural research, and activities of that character pay dividends over such a long period, and are so essential in maintaining morale and well-being, that the Government ought not to make the mistake of being penny wise and pound foolish in its desire for economy. Agriculture will take its share of economy.

We expect to be cut the same as other groups are being cut, but we do not expect to be cut more severely than others are being cut. We do insist that that type of service must be maintained.

Senator KING. Mr. Taber, you certainly can not complain about the appropriations made by Congress for the agricultural department. A number of years ago when I was in the House four or five million dollars per annum was all that was appropriated for agriculture. We have appropriated as high as $300,000,000. Of course, a considerable part of that was for roads, but the direct appropriations for agriculture exceed $100,000,000.

Mr. TABER. I was not complaining, Senator. I was simply pointing out that in our program of economy and readjustment which we favor, we do insist that there are some things we can not afford to do without, such as health, education, safety, and protection of property, which are fundamental whether the Budget is balanced or not.

I know the Senators will not agree with me, but I take real satisfaction in the fact that the National Grange, before this committee and the committee in the House, opposed tax reductions during the period of prosperity until our war debt was extinguished.

The CHAIRMAN. We thank you. The committee will adjourn to meet to-morrow morning at 10 o'clock.

(Whereupon, at 3 o'clock, p. m., the committee adjourned, to meet to-morrow, Saturday, February 18, 1933, at 10 o'clock, a. m.)

# INVESTIGATION OF ECONOMIC PROBLEMS

SATURDAY, FEBRUARY 18, 1933

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
*Washington, D. C.*

The committee met, pursuant to adjournment on Friday, February 17, 1933, at 10 o'clock a. m., in room 335, Senate Office Building, Senator Reed Smoot presiding.

Present: Senators Smoot (chairman), Watson, Shortridge, Couzens, Keyes, La Follette, Harrison, King, George, Walsh of Massachusetts, Barkley, Gore, and Costigan.

The CHAIRMAN. The committee will come to order and will hear Mr. Loree.

## STATEMENT OF L. F. LOREE, PRESIDENT THE DELAWARE & HUDSON RAILROAD CORPORATION

The CHAIRMAN. Mr. Loree, will you give your full name?

Mr. LOREE. L. F. Loree.

The CHAIRMAN. Of New York City?

Mr. LOREE. My business address is 32 Nassau Street, New York City.

The CHAIRMAN. You may proceed.

Senator HARRISON. I think the record better show some designation of Mr. Loree's position.

Mr. LOREE. I am president of the Delaware & Hudson Railroad Corporation.

The CHAIRMAN. You may proceed.

Mr. LOREE. My subject is:

### THE RAILROADS—THEIR RELATION TO THE CAUSES AND CURES OF THE COMMERCIAL DEPRESSION

Only about three-tenths of the world's surface is dry land, and no more than the one-hundredth part of the surface could support a dense population. About half of the land surface has no more inhabitants, taken together, than now live in the two cities of London and New York. The world's population is now about 2,000,000,000 human beings. Three hundred million Hottentots, Eskimos, and others have no more than the barest necessities of life. Some 320,000,000 live by hoe culture and upon native fruits. Eight hundred and seventy-five million live by rice culture, requiring constant irrigation. Some 125,000,000 live in scattered areas, raising millet in Africa, corn and wheat in South America.

The 370,000,000 people of North America and Northwestern Europe are the result of an age-long process of migration and natural selection. The basis of their life is the wheat type of agriculture. They possess three-fourths of the world's wealth, eleven-twelfths of its steamships, manufacture nine-tenths of its goods, govern two-thirds of the world's habitable territory, and have a controlling voice in the remainder.

The citizenship of the United States is almost one-third and the English-speaking people somwhat more than one-half of this superior group.

In the United States, with no more than 6 per cent of the population of the world and 5.7 per cent of its land area, we produce 72 per cent of the oil, 37 per cent of the coal, 42 per cent of the iron ore, 45 per cent of the finished steel, 51 per cent of the copper, 54 per cent of the cotton, 64 per cent of the corn, 20 per cent of the wheat, and hold 45 per cent of the gold, the medium of international exchange. Many consider us the pampered pets of the world's population.

Our national wealth makes our outstanding problem the national defense, for which one indispensible thing is a defensible frontier. Are we giving this matter the consideration it deserves?

We have built ourselves up into our present commanding position by the use of an industrial organization. People of thrift, willing to practice self-denial, accumulate wealth and set much of it aside to be used as capital; the managerial staff is far-seeing, inventive, and resourceful; the workmen are healthy, intelligent, and efficient. In the main, the relations of these three groups are cordial and mutually supporting.

The rate of progress is not uniform. There have been many periods of severe disturbance. One of great severity followed the Revolutionary War, another following the Civil War, there were others in 1819, 1837, 1857, 1893, 1907, and the one (1929) in which we are now involved.

These disturbances would appear to be caused by profound dislocations—the results of a great war, the opening of new avenues of trade, the operations of the investment trusts, the introduction of new industries, an exaggerated or too rapid change in the associated relations of management, capital, and labor. The period required in which to restore ordered relations usually runs from three to six years. Much in the way of readjustment has already been accomplished.

Our progress is definitely marked by the development of transportation from the early days when man packed his own burden, followed by the domestication of the pack animal, the bringing into use of the cart, the wagon, the stage coach, the sail boat, the steamship, the railroads, the automotive vehicle, and now the airplane.

The railroads have been an essential factor in our rapid growth and development. A modern locomotive will move in one train a volume of business that 175 years ago required the service of 97,500 pack horses. To-day the railroads are faced with changing conditions which must be recognized and dealt with effectively.

The short-haul passenger business, I believe, is permanently lost to the passenger automobile. On the Delaware & Hudson we are handling 18 passengers where once we handled 100 and, by the same, comparison, on the Kansas City Southern only 9.

The automobile bus has a very limited field for operation. About one-half are used to transport school children. I look to see the mileage of those used to transport school children increase. The mileage of the rest will, I think, very largely disappear. The number of auto busses on December 31, 1931, was reported to be about 95,000.

Senator KING. Mr. Loree, has there been any diminution in the number so far?

Mr. LOREE. It has just begun, sir. I will add that I do not know of any company in this country, and I know there is no company in Canada, paying a dividend.

Senator KING. These continental bus lines and semicontinental bus lines, then, have not been profitable?

Mr. LOREE. I think not.

The CHAIRMAN. You may resume.

Mr. LOREE. The auto truck will increasingly absorb the movement of package freight, perishable goods, and livestock, but only over limited distances, probably those which will enable the driver to be at home at night. The traffic has been obtained by their replacement of the horse-drawn vehicle, the creation of new traffic, and by the absorption of a part of the freight heretofore carried by the railroads. For the most part, this diverted traffic is of the less-than-carload class, which is only 2½ per cent of the ton-mileage handled and has required the use of 25 per cent of the car equipment. Expensive stations must be provided, the freight requires trucking both ways across the station platform, stevedoring in the car, the loss and damage is relatively heavy, it must be weighed and a multitude of waybills made out. It is questionable if the traffic ever yielded a profit. There is now a good deal of " wild-cat " traffic being handled by the trucks, but this will disappear with changed industrial conditions. These trucks divide 6 per cent in common-carrier business; 9 per cent as contract carriers and 85 per cent as privately owned. The number of trucks in use December 31, 1931, was reported as 3,466,303. It would not seem that control could be looked for through supervision of the traffic charges.

To my mind the problem of automobile traffic is the problem of policing the highway. The blood-letting in movement as now conducted is appalling. In 1931 there were brought to their death by automotive vehicles 34,400 persons, and nearly a million received injuries ranging from slight contusion to maiming and crippling for life. Forty-one per cent of these injuries were classed as serious.

It is an instrument more dangerous than was the World War. During the 18 months of the World War 50,150 members of the A. E. F. were killed in action or died of their wounds. During the 18 months ended December 31, 1931, 53,650 were killed in automobile accidents in the United States or died of their wounds. The corresponding figures for the same period of time were for members of the A. E. F., wounded 182,674, for citizens 1,576,840 injured by motors, not fatally.

It is reported that during the months of mild weather there are killed by motor vehicles in excess of 100,000,000 birds. Nature maintains a rather delicate balance. What we may suffer from this upsetting experience is yet to be determined.

As I have said, the matter seems to me to be one of police control. We must look to restriction of length, height, and width, to the elimination of the full trailer and the automobile carrier, to limitation of weight of vehicle and load, to mechanical limitation of speed, to proper couplings, to full braking, to higher standards in the training and skill of drivers, and to other like control to markedly lessen the appalling danger now attending this traffic.

Senator KING. Will you pardon an interruption, Mr. Loree?

Mr. LOREE. Certainly.

Senator KING. Does that envisage control by the Federal Government, or of the States alone, or joint control over the policing and regulation of motor-truck and motor-bus traffic?

Mr. LOREE. My own opinion is that it is a police matter for the States.

Senator KING. You think that the Federal Government ought to put the busses and trucks that are engaged in interstate traffic under the control of the Interstate Commerce Commission, or not, and subject them to such regulations as might be deemed proper?

Mr. LOREE. I do not. First, for the reason that the traffic that is being diverted from the railroads produces very little net revenue; and, secondly, that I think shortly the most of it will disappear.

Senator KING. Many complaints have been made about the excessive speed of trucks, their increasing size, the fact that they are destructive to the highways, and are paying an inconsequental amount to the maintenance of the highways, and therefore that they ought to be subjected to interstate regulation and control, and probably some system devised by which they should pay a reasonable amount of taxes for the maintenance of the highways.

Mr. LOREE. I think all that is true, except that I think it is a State activity rather than a national one.

Senator KING. Then you would not be in favor of legislation which would seek to put all these trucks and busses under the Interstate Commerce Commission or some other Federal agency?

Mr. LOREE. I would not.

Senator BARKLEY. You are an optimist standing alone among railroad men, as it seems to me, in taking that position.

Mr. LOREE. I think I am.

Senator WATSON. You are the only one I know of. Why, Mr. Loree, do you say this bus and truck traffic will shortly disappear?

Mr. LOREE. Well, as business gets better and many of the people now engaged in it can find jobs at full wages I do not think they will be able to run trucks in competition with the railroads.

Senator GORE. And you say there are about three and one-half million trucks.

Mr. LOREE. Yes, sir.

Senator GORE. I have been wondering about this proposition: Whether the people who are operating them are making provision for the necessary replacement if they are to continue in the business.

Mr. LOREE. Many of them do not do that.

Senator GORE. I did not suppose they did; and probably that will break down that competition.

Mr. LOREE. Yes, sir.

Senator BARKLEY. Mr. Loree, did not the increase in trucks and motor-truck traffic, and the increase in competition by trucks and busses with railroads, develop almost altogether while we were in the so-called prosperous era, when business was good? And if that is true, how do you figure that that business, or that competition, will disappear when good business returns again?

Mr. LOREE. Well, many of them have gone out of business, failed. And from talks that I have had with the owners I get the information that the ultimate limit of operation is one that will bring the driver home at night. At the present time, say, a man will start out from Louisville with a load and go to Milwaukee, and then perhaps will come back to Chicago in the hope of getting a load as far as Indianapolis on the way back home. They are wild-catting the business all the way round.

The railroads, unfortunately, are not in position to compete with them because of the difficulty of adjusting rates. I heard last night of a shipment of 165,000 barrels of cement that was going from a point on our line to Boston, which had been taken by trucks. But I look upon that just as I look back upon the interurban trolley lines. The people that I succeeded had bought lines in the neighborhood of Albany and Troy and the Hudson Valley, and they lost $11,000,000. And finally they took a part of them out and abandoned them.

Senator BARKLEY. Isn't it a fact that the interurban trolley line was put out of business by the automobile?

Mr. LOREE. By the passenger automobile.

Senator BARKLEY. And, of course, interstate busses had something to do with that.

Mr. LOREE. Yes, sir.

Senator BARKLEY. It has never meant a great amount of freight, as I understand it, but has been largely a matter of passengers.

Mr. LOREE. Yes, sir.

Senator BARKLEY. So that the motor-truck situation has not affected the trolley lines very much.

Mr. LOREE. No, sir. But we lost $11,000,000 in that venture, and I am leary about investing in anything else in which I may lose money.

Senator BARKLEY. You are leary about investing in something that will soon be supplanted by something else?

Mr. LOREE. Yes, sir.

Senator GORE. I want to ask this: Our present situation of railroad-rate structure as established by the Interstate Commerce Commission was put into effect when the railroads were what we all termed a natural monopoly. In other words, they had practically no competition. Has that situation changed, and do the railroads now have competition such as would call for a change in our mode of regulating rates, so as to enable the railroads to make flexible changes from time to time as occasion may demand?

Mr. LOREE. I think the railroads ought to be allowed to make very prompt changes, instead of having to go through quite a long-drawn out process to do it.

Senator GORE. The process is perfectly rigid now, is it?

Mr. LOREE. Yes; it is perfectly rigid.

The CHAIRMAN. You may resume, Mr. Loree.

Mr. LOREE. For example, I could have taken the business involved in that shipment of cement, could have held that trade, if I could have made an across-the-table bargain.

Senator GORE. Let me interject at this point, Mr. Chairman, if I may.

The CHAIRMAN. Certainly.

Senator GORE. There was a demand made by shippers in Oklahoma for a change in oil rates on railroads. It was two years before that matter was decided by the Interstate Commerce Commission, and when it was finally decided by that commission it was no longer a matter of concern to anybody.

Senator KING. Mr. Loree, would it be a good idea to so modify the interstate commerce act as that local boards might be established and which could be called into activity at a moment's notice, and to have plenary authority—of course, subject to review on appeal—to make modifications and to grant reductions within a limited area?

Mr. LOREE. I have given that matter a good deal of thought, and my own conclusion is, if I were chargeable with the disposition of the matter, I would keep three or five commissioners at Washington, and put six or eight commissioners on circuit, and allow Washington to have any matter referred up to them, just as the United States Supreme Court has matters referred up to it from the circuit courts. To ask people to come on here from Dallas, Tex., or San Francisco, or Chicago, to work out the details of their cases, when it might just as well be done in the neighborhood, seems to me to work a hardship. I think the business would be done such more expeditiously and perhaps more intelligently, if done in the way I have suggested.

Senator KING. Apropos of what the Senator from Oklahoma said: Last summer we had about 1,500 carloads of fine peaches ready for shipment in two weeks from my State. We made application to the Interstate Commerce Commission, but before they could get around to the matter and have a hearing and perhaps make a modification, the peaches all rotted.

Mr. LOREE. Yes, sir.

The CHAIRMAN. You may resume your statement, Mr. Loree.

Mr. LOREE. In conditions such as now envelop the railways, the first recourse is to eliminate waste. The railroads are divided into three groups—Class I, having annual operating revenues above $1,000,000; Class II, having annual operating revenues from $100,000 to $1,000,000; and Class III, with annual operating revenues below $100,000. Measured by traffic moved, the total ton-mileage, 311,072,637,318, divides as follows: First, about one-half is carried upon 26,000 miles, or on about 10 per cent of the total mileage of some 260,000 miles of first main track. Less than 2 per cent of the ton-mileage is carried on 73,311 miles of first main line tracks, being about 30 per cent of the total mileage. Of this mileage, 57,742 miles are distributed upon 2,094 branch lines and parts of lines of Class I railroads, 15,569 miles are distributed upon 483 Class II and Class III railroads. For the year ended December 31, 1930, 441 of these latter lines reported a corporate deficit of $78,241,049. The losses sustained upon the lines of this type owned by Class I railroads can not be determined from their reports.

These lines were built to serve a variety of interests, to bring out lumber now cut off, to bring out the product of mines now exhausted, to develop territory that proved disappointing, some are ruined by the construction of other lines more favorably situated. Not only is the tonnage carried by them insignificant; but it is moved at an out-of-pocket loss and keeps in service as an economic waste a large amount of line mileage and equipment. Each separate element in this group should be carefully examined and as rapidly as possible those that can not be justified should be abandoned and their salvage value recovered.

Some of the Class II and III railroads are characterized as "plant facilities" and perform a dual service, most of the work done being of a private character in the service of the plant of which they are a part and some of the services being classified as those of a common carrier upon which a division of the rate is allowed. They should be classified as plant facilities and so treated, division of the rate being prohibited and no longer allowed to masquerade in the two guises.

A further anomaly is the "privately owned freight car." Their numbers has grown from 183,474 in 1921 to 282,522 in 1932.

If we are to have a uniform treatment of shippers, then the servives of the railroads now held to be "affected with a public use" should be solely within their own control and not participated in by private persons or corporations.

Senator BARKLEY. Who owns the private freight car?

Mr. LOREE. Pipe-line companies, and refrigerator lines, and various other companies.

Senator BARKLEY. How did the custom of private refrigerator lines begin, instead of such cars being owned by the railroads?

Mr. LOREE. It began in England, and were transported to some extent from place to place on the street car line.

Senator BARKLEY. How did it begin in this country?

Mr. LOREE. In the same way.

Senator BARKLEY. Of course it had to be done more or less with the consent of the railroads. For instance, they were not required to take anybody's private car at the beginning.

Mr. LOREE. I suppose that is so.

Senator BARKLEY. Did they then consider it cheaper to let somebody else do it and get a tonnage or a toll of some kind for hauling such a car?

Mr. LOREE. I think in the main they have always been trying to get rid of them. But they have never been strong enough to do it, partly by reason of competition among themselves, and partly by reason of the strength of the position of the shipper, who might ship his business one way or another.

Senator KING. It was never held that the Interstate Commerce Commission could impose upon the railroads the duty of hauling private cars, or has such a thing ever been held?

Mr. LOREE. I do not know. When the Interstate Commerce Commission came into existence those private cars were in existence, and I suppose they took them over as a part of the picture.

Senator BARKLEY. Has that tended to increase the cost of hauling freight?

Mr. LOREE. Yes, sir.

Senator BARKLEY. The fact that a public owner and a private owner participates in the profit?

Mr. LOREE. Yes, sir; as a rule.

Senator GORE. Would you include Pullman cars in that category?

Mr. LOREE. I think they might well be taken over, just as the express business was.

The CHAIRMAN. You may resume, Mr. Loree.

Mr. LOREE. When the railroads were built the highways were, for the most part, dirt roads and the vehicles were horse-drawn. Under these conditions the stations were spaced at intervals of about five miles. With hard-metaled highways and the use of automotive vehicles, intervals of 15 miles would be quite as convenient. The small villages are drying up as traffic producers. The former patrons of the railroads now want to see the movies and shop at larger stores. Doubtless the total number of stations might be reduced by 20,000.

Senator GORE. How many altogether are there now?

Mr. LOREE. I think about 92,000.

During the last 10 years there has been the substantial increase of 20 per cent in empty freight-car mileage. This is the accumulated result of many factors. There seem to be two main causes (1) a disproportionate increase in one-way traffic moving in specialized equipment; (2) with an improvement in operating efficiency, a surplus of equipment was created and the movement of empty cars to their home roads was increased. The supply of home-line cars being ample at all important points, foreign cars are moved promptly off the property to avoid per diem charges.

The railroads have at the present time a great surplus of freight equipment, owning 2,200,000 cars, of which 646,733 were reported idle on December 31, 1932. Many could be rebuilt to advantage, while the lighter capacity cars and those of inferior construction might be torn down.

Senator WATSON. How many were idle in 1928 and 1929?

Mr. LOREE. I think at that time not many, sir.

Senator WATSON. I thought not.

Mr. LOREE. It should not be overlooked that the continuous growth in freight car capacity from 28 tons in 1900 to 47 tons in 1932 has made possible much of our industrial growth. It is the foundation of the modern blast furnace and of many manufacturing plants, and is the base upon which rests the modern practice of mass production. It bears the same relation to mass production that the elevator does to the modern office building.

A locomotive of the best type will contain about 15,000 separate parts, of which 6,639 are frictional. A 55-ton freight three-hopper gondola car will contain 4,441 parts, of which 817 are frictional. The units require daily attention and a general overhauling at comparatively short intervals. This condition can be radically improved.

Much waste can be eliminated by the abandonment of outlying shops and roundhouses, by a modernization of the machinery and tools, and by the intelligent use of the "piece work" method of wage compensation. There is a strong growing increment in the speed with which the machinery and tools are undergoing changes and radical improvements are in sight. Further, these changes would permit of tearing down the buildings made useless by these and other causes perhaps 33 per cent in number though not in importance.

Now, as an example of that, we began building locomotives and casting cylinders integral with the frame, and we reduced the parts by 834. Substituting four drawn seamless steel drums for the conventional fabricated drums, reduced the number of parts by 660. In the matter of the freight car, we built 25 cars last year and reduced them by 2,435 parts, or more than half of the parts of the car.

Senator HARRISON. Does that apply generally to railroads?

Mr. LOREE. No, sir. But I think it will soon apply to all of them.

Senator KING. You have been very much interested in improving railroad conditions, I believe.

Mr. LOREE. It is my great diversion.

Senator WALSH of Massachusetts. Isn't it a fact that these improvements that are being constantly made do not result in any reduction in the charges to the public?

Mr. LOREE. They have not as yet; no, sir.

Senator WALSH of Massachusetts. One of the singular things about our age is that while we have moved very rapidly in new inventions, and of great importance, it has not resulted in reducing the cost of living very much.

Mr. LOREE. Oh, very much. But it has not in the railroad business.

Senator WALSH of Massachusetts. But you say it has in other lines?

Mr. LOREE. Yes, sir.

Senator WALSH of Massachusetts. For instance, what?

Mr. LOREE. I should say that foodstuffs can be purchased very much cheaper; that textiles can be purchased very much cheaper; that shoes can be purchased very much cheaper. Things that are still high are railroad rates and fares.

Senator WALSH of Massachusetts. And telephone and telegraph rates.

Mr. LOREE. And telephone and telegraph rates, and anthracite coal, and things of that character that are held up and still need readjustment.

Senator COUZENS. Power and light rates also?

Mr. LOREE. Power and light rates.

Senator COUZENS. Do you mind an interruption at this point?

Mr. LOREE. Not at all.

Senator COUZENS. I have to leave in a few minutes to attend another meeting and I should like the opportunity to ask you a few questions now that I will not have the opportunity to propound later.

Mr. LOREE. Certainly.

Senator COUZENS. I am anticipating a comment you are probably going to make later on with respect to watered stock. Assuming for the instant the railroads were fairly valued at $25,000,000,000.

Mr. LOREE. Yes, sir.

Senator COUZENS. Due to the change in economic conditions, and to other means of transportation, would you say they are still worth $25,000,000,000?

Mr. LOREE. My conception of value is the old-fashioned one that a thing is worth what it will fetch, and to-day the railroads won't fetch much, but probably in three or four years they will fetch a great deal.

Senator COUZENS. I was not trying to get you to commit yourself to a figure during these depressed times, but I was trying to get you to express your views with respect to the difference in the value of railroads in normal times, taking into consideration the diversion of traffic, and what they were worth when they were valued by the Interstate Commerce Commission.

Mr. LOREE. Well, the funded debt of the railroads is $10,735,000,000. Their equities, consisting of common stock, of which they have $6,390,000,000, and preferred stock, of which they have $1,882,000,000; premiums that they received in the sale of stock, $52,958,000. Corporate surplus, $4,396,000,000, and depreciation reserves, $2,209,000,000. That would make equities of $14,930,000,000. So that the bonds would bear a ratio to the equities of about 41.8 per cent.

Senator COUZENS. That is, 41.8 per cent bonds, and the rest you put in stocks.

Mr. LOREE. Stocks and equities. I think it would appear favorably by comparison with most other businesses.

Senator COUZENS. I was not contending that. What I had in mind was: Do you believe, assuming that the railroads are now worth $25,000,000,000, under fair business conditions, that in the next few years you would be able to earn a return upon $25,000,000,000?

Mr. LOREE. Yes, sir; although I think we will probably charge off maybe $2,500,000,000 in eliminating waste.

Senator COUZENS. That is $2,500,000,000 of capital assets?

Mr. LOREE. Useless lines, equipment and buildings, stations, and all that sort of thing.

Senator COUZENS. Of course, each individual corporate entity is not itself standardized by any means with all others.

Mr. LOREE. It is not.

Senator COUZENS. And I understand that your particular property is not quite comparable with all the other railroad properties.

Mr. LOREE. Well, no one is quite comparable with any other.

Senator COUZENS. Some are rather worse but none better, is that it?

Mr. LOREE. Well, possibly so. At any rate, we have not let our equipment run down. It is in normal condition.

Senator COUZENS. All right. I thank you.

Senator KING. Notwithstanding the increase in transportation charges during the past 10 or 12 years, earnings of railroads have diminished during the past 6 or 7 years, have they not?

Mr. LOREE. It has been all eaten up by taxes and wages.

Senator KING. Wages constitute what part of your income?

Mr. LOREE. I am coming to that a little later on.

Senator KING. Very well. That question, then, might just as well be stricken out.

The CHAIRMAN. You may resume your statement, Mr. Loree.

Mr. LOREE. The results from the operation of the passenger business in 1931 were:

| | |
|---|---|
| Operating revenue: | |
| Passenger | $551,047,482 |
| Mail | 105,423,203 |
| Express | 82,774,883 |
| Milk, excess baggage, sleeping, parlor, and chair cars, and other miscellaneous | 85,713,000 |
| | 824,958,568 |
| Operating expenses relating solely to passenger and allied service | 917,091,825 |
| Loss from passenger-train operation | 92,133,257 |

From 1890 to 1900 the passenger traffic increased at the rate of 3.5 per cent annually; from 1900 to 1910 the rate of increase was 10.2 per cent annually; from 1910 to 1920 the rate of increase was 4.6 per cent annually. The traffic of 1920 had in 1931 declined at the rate of 4.9 per cent annually.

| | |
|---|---|
| In 1920 the number of passengers carried 1 mile was | 46,848,667,987 |
| In 1931 the number was | 21,894,420,536 |
| The decrease was | [1] 24,954,247,451 |
| In 1920 the number of miles run by passenger trains was | 561,633,392 |
| In 1931 the number of miles run by passenger trains was | 480,367,309 |
| The decrease was | [2] 81,266,083 |

It would seem that here, by reduction in the service, there is an opportunity to save perhaps $400,000,000 annually.

Senator GORE. Mr. Loree, the railroads would have been better off, I take it, if everybody had stayed at home.

Mr. LOREE. Do you mean if the railroads could have taken off their passenger transportation?

Senator GORE. Yes.

Mr. LOREE. Well, I do not know that they have ever really paid in the past.

Senator WATSON. You mean that passenger traffic has not as a general thing been paying?

Mr. LOREE. My own feeling is that it has always resulted in an out-of-pocket loss.

Senator WATSON. Does that include both local and through passenger traffic?

Mr. LOREE. That would include both local and through traffic, except for three railroads—the New York Central, the Pennsylvania, and the New York, New Haven & Hartford—which handle over one-third of the passenger business of the United States; and possibly some railroads like the Atchison, the Burlington, and the Union Pacific, which handle large amounts of mail.

Senator WATSON. Through passenger traffic and mail?

Mr. LOREE. Yes, sir.

Senator WATSON. It is the through passenger traffic that pays, if any pays?

[1] 53.27 per cent.
[2] 14.47 per cent.

Mr. LOREE. Oh, yes. The rest is carried surely at a loss.

Senator WALSH of Massachusetts. That figure that you gave as a decrease—53.27 per cent—is astounding.

Mr. LOREE. Yes, sir. We are operating trains to-day on total gross receipts of 1 cent a mile in one direction and 2 cents in the other.

Senator WALSH of Massachusetts. Is that number of passengers hauled by railroads still decreasing?

Mr. LOREE. Yes, sir.

Senator GORE. You have not tried to proportion that loss as between bus lines and private automobiles?

Mr. LOREE. No, sir. I think it is very largely due to the private automobile. And I have no quarrel with the private automobile. I think it is a very desirable type of transportation, that it suits the people very well.

The CHAIRMAN. You may resume, Mr. Loree.

Mr. LOREE. The results from the operation of the freight business in 1931 were:

| | |
|---|---|
| Gross revenue | $3,345,898,214 |
| Expenses | 2,302,768,313 |
| Profit from freight operation | 1,043,129,901 |

The freight traffic from 1890 to 1900 increased 8.6 per cent annually; from 1900 to 1910 it increased 8 per cent annually; from 1910 to 1920, with the disturbance of the World War, it increased 6.2 per cent annually. The traffic of 1920 had in 1931, with the disturbance of the panic of 1929, declined at the rate of 2.3 per cent annually.

Out of this profit of about $1,000,000,000 the railroads had to meet taxes and hire of equipment, losses sustained in conducting the passenger business, interest on money borrowed and invested in the plant, interest and sinking fund payments on equipment bought through the issue of car trust notes, and other liquidating debts. The result was that in 1931, 82 out of the 142 Class I railroads failed to earn their fixed charges. The return distributable to the equity (stock) interest is now so small that only one road is paying its normal dividend and only four of importance are declaring any dividends whatever.

Senator GORE. Will you name those railroads?

Mr. LOREE. Union Pacific, Chesapeake & Ohio, Norfolk & Western and Pennsylvania.

Senator WATSON (interposing). And your own?

Mr. LOREE. We paid on the Delaware & Hudson Co., but not on the railroad.

Senator GORE. The Norfolk & Western seems to be a sort of unique exception to them all.

Mr. LOREE. The Norfolk & Western and the Chesapeake & Ohio are both profitable railroads.

Senator GORE. What is the railroad that is to-day paying its normal dividend?

Mr. LOREE. The Chesapeake & Ohio.

The CHAIRMAN. You may resume, Mr. Loree.

Mr. LOREE. With the "Granger" legislation beginning in 1871, there was imported into the law, by a misquotation from an old English treatise written by Sir Matthew Hale in 1670, the novel idea "affected with a public interest" and the encroachments since then upon this private property have been almost continuous. The heavy grain exports from 1875 to 1890 set the Granger movement at rest, but it had a sharp revival in 1905.

The most significant contentions were:

1. Land grants: Such railroads as benefited received from the United States and individual States 155,500,000 acres of land, of which they have patented only 132,000,000 and which when given them was being sold by the grantors at from 41 cents to $1.67 an acre. The average selling price for the lot during the 20-year period covered by the grants was 94 cents per acre, a total value of perhaps $125,000,000. The land-grant railroads were obligated to handle Government freight and passengers at one-half the commercial rates and mail at four-fifths the going rates for mail paid by the Government under contracts. This annual saving is estimated at $5,000,000. So that every 25 years without end the Government gets back the full value the land had when the qualified donation was made. And this land cost the Government nothing. The general practice was to double the sales price of the Government-owned land in the land-grant area so that the Government sustained no out-of-pocket loss. Competition spread the effect of the rate reductions upon all competing carriers. It could not be confined to the land-grant roads.

2. Specialties: Charges were pressed that railroad officers had a closed mind against the use of new or improved appliances. An appointed Government board made five annual reports upon this matter, 1908 to 1912. They examined 1,146 devices and systems, but found few devices of enough merit to warrant even an inquiry. With the introduction of the automobile, with its "accessories," the mystery which brought the "specialty" into consideration disappeared. Some devices are still taken on by the railroads under pressure of commissions or legislative action, providing a market for devices that could not be sold upon their merits.

3. The "commodities clause," effective May 1, 1908: This prohibited a railroad from shipping over its own rails any commodity in which it had an interest, with the grotesque exception that railroads owning timber lands might continue to lumber, saw, and transport the commodity they owned. The act does not work both ways. Stockholders in road A can not have it own a coal mining corporation B and ship the output over its rails, but stockholders in the mining operation B may have its own railroad A and ship over it the output of the mine.

4. Passes: From the beginning the railroads issued free transportation evidenced in a form known as a "pass." On January 1, 1906, the railroads ceased to issue passes to other than railroad employees. The Hepburn bill was immediately introduced, making further issues illegal.

5. Eminent domain: This is exercised only by express statutory grant, is not confined to railroads, but has a wide application in industrial life—milling, mining, irrigation, etc.—where the ownership is in private hands.

6. Rebates and extended credits. In the conduct of most business discounts in price to buyers who take large deliveries as against

those who take small deliveries are still the common practice. Had the "rebate" been called a "discount," which it was, we may wonder whether the question would ever have arisen. Extended credits which are still common in commercial practice were suspended July 1, 1920. Collection of charges must now be made in 96 hours, or where disputes arise as to rates or service, in 30 days.

7. Watered stock: The valuation being made by the Interstate Commerce Commission has wiped out this fiction. It is generally conceded that the railroads could not now be reproduced for the par value of their issued securities.

It proved a calamity that the evidence of equities, the stocks, should have been given a stated (or par) value on the face of the certificate. Their value, of course, fluctuates from day to day, and the prices at which they are bought and sold has no relation to the amounts printed on the certificates. The share is evidence only of an ownership, of a definite fraction, of an undivided interest in the whole property.

8. The basis of the freight rate: The railroads fixed their rates and fares as commercial people fixed their prices upon the "value of the service rendered." Following the "Granger" excitement the court in Smythe *v.* Ames opened the door to the insistence of the shipper that the rate must be based upon the "cost of the service rendered."

We still have these two opposite viewpoints: The shipper seeks the "cost of service" at the level of confiscation; the railroads seek the "value of the service" out of which they hope to reap a profit. Over this field, delimited on the one hand by bankruptcy, on the other by prosperity, the battle still fiercely rages, exciting jealousy, arousing rivalry, inviting attack.

Senator WATSON. And what do you think about that?

Mr. LOREE. I think the value of the service rendered is the only basis upon which to compute a rate. And that reminds me of a story I read in an English magazine the other day. An English farmer was going out over his field and he said to an employee: "Jock, what are you thinking about"? The employee said, "What I don't understand, Squire, is that when a dentist pulls my wife's tooth he gets 10 shillings, and when I pull a turnip I get a penny." The English farmer said, "Well, don't bother your head about that. The thing is worth what it will fetch."

The CHAIRMAN. You may resume your statement.

Mr. LOREE. 9. Long and Short Haul: The law of 1887 prohibited a greater charge for an intermediate haul than for a longer haul over the same line in the same direction, where the movements were "under substantially similar circumstances and conditions." The Interstate Commerce Commission held in 1887 that the railroads were to be the judges in the first instance. They reversed this position in 1892. The Supreme Court approved the first interpretation in 1901. Congress struck out the qualifying words in 1910. Probably nothing in the law has had such far-reaching effect or been so provocative of complaint and litigation. This attempt to substitute a crude "cost of service" method of rate making for the commercial "value of the service" method involves difficulties as great as to make water run up hill.

10. Pooling: The earliest important pool was formed in 1870 and applied to both passenger and freight traffic between Chicago and Omaha. The practice became quite general until forbidden by the law of 1887. It was again legalized in the transportation act of 1920. Since then there has been a small amount of pooling in passenger service, but practically none in freight service.

Senator WALSH of Massachusetts. Just what do you mean by pooling?

Mr. LOREE. Agreements among railroads that they will divide the profits on business; whether they carry the business or the other fellow does.

Senator WATSON. Pooling does not have reference to passenger traffic alone?

Mr. LOREE. Oh, no; to both passenger and freight.

Senator WATSON. That is what I supposed. Go ahead.

Mr. LOREE. 11. Affected with a public interest: In Munn *v.* Illinois and following cases Mr. Justice Field, in his dissenting opinion, said:

> If this be sound law, if there be no protection, either in the principles upon which our Republican government is founded, or in the prohibitions of the Constitution, against such invasions of private rights, all property and all business in the State is held at the mercy of a majority of its legislature.

In Budd *v.* New York (143 U. S. 517), decided in 1891, the United States Supreme Court held a New York act, regulating charges for elevating grain, valid on the ground that the business was "affected with a public interest." Mr. Justice Brewer wrote a dissenting opinion, concurred in by Mr. Justice Field and Mr. Justice Brown, in which he said:

> It is suggested that there is a monopoly and that that justifies legislative interference. There are two kinds of monopoly; one of law, the other of fact. The one exists when exclusive privileges are granted. Such a monopoly, the law which creates alone can break; and being the creation of law justifies legislative control. A monopoly of fact any one can break, and there is no necessity for legislative interference * * *.
>
> * * * I believe the time is not distant when the evils resulting from this assumption of power on the part of government to determine the compensation a man may receive for the use of his property, or the performance of his personal services, will become so apparent that the courts will hasten to declare that government can prescribe compensation only when it grants a special privilege * * *. (143 U. S. 517, 550–2.)

It is regrettable that Mr. Justice Brewer's prophecy in 1891 has not been fulfilled.

Senator WATSON. You are at least an optimist.

Mr. LOREE. I am taking the same view he did.

Rate regulation has at different times been assumed to rest: (1) Upon the exercise of the power of eminent domain, and (2) enjoyment of a monopoly. Both these bases of regulation have been denied by the Supreme Court.

During the long 50 years of controversy many of these catchwords have lost their hypnotic effect. Potency would now seem to be limited to "basis of the freight rate," "the long and short haul," and "affected with a public interest." The hope is that they, too, will soon pass.

The Commission on Transportation reported to the American Economic Association in 1887:

Many of the charges where they relate to serious evils, and are undoubtedly true, involve, of course, no moral turpitude on the part of the railroad authorities, as many people seem to think. Railroad officers are much like other men and act much as other men act under like circumstances * * *. The evils of our present railroad management are, in other words, to a large extent, the result of carelessness, shortsightedness, and selfishness of the American people, and particularly of its representatives, and they will not disappear until the opposites of those qualities are exercised by our legislators.

Senator WATSON. When you say "representatives" that does not include Senators.

Mr. LOREE. Oh, certainly not. That refers to minor legislators.

Senator WATSON. Well, that is all right. [Laughter.]

Mr. LOREE. In the last analysis, the Nation's prosperity, growth, and very existence depend upon transportation. If we omit the business handled through the Panama Canal and upon the Great Lakes, then we find:

*Commercial freight traffic in the United States in 1930*

| | Ton-miles | Per cent |
|---|---|---|
| Steam railroads | 385,815,000,000 | 84.1 |
| Pipe lines | 31,729,000,000 | 6.9 |
| Inland waterways (canals and rivers) | 9,088,000,000 | 2.0 |
| Motor trucks (interurban movements) | 31,352,000,000 | 6.8 |
| Electric railways and airplanes | 1,039,000,000 | .2 |
| Total | 459,023,000,000 | 100.0 |

The steam railroads furnish the United States the best and cheapest transportation service available anywhere in the world. They were the means with which we opened up and developed the country; they remain the means upon which we must depend not alone for the future success or failure of this country as an economic entity, but for our very existence in the long future. We can not contemplate their destruction without ruin to ourselves.

If now we look to the further outstanding matters still unadjusted, I should place—

1. Taxes: Prodigality is reflected in the taxes levied upon the people. We have an anthracite coal company in Pennsylvania. In 1892 taxes were levied upon its property at the rate of $13 per coal-foot acre and only upon the coal veins actually being worked. In 1932 these taxes were levied at the rate of $300 per coal-foot acre and upon all coal in the ground, whether or not the veins can ever be profitably mined, so that this company's taxes from 1892 to 1932 were increased by 1,791.5 per cent; and this in spite of the fact that meanwhile it had mined 277,871,488 tons of coal.

Senator WATSON. Does that include all taxes?

Mr. LOREE. State and local taxes.

Senator HARRISON. What was the increase in the price of coal during that time?

Mr. LOREE. Very much.

Senator HARRISON. Was it proportionately as much as the increase in taxes?

Mr. LOREE. It has all been absorbed by the increase in wages.

Senator WALSH of Massachusetts. Which is the largest factor in the tax, the coal-foot acre or the local taxes?

Mr. LOREE. Oh, I should say the local taxes. They practically support the local communities.

Senator WALSH of Massachusetts. That is what I assumed. It is in the nature of a real estate tax. It corresponds to a real estate tax in the large cities.

Mr. LOREE. Take, for example, this situation: We have an iron ore operation in the Adirondacks. We built a schoolhouse to accommodate the people who work for us, and it cost us $15,000, which we rented to the school board for a dollar a year. They have finished a new schoolhouse, last year, at a cost of more than $100,000, and we pay 94 per cent of the taxes.

The CHAIRMAN. You may resume, Mr. Loree.

Mr. LOREE. In the State of New York the taxes from Federal and State sources for the public-school system increased from 1900 to 1930 by 2,278 per cent, while the population had increased by only 73 per cent. The railroads of the United States, with an increase of 148 per cent in the investment in road and equipment, have had their taxes raised from $44,445,145 in 1900 to $402,698,333 in 1929, or by 806.1 per cent.

2. Wages: From 1900 to 1929 the number of tons carried 1 mile increased 217 per cent, and of passengers 94.3 per cent, while the freight-train mileage was held down to an increase of but 21.5 per cent, and that of passenger trains to an increase of but 56.3 per cent, and the number of employees was increased by 66.5 per cent.

All the improvement brought about by managerial skill and all the benefits of technological advancements were, however, wiped out by the vast increase in railroad wages from $577,264,841 in 1900 to $2,940,206,163 in 1929—a difference of $2,362,941,322, or of 409.3 per cent. Over practically the same mileage, with about 148 per cent increase in facilities. Nor is the whole story told by the increased payments; labor restrictions, usually known as "featherbed" practices, have proved wasteful, burdensome, and, in the last analysis, expensive to labor itself. Inasmuch as the rewards of labor, capital, and management have to be earned by joint effort, anything that decreases the effectiveness and economy in operation works against each.

3. Accounting: With a thorough overhauling of the antiquated and, in many respects, restrictive prescribed accounting practices, much could be done to improve the railroads that is now financially impossible.

Senator WATSON. Whose fault is that?

Mr. LOREE. The Interstate Commerce Commission.

Under the present practice for the year 1932 the income of class I carriers available for fixed charges was about $492,713,239, while the fixed charges were themselves $658,614,190, reflecting a deficit of $165,900,951. But the expenses contained purely fanciful entries for what the authorities are pleased to call "depreciation" of $214,-451,563; had this figure been omitted, the fixed charges would have been covered with a credit remainder of $48,550,612. These depreciation reserves, as they now stand on the books, amount to $2,209,226,833 and bid fair shortly to pass the profit and loss credit balance of $3,272,304,596.

If now we look for a remedy we must point (1) to the excessively restrictive control imposed by National and State Governments; (2) similar restrictions by the pressure of union-labor organizations; and (3) fundamental and radical mechanical and economic changes that must, even in normal times, materially modify and divert demand, supply, and means of transportation.

The troubles in which we are now involved are not to be cured by poulticing, where the use of the knife is essential. We must face them with the attitude of the laboratory method.

In an industry as far flung and as diversified as is railroading, and one covering so long a period of development, the need for adjustments is apparent on every hand. Intelligently made, the railroads might rapidly assume their old-time efficiency and usefulness.

To adapt the railroads to the changing conditions, we must, among other things, look to—

1. The adjustment of taxes, wages, and working conditions.
2. Elimination of waste through the abandonment of all unused service, obsolete facilities, and mileage no longer justified by the traffic.
3. The development of the essential railroad facilities to the highest state of efficiency through the improvement of grades, reduction of curves, shortening of lines, application of heavier rail and ballast, strengthening of bridges, and improvement in equipment.
4. Amelioration of the five major hazards of the employee, i. e., sickness, accident, death, unemployment, and superannuation, or the incapacity of old age.

Senator WALSH of Massachusetts. All of those remedies, changes, except the first, can be made by the railroads themselves?

Mr. LOREE. Yes, sir. Well, take the elimination of waste. If we want to abandon a station or take up track we have to apply to the State commissions or to the Interstate Commerce Commission.

Senator WALSH of Massachusetts. That is true.

Mr. LOREE. 5. The following are changes that it is suggested might be considered in a recasting of the Interstate Commerce Commission's activities:

(*a*) Extend regulation to all commerce and all carriers which the Federal Government has power to regulate.

(*b*) Separate the conflicting and inconsistent powers of prosecutor and judge, neither of which can be adequately exercised when both functions are in the same hands; vesting the former fully in the Interstate Commerce Commission; and leaving the latter to the courts.

In regard to this intermingling of powers Lord Hewart, Lord Chief Justice of England, in 1929, said:

> The whole system of self-government is being undermined, and that, too, in a way which no self-respecting people, if they were aware of the facts, would for a moment tolerate. * * * The old despotism which was defeated offered Parliament a challenge; the strategy is different, but the goal is the same.

Now, that led to the appointment by the government of a committee on ministers' powers, with Lord Sankey, the Lord High Chancellor, as chairman, with power to select 14 associates, and

Lord Sankey, the Lord High Chancellor of England, as the chairman of this committee on ministers powers, reported in 1932:

The first and most fundamental principle of natural justice is that a man may not be a judge in his own cause. * * * But qualifying interest is not confined to pecuniary interests. * * * Indeed we think it is clear that bias from strong and sincere conviction as to public policy may operate as a more serious disqualification than pecuniary interests. * * * But the bias to which a public-spirited man is subjected if he adjudges in any cause in which he is interested on public grounds is more subtle and less easy for him to detect and resist. * * * Parliament would do well in such a case to provide that the minister himself should not be the judge but that the case should be decided by an independent tribunal.

And that report was unanimously signed by all the members of the commission.

(*c*) Omit section 15a of the interstate commerce act, which, while affording less protection than the constitutional provision against confiscation, provides for recapture of so-called excess earnings. This repeal for the future and retroactively has been recommended by the Interstate Commerce Commission.

(*d*) Omit section 19a, which provides for valuations. Although enacted on March 1, 1913, the valuations have not been completed, and all work so far done is condemned by decisions of the Supreme Court.

Senator GORE. And the variation of the general values nullifies all of them.

Mr. LOREE. I think so.

Senator HARRISON. How much has that cost? Have you any figures on that cost up to date?

Mr. LOREE. To the end of 1931 it had cost Class I railroads $138,000,000 and the Government about $40,000,000.

(*e*) Omit the commodities clause, section 1 (8), which prevents any carrier from moving in interstate transportation any commodities, except timber and its products, in which it has an interest.

(*f*) Leave to the courts the power to award damages.

(*g*) Prevent the compulsory and misleading enhancement of operating expenses by including estimates of depreciation.

(*h*) Repeal the Hoch-Smith resolution.

(*i*) Remove restrictions upon control and operation of boats and other accessory services by railroads.

Senator HARRISON. Explain just what the Hoch-Smith resolution is.

Mr. LOREE. That was a general resolution affecting agriculture, as I understand.

Senator WATSON. Agricultural products.

Mr. LOREE. Yes.

Senator HARRISON. Where you had to give preference to agriculture.

Senator WATSON. Yes.

Mr. LOREE. (*j*) Omit the power to fix rate divisions except when the commission has fixed a joint rate and the participating carriers are unable to agree.

Senator WALSH of Massachusetts. Mr. Chairman, I want to put in the record that that is a clear, concise, and challenging presentation of the railroad problem.

The CHAIRMAN. I am quite sure the committee will agree with that.

Senator WATSON. I would like to ask Mr. Loree a question or two. What has your company done to stabilize employment?

Mr. LOREE. We have not discharged a man since this trouble began. We have probably got 300 or 400 men who could be discharged without affecting the service. Our annual wastage from death, sickness, and superannuation, change of employment, is about 5 per cent a year. By not employing anybody and by taking great pains to shift men about, fill vacancies as they occur, we have gotten along without making any discharges.

Senator WATSON. That is what you have done, then, to solve the problem of labor in your service?

Mr. LOREE. Yes.

Senator WATSON. I wanted to ask one or two questions, if you please, Mr. Chairman.

The CHAIRMAN. Proceed.

Senator WATSON. I was much interested in the statement by Mr. Loree that he did not think any legislation was necessary to place the bus and truck traffic under the Interstate Commerce Commission.

Mr. LOREE. I do not think so; no, sir.

Senator WATSON. First, as the chairman of the Interstate Commerce Committee of the Senate, and then as a member of the committee under the chairmanship of Senator Couzens, we had hearings for weeks and weeks, and everyone appearing before us thought it was absolutely essential that it be done on account of the competition.

Senator HARRISON. I did not understand Mr. Loree though, to say that they should not be regulated by the State commissions.

Senator WATSON. How can that be done on interstate traffic?

The CHAIRMAN. They could not do that.

Senator WATSON. The trouble was with what we call the tramp trucks; not those company owned. For instance, if, Senator Harrison, you wanted to move, as I shall shortly after the 4th of March from Washington to Indianapolis, the truck backs up to my door and gets my household goods and puts them out at my house in Indianapolis. Now, that may not be a company-owned truck; it is an individual-owned truck. They do an immense amount of work in the country, but we could not find out how much by any investigation we made; we could not find out just how much they did haul. Yet it was manifest from all the testimony we have had that they did furnish a great deal of competition to the railroads.

The CHAIRMAN. You speak of Indiana.

Senator WATSON. Everywhere.

The CHAIRMAN. They want to deliver mine back to my home in Salt Lake City.

Senator WATSON. Yes; everywhere throughout the country.

Mr. LOREE. I think that is a passing phase though, Mr. Chairman.

Senator WATSON. You think it is?

Mr. LOREE. Yes. The trucking back and forth for delivery to and from the stations has been an incident of the English practice since the railroads were first organized. They had truck companies, horse-drawn vehicles from London to Birmingham and Liverpool, the largest of which truck companies was the Pickford Co. Now the London & North-Western, when it was organized, bought a half interest in the Pickford Co., and many people never found out that there was any change in the hauling. The collecting stations were still there; the wagons were seen driving through the streets; they made the deliveries. But last year the English railroads lost $6,000,000 in the conduct of that collection and delivery service.

Senator WATSON. Do you think it would help any if the railroads were permitted to own and operate in connection with the rail operations, busses and so forth?

Mr. LOREE. I do not; no, sir.

Senator WATSON. You do not?

Mr. LOREE. No, sir. I think it is a passing phase.

The CHAIRMAN. You think that with the wear and tear on the busses in their operation, the actual expense attached to them, and particularly if they had to pay any tax to speak of, that the railroads could more than compete with them?

Mr. LOREE. Yes, sir. Our embarrassment is that we can not handle the rate situation, as I said with regard to the shipment of cement.

The CHAIRMAN. And they can.

Mr. LOREE. They can.

Senator WATSON. Wherein do you think that the rigidity of the Interstate Commerce Commission's hold on railroad operations and financing could be relaxed? How far should you go back to the individual management?

Mr. LOREE. Just as far as you can.

Senator WALSH of Massachusetts. Mr. Loree, I observe in your treatment of this subject that you have not discussed or given any indication of fear over the development of aviation so as to be a competing factor in your passenger and freight business.

Mr. LOREE. I think that it is very important that the Government as a military matter should develop as rapidly as possible aviation. I think it might very well subsidize or itself conduct a line of operation along the Pacific coast, along the Atlantic coast, perhaps from Chicago to New Orleans, and across the continent. But I think it ought to stop subsidizing all other aviation lines. And when it does that they all go out of business.

Senator WALSH of Massachusetts. For instance, mail, you mean?

Mr. LOREE. Well, they pay excessive prices for that.

Senator WALSH of Massachusetts. Do you not think there is a possibility of aviation being developed to such an extent as to become a factor in lessening your freight haulage?

Mr. LOREE. No, sir.

Senator WATSON. Not freight, but passenger. How about passenger?

Senator WALSH of Massachusetts. I think there is even a possibility of freight.

Senator HARRISON. You do not elaborate on it but I notice that you suggest that you think the railroads should be able to own, in some circumstances, boat lines.

Mr. LOREE. Yes, sir.

Senator HARRISON. You think that would add to the economic situation?

Mr. LOREE. I think so; yes, sir.

Senator GORE. Mr. Loree, I would like to ask whether you think it would be feasible, and if feasible, whether it would be desirable for the Government to encourage and patronize what I would call an integrated system of transportation, a national system of transportation; whether under united, federated, or associated ownership, including railroads, steam and electric railroads, inland waterway transportation, ocean transportation, including the Panama Canal, trucks, busses, and aviation.

Senator HARRISON. Pipe lines.

Senator GORE. And pipe lines; yes, sir.

Mr. LOREE. It would be very highly dangerous, I should think. You would soon be faced with the question whether you were the boss or the transportation company was the boss.

Senator GORE. You do not think it would be feasible to do it?

Mr. LOREE. I do not think it would be feasible politically, and I do not think it would be feasible practically. There is not proportionately very much business moving between the so-called traffic regions of the country. The eastern region between St. Louis and Chicago on the west, the Hudson River on the east, the Potomac and Ohio and the Great Lakes, is practically a self-contained territory. The amount of business moving between that and the western region, the region west of St. Louis and Chicago, is relatively very small. The same thing is true of the Southeast and Southwest. The amount of business interchanged at St. Louis and Memphis and New Orleans is relatively very small. They are self-contained territories.

Senator GORE. The thing that has concerned me is the apparent inability of the railroads to earn their fixed charges. If they can not do that there is bound to be, it seems to me, a general chaos and breakdown on the part of the railroads, and that will involve every other economic activity. I was wondering whether if these other lines of transportation would pay, a system could not be evolved that will enable the railroads to share in those profits? Some general system that would be nation-wide.

Mr. LOREE. I think the railroads, if they were turned loose, would very soon straighten themselves up.

Senator GORE. If this bookkeeping requirement in regard to depreciation were changed you say they would be able now to earn their fixed charges and to apply the earnings to the payment of the fixed charges?

Mr. LOREE. That was true in 1932. Those are the 1932 figures.

Senator GORE. Is there any special reason as a matter of public policy or otherwise, so far as the railroads themselves are concerned, why this depreciation charge should not be set aside?

Mr. LOREE. Well, the depreciation first started on the London & Northwestern in the eighteen-forties. They kept it in use for two years and then abandoned it as not justified economically and said in their report that the moneys, if the board saw fit, might be distributed as dividends. All property has a very short life, and all property is kept in existence only by continued reproduction. We reproduce the entire capital value of the permanent way and the equipment on the railroads every 28 years by reproduction process.

Senator GORE. And you would do that by way of repairs and reproduction independent of this depreciation charge?

Mr. LOREE. Entirely so. Entirely so. It just muddles up the bookkeeping.

Senator GORE. As a matter of income-tax return, would it make any difference with that?

Mr. LOREE. I think not.

Senator WALSH of Massachusetts. Have the operations of the Reconstruction Finance Corporation been helpful to the railroads during this depression?

Mr. LOREE. It has kept some railroads out of the hands of the receiver; yes, sir.

Senator WALSH of Massachusetts. What have you to suggest that can be done further by the Reconstruction Finance Corporation to be helpful?

Mr. LOREE. Well, I am a good deal worried, Senator, about the financial situation.

Senator WALSH of Massachusetts. Many others are.

Mr. LOREE. The Government owes $20,000,000,000. Eleven billion dollars of that is in the banks. It is not distributed. I remember very well when I was a small boy that you could go into the corner grocery store and buy a United States bond at 50 cents on the dollar in gold. Government bonds did go to 34½. You can not fool with Government credit any more than you can with private credit. I look upon it with a good deal of apprehension.

Senator WALSH of Massachusetts. Do you look upon that as an activity that the Government ought to be careful about venturing into?

Mr. LOREE. I do; yes, sir.

Senator GORE. Do you not look on anything with apprehension that extends Government credit to various private activities, clogs up the only fair reservoir of credit, and everybody is trooping here to get it, and we fix it so other people who do advance money can not collect their debts, and that drives people to come to the Government to get credit, and this increased demand on it, of course, contributes to its exhaustion? I think it is a menace; that it threatens an ultimate breakdown.

Mr. LOREE. Of course one of our serious difficulties is that we have no weeding out process. At my place, I am in the chicken business and have a thousand chickens. At the beginning of the season I start to trap nest them, and those that do not lay eggs as I think they ought to go to the table. But we have no such weeding process in our general affairs except as the bankruptcy court deals with the elimination of the persons or the corporations whose businesses are not successfully conducted.

Senator WALSH of Massachusetts. What would be the effect of the continuation of the policy of issuing short-time notes by the Treasury or of putting a large number of Government bonds on the market?

Mr. LOREE. I think we are pretty well exhausting our credit now.

Senator GORE. If the banks had to unload these Government short-term notes that they have been acquiring would that bring on a pretty serious situation?

Mr. LOREE. Very.

Senator WALSH of Massachusetts. The Senator from New York and the Senator from Wisconsin are urging, one a $2,000,000,000 and the other a $5,000,000,000 bond issue for public works. What effect upon the Federal credit would such an issue have?

Mr. LOREE. Well, I do not see any reason whatever why the Government should not be liberal in its construction program for worth-while things.

Senator WALSH of Massachusetts. Do you not think we would have difficulty in selling these bonds?

Mr. LOREE. Not those; no, sir.

Senator GORE. In some of the Western States they are using Government money to cut the Russian thistle.

Senator WATSON. I want to ask this question: You made a significant statement a while ago when the Senator asked you about the financial situation. You said if the railroads were turned loose you would not have so much difficulty. What do you mean by "turned loose"?

Mr. LOREE. Well, we are restricted in almost everything we undertake to do, either by State or national commissions. By laws.

Senator WATSON. Yes; I understand that.

Mr. LOREE. For instance, I start a train out from Oneonta to go south. I run down the valley of the north branch of the Susquehanna on a 15-foot grade. The New York law compels me to put three brakemen on the train. When I get to the State line I stop the train and take one of the brakemen off. Then I go on a 75-foot grade over the Moosic Mountain with two brakemen. Now, I could better pay that fellow to stay at home, because I have to furnish him with a lamp and torpedoes and all the rest of it.

Senator WATSON. Does the fact of having three men add to the safety?

Mr. LOREE. Not a particle. There are 18 States requiring it.

Senator WATSON. That is the full-crew law?

Mr. LOREE. That is the full-crew law. I might say, Mr. Chairman, that I made an address to my agents last summer, and I have a copy here that I might file with your secretary in case you ever want to look at it.

Senator WALSH of Massachusetts. On what subject was that?

Mr. LOREE. Just a general talk about the railroad situation on our own line and in the country generally.

Senator WALSH of Massachusetts. It might go in the record if it is not too long.

The CHAIRMAN. Yes.

Senator GORE. Do you think it is better to liberalize the laws with respect to the railroads, particularly with respect to depreciation, rather than to advance money of the Reconstruction Finance Corporation to these distressed roads?

Mr. LOREE. I think so. I have no criticism to make of the Interstate Commerce Commission.

Senator GORE. I appreciate that.

Mr. LOREE. What I am trying to suggest is that the time has come when we ought to take a new point of view.

Senator GORE. I look upon these reconstruction advances as a medicine, when what the railroads need is food.

The CHAIRMAN. Thank you, Mr. Loree.

(The address of L. F. Loree at the annual meeting of the Delaware & Hudson Railroad Corporation Freight and Ticket Agents' Association is here printed in the record in full, as follows:)

CONDITIONS OF DELAWARE & HUDSON RAILROAD

We are, as you so sadly know, in the midst of a business depression which, in its intensity, exceeds anything in the experience of men now living. The following figures are the gross earnings of the Delaware & Hudson Railroad Corporation for the first six months of the last seven years:

| | |
|---|---|
| 1926 | $21,167,447 |
| 1927 | 20,914,948 |
| 1928 | 18,971,098 |
| 1929 | 20,038,548 |
| 1930 | 18,667,576 |
| 1931 | 15,753,848 |
| 1932 | 11,875,377 |

While in some of these years the net was highly gratifying, it has to-day quite disappeared.

The operating conditions of this property are very severe. We cross several ranges of mountains and, looking over the helper mileage for properties similarly experienced, I find that among the Class I roads there are only four where this mileage is 20 per cent or more of the total—Bessemer & Lake Erie, 33.6 per cent; Buffalo & Susquehanna, 30.4 per cent; Delaware & Hudson, 22.1 per cent; and the Buffalo, Rochester & Pittsburgh, 21.4 per cent. On the other hand, we stand proportionately high in the maximum locomotive axle loads now in use, the range from the top down being Chesapeake & Ohio, 77,500 pounds; Pennsylvania, 76,000; Bessemer & Lake Erie, 75,810, and Delaware & Hudson, 75,000.

In the movement of freight, the total number of tons in the high year of 1920 was 27,260,256, and this fell off in 1931 to 22,105,829, a decrease of 5,154,427, or 18.9 per cent, and this year, of course, the decline has, for the first six months, been much greater, 32.3 per cent.

In the movement of passengers in the top year of 1914 we handled 9,154,355, and this had fallen so that is 1931 we handled only 1,667,938, a loss of 7,486,417 passengers, or 81.8 per cent. I think we must consider this loss of passengers to be a permanent loss and should adjust our service and facilities accordingly. It is a painful ordeal. What we could do in a few hours as a business concern takes months, if successful, in dealing through the politicians' instruments, and often proves impossible. The loss to the automobile bus is not large, and that method of transportation, I think, has seen its peak and will from now on decline rapidly; but the loss to the privately owned motor car is the real factor which is significant, and that, I believe, has come to stay.

To partially meet this changed condition, the number of passenger-carrying cars (excluding those in the passenger-train service hauling milk, baggage, mail, and the dining cars) has been reduced from 305 in 1906 to 199 in 1931, or by 106 in all, or 37.75 per cent.

The number of freight cars, excluding caboose and service cars, has been reduced from 19,554 in 1913 to 15,099 in 1931, or by 4,455, or 22.78 per cent.

The number of locomotives has been reduced from 491 in 1920 to 433 in 1931, or by 58, or 11.81 per cent.

We have as idle equipment to-day 4,773 freight cars and 212 locomotives. All of the equipment is in good condition; no more than a low normal percentage of 3.3 of freight cars and 9.4 per cent of locomotives are held for repairs.

When the roads were returned to their owners by the Government after the war consideration was given to the equipment then in very bad shape and it was recommended that the percentage requiring repairs be reduced to freight cars 5 per cent, locomotives 15 per cent. We are well within these figures. Our practice has always been in laying up locomotives to white lead those coming out of the back shop, so that the engine, when needed, would be in the best possible condition, and this practice was followed in laying up the locomotives now out of service, so that we have a considerable reserve of fat.

*Elimination of waste.*—In adjusting ourselves to these new conditions, some things stand out as of prime significance. Ten years ago we began a serious and systematic effort to clear the property of all items of waste and to abandon wasteful practices. There were found to be in existence 1,835 buildings, including stations. They differed widely in character and size, varying from a box-car toolhouse of slight value to a building carried on the books at a value of $30,000. By the close of 1931 we had dismantled and disposed of 421 of these buildings, or of, say, 23 per cent, and while succeeding progress will be slow, yet we hope to continue it from year to year. This has effected a saving generally of all those items entering into maintenance, and as well much expense in operation, such as heat, light, and insurance. Most significant in this respect in the disuse of some 40 stations. When the railroads were the almost sole reliance for travel, and access thereto was by horse-drawn vehicles over dirt roads, it suited the convenience of the public to have stations at intervals of about 5 miles. Now, with motor vehicles and hard-surfaced roads, an interval of 15 miles between stations still keeps them more convenient of access than formerly. Some thirty odd years ago I made a careful analysis of the income and outgo of the 310 stations on the Northwest system of the Pennsylvania lines west of Pittsburgh. I found that at the end of a year's operation 97 of them did not show a dollar of income for a dollar of outgo and were the source of a constant out-of-pocket loss. Certainly conditions now are not as good as they were then. In this field considerable yet remains to be done.

*Automatic train control.*—On June 13, 1922 (modified December 26, 1922, at our insistence), the authorities, in a misguided effort to promote safety, ordered this corporation to install on one division a newly developed and untried system of automatic train control, and later, by order January 14, 1924 (modified April 3, 1924, at our insistence), required its installation on another division. It is now generally recognized that this device is a failure, and with the disappearance of the passenger business even a perfect one would not be justified. We may regard the cost of installation, $400,000, as a total loss, but could authority be had for its removal, an annual saving in maintenance and operation of $42,000 might be secured. There would also be eliminated the profanity now accompanying the preparation of the reports of operation which are still required.

*Mileage abandoned.*—It is obvious that there must be a point where the traffic may be so light as not to repay in its earnings the cost of movement. In our own experience this mileage has not been of prime significance. We have secured the abandonment of the Mooers Branch, 12.76 miles in length, the major portion of the Honesdale Branch, 23.62 miles, and all that portion of the Greenwich and Johnsonville road lying between the towns of those names, 14.09 miles. The time consumed in getting these several authorities from the public bodies was, respectively, 1 year 1 month 18 days; 4 years 16 days; and 8 months 23 days. There is some further mileage which should be taken up, which we shall make every effort to do.

*Grade reduction.*—I spoke of the large percentage of helper engine mileage. We have prosecuted exhaustive surveys of the grades involved in crossing the Moosic Mountains between Carbondale and Nineveh. As you know, we use northbound two helpers from Carbondale to Ararat, and southbound one from Lanesboro to Ararat. These grades can be reduced by relocation of the line so as to eliminate all the helper service between Carbondale and Lanesboro, except the push up to Forest City, at a cost of about $3,810,000, yielding through the economy of movement a return of 7.8 per cent.

The investigations of the grades between Richmondville Summit and Delanson, where we cross the Schoharie Valley, and the grade between the New York Central over crossing west of Schenectady and Glenville Summit, involve the use of helper engines in both directions over the entire division. These can be eliminated, involving the construction of some new line, at a cost of $5,936,000, yielding through economy of movement a return of 11.1 per cent, or upon the total investment of $9,746,000 a return of 9.8 per cent.

*Grade-crossing elimination.*—You will recall that an amendment to the constitution of the State of New York was adopted January 1, 1926, which provided the sum of $300,000,000 for the elimination of grade crossings. Under the then laws of the State, the expenses of these eliminations were divided—the railroads one-half, the State one-quarter, and the local town or district one-quarter. The astonishing fact was then revealed that there were no highway crossings in the State that were considered dangerous by the local authorities. They made loud outcries of distress, folded their hands, raised their eyes to Heaven and swore to the truth of their intimate local knowledge.

At the session of the legislature, January 1, 1928, the law fixing the incidence of the expense was changed. The railroads were still to be responsible for one-half, the State assumed 49 per cent, and the local community was left with the insignificant fraction of 1 per cent. The result was to work a miracle. All the crossings now were found to be points of extreme venture not to be endured in a civilized community and rainbows of expenditure were stretched across the sky in all directions regardless of the position of the sun.

At the end of the year 1931 we had eliminated 44 crossings by altering their location or by abandoning the highway or by overhead or underpass construction. The expense to us was a capital charge of $791,000 and a charge to expenses of $39,800. When the work now in progress, including the expensive changes at Whitehall and Albany, and that contemplated in the future, particularly at Saratoga, are completed, our portion of the work on this corporation's lines will have absorbed $6,980,000, and our capital charges will be some $6,870,000, on which we can not expect a larger return than 1.5 per cent, while the money will cost us about 4 per cent for interest and sinking fund payments. payments.

If you contrast this anticipated economy of 1.5 per cent on our investment of $6,870,000 in grade-crossing elimination with a return of 9.8 per cent on an investment of $9,746,000 in grade reduction you get some idea of the difference between public and corporate management of private property.

In building fences on the lines dividing farms the expense is divided by the owners half and half. But if the fence separates private lands from railroad lands the entire expense must be borne by the railroad. The laws of some of the States prescribe that these division fences must be "horse high, bull strong, and hog tight." The politicians have bettered this practice and have enveloped the privately owned railroads with a still stronger enclosure.

*Shop machinery and tools.*—During the period of 1925–1931 eight outlying light repair points were abolished and operations concentrated at fewer points. In 1927 the freight car repair shops at Oneonta were reconstructed and open to top car repair work transferred to that point. Similarly, box-car work was transferred to Green Island, where it could be performed under cover, and in consequence heavy repair work was discontinued at Carbondale and Colonie. Since 1927 such major activities as wheel work, air-brake triple-valve repairs and journal-box oil and waste reclamation have been concentrated at Oneonta; likewise modern brake-beam repair and knuckle reclamation plants have been installed at this point, resulting in substantial economies.

Since 1926, 3,719 freight cars were reconditioned, and during the past three years 1,100 42½-ton coal cars and 100 40-ton box cars were built new. In the period 1926 to August, 1932, 1,786 obsolete units were retired. Since 1926, 82 passenger-train cars were reconditioned, including remodeling of 6 dining and parlor café cars.

Over many years the shop tools had become antiquated and, with the revision of the shops themselves, it was arranged to bring the tool equipment up to date and to take advantage of the great improvements in machinery and tools brought about by the war and the introduction of new industries like the automobile industry.

A careful review brought us to feel that if we did not push this program faster than by the expenditure of $100,000 per annum that no workman would be displaced, the natural wastage of the forces by death, accident, sickness, superannuation, and change in employment being about 5 per cent per annum. This program was within two years of completion when it was suspended by the business depression. The changes in the car department were completed; what remains to be done is all in the locomotive and maintenance of way departments.

*Wage bases.*—The practice theretofore maintained in the shops of payment on an hourly rate we changed to a piecework scale of payments. The effect of this change was very marked. You will recall that after the reorganization of the shop forces following the strike of 1922, we organized a series of car-reconstruction competitions by selected gangs from the different shops and carried these on until 1927. They attracted much attention, and at the last one held more than 300 officers from other railroads attended. Such has been the influence of improved methods and new tools that the average workman to-day makes more money than did the men of the winning team in 1923. At first it was considered advisable to apply trial prices, which from time to time were adjusted until workmanship and speed could be accurately determined. As against the car shops of other companies where, in eight hours, their mechanics earn $5.18, our men are earning $7.66.

There are the further very gratifying results following the introduction in 1922 of what we have called the "elastic day." The shop forces were organized on the basis of the minimum work to be done in an 8-hour day. As business increased through seasonal demands or other causes, the workday was lengthened to 10 hours, at the normal rate per hour, time and a half being paid for work after the 10-hour period. This enabled, without penalty and without increase in force, an increase in labor time of 25 per cent, with corresponding increase in earnings, during periods of demand. With experience the working of the plan improved greatly and, so far during this depression there has been no man discharged for lack of work in the shop forces. It has now been necessary to reduce the labor time to four days per week of eight hours each. On the other hand, the men are relieved from anxiety in regard to employment, and under their piecework system the earnings in four days exceed the amount that would be earned in five days under the hourly price generally prevailing.

Work in maintenance of way does not lend itself so readily to a piecework basis, but we have been fortunate in stabilizing the force and none have been discharged.

We have worked out an arrangement with the four groups involved in the train service, which, while we believe fully protecting them, gives the management a free hand in the exercise of its functions. The experiment is definitely for a year, but the officers feel confident, with every disposition to treat the matter with uniform justice, that it will work out to the very definite advantage of both parties.

*Track structure.*—This corporation is among the leaders in developing a more permanent track structure. The important improvements under way are as follows:

Replacement of 90-pound open hearth with 130-pound manganese rail; light single-shoulder tie-plates with heavy double-shoulder tie-plates; cut spikes and rail anchors with spring steel clips and bolts; cinder ballast with stone ballast; untreated ties and bridge timber with prebored, preframed, treated ties and timber; wood ties in yards with steel ties; plain rigid frogs with manganese rail-bound frogs and self-guarded frogs (the latter eliminating guard rails and clamps); installation of lag screws attaching tie-plates to ties; curve oilers prolonging the life of rail; bituminous material replacing crossing plank, ballasted decks replacing open-deck bridges; improvements to roadbed facilitating drainage and snow removal; installation of culverts closing roadbed openings; the annual detection of defective rails by Sperry car inspections. All these are effective measures productive of economy in themselves as to materials and appliances and lending themselves to the improvement in the organization of our forces.

*Locomotives.*—The outstanding matters with which we have been experimenting and have brought to successful issue in the development of the locomotive are:

(1) High boiler pressure, 500 pounds indicated.
(2) Water tube fire box boiler construction.
(3) Exhaust steam feed-water heating and mechanical pumping.
(4) Poppet and Uniflow valves in combination with linear valve gear.
(5) Roller-bearing applications to main driving axles.

We have improved the springs somewhat and lubrication very much, and are now building a four outside cylinder, triple-expansion engine, which we hope will, besides effecting economy, improve the adhesion and hauling capacity.

This corporation was the first to experiment with powdered fuel for locomotive use. We hope to bring this to a successful conclusion, eliminating smoke and cinders, the arduous labor of hand firing, and the expensive substitute of mechanical stoking, at the same time having a fire box that will burn either lignite or powdered coal, or fuel oil, or a colloid of powdered coal and fuel oil.

There is a good deal of promise in the waste gas economizer to raise still further the temperature of the boiler-feed water. It is felt, also, that the combustion air may be preheated, further increasing the thermal efficiency, and that a mechanical draft can be used, reducing the cylinder back pressure, as well as increasing the hauling capacity. Much may also be hoped for from the use of an improved type of superheater, raising the present limitation on temperature and increasing the boiler capacity, as well as avoiding the now very undesirable condition of the final passing of the superheated steam through the coldest part of the boiler, which removes a substantial portion of the heat that has been so expensively supplied.

The locomotive consists of some 15,000 separate and distinct pieces. Much labor is involved in keeping these all in proper adjustment. When the Delaware & Hudson Corporation introduced the practice of casting the cylinders integral with the frame we substituted 1 piece for 834 pieces.

In substituting in the 1403 the 4 drawn seamless steel drums for the conventional fabricated drums, we reduced the dead weight 5,750 pounds and reduced the number of pieces by 660. A great opportunity still presents itself for eliminating seams, joints, and rivets.

It would seem possible to remove much dead weight that now performs no useful service in the process of combustion, the generating of the steam, or in its superheating. The static load and the dynamic augment are controlling factors and increases in sustained boiler horsepower capacity require an adequate and free steaming boiler. The limitation of space and weight have always greatly retarded the development of the locomotive. We ought not then on our road to lay new rail lighter than 130 pounds to the yard nor build new bridges of lighter capacity than the Cooper E–80 standard.

The old engines had a thermal efficiency of about 4 per cent, the locomotive 1402 has a thermal efficiency of 10½ per cent. It is believed that the 1403 will have a thermal efficiency of 14½. To this may, we believe, be added:

| | Per cent |
|---|---|
| Preheated air | 0.5 |
| Pulverized fuel | 1.0 |
| Waste gas economizer | .5 |
| Increased temperature in superheater | 1.0 |
| Mechanical draft | .5 |
| Adding the above to the anticipated performance of the 1403 | 14.5 |
| Completed locomotive program | 18.0 |

Even with the proposed locomotive program, as we now see it, of 18 per cent thermal efficiency in terms of the heat value of the fuel as fired, we will still be far behind modern central power stations which at the present time develop a thermal efficiency of 25 per cent.

It is interesting to contrast the effect of these improvements with earlier history. After the successful trial of the "Rocket" in 1829, many improvements were made in the years immediately following. The cylinders were placed horizontal; the fire box was built integral with the boiler; the tender was changed from a truck and barrel to the present type; the smoke box was added; but the outstanding improvement was the securing, in 1839, of an exhaust clearance by a lap in the valves, reducing the back cylinder pressure and increasing the use of the expansive properties of the steam. The improvement in the use of coke in gross tons (2.240 pounds) per train-mile was:

| | Pounds |
|---|---|
| The old valves, no lap | 49 |
| Improved service by encouraging competition among the crews | 40 |
| Valves with three-eighths inch lap | 36 |
| Valves with three-fourths inch lap | 32 |
| 1-inch lap, old passages | 28 |
| Same, with increased care in firing | 22 |
| New locomotive, 1-inch lap, enlarged passages, etc | 15 |

This reduction of about 70 per cent in the fuel consumed in the performance of the same work is one of the most remarkable incidents in locomotive history. Following this approximately 10-year period of rapid improvements, changes were introduced from time to time, with long intervening periods of quietude. The most significant were: Fire box baffle walls; the compound engine, at first impracticable with the saturated steam, but now again coming into use with the dry steam created by superheating; the articulated engine of Fairlie, further improved by Mallet, for narrow-gage practice, which I developed for standard-gage practice and introduced on the Baltimore & Ohio in 1904, and which is now in very general use; and the very notable addition of the superheater by Schmidt, since greatly improved, drying out the steam and raising its temperature; the introduction of the piston valves and of the automatic stoker. The results we have so far obtained in reducing fuel consumption in moving 1,000 tons (gross load) 1 mile on an 0.8 per cent grade are:

| | Pounds |
|---|---|
| Standard consolidation locomotive of 1916 | 84.5 |
| Boiler pressure raised to 275 pounds | 63.3 |
| Boiler pressure raised to 350 pounds with water tubes in fire box and compound cylinders | 48.8 |
| Similar locomotive steam pressure 400 pounds | 45.9 |
| Similar locomotive steam pressure 500 pounds, and heating feed water | 40.0 |

or a reduction of 53 per cent. With the further improvements now under way or in contemplation, we may hope to equal the achievements of the early years and reduce the fuel consumption by at least 70 per cent.

*Port of Albany.*—In the matter of commercial development of immediate interest to us, the most outstanding single item is the improvement of the port of Albany with the 27-foot channel to the ocean—a navigation that can without much difficulty be maintained throughout the entire year. For the first seven months of this year 50 ocean vessels have arrived at Albany compared with 11 last year. The shipping was from foreign countries as well as from Atlantic and Pacific coastal points. The grain elevator now approaching completion has a capacity of 10,500,000 bushels, quite the largest in the world, and the other facilities of the port are on a corresponding basis.

With this development now nearing completion, it seems incredible that anyone should think of promoting an enterprise to shift this advantage from the cities of New York and Albany to a city in a foreign country. To gild the idol with the golden promise of hydro-electric power is a daydream. One has only to consider the ghastly failure at Muscle Shoals.

*Taxes and wages.*—Our taxes have been sharply increased. The wage rate is high compared with that existing before the war; or with the pre-war rate adjusted upon the basis of the increase in the rates at which the service to the public is performed, or when compared with the cost of living as affected by the fall in prices. Last year the corporation earned its interest charges with the very small margin of $8,788.46. Had the taxes been assessed and the wages paid on the basis of 1913, instead of there being no return to the stockholder there would have been a surplus so large as to have made possible the declaration of a dividend of 22 per cent. This year we will not be able to earn all our interest. The extent to which we can limit the losses will depend upon the hearty cooperation of everyone on the pay roll to bring about that very necessary and desirable result.

## Conditions of Railroads of the United States

I have spoken to you of conditions on our own property. Let us to-day consider conditions upon the railroads of the United States with which we are enmeshed.

The gross earnings of the Class I roads with a total operated mileage in 1931 of 242,175 miles have been during the past seven years:

| | |
|---|---|
| 1925 | $6,122,509,856 |
| 1926 | 6,382,939,546 |
| 1927 | 6,136,300,270 |
| 1928 | 6,111,735,511 |
| 1929 | 6,279,520,544 |
| 1930 | 5,281,196,870 |
| 1931 | 4,188,343,237 |

Making the comparison for the first six months only of the last four years, the gross earnings have been for:

| | |
|---|---|
| 1929 | $3,030,214,660 |
| 1930 | 2,660,113,196 |
| 1931 | 2,162,485,014 |
| 1932 | 1,582,771,591 |

The contrast between years of prosperity and poverty is startling. The falling off from 1929 to 1932 of 48 per cent is quite unparalleled in railroad experience.

The panic of 1893 began in June. Its effect did not appear in the traffic after the following year. Taking 1894 as a base at 100 per cent, the ton-mileage in 1895 was 107 per cent; for 1896, 119 per cent; and with the defeat of the effort to secure the free coinage of silver at the ratio of 16 to 1, the effect of which would have been to debase the currency, and with the activities growing out of the Spanish War in 1898, business resumed its normal stride.

The panic of 1907 began in March. Its effect did not appear in the traffic after the following year. Taking 1908 as a base at 100 per cent, the ton-mileage in 1909 was 100 per cent; in 1910, 117 per cent; and thereafter business resumed its normal stride.

The experience we are now having does not parallel these. The panic began in October, 1929. Taking 1930 as a base at 100 per cent, the ton-mileage in 1931 was 81 per cent and in 1932, using the first five months of each year for comparison, it has been 61 per cent. The fall in traffic has been much greater and the period of depression much longer than in the two preceding panics.

If experience of the past can still be taken as a guide, the movement in 1933 may show to much greater advantage.

John Stuart Mill pointed out that all we have in the way of wealth is maintained solely by perpetual reproduction and that except for a few monumental structures it had a life of no more than 20 years.

On our railroads we spend in reproduction in the two maintenance departments in 28 years the entire capital cost of their construction.

Many things such as shoes and textiles have relatively a very short life and here we may watch for the first signs of improvement.

*Passenger Business.*—For the year 1931 the results were as follows:

| | |
|---|---|
| Operating revenue: | |
| Passenger | $551,047,482 |
| Mail | 105,423,203 |
| Express | 82,774,883 |
| Milk, excess baggage, sleeping, parlor and chair cars, and other miscellaneous passenger train revenue | 85,713,000 |
| Total | 824,958,568 |
| Operating expenses relating solely to passenger and allied service | 917,091,825 |
| Indicated loss from passenger train operation | 92,133,257 |

From 1890 to 1900 the passenger traffic increased at the rate of 3.5 per cent annually; from 1900 to 1910 the rate of increase was 10.2 per cent annually; from 1910 to 1920 the rate of increase was 4.6 per cent annually. The traffic of 1920 had in 1931 declined at the average rate of 4.9 per cent annually.

The passengers carried 1 mile by the several transportation agencies in the United States are about as follows:

| | Number of passengers | Number of passengers for year 1931 |
|---|---|---|
| Steam railroads, 1920 | 47,369,906,000 | 21,948,988,000 |
| Common carrier busses, 1926 | 7,825,000,000 | 10,880,000,000 |
| Private autos, 1918 | 38,000,000,000 | 397,312,000,000 |
| Electric railways, 1925 | 48,000,000,000 | 35,500,000,000 |
| Airplanes, 1926 | 1,445,500 | 116,232,150 |
| Total | 141,106,351,500 | 465,757,220,150 |

There are 95,000 automobile busses, of which about 50 per cent are common carriers, the balance, for the most part, utilized in transporting children to and from consolidated schools.

I do not know of a common carrier bus line in the United States or Canada that is declaring a dividend. It is probable that the business will, as time goes on, tend to be confined to the short hauls to the suburbs of the large cities. The automobile bus does not appear to be a competitor to which serious consideration must be given.

I think the travel by the privately owned automobile has come to stay. It will be a lasting substitute for the railroads and for the horse-drawn vehicles.

The interurban electric railways have largely been driven out of business. The urban properties now struggle for existence with the automobile busses.

The airplane is an expensive luxury and can apparently only be kept in service by subsidies from the Government.

The total increase in travel has reached unlooked-for proportions. Where the mileage made by these agencies in 1918 (horse-drawn vehicles not estimated) was perhaps 135,000,000,000 miles, it had in 1930 been up to 489,000,000,000 miles.

Certainly no people has ever before been so much given to going about.

*Freight business.*—For the year 1931 the results were as follows:

| | |
|---|---|
| Gross revenue | $3,345,898,214 |
| Expenses | 2,302,768,313 |
| Profit | 1,043,129,901 |

The freight traffic from 1890 to 1900 increased 8.6 per cent annually; from 1900 to 1910 it increased 8 per cent annually; from 1910 to 1920, with the disturbance of the Great War, the rate of annual increase fell to 6.2 per cent. The traffic of 1920 had in 1931 declined at the rate of 2.3 per cent annually, the change being substantially affected by the panic of 1929.

Out of this profit of about a billion dollars must be met the taxes and hire of equipment, the losses sustained in the conducting of the passenger traffic, the interest on the moneys borrowed and invested in the plant, and interest and sinking fund payments on equipment bought through the issue of car trusts, other liquidating debts, and such returns as may be made, if any, to the equity (stock) interests.

The growth in the number of motor trucks has been:

| | |
|---|---|
| 1925 | 2,440,854 |
| 1926 | 2,764,222 |
| 1927 | 2,914,019 |
| 1928 | 3,113,999 |
| 1929 | 3,379,854 |
| 1930 | 3,486,019 |
| 1931 | 3,466,303 |

Along with the increase in numbers has grown an increase in carrying capacity. About 85 per cent of all these motor trucks are used by the owner only; about 9 per cent are used by the owner solely in handling the business of those with whom he has contractual relations. Somewhat less than 6 per cent are common carriers and this number is so insignificant as to make any effort toward their control by rate legislation scarcely worth while.

Another way of looking at the importance of this matter is in the mileage of surfaced highways in the United States. These State, county, and local systems in 1921 aggregated 387,760 miles. In 1931 they aggregated 730,000 miles, an increase of over 88 per cent.

Relief must be looked for through the police power of the State to insure safety upon the highways. The blood-letting in the business as now conducted is appalling. In 1931 there were brought to their death by automotive vehicles 34,400 persons and nearly a million received injuries ranging from slight contusions to maiming and crippling for life. Forty-one per cent of these injuries were classed as serious. It is an instrument more dangerous than was the Great War. During the 18 months of the Great War 50,510 members of the American Expeditionery Forces were killed in action or died of wounds. During the 18 months ended December 31, 1931, 53,630 were killed in automobile accidents in the United States or died of wounds. During the 18 months of the Great War 182,674 members of the American Expeditionery Forces were wounded, not mortally. During the 18 months ended December 31, 1931, 1,576,840 were wounded, not fatally, in automobile accidents in the United States.

It is said that during the months of mild weather each year in excess of 100,000,000 birds are killed by motor vehicles. Nature maintains a rather delicate balance. What we may suffer from this upsetting experience is yet to be determined.

We must then expect restriction of length, height, and width, combination of truck and trailer, limitation of load, mechanical limitation of speed, a higher standard in the character and skill of chauffeurs and other controls to markedly lessen the appalling danger now attending this traffic.

*Capital investments.*—The annual capital expenditures by Class I railways in recent years have been:

| | Amount |
|---|---|
| 1921 | $557,035,000 |
| 1922 | 429,273,000 |
| 1923 | 1,059,149,000 |
| 1924 | 874,744,000 |
| 1925 | 748,191,000 |
| 1926 | 855,086,000 |
| 1927 | 771,552,000 |
| 1928 | 676,665,000 |
| 1929 | 853,721,000 |
| 1930 | 872,608,000 |
| 1931 | 361,912,000 |
| Total | 8,089,936,000 |

*Operating results.*—Of the Class I railroads, 82 failed in 1931 to earn their fixed charges and this year it has been much worse. For the first six months of 1932, 114 (out of 145) have been in that class. For this 6-month period 31 roads operated with net income of $38,753,159 and 114 roads operated with net deficits of $165,515,434, so that there was for all these properties a failure by $126,762,275 to earn their interest charges and keep from the threat of receivership. Of the 145 Class I railroads in 1932, no more than three had from the operation of their properties after interest charges a net sufficient to pay their dividends at the present rate of declaration. The net income for the first six months of 1932 has declined $158,619,457, as compared with the same period of 1931, and $484,424,809, as compared with first six months of 1929.

In such circumstances our first resource is the reduction of expenses. Upon a much larger scale, with greater variety and with some added features the railroads of the country must proceed along the general lines which I have outlined to you as the activities of our own road. They must search out and eliminate every wasteful practice, tear down obsolete buildings, close nonpaying stations, and abandon useless mileage. They must seek to reduce where possible the expense involved in the elimination of grade crossings, especially by securing the closing of many and by avoiding others through relocation of the highway. For example, one of the southern railroads in 1930 relocated 660 grade crossings, 149 of which were entirely eliminated and 511 were relieved of through traffic.

Notwithstanding the tremendous amount of expense to which the railroads have been placed in the elimination of grade crossings, the report of the National Association of Railroads and Utilities Commissioners, issue of 1930, indicates a steady net increase in the number of grade crossings of highways with railways, the net increase being for—

| | |
|---|---|
| 1926 | 195 |
| 1927 | 245 |
| 1928 | 270 |
| 1929 | 321 |

Probably the most favorable opportunity for the elimination of waste is the elimination of the mileage operated normally at a loss. There are in the three classes in which the Interstate Commerce Commission divides the railroads some 260,000 miles of first main tracks. This, having reference to the traffic handled, divides into three significant groups.

About one-half the total ton-mileage moved is carried on 26,000 miles of line, or on about 10 per cent of the total mileage, and these roads are of prime significance. Here in many cases the grades can be improved, the curves reduced, and the lines shortened; the drainage perfected; ample ballast applied; the rail made heavier, at least to 130 pounds to the yard; the bridges brought up to an increased loading, at least to the standard of Cooper E-80; and the equipment modernized.

From such incomplete study as I have been able to make, we might increase the investment in these lines of heavy traffic by several billion dollars, bringing them up-to-date and through economies offsetting the increased cost of the investment, while insuring their commanding position as the chief transportation reliance of the country with a valid claim for participation in the fruits of its growth.

Less than 2 per cent of the ton-mileage moved is carried on 73,311 miles of line, being about 30 per cent of the total mileage. Not only is this movement insignificant but it is made at an out-of-pocket loss and keeps in service as an economic waste a large amount of line. Of this mileage, 57742 miles are distributed upon 2,094 branch lines and parts of lines of Class I railroads. Fifteen thousand five hundred and sixty-nine miles are distributed upon 483 Class II and Class III railroads. For the year ended December 31, 1928, 459 of these latter lines reported a corporate deficit of $63,282,963. Each separate element in this group should be carefully examined and as rapidly as possible these portions that can not be justified should be abandoned and their salvage value recovered.

The lines in the intermediate group, 161,000 miles, should be carefully gone over, everything promoting waste removed, and all possibilities looking to expansion of traffic or reduced cost of operation thoroughly worked out.

*Abandonments.*—The abandonment of railroad lines, with applications filed with and authorizations by the Interstate Commerce Commission from 1920 to 1931, inclusive, were:

| Year | Applications | | | |
|---|---|---|---|---|
| | Filed | | Authorized | |
| | Number | Miles | Number | Miles |
| 1920 | 9 | [1] 125.00 | | |
| 1921 | 40 | [1] 824.00 | 31 | 701.94 |
| 1922 | 47 | 808.46 | 30 | 526.53 |
| 1923 | 36 | 964.94 | 19 | 523.41 |
| 1924 | 52 | 949.82 | 30 | 453.84 |
| 1925 | 57 | 883.21 | 46 | 651.98 |
| 1926 | 46 | 937.19 | 49 | 592.56 |
| 1927 | 56 | 792.26 | 52 | 830.61 |
| 1928 | 53 | 752.21 | 61 | 587.05 |
| 1929 | 69 | 834.92 | 48 | 539.54 |
| 1930 | 75 | 980.83 | 71 | 925.81 |
| 1931 | 88 | 1,075.53 | 89 | 1,019.31 |
| Total | 628 | 9,928.37 | 526 | 7,352.58 |

[1] Estimated.

At this rate it will take a hundred years to complete the job.

*Plant facilities and privately owned freight cars.*—Some of the Class II and III roads are characterized as "plant facilities" and perform a dual service, most of the work done being of a private character in the service of the plant of which they are a part and some of the services being classified as those of a common carrier upon which a division of the rate is demanded. It would seem that they should be defined definitely as a plant facility and stripped of all common carrier services or rewards. A further anomaly is the "privately owned freight car." Their numbers have grown from 183,474 in 1921 to 282,522 in 1932. The reasoning that led to the forbidding of the issue of private passes to individuals by the railroads would seem to apply to the use of the "privately owned freight car." If we are to have a uniform treatment of the shippers then the services of the railroads now held to be "affected with a public use" should be solely in their control and should not be participated in by private persons or corporations.

*Empty freight car mileage.*—During the last 10 years there has been the substantial increase of 20 per cent in empty car miles. This is the accumulative result of many factors. There seems to be two main causes: (1) A disproportionate increase of one-way traffic moving in specialized equipment; (2) with an improvement in operating efficiency a surplus of equipment is created, accompanied by an increase of empty cars moving to their home roads. The supply of home line cars being ample at all important points, foreign cars are moved promptly off the property to avoid per diem charges.

*Improved equipment, machinery and tools.*—The freight equipment with 2,200,000 cars, of which number 763,560 were reported idle as of July 31, 1932, could be overhauled to advantage, the lighter cars and those of inferior construction torn down and some new cars secured more definitely adapted to varieties of use to be served.

The changes in the freight car equipment, with its concentrated load, has made possible the development of the modern blast furnaces and manufacturing plants and forms the base upon which rests the modern practice of mass production. The freight car bears the same significance to mass production that the elevator does to the modern office building.

The passenger-train equipment should be sharply reduced and air-conditioned cars used on all through runs.

The locomotives should have very concentrated and sustained attention. If a tithe of the effort that in the past 10 years has been expended in developing the automobile had been expended in the development of the locomotive we should now have a machine that would discredit and make obsolete the larger number of our present stock of 55,400 engines.

The machinery and tools in the back shops and engine houses, in the car shops and maintenance of way shops, should be brought up-to-date and in many cases the buildings remodeled or replaced.

The profit and loss credit balance of the class I roads was, at the close of 1931, $3,273,304,596. It is to-day the greatest frozen asset in the business of the United States. Intelligently and courageously used under an accounting system reflecting modern business practice, it would go far in making possible abandonments, replacements, and improvements in these properties.

*Accounting methods.*—With a thorough overhauling of the antiquated and in many respects restrictive accounting practices prescribed by the Interstate Commerce Commission, much could be done to improve the railroads that is now financially impossible. It is not to an occasional favor doled out to some applicant appealing on bended knee but to a modernized readaptation that we must look for aid.

*Traffic adjustments by the railroads.*—It has been suggested that the railways may reform terminal operations and reduce terminal costs; enter into arrangements which will give to all carriers and shippers the use of facilities which will best serve the shippers and carriers; handle traffic between remote important points by the lines of greatest efficiency and economy with a saving in transportation costs; pool or divide the traffic and eliminate waste of competitive solicitation; reduce train-miles and increase tonnage per train-mile and per train-hour. These changes contemplate the submersion of much of private ownership and are expected to be accomplished by a high-class man as representative and adviser of all to consider plans from the standpoint of the common good. The right to do these things is held to be embodied in the transportation act; the failure to do them is held to invite charges of inefficiency, lack of economy, and disregard of the interests of the public and of the security holder.

It must always be kept in mind that in the steam transportation field real economies can only result from a policy of reconstruction, carefully planned and relentlessly carried out; first, prune; second, improve the old; third, bring in things that are new.

*Taxes and wages.*—Taxes, which absorbed in 1920 4.4 per cent of the gross earnings, had in 1931 so increased as to absorb 7.25 per cent. These are allocated between the Federal, State, and local governments.

Wages, which absorbed in 1920 55.42 per cent of the gross earnings, reflecting the control of the railroads by the Government from January 1, 1918, to March 1, 1920, in 1931 absorbed 46.42 per cent, reflecting the attention of private management.

The embarrassment of the railroads would seem to be fully explained in these two items.

*The rate situation.*—On December 1, 1916, the Interstate Commerce Commission, in its thirtieth annual report to Congress, said:

"All rates, fares, and charges have been open to complaint for a period of more than 10 years, within which the commission had power to fix the future maximum rates. For a period of more than six years all proposed increased rates have been subject to protest and suspension before becoming effective. Obviously there should come a time when as to the past the general level of the rates and the relationship of rates should be fixed as reasonable. We are convinced that the best interests of the entire public, of the system of governmental regulations of rates, and of the railroads will be served by the enactment of a statute which as of a specified date fixes the existing interstate rates, fares, classifications, rules, regulations, and charges as just and reasonable for the past, and which provides that after that date no change therein may be made except upon order of the commission."

On December 1, 1920, the Interstate Commerce Commission, in its thirty-fourth annual report to Congress, said:

"For the reasons stated in previous annual reports, we renew our recommendations to the effect:

"That the power to award reparation be placed wholly in the courts; that a condition precedent to an award of reparation by a court for unreasonable rates or charges be that we have found such rates or charges unreasonable as of a particular time; that the law affirmatively recognize that private damages do not necessarily follow a violation of the act; that provision be made that sections 8, 9, and 16 of the interstate commerce act shall be construed to mean that no person is entitled to reparation except to the extent that he shows he has suffered damage; and that the law should provide that if a rate is found to be unreasonable the rule of damages laid down in the International Coal Case, 230 U. S. 184, should control."

Because Congress took no action upon the commission's recommendation there has grown up a body of practitioners who work on contingent fees—not only are they parasitic, and add much to the expense of the railroads, but they keep the entire rate structure in a state of turmoil and consume nearly half the time of the commission.

Notwithstanding its report to Congress in 1916, the Interstate Commerce Commission has, in the past 10 years, made many changes in the freight rates which have seriously affected the revenues of the carriers. Of major importance were their dockets, Nos. 13494, 13535, 15879, 16746, 17000 (pts. 2, 4, 5, 6, and 7), and 18744.

In the Grain Rate case the United States Supreme Court set aside the commission's order on the ground that the case was decided on a record 2 years old, and has refused the carriers further hearings to show changes in the financial situation.

There are two methods of looking at the freight rate structures, both fully set out in the well known case of Smythe *v.* Ames. Under these the politicians search for a "cost of service" at the level of confiscation; the railroads seek for a "value of service" out of which they hope to reap a profit. Over this narrow field, delimited on the one hand by bankruptcy, on the other by prosperity; exciting jealousy, arousing rivalry, inviting attack, the battle rages fiercely. A third method is sometimes used to take from road A and give to road B for no other reason than that road B needs it.

If governments are to continue in direct control of such matters of management as I have discussed, you and I, all who are engaged in this great industry, are entitled to receive and should insist upon obtaining the cordial cooperation and support of all public authorities in working out the necessary adaptations to vitally changed and changing conditions.

*Employment.*—One of the greatest fields for improvement is in the stabilization of employment. When the panic broke the railroads were employing 1,660,920 individuals; in May, 1932, this had been reduced to 1,065,159, or by 35.8 per cent. approximating but not fully commensurate with the decline in traffic. If we assume that full advantage had been taken of the natural wastage of the force, 12.5 per cent, during this period, the number thrown out of employment would be 23.3 per cent, a matter of the most serious character. Nor does this tell the whole story. In addition to those employed directly by the railroads, it has been estimated that at least as many, and probably more, are indirectly dependent upon the railroads through employment in those industries dependent to a greater or less extent upon the railroads for their business, so that more than 3,000,000 men and women with their families—approximately 13,500,000 people, the United States Labor Bureau estimating four and one-half persons per family—may be regarded as dependent on the economic welfare of the railroads.

I think we must all rejoice in the measure of success that has attended our common effort on the Delaware & Hudson Railroad to deal with this vital problem.

*The indispensable service of the railroads.*—If we disregard the water-borne business moving through the Great Lakes and the Panama Canal, then we find the commercial freight traffic wholly within the United States in 1930 moved as follows:

| | Ton miles | Per cent |
|---|---|---|
| Steam railroads | 385,815,000,000 | 84.1 |
| Pipe lines | 31,729,000,000 | 6.9 |
| Inland waterways (canals and rivers) | 9,088,000,000 | 2.0 |
| Motor trucks (interurban movements) | 31,352,000,000 | 6.8 |
| Electric railways and airplanes | 1,039,000,000 | 0.2 |
| Total | 459,023,000,000 | 100.0 |

Our steam railroads are the private property of approximately 852,318 stockholders, who have borrowed money from more than 1,000,000 individuals to whom they have issued bonds as security.

They furnish the best and cheapest land transportation service available anywhere in the world. They were the means with which we opened up and developed this country. They remain the means upon which we must depend not alone for the future success or failure of this country as an economic entity, but for our very existence in the long future. We can not contemplate their destruction without anticipating ruin to ourselves; nor can we promote our own interests more directly than by assuring their prosperity.

### The Point of View

I venture to suggest that one of the things that makes it so difficult to deal with the problems involved in a major depression such as we are now undergoing is that in the main we lack "a point of view." George Moore has said: "You may do a lot with your talent and your life but not until you have developed a point of view." Let us try what we can do in securing that necessary steering apparatus.

Oswald Spengler has written a book from which I made the following extracts:

"In the eighteenth century men affected to scarcely believe in war and held it to be but a relic of bygone barbarism."

"The sentimentalist pictured no more war; no more destructions of law, peoples, states or religions; no criminals or adventurers; no conflicts arising out of superiorities and unlikenesses; no more hate or vengeance, but just unending comfort through all time."

"The trivial optimism of these imbecilities makes one shudder."

"The free-moving life of the animal is struggle, and nothing but struggle; always it is a matter of purposive activity, never of things. They are all just sides of an active, fighting, and changed life. This battle is life, a grim, pitiless, no-quarter battle of the will to power."

"A plant lives, it breathes, it feeds, it multiplies, but it does not move itself, it is moved by wind and warmth and light."

"Above this grade of life there is the freely mobile life of the animals."

"Those animals that live upon vegetation seek safety in running away from danger, their life is a defensive life, one of flight, cutting of corners, evasion. But the carnivore which live on other animals get their living by killing. They rule with the eye. With it they apprehend the horizon, they determine position and distance, they measure up the objects and conditions of attack. And it is to this kind and not the other than man belongs. He lives by attacking, and killing and destroying. He may be brave, crafty, cruel, but he has a brain and a hand and with these he dominates the world of life. With his hand, his weapon, and with his personal thinking man became creative."

"And through the long process of time man developed speech and enterprise."

"So," at last Spengler reasons out that—

"two kinds of men were developed; men whose nature is to command and men whose nature is to obey, subjects and objects of the political or economic process in question. These are the leaders and the led."

"The northern countryside, northwestern Europe and North America, by the severity of the conditions of life in it—the cold, the continuous privation—has forged hard races, with intellects sharpened to the keenest, and the cold fires of an unrestrained passion for fighting, risking, thrusting forward."

"From Copernicus and from Galileo our technical processes followed one another thick and fast, all with the same object of extracting the inorganic forces from the world around and making them, instead of men and animals, do the work."

"All great discoveries spring from the delight of strong men in victory. They are the expressions of personality and the consequences are immense."

"It is common knowledge that the number of necessary hands grows with the number of machines, and the condition of living also improves as we should see were we to compare 1700 with 1900."

And then comes his note of despair. He sees "our railways and steamships as dead as the Roman roads and the Chinese Wall, our giant cities and sky-scrapers in ruins like old Memphis and Babylon. And in the end he advises a short life, full of deeds and glory rather than a long life without content. That he believes is greatness. That is what it means to be a thoroughbred. The honorable end is the one thing that can not be taken from a man."

There is much in this in which I think we may agree, but not at all with the conclusion he reaches. I see no application for his note of despair. We have worked out a solution.

The social will is expressed in the law, which is regularly upheld by the organized physical force of the group. The goal of the law is peace, and the means to achieve it is struggle.

James A. Lawrence has written a book from which I have made the following extracts:

"It was in a way accidental that steam power and machines sprang out of the minds of men first in England and that the British nation, therefore, had temporarily a monopoly."

"They sent out to bring in the essential raw materials from the ends of the earth to England in order to fabricate them there, and then after fabrication, shipped them out again to other ends of the earth."

"Eventually four nations became so engaged, Great Britain and Germany, the United States and Japan. In the development of this progress of mutual interdependence, involving world-wide trade in the simple necessities of life, the four have marched but they have marched alone. The whole world is now in on the secret of machine production, and the secret no longer exists. The British Empire, built up on the idea that a temporary monopoly could be made permanent, is in a serious condition, perhaps crumbling. The German nation is a disturbed and troubled entity. The Japanese nation is trying the world-old cure for economic disaster, that of looting the area belonging to someone else—and we are not doing so well ourselves."

"What had upset the world is the emergency in our lives of new and puzzling environmental factors, power, machines, new basic raw materials, Bessemer steel, oil and rubber and still later cellulose, coal tar products, and aluminum."

"We must maintain our confidence in the flowering of the human mind; the immediate challenge before us is a heartening and stimulating call to understand our own recent past and to give ourselves vigorously and imaginatively to hastening the transition away from mutual interdependence toward the largest amount of self-sufficiency. Individual functioning must be developed. We have just bet our first white chip, and it is going to be a blue-chip game."

"In the midst of to-day's confusion we can, I believe, at least hope for a better understanding of what is going on if we see the necessity for going forward to simplification where technical progress shall be the handmaiden of happiness, and mechanism shall be the servant of increasing usefulness to men who are again beginning to find the fruits of increasing self-sufficiency."

"The objective for all of us is not fewer satisfactions, but more—a higher standard of living than any yet known, with prices paid by ultimate consumers working to steadily lowering levels."

There is much in this analysis and this concluding optimistic note that appeals to me strongly. All men love security, most of all those that are led; some love liberty and will endure much to secure it; some love power and will take great risks to make it their own. These last two are the leaders. The first and much the largest group is the led.

What, then, is "the point of view" that we may follow? That we are killers; yes. That we must fight for what we want and fight to keep what we get; yes.

But that we are finishing the race in the course that is set before us; no. Rather that we shall go on discovering new resources, simplifying our mechanical processes, increasing the number, variety, and potency of our mechanical servants, and growing into a standard of living better than any we have ever dreamed of. Not a decline of the west, as Spengler pictures, but an expanding self-sufficiency such as Lawrence suggests. This is the "point of view" we can feel safe to follow.

*Our unexampled progress.*—As an illustration of what has happened and the distance we have come along the route we are traveling, let us take an example from our own business, that of steam transportation:

Even as late as 1750 almost the whole land-carriage was conveyed on the backs of pack horses. A moderate sized horse would weigh about 1,120 pounds. Working for 8 hours or 10 hours per day he might transport on his back 224 pounds at the rate of 25 miles a day over an average level country.

When carting began, in the coal districts 1,904 pounds was the regular load for a horse with a cart upon the common roads.

When the railed roads first came into use the rails were of wood and on a well-leveled road 4,704 pounds were assigned as the ordinary weight to be pulled by one horse. With the metaling of the wooden rails with iron plates the load was increased to 5,936 pounds, and when iron rails and wheels of iron came (about 1767) this weight was increased to double the quantity therefore taken upon the wooden rail, or, say, 9,400 pounds.

Trevthick constructed a steam carriage engine acting only by the expansive force of steam which made its first successful run Christmas Eve, 1801. It was supposed that the adhesion of the wheels to the rail would be insufficient to enable the engine to be moved by its own power. Trevithick advised that the wheels should be roughened by headed nails. Blenkinsop in 1811 applied an additional rail with cogs. But Hedley in 1813 first proved by his experiments that the adhesion of the wheels upon the flat rails was sufficient to give motion on a level or slightly ascending track.

In 1829 the steam railroad had definitely established itself.

The power of a horse was taken as 33,000 pounds raised 1 foot in one minute and the power of the 6-ton engine then put in service was figured as equal to 41½ horses.

The horsepower is a purely arbitrary unit, but was supposed to represent the animal's average power, working over a considerable period. The real power of a horse is about three-quarters of the horsepower used as the measurement of the working rate.

Contrasting the Stourbridge Lion with 6.5 indicated horsepower at 3 miles per hour with the James Archbald developing 572 indicated horsepower at the same speed the modern engine has a capacity eighty-eight times that of the early engine. The maximum horsepower performance of the Stourbridge Lion has been calculated at 11 horsepower at a speed of 5 miles an hour; the maximum horsepower performance of the James Archbald is 3,207 horsepower at a speed of 35 miles an hour, the capacity of the latter over the former representing an increase of two hundred ninety-one times.

The James Archbald, our consolidation type engine carrying 500 pounds steam pressure and weighing 300,000 pounds upon its four pairs of coupled driving wheels, exerts a tractive effort upon a level road of 75,000 pounds, or the equal (assuming a revenue tonnage of 10,920 is carried in 156 fully loaded 70-ton capacity cars weighing 4,080 tons on a straight level track at a speed of 15.6 miles per hour) of 97,500 pack horses.

The gross weight of the engine, tender, cars, and lading gives a ratio of pay load to dead weight of 250 to 100, while in the case of the pack horse the ratio was 20 to 100, an advantage of 12.5 times.

There is further the great advantage of a speed of 15.6 miles per hour upon the class I roads of the country for the first six months of this year as against 3 miles per hour for the pack horse, or 5.2 times as fast.

To summarize, our speed has increased by 5.2 times. Our ratio of pay load to dead weight has improved 12.5 times, while we have one instrument of transportation, the locomotive, doing the work of 97,500 instruments of transportation, the pack horses.

*The depression.*—If you should be on the parade ground at West Point and see the cadet battalion march from one end to the other, you would find the troops when halted in almost perfect alignment. But should that battalion be marched across a plowed field its alignment would be sadly disarranged.

So it is with business. Over a period of a score of years, with the immense changes brought about by new inventions and industries, and the development of new leadership, the mass involved is thrown into great disorder, progress is arrested, nor can it be resumed until order is restored.

In considering these matters the "point of view" is of vital importance. We must govern ourselves by observed facts and not allow ourselves to be diverted by fancies as to the matters with which we are concerned.

The Duke of Wellington, writing in 1820, expressed the belief that the then deprivation of employment was produced by a long course of prosperity and the flattery of self-esteem by the politicians. It is hard at the best to keep things in order and for many years now the politicians have been doing everything in their power, by speeches, by writings, and by law to relax the discipline by which alone men can be kept in order.

In our present troubles the two outstanding dislocations are taxes and wages. Since 1913, which is generally considered a normal year preceding the Great War, the taxable property of the railroads of the United States has been increased by 56.4 per cent, while the taxes have been increased by the abnormal amount of 156.4 per cent. At once a reduction of at least one-fourth of the present tax burden should be secured when we can again look about to see what further must be done. This can only be done in the Government service by decreasing wages, elimination of unnecessary employees, discontinuance of Government competition with business, and the bringing of order and simplicity in the conduct of its affairs.

While in many callings the fall in wages has been marked, in others little has as yet taken place. Railroad wages, where a dollar sufficed in 1913, had been increased by 118 per cent in 1931. To state it in another way, the average payment to the individual railroad employee was in 1913 $760.94 and in 1931 it was $1,661.70, an increase of 118.37 per cent, or for each dollar paid to the individual before the Great War there is now paid $2.18. Further, the work day has been shortened from 10 hours to 8 hours, or by 20 per cent. This change may well be compared with that in the cost of living, which is now computed to be in excess of 1913 by no more than 32 per cent. Credit was sharply affected. Deposits expanded by $13,500,000,000, loans and discounts by $14,500,000,000, of which last $1,000,000,000 went into increased bank capital. There was an unsurpassed use of credit which obscured the abnormalities, trade restrictions, steadily rising terms, choking exchange (these covered by foreign loans), real-estate booms, installment selling, spending in the purchase of normal goods of speculative profits. One caustic wit has expressed it, "The Federal reserve bank was issuing credit, the American Bank Note Co. was printing securities. When the American Bank Note Co. won out, the crash came."

There remain two other items significant but not so influential:

Germany undertook certain payments to the Allies—in which we did not participate—spoken of as reperations, and the allied powers reached an agreement with the United States as to the amount of money they had borrowed from us which, when liberally scaled down, was spoken of as war debts, the time for the payment of which was extended over a period of 60 years at a very low rate of interest. These two terms, "reparations" and "war debts" are often carelessly used as though they described the same thing. In fact, each stands for a thing by itself, each has its own localized meaning. In addition to the reparation payments the Allies took from Germany, and now holds title to, much territory widely scattered. The administration of these lands is committed to so-called mandatory powers under the oversight of the League of Nations. The allied powers are now willing to largely forego further reparation payments made to them by Germany and will ask us to forgive them the debts they owe us. It seems possible that we may in large measure do so. But it is of the first importance that we receive from them in partial settlement some of the territories formerly German to which they now hold title. Among these are the islands in the Pacific. Some intervene between us and our Philippine possessions, and one is 500 miles nearer Hawaii than is San Francisco.

"The problems of empire," Lord Curzon tells us, "are the problems of a defensible frontier." Our Pacific frontier can be made defensible beyond hazard by our taking over and developing these Pacific islands. We forewent that opportunity at the close of the Spanish War; it would be an act of childish imbecility to overlook it now.

The other matter is the one of tariffs. During the period 1890 to 1925 the foreign trade of the United States has varied from 10 to 23 per cent in its ratio to its domestic trade. The sale of goods abroad is very considerable, and the exchange does much to sweeten the whole, and acts as a balancing factor, as in the movement of cotton.

There is a wide difference between the vital significance of the first two items and the relatively minor significance of the two latter, but none the less to fail to correct all four is to delay recovery and to promote and continue the disorder.

*Political experiments.*—As an example of the colossal effect of the mistakes of the politician let us consider his handling of the problem of immigration.

Up to the time of the Civil War, say from 1790 to 1860, the total population increased at a practically constant geometric rate of growth, doubling approximately every 25 years. Had we never opened the doors and never encouraged immigration we should now, in all probability, have a homogeneous Nordic population of at least 225,000,000 as against present heterogeneous population of 122,775,046. So greatly may the blunders of the politician move to modify or destroy a condition of great promise.

*Advance and related confusion.*—The two matters that perhaps most sharply fix our attention are, first, the great improvement in our condition as compared with earlier periods, and, second, the confusion into which our affairs have been thrown. As to the first, I have tried to give you one picture on the change in the land transport. Let me give you another in the volume of business moved. It is estimated that two modern freight cars would hold the entire flow of traffic for any year prior to 1500 through the St. Gothard Pass in both directions between Italy and the north countries. The advertisements of the Red Star Lines say that their steamship, the *Belgenland*, docking at Antwerp to-day, brings more merchandise into that city in a single voyage than the highest estimated tonnage ever reported to have been brought into that port in any whole year of its greatest medieval trading activity. There has been in the last 100 years more and wider progress in every respect than has ever before been witnessed in a thousand years.

The benefit to the workman has been enormous. The early conditions have been grossly misrepresented. He did not go from his work to his bed exhausted but rather to do chores about his home and especially to cultivate his kitchen garden. Nor has the farmer participated to any considerable extent. The advantages have all gone to the workmen in industry. His working time has been reduced from a normal of 84 hours per week in 1825 to 44 hours per week in 1930. His wages have been multiplied several times, he lives in a much more comfortable house, sets a better table, and wears better clothing. Possibly the modern provision of recreation is an even more marked improvement in his life. Meanwhile he participates in the enjoyment of a multitude of facilities, wholly or largely provided at the communities' expense, to which his contributions are very small—municipal gas, street lighting, electricity, water, sewers, paved, lighted, and cleaned streets, fire stations, markets, public halls, parks, libraries, museums, and schools. The publicly owned wealth enjoyed by all the citizens in common is nearly 20 per cent of all the wealth of the country.

*The politician.*—The position of the politician is most unhappy. The competition for his place is severe; his term of office is far too short; his numbers far too many; his preparation for his job too inadequate; his pay, were his numbers greatly reduced, too small. He must make a frequent appeal to his public, and this is most effective if expressed in catch words. Many of these potent in dealing with the railroads are now no longer useful; but he is still able to confuse thought by declaiming upon eminent domain bases of the freight rate, the long and short haul, and affected with a public use. For years the railroad has been the sport of politicians; upon its shoulders they have climbed into office; for its torture they have continuously invented new instruments. The railroads may well complain that the Government has treated them no better than it formerly treated the Indian tribes.

*The outlook.*—What we must always keep prominently as a point of view is that the wheels of industry are turned by management (that is, by those like the group here to-day) and by management alone. In our own interest we should give management every freedom possible, encourage and sustain it, liberally reward it, render it support and respect.

Character is formed upon ethical discrimination, a sense of obligation, and a disciplined will power. Railroad legislation whether National or State may be searched in vain for any recognition of these qualities. It is not too much to say that the whole body of this legislation is a reproach to a free country. It was acts similar to this legislation that led to the Puritan Revolution, that drove the Stuarts from the throne, that won the freedom of the subject from arbitrary tyranny and established the whole body of practices summed up in the rule of law under which it is our proud boast that we live, shutting our eyes to the glowing mistreatment of the railroads by the rule of men.

*The remedies.*—In seeking for a remedy we should look rather to a recasting of our methods of administration than to changes in the Constitution. The Constitution is really a most remarkable instrument. Daniel Webster, when a boy, purchased at the village store a pocket handkerchief, on the two sides of which the Constitution was printed. It then contained 5,481 words. An amendment regarding the election of the President and the three amendments made necessary by the Civil War added 988 words. Since then we have adopted four amendments containing 358 words and are now in the process of adopting an amendment with 64 words. The additions since the Civil War constituting 5.24 per cent of the total, to a considerable extent are thought by many to have been meddlesome and in some cases harmful. If we find practicality in the repeal of the eighteenth amendment (the prohibition amendment), we might well consider a similar disposition of several others, but the really practical improvement lies in administration changes. As examples I suggest:

1. The exercise of the franchise shall be suspended for all persons on the public pay rolls and the dependent members of their families.
2. A universal but graduated suffrage, in one place only, on major issues and for important offices. The graduation might well be based upon educational qualifications.
3. A right to vote on local issues and for local offices in several places based on payment of taxes, or rent of a fixed amount.
4. A poll tax; exhibition of tax receipt essential to voting and taking the effect of registering.
5. The graduated income tax is purely socialistic and offensive to our Republican form of government. The tax should be imposed at equal rates on all incomes above the minimum at which the cost of collection would exceed the tax collected.
6. Death duties, i. e., estate of legacy taxes, to be limited to not more than one year's income of the property received and to be at a flat rate based upon amounts received by legatees or distributees with no exemptions above the minimum at which cost of collection would equal the amount of the tax. The proceeds should be used only to retire debts or for capital in construction.
7. Thoroughly remodel and reduce the 10 departments and 150 bureaus now governing at Washington and correspondingly in the several States. They represent the fond dream of the tyrant, unlimited authority with freedom from any responsibility.
8. Abolish all administrative commissions empowered to meddle with the management of industry. Fix the standards of conduct by law and leave the enforcement of the law to the courts.
9. Repeal all laws giving statutory recognition to political factions or parties. This would include direct primaries. This would doubtless restore the old convention practice.
10. Whenever any unit of Government undertakes to go into business on its own account it should definitely segregate that business so that neither directly nor indirectly can the operation affect the interest of the taxpayer proper. Further, a system of accounts should be kept that will make the results plain.

The men who drafted the Constitution, probably better than any others who have ever lived, understood the principles of government. Our practice is to ignore principles and look only to expediency. Persisted in, it will bring us to ruin.

## STATEMENT OF FLINT GARRISON, DIRECTOR GENERAL OF THE WHOLESALE DRYGOODS INSTITUTE, NEW YORK

Mr. GARRISON. Mr. Chairman and gentlemen of the committee: My name is Flint Garrison. My address is 40 Worth Street, New York. My office is that of director-general of the Wholesale Drygoods Institute, an association embracing in its membership practically all of the large wholesale dry goods houses in the United States.

I appear before you not as a representative of that organization, but as a private citizen, who for more than 20 years has made a special study of political economy—not as it is taught to the classes from text books—but as it may be observed in its operation in industry and trade.

I have presumed to appear before you because it happens that for the past year or more I have been making an analysis and report of the causes of the present economic depression and of possible lines of action which may be undertaken to end it, which report in the opinion of a number of business and professional people contains material which should be brought to the attention of this committee.

This specific study was undertaken as a result of my contact with a member of the President's Committee on Unemployment in the fall of 1931. This gentleman called on me for the reason that certain statements I had made to the committee aroused his interest and he wished to discuss them more in detail. It developed in our conversation that within the committee itself at that time there appeared to exist no clear-cut idea as to the cause of our widespread unemployment, nor was any definite plan or program then being formulated with a view of bringing this condition to an end.

I outlined to him my conception and understanding of the forces which had been at work to bring about widespread unemployment and he declared that outline to be the first comprehensible explanation of the phenomenon which he had been able to secure.

As a result of this and later conferences with this member of that committee whose name for the present I must ask you to permit me to conceal—I decided to undertake the task of assembling the fact and organizing them into the report which I am now completing.

We must agree that we shall act somewhat blindly if we undertake to apply a remedy before we understand the nature of the disease. I shall, therefore, presume to first offer to you my analysis of the influences which have brought this Nation to its present economic predicament, and from this analysis you can judge if you would care to hear my proposed measures of relief.

The facts clearly indicate that the present economic plight of the United States may be chiefly—if not solely—credited to our mechanism of finance, which term I use to designate our money and credit system and the banks which control it. This mechanism has been allowed to manufacture and impose upon our national economy a debt or capital burden larger than our national wealth and national income can support. In 16 years from 1915 to 1929 the fixed long-term interest-bearing debt of the country grew from $37,000,000,000 to $121,000,000,000, or an increase of approximately 300 per cent. In three years since 1929 the long-term interest-bearing debt of the Nation has been increased by another $10,000,000,000.

When we add to this the short-term debt represented by bank loans, installment debt, personal and other forms of short-term debt, which in 1929 reached an aggregate of $60,000,000,000, and further add to this the capital debt represented by the preferred and common stocks of corporations, which by 1929 had reached a market price of $90,000,000,000, we have an aggregate of close to $300,000,000,000 of long term, short term and corporation debt upon which our financial mechanism was endeavoring to secure an interest return in 1929.

When we realize that the total wealth of the United States has been placed by various estimates at approximately $300,000,000,000, and further realize that a vast portion of this wealth is still unmortgaged and uncapitalized, it becomes at once apparent that our financiers by 1929 had built up a debt and capital structure many billions greater than the tangible wealth which lay behind it.

The principal items of long-term debt, and the growth of these items from 1913 to 1932, are presented in the following table:

*Debt outstanding in the United States—Long-term debt*

[Millions of dollars]

| | 1913 | 1921 | 1929 | 1932 |
|---|---|---|---|---|
| Federal Government | 1,028 | 23,155 | 16,301 | 18,600 |
| State, county, municipal | 3,820 | 8,688 | 17,100 | 19,700 |
| Total Government | 4,848 | 31,843 | 33,401 | 38,300 |
| Steam railroads | 10,842 | 11,357 | 12,459 | 13,081 |
| Street railways | 1,600 | 2,300 | 2,200 | 2,000 |
| Public utilities | 2,124 | 4,152 | 9,569 | 10,410 |
| Total utilities | 14,566 | 17,809 | 24,228 | 25,491 |
| Industrial | 3,600 | 8,300 | 15,631 | 16,600 |
| Unclassified | 555 | 1,950 | 3,950 | 4,700 |
| Total corporate | 23,569 | 59,902 | 77,210 | 85,091 |
| Farm mortgage | 4,900 | 8,232 | 9,500 | 9,400 |
| Urban real estate (including real-estate bonds) | 8,800 | 15,120 | 33,125 | 35,625 |
| Total mortgages | 13,700 | 23,352 | 42,625 | 45,025 |
| Federal land banks | -------- | 420 | 1,181 | 1,184 |
| Joint-stock land banks | -------- | 77 | 577 | 544 |
| Total, quasi-public | -------- | 497 | 1,758 | 1,728 |
| Total long-term indebtedness | 37,269 | 83,751 | 121,593 | 131,844 |

Mr. GARRISON. I will not read the entire table, but the principal items are, of course, the Federal Government, from $1,028,000,0000 in 1913 to $18,600,000,000 in 1932, and I understand it is closer to $20,000,000,000 at the present time.

Senator GORE. Above $20,000,000,000.

Mr. GARRISON. Above $20,000,000,000?

Senator GORE. Yes.

Mr. GARRISON. State, county, and municipal, in 1913, $3,820,000,000. In 1932, $19,700,000,000.

Steam railroads, the lowest increase of all, from $10,842,000,000 in 1913 to $13,081,000,000 in 1932.

Public utilities, $2,000,000,000 in 1913 to $10,000,000,000 in 1932.

Farm mortgages, from $4,900,000,000 in 1913 to $9,400,000,000 in 1932.

Urban real estate, from $8,800,000,000 in 1913 to $33,000,000,000 in 1929 and $35,500,000,000 in 1932.

The total of all forms of long-term interest-bearing debt increased from $37,000,000,000 in 1913 to $131,000,000,000 by 1932.

This great increase in the overriding burden of debt was not occasioned by the cost of the war. Total governmental appropriations for all war purposes of every nature whatsoever, including advances to our associates in that great enterprise, were considerably less than $50,000,000,000, approximately half of which was paid off through taxation within three years of the close of the war, and all of which could have been easily retired within another 5-year period by a proper application of the Government's taxing power.

The great growth of interest-bearing debt was occasioned by the method employed in financing the war itself and likewise the method employed in financing all public and private undertakings since the war.

The effect of this debt burden on our national economy can be traced by considering the nature of our society, its industrial and financial organization, the relation of people to one another, their sources of income, what they do with their income, and the effect of their expenditures on industry. Its general and specific effect I have endeavored to trace in the report available to the members of this committee if they are sufficiently interested in my summary to desire particulars.

Phrased in the briefest and simplest possible terms, the conclusions reached in this report may be thus expressed:

Roughly speaking, our entire population may be divided into two great categories:

1. The great majority of the people who derive income primarily from work performed; that portion of the people who are paid for what they do.

2. A small minority of the people who derive income chiefly from investments; that portion of the population who are paid for what they own.

The ratio of these two categories may be as low as 95 to 5, or possibly as high as 99 to 1.

The sums which are paid to these two groups of people constitute the national income. This national income in turn is expended for the goods and services which the national economy produces. If all the income is expended all of the goods and services are bought and used. If a portion of the national income is not expended then a portion of the national industrial product accumulates as a surplus; industrial operations must be checked, and industrial unemployment must develop as an inevitable consequence.

Increasing the debt or capital charge on all industry increased the share of the national income which was received by the minority group who are paid for what they own. This owing group receiving more income than it can expend on subsistence utilizes its income for reinvestment purposes. Investment opportunity depends upon the constant expansion of industry, which in turn depends upon a constantly expanding market, which in turn depends upon a constant increase in the buying and consuming power of people.

If the buying power of people does not keep pace with the producing power of industry, then industry produces a surplus of goods which it can not sell and must cease production. This creates unemployment which serves to further curtail the buying power of people, narrows the market for industry, and curtails or destroys the opportunity for the investment of accumulated capital.

The balance between the buying power of the people and the producing power of industry, between the capital income and the investment opportunity of the capitalists, was destroyed, as I have stated, by the method of financing the war, the profits to industry which resulted from that financing, and the speculative and promotional activities which have taken place since the close of the war.

War financing and the manipulation of capital and capitalization incident to and since the war has brought into existence the vast burden of interest-bearing debt, which must now be carried by industry and, therefore, by society as a whole. This burden is now more than four times as great as was the capital and debt burden existing prior to the war, and is steadily growing greater.

The interest on this vast debt and capital burden represents a subtraction from the purchasing power of people who are paid for what they do and an addition to the income of the people who are paid for what they own, thus shrinking the market for the consumers' goods of industry and at the same time decreasing the opportunity for the purchase or investment in capital or producers' goods.

The weight of this burden was not felt during the period immediately following the war, because the accumulating capital was expended through four chief outlets which then remained open:

(*a*) In expanding the manufacturing facilities of the country.

(*b*) In transforming and rearranging urban and rural social and industrial facilities made necessary by the development of the automobile.

(*c*) In great speculative ventures, particularly urban and suburban real-estate developments.

(*d*) Foreign loans.

All these enterprises, however, were so financed that each was made to add to the general social burden of fixed interest-bearing debt.

The limit of such expansion was ultimately reached. The normal demands of the market were provided for, and the expectations of the future in some important lines were anticipated for a generation or more. Every American industry, without exception, now has plant capacity anywhere from 100 per cent to 500 per cent in excess of the demands of the existing market measured in terms of the normal income of the people who buy the consumer's goods produced by industry. The excess capacity is now even greater, due to the reduced national income arising from unemployment and lowered wages.

Our internal economic difficulties have been further intensified by the derangement of our previously normal international balance of trade. Prior to the war we were a debtor nation, owing money to Europe and making our annual interest and dividend payments on that debt by an excess of exports over imports. This excess of exports caused our agricultural industry to organize itself on the basis of a great annual surplus, which surplus could be disposed of at normal prices in Europe without deranging the rate of monetary exchange.

The war reversed the financial relations of the United States and Europe, and instead of annual payments due to Europe from the United States, payments are now due from Europe to the United

States. The acceptance of payments in goods has been minimized by further increasing the tariff, and the effect of payments other than in goods has depressed the price of European money below its normal ratio to the dollar and has made export business increasingly difficult for American manufacturers and agricultural prices still lower for American farmers.

The price or value of all industrial products is measured in terms of actual or potential demand. As Mr. Loree very wisely expressed it a while ago, things are worth what they will fetch. The surplus over and above the demands of the market has a tendency to depress the price of the entire production. If the surplus is excessive prices are demoralized.

This is true not only of commodities but also of facilities. With the great excess of national equipment in factories, stores, loft and office buildings, hotels, apartment houses, the values or prices of all such facilities are steadily declining, and this decline in price is undermining our entire property structure as well as our structure of finance, for a vast part of the credits now outstanding—the liquid circulating money of banks—is based on property values which for three and a half years have been and still are steadily shrinking.

The outstanding fact which must now be squarely faced by industry, finance, and government alike is that all values within the Nation must now be measured by the size of our domestic market—literally by the buying power and consuming power our people have at home.

For an indefinite period of time we shall be fortunate if we succeed in keeping our exports equal to our imports. This means that American industry can sell no more products than the American people can buy and consume. Unless American industry can profitably dispose of its products the value of industrial investments will decline and the capital structure built upon this development will tend to disappear.

American industry can not profitably dispose of its product with the national income at its present level. Unemployment and low wages have developed to such a high degree that the national income has been approximately cut in half since 1929.

Industry itself is powerless to check this decline or add to the national income. Although all industry needs to have increased buying power in the hands of the people in order to profitably dispose of its product, each industrialist in his effort to meet competition and lower his operating costs, is forced to reduce wages, thus reducing the national buying power and narrowing the market for all industry. The process is as though all industry needing more people to buy the industrial product was progressively putting more people out of existence.

Meanwhile, as the national income declines, the fixed burden of interest-bearing debt does not decline with it, but instead continues to increase, and as it increases subtracts more and more from the income of the major portion of the population who are paid for what they do, and who as a consequence can buy less and less of the national producer, while adding relatively more and more to the income of the minor portion of the population who are paid for what they own and who because of a steadily shrinking market can find less and less investment opportunity in industry.

Interest on debt absorbed 10 per cent of the national income in 1929 and approximately 20 per cent in 1932. The ratio is now steadily rising.

Senator GORE. The interest charge was that per cent of the national income, is that what you mean?

Mr. GARRISON. Yes, sir. The total national income derived from all sources whatsoever, that portion was absorbed in interest on capital debt in one form or another.

Senator GORE. Yes.

Mr. GARRISON. This process, if unchecked, could theoretically progress to a point of complete absorption, where interest on debt could take all the national income, as it has already absorbed the total income of a large section of agriculture.

The process is now being checked to a limited degree by deflation or liquidation. In this process a great accumulation of debt is being written off through foreclosure and default, but in this process a vast shift is occurring in the ownership of property, and if permitted to continue will wipe out the equities of the majority of people now owning property in the United States and will concentrate the ownership of all property into still fewer hands.

The Government can no longer continue in its efforts to hold up the capital structure of the Nation while seeing the national income steadily decline. If it persists in the effort it will bankrupt itself. It, therefore, has two alternatives presented by the conditions:

(*a*) Shall the process of liquidation and deflation be permitted to continue without check, with all the financial, economic, and political hazard which this process entails, or

(*b*) Shall the Government utilize its credit creating power to expand the income of the people to a point necessary to utilize the industrial product and sustain the capital structure that has been created on our present industrial development.

The facts accumulated seem to clearly indicate that the latter course can be followed without any derangement whatever to our monetary system and with widespread satisfaction to all our citizens.

Senator HARRISON. How would you do it?

Senator SHORTRIDGE. Yes, how would you do it? You say it is easy to do it. Now tell us how.

Senator GORE. Present your miracle.

Mr. GARRISON. First, Senator, are we agreed as to the disease? My opening statement was that there would not be much object in our proposing a remedy unless we were agreed as to the disease.

Senator GORE. I understand that.

Senator SHORTRIDGE. What is the trouble? What is the disease? How do you term it? What do you call it?

Mr. GARRISON. The disease as I have termed it is first an excess accumulation of capital charge on all industry, on all industrial processes, which capital charge is accumulated at too great a share of the national income.

Senator SHORTRIDGE. You mean the increased indebtedness and the consequent interest charge on that indebtedness?

Mr. GARRISON. Well, did you hear my description of the various forms of capital charge which industry now sustains?

Senator WATSON. Yes.

Mr. GARRISON. Approximately in 1929 an endeavor to secure an interest return on a capital charge of 300 billions of dollars.

Senator GORE. Now, we have got to increase employment and raise prices on the one hand or cut down debt on the other.

Senator SHORTRIDGE. In your closing statement you hinted that we must inflate to some extent. What is your way of doing that? Various suggestions have been made. What is your idea about it? How would you proceed?

Senator GORE. That is the point.

Senator SHORTRIDGE. You have got a very splendid paper there upon true conditions.

Senator GORE. You have got to raise prices or cut down debts. Which are you going to do?

Mr. GARRISON. I think we have got to do both. We have got to raise prices and cut down debts. We can only raise prices by increasing the consumption of goods. We can only increase the consumption of goods, by putting the purchasing power in the people who consume goods.

The CHAIRMAN. Now go one step further.

Senator WATSON. Yes, go the other step.

Senator GORE. Yes, theoretically we keep pace with you there.

Mr. GARRISON. I will just read one section of this report. I will preface it by saying we frequently hear the remark made that another war would lift us out of our difficulties.

Senator SHORTRIDGE. But it means suicide.

Senator GORE. War got us into this. Maybe it might get us out.

Mr. GARRISON. That remark is frequently made.

Senator WATSON. Eliminate that. We are not going to war.

The CHAIRMAN. Yes.

Senator HARRISON. Yes. We have got to leave here pretty soon.

Mr. GARRISON (reading):

> If we as a people should become greatly exasperated or highly excited by the agitations of newspapers, Congress might be led into a declaration of war against some great military power. No one, I think, could seriously question our ability to finance such a war. We would at once proceed to issue United States gold bonds at the rate of one or two billions of dollars per month, would deposit these for sale in banks, and the proceeds of such sales would be expended on the purchase of the supplies and munitions of war. We would increase the income, excess profits, and inheritance taxes in order to provide for the ultimate retirement of these bonds. Although we would send overseas several millions of our finest and most carefully selected boys, many hundreds of thousands of whom would be slaughtered, the rest of us would enjoy another period of great prosperity.

The CHAIRMAN. Mr. Garrison, do you think there is any need of that at all?

Mr. GARRISON. Well, briefly, Senator, if you would like to have this, I think this. I will phrase it this way. I think the Federal Government can now undertake to finance a war on economic stagnation by precisely the process it would undertake if it would finance a war upon another nation. First by employing the technique of war finance to expand the credit and expenditures of the Nation, through sources which would find its way into the consumption of goods and the employment of people.

The two main avenues are, first, the undertaking of great public developments of one sort or another, which are perfectly clear, logical, and feasible.

The second is through loans to municipalities and others for like developments.

But both of those would require some period of time before they could get into operation. It would take two or three years before we could get spending money into the hands of people sufficient to take up this slack of goods which is now lowering the level of all property values.

The CHAIRMAN. That is, you mean, through State agencies?

Mr. GARRISON. No. I mean that there is hardly a city in the land but what has undertakings which should be undertaken at the present time.

The CHAIRMAN. Well, that is within the States.

Senator HARRISON. Do you mean to broaden the principle laid down in the reconstruction finance legislation with regard to self-liquidating concerns?

Mr. GARRISON. I do not think that.

Senator SHORTRIDGE. Do you mean that the Federal Government as such should advance or loan to States, municipalities, or quasi-public enterprises the money? If so, where is the Federal Government going to get the money?

Mr. GARRISON. Senator, let me give you a few figures here. Going back to the Federal Government financing during the war and the effect of that financing upon industry as a whole. The Government expanded in three years from 1917 to 1920 its credit to the extent of about $36,000,000,000. The Federal Government expanded its credit $36,000,000,000 in three years.

Senator SHORTRIDGE. Borrowed the money, is that what you mean?

Mr. GARRISON. Sold bonds.

Senator SHORTRIDGE. It sold bonds. Borrowed money from the people.

Mr. GARRISON. Borrowed money from the people. It expanded its credit $36,000,000,000 and recovered half of it within three years after the close of the war, or approximately that. And that expenditure upon industry as a whole stimulated all industry to such a great degree that it doubled the national income, raising it to an average of $72,000,000,000, which continued for a period of 12 years.

The CHAIRMAN. That was done by war.

Mr. GARRISON. That was done by war.

The CHAIRMAN. Now, tell us how you are going to do the same thing here in peace time?

Senator GORE. Just a minute. That was in terms of value and not volume.

The CHAIRMAN. Both.

Mr. GARRISON. That was in terms of current value, Senator.

The CHAIRMAN. The war brought on a demand for goods all over the world. Exportations. Now, how about peace time? How do you propose to do it in peace time?

Mr. GARRISON. I propose to use precisely the same technique. By expanding credit, placing money out where it will consume goods and do for industry at the present time what we did in 1918, 1919, and 1920 in war enterprise.

I am at present studying and I will give you later the report on how I think money can be put into the hands of people quickly. That is what you want to know.

Senator SHORTRIDGE. We have outstanding now in round figures $20,000,000,000 of interest-bearing obligations, have we not?

Mr. GARRISON. Yes, sir.

Senator SHORTRIDGE. Is it your idea that we should issue say two, three, four, five billion dollars additional interest-bearing obligations, lending the money or advancing the money then to States, municipalities, quasi-public corporations?

Mr. GARRISON. Senator, please bear this in mind, that the Government has borrowed and lent in the last year or more a great many billions of dollars, not a dollar of which has recorded itself in the purchase and consumption of goods. All of it has been for the purpose of holding up the capital structure. For instance, you have lent more money to the railroads but have done nothing to increase the traffic to the railroads. You have lent the money to bankers whose securities were depreciated, but have done nothing to increase the value of those securities. Do you get my point?

Senator SHORTRIDGE. Yes.

Senator WATSON. Let me ask you this question: How do you propose to put these 12,000,000 idle people back to work and increase their consuming capacity?

Mr. GARRISON. I would not want to make offhand the most radical proposal, and which would be the simplest and most natural and most quickly effective way, and that would be to directly put into the hands of people money to spend and tell them to spend it. That would shock all of you, don't you see?

Senator GORE. Yes, it would.

Mr. GARRISON. That would shock you. And that would be too extreme. But I should like to give you later on a carefully worked out program by which that thing can be accomplished, in addition to these two other major outlets that I have named.

Senator GORE. Mr. Garrison, I think a good deal of your diagnosis of the disease. You say the disease is excess of credit. Excess of debt.

Mr. HARRISON. Excess accumulated capital.

Senator GORE. Excess interest charges that have to be paid by the people. Now then, you propose to remedy that disease by further extension of credit and a further wading into debt. That is true, is it not?

Mr. GARRISON. No; I do not. Senator Gore, I think it is entirely possible, if we will, for the Nation to expand its credit——

Senator GORE. Well, is or is not your remedy to have the Government extend credit to the people and incur more debt?

Mr. GARRISON. I think it is entirely possible for the Nation to extend its credit without incurring any interest-bearing debt whatsoever.

Senator GORE. That will be interesting. I will revert to that in just a moment. Since the war we have left billions of dollars to foreign countries to buy our goods, and we had prosperity while we did that. Would it not be a good idea for us to revive that and continue to lend money to people to buy goods?

Mr. GARRISON. We lent industry $36,000,000 in the three years I referred to, and we did not recapture it. We could have recaptured it. The national income increased over $36,000,000 per year. Out of that increase we could have recaptured all that we lent, but we did not.

Senator GORE. Which was largely an increase in value and not in volume.

Senator SHORTRIDGE. Senator Gore, pardon me. You said, Mr. Garrison, that we could, but we did not?

Mr. GARRISON. We did not.

Senator SHORTRIDGE. You say we could. How could we? It is so easy to say those things. Now tell me how?

Mr. GARRISON. Senator, you will recall that all during the war period and also following the war there were two conflicting opinions running through Congress on the subject of taxation. Two very definitely conflicting opinions. One group of the Members in Congress here advocated very much higher income-tax rates, higher excess-profits rates, and higher inheritance-tax rates than were imposed. Very much higher. That was during the war. That same group advocated the maintaining of the existing rates after the close of the war. But their voice was not heard. There was the counteropinion which said, "We must let capital accumulate, for through the accumulation of capital we develop industry, give employment, and keep our industries going."

Senator GORE. Would you have raised those rates?

Mr. GARRISON. I would have raised those rates, absolutely, and would have sustained them after the close of the war.

The CHAIRMAN. And what would the Government have done with the money?

Mr. GARRISON. The Government would have paid off its debt. Would have prevented some of this further accumulation of capital debt which has since been imposed upon all industry.

The CHAIRMAN. In other words, you would have taken money out of circulation here by taxation on the part of the Government and the Government collect that money and then pay their obligations?

Mr. GARRISON. Well, that would have taken it out of circulation at the time when we had too much in circulation.

Senator SHORTRIDGE. Too much money in circulation?

Mr. GARRISON. During the war years we had vastly too much in circulation; so much in circulation, in fact, that we had to control industry, we had to set up the War Industries Board which said what industries could run and what should not run. We had an overstimulation of industry at that time.

Senator GORE. I think your recommendation to maintain higher taxes at the time is a good one. This is a peace period, though, and I want to get this in the record. Senator LaFollette, Senator Thomas, and myself filed a minority report from this committee recommending that policy for this purpose.

Mr. GARRISON. Senator Gore, at the present time with industry declining, profits on industry declining, income declining, the sources of taxation of the Government are drying up. You see that.

Senator GORE. Oh, I do see that.

Mr. GARRISON. Yes, sir. The point I am making is that the Government would profit if it would now extend loans in the direction that would increase its source of taxation. It has been extending loans in a direction that will not increase their sources of taxation. You have been extending loans, don't you see, to maintain these fixed debts. You have not been extending loans that will result in the consumption of goods and the increase in values.

Senator GORE. If you think any of these loans that are made to these municipalities ever will be repaid you are certainly an optimist. And if the general Government can borrow money and lend to these cities, why can not the cities raise money for that purpose?

Mr. GARRISON. The Federal Government has the power of creating money, which the municipalities do not have.

Senator GORE. Creating money?

Mr. GARRISON. Yes, sir.

Senator SHORTRIDGE. State that again.

Mr. GARRISON. The Federal Government has the power——

Senator SHORTRIDGE. To do what?

Mr. GARRISON. To create money. In other words, it can manufacture money. And the municipalities do not have that power.

Senator GORE. That might lead to debate that the Government can create money. It can create promises to pay money.

Senator SHORTRIDGE. Mr. Garrison, what is your definition of money? What is money?

Mr. GARRISON. I have quite an extended definition of money, Senator.

Senator SHORTRIDGE. Give us a more or less concise definition of money as you visualize it.

Mr. GARRISON. The simplest definition of money, of course, is a medium of exchange. Through which medium of exchange or in which medium of exchange there is set up a unit of value.

Senator SHORTRIDGE. Gold as a metal is not money, is it?

Mr. GARRISON. No.

Senator SHORTRIDGE. You note my question: Gold as a metal is not money?

Mr. GARRISON. We are using credit as money.

Senator SHORTRIDGE. Is silver, as a metal, money?

Mr. GARRISON. No. It can be used as money. You can coin silver and use it as money. You can coin gold and use it as money. But we use very little coined gold and very little coined silver as money. We use many forms of credit as our money, and we measure that credit in units of gold.

Senator SHORTRIDGE. So you say the Government can create money?

Mr. GARRISON. The Government can create money in precisely the same way, Senator, that industry or finance or our banking structure creates money.

Senator GORE. But you are using "money" there in the sense of credit after all, are you not?

Mr. GARRISON. That is what 90 per cent of our money is.

Senator GORE. If you call credit and money the same thing, that is true. It fulfills the function of money to a great extent.

Mr. GARRISON. We are using credit to the same extent as money.

Senator GORE. And credit has shrunk in the last year thirteen billion.

Mr. GARRISON. Yes.

Senator GORE. Do you know any way that we can force the banks to re-create this credit?

Mr. GARRISON. My point is that finance can not expand the credit, because industry can only put its money into something that will pay a profit. And you can not find an opportunity in industry to invest money and pay a profit. Industry has been brought to a stalemate. It can not move at the present time. You can not find an industry in this country that can absorb an additional dollar of investment for the expansion of the industry. And you are hoping that some day we can begin to expand industry in order that we can put the people to work. Now, if you can only expand your industry after you put your people to work, and you can only put your people to work by expanding industry, where will be get in that situation?

Senator GORE. That is just the point. Exactly so. It looks like it takes a miracle or time, one or the other, to solve it.

Mr. GARRISON. Well, you have the means at your command.

Senator SHORTRIDGE. You made some statements in regard to exports and imports.

Mr. GARRISON. Yes.

Senator SHORTRIDGE. And their bearing upon conditions. We continue to export now, do we not?

Mr. GARRISON. We are continuing to export, but our excess of our exports over imports has decreased precisely in the ratio of our decrease in foreign loans. For 10 years we made foreign loans at the rate of about a billion dollars a year—since the war. While those loans were being made our exports exceeded our imports by about that degree. Now we can not go on shipping more goods outside of the country than we received into the country unless we continue to build up a continuing debt outside of the country.

Senator SHORTRIDGE. How about imports? What effect have they on our internal, domestic condition, in your opinion, briefly stated? We have certain imports from European countries. Increasing imports from Asiatic, Far East countries. What effect, if any, have those increased imports on our domestic condition?

Mr. GARRISON. The effect is like this: You have to consider agriculture which embraces about one-quarter of our entire population. Agriculture has a great exportable surplus. We export 20 per cent of our wheat and approximately 50 to 60 per cent of our cotton. The price we receive in foreign markets on that surplus, whatever it may be, fixes the price of the total products here in the United States. Now, if we do not receive enough imports to pay for those exports—do you get the point?

Senator SHORTRIDGE. Yes; but I do not agree with you at all. I have a different theory. I may be all wrong.

Mr. GARRISON. Then the issue is clear-cut between you and me on that proposition.

Senator SHORTRIDGE. Yes. We must not prolong this colloquy. We have certain industries in the United States—farming, mining, manufacturing. They employ men and women to create certain articles, which, in turn, are sold and purchased here in America. My immediate question is this: Do you think it advisable that we should continue to receive vast quantities of like goods manufactured in the Orient, or should we by some fair, equitable arrangement limit those imports to the end that our own people here might manufacture the things we use?

Mr. GARRISON. My answer to that is, Senator, that if by receiving a dollar's worth of imports we can enhance the value of $5 of our agricultural products, we can probably profit by the receipt.

Senator SHORTRIDGE. Take the far West, the Pacific coast from the Washington line, British Columbia, to the Mexican border, taking in the three State of Washington, Oregon, and California. We have out there in those States, particularly in the latter, a great poultry industry. Do you think it is advisable that we increase poultry imports from China—would that be advantageous, do you think—to California, or to the Union as a Union?

Mr. GARRISON. Let us take the alternative of that, Senator. Let us suppose we exclude all imports whatsoever.

Senator SHORTRIDGE. Yes.

Mr. GARRISON. Suppose we exclude all imports whatsoever, then what will happen?

Senator SHORTRIDGE. I think we would all be pretty busy.

Mr. GARRISON. What would we do with the excess production of wheat and cotton? Do you know?

Senator SHORTRIDGE. Well, it would not necessarily follow that we would export.

Senator GORE. Over half of the cotton that we raise in this country goes abroad.

Mr. GARRISON. Yes; over half of our cotton goes abroad. What would you do with that?

Senator SHORTRIDGE. It would continue to go abroad.

Mr. GARRISON. How could it?

Senator SHORTRIDGE. Why, it would be bought and paid for.

Mr. GARRISON. With what?

Senator SHORTRIDGE. I beg your pardon?

Mr. GARRISON. With what? What would it be paid with?

Senator SHORTRIDGE. With money.

Mr. GARRISON. Who would get the money?

Senator SHORTRIDGE. We would get the money.

Mr. GARRISON. What kind of money? Dollars?

Senator SHORTRIDGE. Why I would hope so.

Mr. GARRISON. It would be paid in dollars?

Senator SHORTRIDGE. I would hope so.

Mr. GARRISON. Where would they get the dollars to pay for it?

Senator SHORTRIDGE. Where do they get the money now?

Mr. GARRISON. That is what is the difficulty to-day that exists between the rate of British exchange and the United States exchange.

Senator SHORTRIDGE. Oh, I grant you the depreciated currency has upset things.

Mr. GARRISON. The British are trying to buy dollars now to pay the balance, the unfavorable balance. They can not ship goods. And the more they try to buy dollars without goods the more dollars go up and the pound goes down. You will agree with that, will you not?

Senator SHORTRIDGE. Yes.

Mr. GARRISON. All right. As the pound goes down and the dollar goes up, what happens to cotton? Do you understand the marketing of cotton?

Senator SHORTRIDGE. Well, I know a little bit about it. I know we raise the best cotton in the United States in California. You will admit that, will you not?

Mr. GARRISON. Yes. Well, the world price of cotton, as you know, is fixed in Liverpool, England.

Senator SHORTRIDGE. It ought not to be.

Mr. GARRISON. No matter whether it should be or not, the fact remains that you must go to the market to market your goods.

Senator SHORTRIDGE. Why does Europe buy cotton of us? Because she needs it and must have it. Not because she loves us, because she does not.

Mr. GARRISON. Europe buys cotton from us because she does not produce it.

Senator SHORTRIDGE. Precisely.

Mr. GARRISON. But she does use it. She uses cotton. We produce it. She buys it and we have got to go to the market to sell it. The world market for cotton is Liverpool, England.

Senator SHORTRIDGE. Well, we have sort of surrendered our power.

Mr. GARRISON. It is not a question of our surrendering our power, Senator; it is a question of a trade development which has taken centuries to bring about.

Senator SHORTRIDGE. We will admit that for the moment.

Mr. GARRISON. The fact is that the world price for cotton is fixed in Liverpool, England, and is expressed in terms of English pounds and pence, and if you will check up on the cotton market, you will discover that before the decline in the British pound you could take the Liverpool quotations expressed in pence and multiply them by two and get the price for American cotton. If the price was 5½ pence you could figure that the price in American money was about 10½ to 11 cents. Since the decline in the British pound cotton is still being quoted in Liverpool at about 5½ pence, but the price in American money now translates into about 6 cents a pound.

Now, if you exclude all imports whatsoever that disparity in exchange will increase, and the price of your American cotton expressed in American dollars will decrease accordingly. Therefore, I say that it might be advantageous to admit an occasional dollar of foreign production in order to enhance the value of three or four dollars' worth of our domestic production. We will begin by that process.

Senator SHORTRIDGE. I do not wish to put a Chinese wall around the United States, though every nation in Europe is erecting such a wall around itself. One thought I wish to invite your attention concerning is this. We raise cotton in the United States. A vast quantity of cotton. Europe needs that cotton. If we organized properly could we not measurably fix the price of the cotton which they demand from us?

Mr. GARRISON. I think it might help. But I question the ability to fix it.

Senator GORE. But that would encourage the production of cotton in Egypt and India and Mexico and southern Russia.

Senator SHORTRIDGE. That is true, Senator.

Senator GORE. That would be encouraged if we fixed a price above the world price.

Senator SHORTRIDGE. That is true. But they have been raising cotton in Egypt since the Paraohs, and somehow they do not develop greatly.

Mr. GARRISON. We would be working in a direction of a wiser solution and a more permanent solution if we governmentally studied the ways in which our people could be put in position to consume more cotton. The fact is that since this great decline in the price of cotton goods which has taken place since 1929 the per capita consumption of cotton goods has not increased. It has decreased. The earning power of people has decreased more rapidly than the price of finished cotton goods. In 1929 we were consuming about 68 square yards of cotton cloth per capital. In 1932 we were consuming about forty-some odd yards.

Senator SHORTRIDGE. Do you not attribute that to the change of style of the ladies?

Mr. GARRISON. Not at all.

Senator SHORTRIDGE. Do you not attribute that rather to the shortening of the garments?

Mr. GARRISON. Oh, I think that is all hooey.

Senator SHORTRIDGE. I beg your pardon.

Mr. GARRISON. That is pure hooey. If you go through certain sections of the country you will find millions of people that are half naked now. Style is not affecting them.

Senator SHORTRIDGE. It is not so at Palm Beach.

Mr. GARRISON. Just that one-half of 1 per cent of the people in Palm Beach; and I am speaking of 99½ per cent of the people who will buy the bulk of the cotton goods.

Senator SHORTRIDGE. A constituent of mine is urging the buying of American goods. "Buy in America." I refer to my constituent, Mr. Hearst.

Mr. GARRISON. Yes.

Senator SHORTRIDGE. If you care to express your opinion in regard to the philosophy of that slogan "Buy in America," "Buy American goods made by American men and women," you may express yourself.

Mr. GARRISON. I think it is an exceedingly provincial view. If America were 100 per cent self-contained, it would be correct.

Senator SHORTRIDGE. Well, now, we spread across the continent, 48 States, one hundred and twenty-odd millions of people.

Mr. GARRISON. I agree with you, sir, that if we could quickly readjust our entire agriculture to the basis of producing only a supply sufficient for the use of the United States, then the "Buy America" would be perfectly logical and would work.

Senator GORE. Well, it is not "Buy in America" alone; it is sell in America alone.

Mr. GARRISON. Precisely. Exactly so. One follows the other.

Senator GORE. Goods that are shipped abroad must be paid for in other goods or gold in the long run; is that not true?

Mr. GARRISON. Either that or continue to pile up debt.

Senator GORE. That is not paying for them.

Mr. GARRISON. I mean in the long run, if you want to get paid for them they must be either paid for in goods or gold, or in the continuing of investments in those countries.

Senator GORE. Yes.

Mr. GARRISON. Exchange can be effected by investing in a foreign country.

Senator GORE. A while ago you said we had the means in our own hands. What are those means? And if you were dictator, what use would you make of them?

Mr. GARRISON. Senator, I hesitate to, in cold blood, enunciate a principle which to me is perfectly sound, and which I think if we were not too conventional in our thinking we would be willing to accept. But we have a great many illusions and a great many prejudices with regard to economics and finance. And we have to avoid shocking our conventional attitudes and try if possible to avoid dispelling our illusions concerning money.

Senator GORE. I take it all Senators, including myself, get in every mail ready-made, specific, universal solutions for this situation. My own consists, 9 out of 10, in some suggestion about money. Mostly to increase the amount of money. To get the Government to print money, print promises to pay, and get it in circulation somehow or some other how. That then the dawn would come and everything would be lovely.

Mr. GARRISON. The great thought everyone has is the need for increasing money. We do not need to increase money. We have a superabundance of money. But it is in the wrong place.

Senator GORE. We have more than we had in 1929.

Mr. GARRISON. The great central banks are gorged with money at the present time, the owners of which have no way of getting it out. They can not invest it. What we need is to get money into the hands of people to purchase goods. And recreate industry. Now, the Government could go to the banks and borrow the money, and in so doing it would create an interest-bearing debt, which interest-bearing debt would multiply itself in time and require that it be paid over two or three times, you see, before it was finally liquidated. My claim is that the Government has it within its own power, by the use of its own credit, to create money without borrowing at interest at all, if it merely will exercise that power which it has within itself.

Senator GORE. I just do not know what you mean, Mr. Garrison.

Senator SHORTRIDGE. Nor do I.

Mr. GARRISON. I will show you now.

Senator SHORTRIDGE. How will you do it?

Mr. GARRISON. We issued bonds during the war, did we not?

Senator SHORTRIDGE. Yes.

Mr. GARRISON. We sold those bonds to banks. And to-day we are buying back those bonds through the Federal reserve bank and issuing currency in its stead. We have gone all around Robin Hood's barn, don't you see, to get some currency into circulation. You will admit that is happening, will you not?

Senator GORE. In a way.

Mr. GARRISON. In a way it is happening. Now, suppose instead of selling bonds to banks and then buying them back again, you do not go around all through that circuitous process; that you short cut that whole business. And in order that we would not shock our sensibilities we would say, let us issue a certain number of billions of dollars in gold bonds bearing interest, and deposit those bonds in the Treasury of the United States—not in banks, but in the Treasury of the United States. Perfectly safe place—the safest I know of. And against those bonds issue currency of precisely the same form which the Federal reserve banks are issuing to-day when they buy a bond.

Senator GORE. Mr. Garrison, is that not like you would make out a promissory note for a thousand dollars and then lock it up in your safe, and then you issue other notes based upon that promissory note? You are protesting against illusions, and I agree with you. If a Government issues its own gold bonds, an obligation to pay, and locks it up in the Treasury of the United States, and then issues Treasury notes based on it—it seems to me like the other illustration. What is the point?

Mr. GARRISON. There isn't any point. I am merely preserving the illusions which we have concerning money. The Government could issue the notes directly instead if it so wishes, but we would be shocked by that process.

Senator GORE. Let us look at the danger now. You are trying to preserve an illusion. If the Government issued and sold the bonds, that would be the Government's promise to pay at a fixed date in the future. It could regulate the amount of interest, could set aside the sinking fund, and when pay day would come, if necessary, it could refund that loan.

Mr. GARRISON. Yes.

Senator GORE. A Treasury note is the Government's promise to pay on demand, and it has got to pay those notes on demand in whatever amount tendered, or else it is in default and is off the gold standard. That is what happened in the nineties. Treasury notes were issued, confidence was destroyed, people gathered up these promises to pay on demand and brought them here and demanded payment on the instant, drained the gold reserve, shattered confidence, and precipitated the panic.

A government no more than an individual can afford to have too many promises to pay on demand outstanding at one and the same time. It is not in control of its own financial destiny then. It is in somebody else's hands. And when the Government redeemed these Treasury notes that you speak of, it would have to raise the gold by selling the bonds, and then it would reissue the Treasury notes, which would be gathered up the next time and presented again and payment on demand would take place and the Government would issue more bonds. In the nineties in two years we issued $250,000,000 of bonds trying to maintain a gold reserve of $100,000,000. You do not get anywhere. That is the worst illusion that we could indulge.

Mr. GARRISON. Senator, consider what is being done to-day in our whole money system by banks. Mr. Paul Mazur made the statement last Friday or Saturday at some economic conference, I think it was in Cleveland, that there existed in the United States at the present time various forms of what he called tokens, things which he classed as money, represented by bank deposits, bank checks, and a thousand and one various forms of credit that are now circulated as money. He made the estimate that there was a total of $102,000,000,000. I do not know where he placed it. I can not find more than half of that. He indicated that behind that vast flow of money there existed only $4,000,000,000 in gold. So that each dollar of circulating money as we now have it contained somewhere between 5 cents and 10 cents in gold, according to Paul Mazur's theory. And it does have 90 to 95 cents of other forms of value, of other commodities which do have value.

Senator GORE. You are right when you call it theory. The Government has issued its perfectly good gold bonds and locked them up in the Treasury of the United States. It has issued the Treasury notes against that security.

Mr. GARRISON. Yes.

Senator GORE. Now then, we have issued a billion dollars' worth of bonds and we have issued a billion dollars' worth of Treasury notes. A half a billion of those Treasury notes are brought here to Washington and payment of gold demanded. The Government pays it, has got to pay it or default. Now then, it would reissue those Treasury notes, but it has to sell the bonds to get the $500,000,000 to redeem these Treasury notes. It reissues the Treasury notes, paying for one service or another, gets them back into circulation. The people bring $500,000,000 more and demand payment. The Government sells these gold bonds to raise the money to get the gold to redeem these Treasury notes on demand. So they are redeemed. They are reissued. People bring them back the next time. You do not avoid the issuance of bonds by that sort of policy. You just create the necessity of issuing bonds and more bonds time after time. Now, when you have got a bond outstanding you know what you owe. But this system is that somebody else forces you to issue these perfectly good bonds and they present these Treasury notes and demand payment. You just get in a quicksand and geet deeper and deeper in.

Mr. GARRISON. Well, Senator, I think you will have to recognize that no financial undertaking that the United States might enter into could succeed or would succeed unless it had the complete sympathy and support of the large central banks of the United States.

Senator GORE. Some of these railroads are in heavy welter. They get money to operate from the Reconstruction Finance Corporation. Suppose they issued their perfectly good gold bonds and locked them up in their own strong box and then issued notes based on those?

Mr. Garrison. The banks do precisely the same thing. It circumvents it in a way, but they do that in the last analysis.

Senator Gore. The banks issue notes against gold and United States bonds or commercial paper.

Mr. Garrison. That is exactly what I am speaking of. They do the same process through banks.

Senator Gore. But when they redeem their notes they do not have to reissue them again unless there is some demand for them.

Senator Shortridge. Unless you wish to pursue the matter, Senator——

Senator Gore. No.

Senator Shortridge. Mr. Garrison, you have devoted thought to the problem, you have analyzed conditions and have suggested remedies to cure us of the disease. Have you considered the bearing of the foreign debts due us and their payment?

Mr. Garrison. That is the point I raised, Senator, when I said we must realize the fact that in view of the foreign debts we shall be lucky if we succeed in keeping our exports equal to our imports; we will be very lucky if we succeed in that.

Senator Gore. That is almost impossible for a creditor nation to do, is it not?

Mr. Garrison. I think it is practically impossible, Senator, for a creditor nation to do.

Senator Shortridge. In the aggregate from these several nations who owe us there is due or to become due from time to time over a period of 62 years some $11,000,000,000.

Mr. Garrison. Yes, sir.

Senator Shortridge. Bearing certain rates of interest. I do not suppose you think it would help us if we canceled those debts, do you?

Mr. Garrison. You see, if you canceled those debts which are owed the Government, there would still remain a large body of debts which is owed to private citizens in the United States. Payments on that private debt would be called for, and it would have the same derangement on international exchange that the collective debts now have. You might possibly slightly mitigate the circumstances. You would not remove it at all.

Senator Shortridge. If there be no further questions, we thank you, Mr. Garrison.

Senator Gore. I want to add, as I have submitted a number of questions, that I think Mr. Garrison has made one of the best and most searching analyses of our economic conditions. I am a little bit afraid that the remedy is like that of the Indians out in our country beating a tom-tom by the bedside of a sick person.

Senator Shortridge. Doctor Barker is not present. There has been a little misunderstanding as to engagements. The committee will stand in adjournment until Monday, when we will hear Doctor Barker, who was to be heard to-day.

(Thereupon, at 12.30 p. m., Saturday, February 18, 1933, an adjournment was taken until 10 o'clock a. m., Monday, February 20, 1933.)

# INVESTIGATION OF ECONOMIC PROBLEMS

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## MONDAY, FEBRUARY 20, 1933

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
*Washington, D. C.*

The committee met, pursuant to adjournment, on Saturday, February 18, 1933, at 10 o'clock a. m., in room 335 Senate Office Building, Senator Reed Smoot presiding.

Present: Senators Smoot (chairman), Reed, Shortridge, Thomas of Idaho, Metcalf, Harrison, King, Walsh of Massachusetts, and Gore.

The CHAIRMAN. The committee will come to order. Is Doctor Barker present?

Doctor BARKER. Yes.

## STATEMENT OF LEWELLYS F. BARKER, M. D., BALTIMORE, MD.

The CHAIRMAN. Doctor, give your full name and your address.

Doctor BARKER. Lewellys F. Barker. Baltimore, Md.

The CHAIRMAN. Your business?

Doctor BARKER. Physician.

The CHAIRMAN. You may proceed.

Doctor BARKER. If the Senators would permit, I would like to make a brief statement, and then answer any questions afterwards.

The CHAIRMAN. That is all right.

Doctor BARKER. The symptoms and causes of our economic maladies, with suggestions for treatment.

Six and ten point programs for economic relief have been promulgated, but a leading financial journal has recently proposed a one-point plan, namely that any college professor "the moment he bestrays symptoms of an intention to open his mouth or take his pen in hand, be immediately gagged, strait-jacketed, and immured in a padded cell." I shall, therefore, address you neither as a professor nor as a trained economist but merely as a physician who, like other citizens, is interested in the severe illness that his country manifests. Nor can I be expected to make proposals that have not already been made by others; I can only lay emphasis on those that seem to me to be most important.

As a medical man, it is natural to approach the subject by studying the symptoms and the possible causes of the malady and, upon the findings, to base a multidimensional diagnosis and suggestions for cure or relief.

The symptoms are so obvious as scarcely to need enumeration. They include profound business depression, paralysis of the productive activities of industries with widespread unemployment, a prodigious fall in the prices of farm products, of other commodities, and of real estate and securities, a crisis for the railroads and other transportation facilities, multiple bank failures and threatened collapse of insurance companies and of merchandising agencies, enormous reduction of the value of the assets and of the incomes of corporations and individuals with rapidly increasing bankruptcies, a marked lowering of the standard of living due to lack of purchasing power in the midst of plentiful supplies, and almost universal mental anxiety and despondency with regard to the possible effects of the further liquidation that seems to be inevitable.

The symptoms have continued so much longer than in an ordinary cyclical depression that the situation has even caused talk of social revolution and of the possible downfall of the capitalistic system. These symptoms have been aggregavated by the departure of many foreign countries from the gold standard, by forced sales of American securities by foreign holders, by defaults of foreign debts and by war and threats of further war in South America, Asia, Europe; we have to deal not only with a sick America but with a sick world. And, finally, as symptoms of the prolongation and the severity of the depression, we observe the prevalence of certain forms of agitation that always appear in the late stages of such a malady, demands for the application of fiscally heterodox remedies, for procedures that would almost certainly prove not only futile but provocative of further collapse.

Looking for the causes of the present economic situation, the primary factor is found in the development of the colossal indebtedness that accompanied the tremendous expansion of economic activities after the war. This continued until in the years from 1927 to 1929 the credit structure had become enormously inflated, huge amounts had been invested on borrowed money in new plants for production, markets had begun to be oversupplied with products, interest rates had risen to unprecedented heights, and speculation on margin in the stock exchanges had become rampant driving prices to levels at which the income return was minimal. High pressure salesmanship and installment plans of buying added to the great debt structure. The costs of Government, too, had undergone extraordinary expansion with corresponding rise in the burden of taxation. Early in 1929 the rate of investment began to decline, profits diminished, commodity prices fell and credit became restricted.

As we review that period it seems surprising that the approaching crash should not have been more widely foreseen and that adequate preventive measures were not resorted to. The great general public at such times of exaltation is always carried away by the belief in a continuance of prosperity and by the lure of speculation, but it must be admitted that students of economic history, our great bankers, and the supposedly skilled advisers of business leaders either did not fully recognize the dangers or failed to sound efficient warnings and to take drastic steps of correction early enough to avert the catastrophe. Instead, we were told that we were in a "new era" and that supposed laws of economics had become antiquated. Even after the bottom fell out in 1929, we were led to believe that we were merely in the depressive phase of an ordinary trade cycle and that the situation would automatically correct itself after a reasonable time as in previous depressions. Throughout 1930 the majority of business and financial forecasters prophesied that the end of the depression was near, but they were 100 per cent wrong. In the summer of 1931 came new collapse in Europe and, after it, subjection of the whole world to unprecedented financial strain; by 1932 the problem was no longer that of overcoming an acute slump in business and the restoration of normal conditions of profitable production and distribution; we were confronted by the tasks of avoiding a most far-reaching financial crisis and of averting the threats of complete breakdown of the financial structure of capitalism. The whole world had reached a level of extreme depression comparable on a national and international scale with the worst form of melancholy ever reached by a patient suffering from a manic-depressive psychosis.

What are the remedies for this terrible malady? Must the cure be left to Nature, the patient bearing his ills as best he can while he awaits the upturn, or can effective curative and ameliorative measures be applied through legislation or through well-directed efforts devised by the patient himself or by selected economic advisers?

There are great differences of opinion even among the best-informed and masses of prescriptions have been written, many of them by " orthodox " economists, more of them, unfortunately, by " quack healers " of social and economic ills. Luckily, the patient has a fairly good constitution and we must hope for ultimate recovery, despite much mismanagement in the way of treatment. Personally, I am of the opinion that barring " suicide " or unforeseen complications that might prove fatal, the malady will. in due time, " run its course " and the patient can be aided in the slow process of recuperation. Though business conditions are less good than a year ago, the financial situation is, perhaps, a little better, and the people are adjusting to the difficult circumstances with less fear, without repining, and with a fine exhibition of fortitude.

There is much clamor for " inflation " of the currency by one or another method. But inflation is like alcoholism or drug addiction; give a chronic alcoholic some whiskey or a morphine addict a hypodermic and each will say the amount is insufficient; he must have more until he is intoxicated. Any inflationary measure adopted to prevent further " deflation " should be so cautious and so rigidly controlled that they do not exceed in degree a desirable " reflation."

Our Governments (National, State, and municipal) could do much harm by the adoption of ill-advised measures but they can be of genuine help by following wise programs of cutting costs of operation, of distributing tax burdens equitably, and of refunding debts at lower levels of interest. They must recognize that no panacea is available; there should be no attempt to perform miracles or to do what experience has shown to be impossible; this depression can not be cured by the waving of any magic wand.

As far as planning for the long pull is concerned, the social, financial, and economic problems of the world as a whole are of the utmost importance; and a good summary of these problems and of the possible methods of solving them will be found in the excellent book by Salter, entitled "Recovery: The Second Effort," with which you are no doubt all familiar.

How much can be done rapidly by negotiation toward the settlement of war debts, the revision of tariffs, disarmament, and the stabilization of currencies abroad is problematical—almost certainly much less than most people think. We must, I believe, rely chiefly upon (1) methods for reducing or deferring payment of the debts of farmers, railroads, and other individuals and corporations in this country, by private negotiation as far as possible without confiscations or costly receiverships, (2) methods for stopping all unnecessary governmental expenditures, (3) measures for keeping Federal credit absolutely sound and unassailable, (4) measures of governmental intervention (local, State, and National) for the prevention of starvation and distress among the unemployed and for safeguarding the existence of vitally essential structures during any further period of liquidation, and (5) measures for restoring and maintaining the confidence of our people until the necessary deflationary process has been completed. We should do from month to month the obviously desirable and possible things, rather than attempt prematurely the execution of plans for the far-distant future. Interest rates are falling markedly so that, in time, liquid assets will become less attractive, confidence of lenders and borrowers will increase, and ultimately the rate of investment will rise again and prosperity will return.

All will agree that one thing is now of paramount importance for the promotion of the aims mentioned, namely, the taking of steps immediately in the direction of improving the fiscal position of the Federal Treasury so as to assure our people that within a reasonable period of time there shall be a true balancing of the Federal Budget—not a "sham" balancing. Without this, domestic economic stability, the fortification of the credit of the Government, the restoration of more normal conditions in the money markets, and the revival of public confidence would seem to be extremely difficult or impossible. We dare not continue indefinitely to incur deficits of two or three billions of dollars per year. To move toward a balance of the Budget, the executive and the legislative divisions of the Government must undoubtedly arrange for great lowering of governmental expenditures; it dare not expect too much yet from increase of governmental income, though a beer excise tax and a small sales tax might help some.

How can governmental expenditures (which for Federal, State, and local governments amounted last year to one-third of the total income of the American people) be drastically diminished? Some reduction of Federal expenses can be made by refunding the higher coupon Government bonds; much by the repeal of the eighteenth amendment and the abandonment of prohibition enforcement; more by eliminating extraordinary outlay in the form of money spent for futile experiments for stabilization, for emergency loans, and for construction subsidies (except for the actual prevention of starvation and distress); but most of all, perhaps, by reduction of the amounts now being spent for the war veterans.

Let me say at once that no one has more sympathy than I for the disabled war veteran and his dependents, whether the disability was service connected or not. In the Philippine Islands for a few months in 1899, I myself wore the United States Army uniform. In my work as consultant to the Veterans' Bureau Diagnostic Center at Mount Alto, I have seen and studied many disabled ex-soldiers. For several years I have been chairman of the medical council of the United States Veterans' Bureau and have long been in close touch with the bureau's medical activities. For those reasons, I may, perhaps, be permitted to speak to you especially about expenditures for war veterans.

Our country desires to be, and has been, extremely generous to its war veterans. The combined casualties of Great Britain and France were more than twenty-seven times as many as those in America, but the World War veteran cost to America for the year 1932 (exclusive of loans) is said to have been approximately one and a half times as great as the aggregate cost for Great Britain and France, or over forty times as much per casualty. I am told that in the fiscal year ending June 30, 1932, actual net disbursements for veterans amounted to $869,000,000 and if bonus loans be included the amount was over $1,000,000,000 or approximately one-half the total actual revenue (aside from borrowings) of the Federal Government for the same period.

For the fiscal year 1933, some $204,641,848 is for disability compensation for injury or disease caused by service; $100,000,000 is for the adjusted-service certificate fund (the bonus fund) and $104,-277,554 is for disability allowances, that is, for diseases or injuries resulting in 25 per cent or more permanent disability due to diseases or injuries incurred in civil life after the war (that is to say, non-service connected). These amounts are in addition to the costs of all the medical care and hospitalization required by the veterans.

Under section 202 (10) of the World War veterans act, the hospitalization of patients for treatment of nonservice connected diseases was authorized, and since 1925 there has been a steady annual increase in the percentage of such nonservice connected cases. At the end of June, 1932, there were 23,472 such cases under treatment in hospitals, making up no less than 59.8 per cent of the total hospital load. Still more interesting is the fact that this same group accounted for 85.48 per cent of the general medical and surgical patients, and for 65.3 per cent of the tuberculous patients, whereas the percentage of neuropsychiatric cases was only 37.5. It is quite evident that the occupancy of beds in veterans hospitals is tending more and more to be by patients with nonservice connected maladies. The new hospital construction that has been required in recent years has been for these cases; some years ago there were quite enough hospital beds for all service-connected cases, without supplying more. If hospitalization is to be a mandatory right of the nonservice-connected cases, which from now on will rapidly increase in numbers, a material increase in hospital beds beyond the 45,000 authorized by the act of March 4, 1931, will be necessary after 1935. The expenditure for new hospital facilities for World War veterans since 1919 has already amounted to more than $100,000,000. That is for new hospital facilities alone.

Generosity to veterans who were diseased or injured because of the war, and, when necessary, to their dependents is highly laudable. No American would think for a moment of depriving the war-torn soldier of adequate compensation and good medical care. Sympathy for veterans who incurred no disability as a result of military service but who in civil life afterwards became more or less disabled is, of course, also in place, but no more in place than sympathy for members of the nonveteran population similarly disabled. If this be true, then the disability allowance law (for nonservice-connected disease or injury) should be repealed; the amendment to the veterans act which allows free hospitalization to veterans of all wars without regard to the nature or origin of their disabilities should be repealed; and no further appropriations for the construction of veterans' hospitals or homes should be made. That there should be no prepayment of the adjusted-compensation certificates (bonus) ought to go without saying. To continue all these special favors on an enormous scale to veterans with nonservice-connected disease or disability to whom the country is under no greater obligation than to its other loyal citizens is a great injustice; they should, I believe, be discontinued through legislation at the earliest possible moment.

The CHAIRMAN. An injustice of $400,000,000 a year.

Doctor BARKER. Yes, sir. An enormous amount.

Senator KING. Doctor, have you made any investigation to determine the number who were overseas that are now beneficiaries of these acts of Congress?

Doctor BARKER. I have not the exact numbers, but a large proportion were not overseas at all.

Senator KING. That is my information. I was wondering if you had any information so as to determine the number who were in actual combat and are receiving compensation?

Doctor BARKER. That, also, of course, is very much smaller than those who went overseas as a whole.

Senator KING. Then, as a matter of fact, a considerable number of those who were never overseas are receiving these benefits to which you have referred?

Doctor BARKER. Undoubtedly; yes, sir. And there has been a great deal of unfortunate presumptive injury, presumptively due to the war itself.

Senator KING. Have most of the examinations under which these benefits are being received been made by men who had been in the Army? That is to say, have not the examinations been made by ex-service doctors?

Doctor BARKER. The tendency of the bureau, of course, has been to favor ex-service men in the personnel. But there are a great many in the personnel who were not in the service.

The CHAIRMAN. Well, we had better repeal the law, preventing the payment of compensation to that class of soldiers. I have introduced a bill for that purpose. I have not any apprehension what is going to happen to it at this short session.

Doctor BARKER. You mean the disability allowance?

Senator KING. Yes.

The CHAIRMAN. But if I were going to be in Congress at the next session of Congress I would see that we would get a vote on it anyhow.

Doctor BARKER. It seems to me scarcely thinkable that the American people, when they know these facts, will stand for anything else.

Based upon figures that are reported to be as reliable, it would appear—and I am making this amount much lower than most estimates—that some two hundred or three hundred million dollars per year could, by such legislation, be saved almost at once——

The CHAIRMAN. $400,000,000.

Doctor BARKER. Some thing $500,000,000 or $600,000,000, but I have put it low, because I would rather err on the side of conservatism than on the side of overstatement. Much larger sums will be involved later on. They are so enormous that we can not contemplate them.

Unless legislation to bring this about is promptly enacted, expenditures will steadily increase and probably the mass of citizens other than veterans will demand free medical care and hospitalization!

The ultimate balancing of the Budget is so important for the welfare of the country that delays in arranging for it would seem to be exceedingly dangerous. The enactment of legislation, even when urgently required, appears to be a slow process. For our present emergencies some suggestions recently made are of interest. It has been proposed that, without interference with real liberty of speech in the Senate, the Presiding Officer be permitted to hasten proceedings by means of a new rule through which, in debates, remarks must be germane to a subject under discussion.

Again, it has been hinted that, if it could be made legal, it might be wise to assign, temporarily, certain autocratic powers to the President until the emergency has passed. And, finally, majorities in the Senate and House might enter into a "gentlemen's agreement" for the prompt passage of any legislation that the President (after consultation with experts) thought was of immediate urgency. I am no politician and these suggestions may not merit consideration. But, at a time like the present, avoidable obstacles should not be permitted to prevent quick action when it is of very great importance for public welfare.

You, yourselves, know the fiscal situation of the Federal Treasury well and you will doubtless learn of many practical measures of economy to which I have not referred at all. But those that I have mentioned would seem to be definitely indicated—above all stringent restriction of expenditures for war veterans. The American Government must be brave and refuse to yield to sectional pressure against general public interest.

The CHAIRMAN. Is that all you have to say, Doctor?

Doctor BARKER. Yes.

The CHAIRMAN. We thank you for your statement.

The next witness is Edward A. O'Neal.

## STATEMENT OF EDWARD A. O'NEAL, PRESIDENT AMERICAN FARM BUREAU FEDERATION, WASHINGTON, D. C.

The CHAIRMAN. State your name and address for the record, Mr. O'Neal.

Mr. O'NEAL. Edward A. O'Neal. I am president of the American Farm Bureau Federation. Munsey Building, Washington.

The CHAIRMAN. You may proceed with your statement.

Mr. O'NEAL. The depression—its causes and remedies.

The committee has asked to receive suggestions concerning the causes of the depression and possible legislative remedies. In responding to that invitation, it shall be my purpose to point out first what I conceive to be the fundamental causes of our present economic distress, and secondly, to suggest remedies to correct the difficulties and prevent their recurrence.

Two serious mistakes have been made. First, there was the failure to recognize the seriousness and the far-reaching character of the depression. Second, no adequate attempt was made to check the deflation. Relief measures which were passed were directed at alleviating the effects, rather than the fundamental causes of the depression.

Some leaders say that nothing fundamental can be done, deflation must continue to the bitter end. This means reduction of wages, salaries, taxes, and all fixed charges, bankruptcy, unemployment, and writing down of debts. Those who say nothing fundamentally can be done are willing to slow up the process by extending additional credit and other placatives. In other words, they offer in the way of relief death through slow torture instead of outright extinction. If we must choose between the two, I prefer the latter—it is less painful and less costly.

It is nothing short of national disgrace that we allow such conditions to develop, and it will be the greatest economic crime in history if nothing is done to check the process of deflation. We have learned how to harness Niagara, how to measure in millionths of an inch, how to treat and cure dreaded diseases, but when we are confronted with the economic problem, a collapse in commodity prices, some throw up their hands in despair, and say we can do nothing about it. I challenge this philosophy of despair and assert that, to a very large degree, this catastrophe was preventable and that it is now curable.

The fundamental cause of the depression was the collapse in the general price level. The decline in the general price level destroyed the purchasing power of agriculture, our basic industry, and undermined the purchasing power of the masses of consumers in urban and industrial centers.

To remedy these conditions and restore the Nation to prosperity, I propose the following remedies, first, rehabilitate agriculture and restore its purchasing power to a normal basis; by (*a*) the enactment of surplus control legislation to restore agriculture price parity with other groups; (*b*) tariff adjustment to restore foreign trade, and to give the benefit of the home market to agriculture as much as industry; (*c*) reduction of taxes and redistribution of the tax burden on a more equitable basis; (*d*) provision of adequate agricultural credit at rates as low as other groups enjoy; (*e*) reduction of transportation costs on farm products to a basis comparable with farm prices; (*f*) promotion of farmers' cooperative organizations; (*g*) guarantee of bank deposits in order to restore confidence and protect the public; (*h*) develop national planning for the rehabilitation of rural life.

The second basic remedy which I propose is the adoption of a national monetary policy which will raise commodity prices and stabilize the purchasing power of the dollar at the average level in the period 1921–1929.

In times of deflation agriculture and producers of other basic commodities are especially hard hit, because with deflation prices of agricultural products and other raw materials fall most. From 1919 to 1921 prices of farm products declined 44 per cent, while prices paid by farmers for commodities bought declined only 24 per cent.

Senator GORE. What were the dates, Mr. O'Neal?

Mr. O'NEAL. 1919 to 1921. From January, 1921, to January, 1933, farm prices declined 56 per cent, or to about one-half the pre-war level, while prices paid by farmers declined only one-third. Since 1921 farm prices have been low in relation to other prices. The fixed charges of agriculture have remained high. Interest and taxes are about two and one-half times the pre-war level. Freight rates on farm products are 50 to 60 per cent above the pre-war level.

In the years 1925 to 1932 agriculture, with 25 per cent of the total population, received only 13 per cent of the national income. From 1919 to 1932 the gross farm income declined from seventeen to five billion dollars. This decline has destroyed the purchasing power of agriculture, and paralyzed business of merchants, lawyers, doctors, clerks, bankers, and small factories in the country towns and villages.

This inequality of income, in part, is the result of various national policies.

Cotton, wheat, and hog farmers sell their products to a large extent on a world market basis, " a free-trade basis," because the tariffs, if any, on agricultural products which are exported are largely ineffective. Hog, cotton, and wheat farmers have to buy commodities which are highly protected by tariffs.

Another discrimination which has contributed to the inequitable distribution of income to agriculture is the inelasticity of fixed charges which agriculture has to meet. Freight rates, interest charges, and taxes have been out of line with farm prices for more than a decade.

Instead of building up the buying power of agriculture and labor, who constitute the main market for the goods of the country, we have allowed a concentration of wealth and income to go on unparalleled in our history. This concentration of income has been greatly aided by enormous concentration of capital through mergers, consolidations, and monopolistic control. Yet some of our business men are advocating the further weakening of our antitrust laws so bigger and more powerful monopolies can be formed and so they can operate with less restraint. I fear such a policy would ultimately drive the country to a state of socialism or something worse.

Agriculture has suffered more than most other groups from the inequitable distribution of income and deflation in commodity prices. When prices decline, distributive costs lag and an increasing proportion of the consumer's dollar is absorbed in distributive costs and a decreasing proportion is returned to the producer. Who can say that the wheat farmer receives a fair share of the consumer's dollar when he receives only 13 per cent of the retail price of bread and the cotton farmer when he receives only 2 to 5 per cent of the retail price of a cotton shirt.

Senator GORE. Pardon me, Mr. O'Neal. What per cent?

Mr. O'NEAL. Two to 5 per cent.

With the collapse in commodity prices, we are in the midst of the strange paradox of plenty in the midst of want and privation. Granaries are bulging with grain, but honest and able men are hungry and begging for food. Warehouses are filled with cotton and wool, but many are dressed in rags. Twelve million workers are unemployed. The equipment, the workers, the raw materials, the transportation facilities are all available, but the exchange of goods and services is at a standstill. The system of exchange has broken down.

Faced with this situation, many have resorted to scrip and barter whereby commodities and services are exchanged. To-day 144 communities in 29 States are using wooden money or scrip in place of currency. The Constitution of the United States says (Art. I, sec. 10, par. 1):

> No State shall * * * coin money, emit bills of credit, make anything but gold and silver coin a tender in payment of debts. * * *

In order to rehabilitate agriculture and restore its purchasing power, a broad policy is required. First, we urge the enactment of a surplus control bill making it applicable to at least five basic commodities—wheat, cotton, hogs, tobacco, and butterfat—coupled with production control. This should constitute permanent legislation instead of being thought of as temporary emergency legislation. Such legislation would place over a billion dollars of additional purchasing power into the hands of the farmers, which in turn would be spent for commodities and services and create new employment. There would be further demand for farm products, thus reversing the present process of destruction of trade to stimulation of trade.

This legislation is based on the principle that the farmer is entitled to a tariff benefit on the basic farm crop, including at least wheat, cotton, tobacco, hogs, and dairy products. The plan should be self-supporting and not involve a Government subsidy. The costs should be equitably distributed over the entire crop benefited. There should be provision for control of production in order to prevent the accumlation of undue surpluses, which would defeat the purpose of the plan.

The CHAIRMAN. Mr. Witness, do you think that can possibly prove effective?

Mr. O'NEAL. I think so, Senator.

The CHAIRMAN. In all the history of the world it has failed so far. Why do you think it is going to be successful now?

Mr. O'NEAL. In the history of the world, Senator Smoot, it has not been tried on the basis which we are now suggesting. If you trace it and check it very carefully you will see that in this plan that is proposed there is a very fundamental principle involved that has not been used elsewhere. In other words, to control the situation there must be a plan of production and control, temporarily at least.

This sort of legislation has been agreed upon by all the major farm organizations. The general plan in the main conforms to the specifications for farm relief which Governor Roosevelt outlined in his Topeka speech. He has told me that he still stood for what he promised at Topeka. The farmers of the country are looking forward that the pledges for a new deal to American agriculture will be promptly fulfilled.

A second aid which we propose in the rehabilitation of agriculture is the adjustment of the tariffs to restore export markets for farm products and assure to agriculture the benefits of the domestic market to the same extent as enjoyed by industry. Tropical starches, jute, blackstrap molasses, vegetable, animal, and fish oils which are imported in great quantities and displace a large volume of domestic agricultural production.

Third. We must reduce farm taxes and redistribute the tax burden more equitably. Immediate tax relief is imperative.

Fourth. Agriculture must have more effective credit facilities. In addition to a long-time program of reorganization and consolidation of agricultural credit agencies under proper governmental regulation, there is an emergency situation which must be met immediately. A virtual state of revolt against orderly legal processes is under way in many sections of the country. To meet this emergency the farm groups have agreed upon a program designed to stop the wave of foreclosures. The plan proposes (*a*) to establish a debt conciliation commissioner in each county to secure voluntary adjustments of farm debts with little additional expense to the farmer and avoid the stigma of bangruptcy; (*b*) make available $1,000,000,000 at 3 per cent or less; (*c*) appropriation of additional funds to Federal land banks and national farm-loan associations; (*d*) liquidation of the joint-stock land banks. This program, in the main, is embodied in the bill (S. 5515) introduced by Senator Robinson of Arkansas and in proposed amendments to the bankruptcy act reported recently by the Senate Judiciary subcommittee.

Fifth. To restore confidence the banks must be made safe for depositors. To that end we favor the Steagall bill for the guarantee of bank deposits.

Sixth. We must reduce the cost of transportation.

Seventh. Cooperative marketing should be promoted, expanded, and strengthened until farmers are given control of the marketing of their own products.

Eighth. We propose the development of national planning in agriculture by bringing about closer cooperation between organized agriculture and all the governmental agencies set up to aid agriculture. Also, a new national land policy should be put into effect, a policy of conservation instead of expansion. The progress of civilization is a very slow and painful process. Progress comes only after experimentation, either individually or collectively. The land-grant colleges, the agricultural extension service, the agricultural experiment stations, and the Department of Agriculture are great fundamental institutions set up by our Government to promote the progress of agriculture. They should be coordinated more closely among themselves and with organized agriculture to formulate and carry into effect a broad program for the rehabilitation of rural life.

The primary cause of the present maelstrom in which the Nation finds itself is the collapse of commodity prices. The commonly accepted explanation of the collapse in commodity prices is overproduction and the only remedy is curtailed production.

From 1839 to 1914 the total production of food and feed crops in the United States increased at the rate of 3.02 per cent per year and from 1915 to 1929 increased 0.6 per cent per year. Production for the four years 1929 to 1932 was below normal.

The production of food and feed crops per capita in the United States increased from the sixties to the end of the century. From 1900 to 1914 production per capita was approximately constant and since that time has declined. The production of food and feed crops per capita in the United States in 1930, in 1931, and in 1932 was less than in any year since 1894. The low prices of farm products in the United States are not due to a general overproduction of farm products in this country.

If we do not find a satisfactory explanation for the low price of farm products in a general overproduction, the explanation of the low prices of individual products, such as wheat, corn, hogs, or cotton, might be overproduction. Let us see.

In 1932 the wheat production per capita in the United States was the lowest for any year since 1866. Furthermore, there is no striking increase in world production of wheat per capita. In fact, in 1932, the world production of wheat per capita was 18 per cent less than that in 1928. The low per capita production was the same as in 1920. The present low exchange value of the price of wheat, probably unparalleled in history, is not due to an overproduction of wheat in the United States or in the world.

The production of corn per capita in the United States does not indicate any excessive overproduction. The corn crop of 1932 is often referred to as a large crop, but the production per capita last year was less than in any year since 1875 except for the drought years, 1894, 1901, 1924, and 1930. The present low prices of corn are not due to overproduction.

In 1932 the production of cotton per capita in the United States was the lowest since 1877 except for the small crops from 1921 to 1923. The low prices of cotton are not due to overproduction. It is true that large stocks of cotton have been piled up but these large stocks of cotton are not the cause of the low price of cotton. They are the result of the low prices of cotton which was the inevitable accompaniment of the collapse of commodity prices. These low prices resulted in unemployment of untold millions of laborers who could not buy and consume their normal amount of cotton; and as a result stocks piled up.

The per capita production of pork and lard has not shown any marked change.

High production, therefore, is not the cause of the agricultural depression nor an explanation of the low price of corn, hogs, wheat, or cotton. Nevertheless, with the collapse of commodity prices, there has been a disarrangement of the world's international trade. Countries the world over have raised barriers to protect their own producers of farm products. The Ameican Farm Bureau Federation holds that this maladjustment should and can be corrected by the policies laid down in the farm-allotment plan.

Turning to the problems of our city cousins, we find no indication of overproduction in the cities.

In 1932 the production of lumber per capita in the United States, widely used in the construction industry, was about the same as it was in 1839, almost a century ago. The present low prices of lumber are not due to an overproduction of lumber.

The coal production per capita in the United States is at a very low level. The production of pig iron in 1932 was only one-fifth of that in 1929 and about the same as that in 1880. The present low prices for pig iron are not due to overproduction.

A careful study of the facts indicates that there has not been nor is there at the present time an overproduction in our urban cities. How can there be a general overproduction of products in the cities when there are more than 12,000,000 unemployed?

If we do not find a satisfactory explanation for the collapse in commodity prices in overproduction, then we must turn our attention to the monetary aspect of the problem. It has been clearly demonstrated beyond all reasonable doubt that the general level of commodity pricess has been controlled by the ratio of the world monetary stocks of gold to production of basic commodities in the world. The goods of the world are exchanged for the gold of the world, or for the currency or credit which rests upon the gold stocks. If goods come on the world markets more rapidly than monetary gold stocks increase, prices fall.

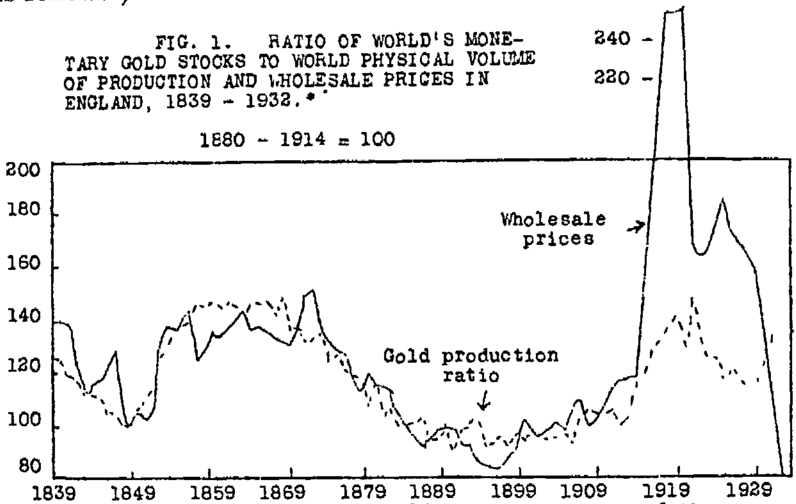
When gold stocks increase more rapidly than goods, commodity prices rise. This ratio held for 75 years before the World War. (Figs. 1 and 2.) When all the world left the gold basis during the World War, prices departed from this normal ratio. Due to the reduced demand, gold fell in value and commodity prices rose. As one after another of the various countries returned to the gold standard, the demand for gold increased; its value rose and commodity prices collapsed to the normal ratio that previously existed between world monetary gold stocks and the world physical volume of production of goods. We are not confronted with a theory. We are now confronted with a fact—commodity prices have returned to the normal ratio of gold to production that existed for three-quarters of a century prior to the World War. This ratio is the first and fundamental law of prices which we must understand if we are to explain the collapse of commodity prices; which, as I previously stated, is the primary cause of the present maelstrom.

Prices can not be raised by easy credits so long as we are on the gold basis. The expansion of credit by the Reconstruction Finance Corporation and the Federal reserve banks was predicated on the assumption that commodity prices could be raised by credit. A bale of cotton in New York sells for about 1.6 ounces of gold, and in Liverpool for about 1.7 ounces. Our great basic commodities sell at approximately the same price in terms of gold the world over, except for transportation and other charges arising from artificial barriers. Furthermore, the general level of commodity prices alway fluctuates about the level of basic commodity prices. Therefore, an attempt to raise commodity prices by expanding credit is an attempt to cheapen gold and raise the whole level of commodity prices. The attempt of a nation to expand credit sufficiently to restore commodity prices means making gold cheap.

(Figures 1 and 2 above referred to are here printed in the record, as follows:)[1]

FIG. 1. RATIO OF WORLD'S MONETARY GOLD STOCKS TO WORLD PHYSICAL VOLUME OF PRODUCTION AND WHOLESALE PRICES IN ENGLAND, 1839 - 1932.*

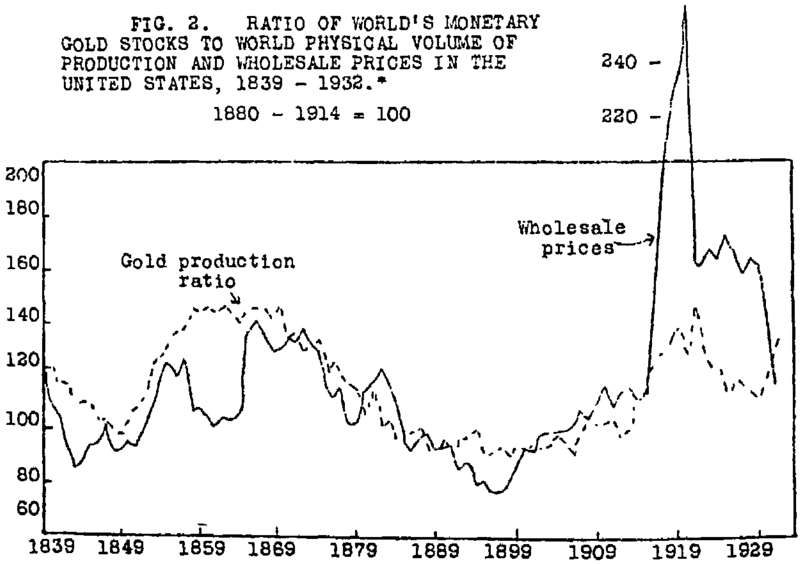
1880 - 1914 = 100




For the 75 years before the World War, prices rose if the world's monetary stocks of gold increased faster than the production of other things and fell if gold increased less rapidly.

FIG. 2. RATIO OF WORLD'S MONETARY GOLD STOCKS TO WORLD PHYSICAL VOLUME OF PRODUCTION AND WHOLESALE PRICES IN THE UNITED STATES, 1839 - 1932.*

1880 - 1914 = 100




Commodity prices in the United States have moved with the ratio of the world monetary stocks of gold to the world physical volume of production, except during the Civil War and during the World War periods. But in each case, after the wars were over, prices re-

[1] These charts were reproduced from Prices by G. F. Warren and F. A. Pearson, published by John Wiley & Sons, New York City.

turned to this normal ratio of gold stocks to production of basic commodities.

It is very easy to expand currency sufficiently to raise commodity prices to the debt level but it would be impossible to redeem these dollars with 23.22 grains of gold. The printing presses never changed materially the relative values of gold and commodities.

The bitter-end deflationist tells us to (1) Restore confidence; (2) Balance the Budget; and let nature take its course.

It is quite generally assumed that if we restore confidence that prices will rise. I insist that if we stabilize prices, confidence will be restored. Prices are the only guide to production and consumption. When they are stable, man knows how to act. When they collapse, we are like a gassed and wounded regiment on no man's land.

The bitter-end deflationist tells us that the first step is a balanced Budget. I think it is fair to assume that my constituents are also of the same opinion. Superficial judgment tells us that the Federal, State, municipal, and local government agencies, railroads, the manufacturers, banks, farmers, salaried classes, employed laborers, unemployed laborers and the butcher, baker, and candlestick maker should all and always balance their budgets. If a governmental agency, corporation, or individual do not balance their budgets, they borrow money or buy goods on credit, which is the same thing. The railroads of America are not balancing their budgets, so they borrow from the Reconstruction Corporation to balance their budgets; something has happened to the budgets of the banks and they have also borrowed from the Reconstruction Corporation. There are 12,000,000 unemployed, and there are at least 12,000,000 family budgets that are now unbalanced.

How shall we balance the budgets of these unemployed? There are only two ways, starvation or public and private charity. No one will loan money to industry, nor to railroads, nor to farmers, nor to the unemployed laborers. No one will lend much to the State, municipal, or local governmental agencies. Confidence is so shaken that Federal securities are the only method of providing the essential capital at this time. There is one and only one source of funds by which we can balance the budgets of untold millions of laborers, the railroads, corporations, and the like; and that is the United States Treasury. With this accumulation of burdens, is it possible for Congress to banance the Budget? I believe I can visualize, but hesitate to put into words, what would happen if we actually balanced the Federal Budget, say in 1933.

The fundamental cause of our unbalanced Federal Budget is the collapse in commodity prices. History tells us that when commodity prices decline sharply, the Federal Government has always had a deficit; and when commodity prices rise, these deficiencies fade away and surpluses occur.

The bitter-end deflationists tell us that we should let nature take its course. If we are to follow this policy, I think, we should face the task courageously and speed up the process; because when the deflation is completed we can once more move forward. Before attempting to complete the process, I think, we should stop and consider briefly the problems before us.

If we do not check this mad sweep of deflation, if we do not adopt a policy of inflation, what are the alternatives? Gentlemen, there is just one alternative. Those of us who are alive to the experiences of other generations in this kind of thing know that there is just one alternative. The alternative is complete liquidation, a wiping of the whole slate down to the deflated price level that now exists and which stretches out ahead of us for several years.

And I say to you that the vast bulk of that writing-down process now remaining lies ahead of us and is outside of agriculture. It will strain your industrial and urban community until the hoops cracks to do this thing; but you will have to do it. Neither agriculture nor the country can go ahead with any semblance of progress until it is done. The farmer has taken his licking for 12 long years. He has readjusted his business even down to the point of throwing overboard what he thought was a justly earned high standard of living. The farm business has largely made readjustments to this new low level.

The holders of common stocks have also been rather thoroughly liquidated. The wringer has worked very efficiently and very promptly.

City real estate, and the bondholder have not been thoroughly liquidated. Now it is the turn of these and other members of the industrial and financial community, and time will tell whether or not the country can go through with the process.

What does this scaling-down process mean? I am not certain that the eminent spokesmen for deflation know what it means. I am very certain that most of the folk do not realize what it means. If they did, we would settle this problem promptly. You will have to cut down the pay envelope of every worker. You will have to clip all salaries. You will have to scale down a large part of all private debt, for existing debts absolutely can not be paid at the low price level. You will have to put up with wholesale defaults of public debt; indeed, hundreds of public units are already bankrupt. You will have to reduce taxes drastically, and you may have to reorganize the whole structure of government.

You will have to write down all costs and capitalizations and while the process is going on it may be hoped that the load of corporate bankruptcies and failures will not drag the business ship completely under. You will have to endure the shocks of further waves of security declines, of wholesale bank failures, of the crash of great commercial concerns, and vanishing private fortunes. You will have to cut freight rates, whether you like it or not, and you will have to live through a chapter of railroad receiverships that might well appall a bank, university, or life-insurance president, to say nothing of the railroad men themselves. In short, you will have to scale down the entire structure of wages, charges, capitalizations, and costs of every kind until they are in adjustment with the lower price level that prevails.

Moreover, while these economic thumbscrews are being turned, you will have to hold down two hot kettles that are already in danger of boiling over. One of these is in the cities. We call it unemployment. If the starvation and misery which seethe within this unemployment problem ever get out of hand, inflation will need no further argument. The other thing that is near to boiling over is the mortgage and tax delinquency problem. You will have to keep always one jump ahead of these unemployment and tax-delinquency problems while the deflation program is being carried through; for if they ever overtake us, no man can predict the outcome.

But, finally, it is probable that the crowning futility of this program lies in the fact that the country will be forced off the gold standard before deflation runs its course.

So, in few words, this is the alternative to a sane and saving program of inflation. After the panic of 1837 and after the panic of 1873 our forefathers went through this hell of deflation. In each of those periods the deflationists triumphed. They put the entire country "through the wringer." The wiped the slate down clean and left it to their children to start over. Can we do this again? We can go through this purgatory, provided something does not boil over. The bitter-end deflationists tell us that in the past we have always been able to complete the process of deflation. This is true. But are past experiences an indication of the probability that we can complete this one? In the panic of 1837 and in the panic of 1873 commodity prices collapsed about as much as during the present maelstrom. This, however, is only a part of the story. The severity of the collapse depends not only on the amount of the collapse, but on the rate of the collapse. In the last three years commodity prices fell 36 per cent. During the panic of 1937 commodity prices fell 43 per cent in six years. And in the panic of 1873 prices fell 39 per cent in six years. Gentlemen, I am not certain that we can complete the process of deflation.

I do not want to dwell too long on the point of view of the bitter-end deflationists; but as I scan their literature I come to the inevitable conclusion that in their opinion there is no middle ground between a completion of the deflation process and a wild running of the printing presses of the country. This bogey frightened me until I looked into the matter. After careful consideration, I find that there are very few instances of a modern, first-class Nation running the printing presses until the money was "not worth a continental." During the revolution France had just such an experience. During the American Revolution we have another illustration of virtual repudiation. The Russian revolution and the German revolution are striking examples. The evidence indicates that this bogey has been greatly magnified and that monetary repudiation has gone hand in hand with revolution. I am firmly convinced that the destiny of this question is safe in the hands of Congress and that we will not run the printing presses unless the event that has always been associated with this bogey occurs—revolution. Our program is sound, conservative, controlled inflation, and will result in stability, not repudiation. We already see the first steps toward revolution in demonstrations of civil disobedience by the conservative element of the community—farmers and property owners.

The country is divided between those desiring inlation and those who desire that we complete the process of deflation. The northeastern corner of the United States is the financial center of the United States and at times it boasts that it is, or soon will be, the financial center of the world. The rest of the country figuratively speaking is in debt to this small area. The insurance companies, banks, trusts, private investors and others hold a goodly part of the mortgages, bonds, and other fixed obligations of the country. I believe that much more time is being devoted by the eminent spokesmen of the creditor class than by representatives of the debtor group. I do not want to be an alarmist, but this latter group will be heard from—if not here, then elsewhere—and I know not how, or when, or where.

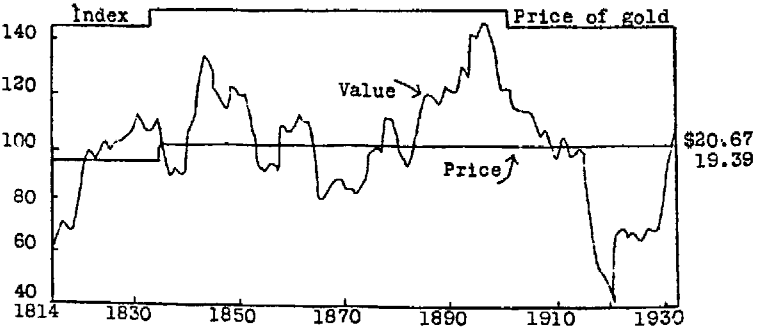
I am fearful that we can not complete the process of deflation. I believe that we can and we should raise commodity prices; and I further believe that if we act promptly and wisely that we need not fear the printing press bogey that has been used so effectively. My platform and the platform of the organization for which I speak is that we should immediately take steps to raise commodity price to the 1921–1929 level. That is the approximate level to which debts, taxes, wages, salaries, and all other human relationships are most nearly adjusted.

There is one and only one way of doing this, provided we maintain the gold standard. Since it appears to be the desire of a majority of the people that we maintain the gold standard, our primary problem is to manage the gold standard instead of the gold standard managing us.

The gold dollar contains 23.22 grains of fine gold. This is merely saying that the Government agrees to buy gold in unlimited quantities at a fixed price of $20.67 per fine ounce. The gold standard calls for a redemption of any of the substitute used for gold when there is such a demand.

The price of corn varies from time to time, and the value of corn, that is, the amount of comodities, taxes, and debts for which it will exchange, varies from time to time. In the case of gold, there is a striking difference. The price is fixed and the value of gold varies. (Figure 3.)

FIG. 3 PRICE OF GOLD AND VALUE OF GOLD IN THE UNITED STATES, 1786-1932
1910-14 = 100




The price of gold is fixed, but the value fluctuates violently.

The increase in the value of gold is the primary cause of the present maelstrom. In the last three years the value of gold has risen 45 per cent and we have no peacetime record of so drastic a rise in the value of gold. This being the cause of the difficulty, the problem is to deflate the value of gold, that is raise the price of gold. We propose that the price of gold be raised from $20.67 to $30 per fine ounce by reducing the weight of gold in the dollar from 23.22 to 16 grains. This will raise commodity prices 45 per cent—$30 divided by $20.67 equals 1.45 or 23.22 divided by 16 equals 1.45. A 45 per cent increase in the price level would restore prices to approximately the same level as the average for the period 1921 to 1929.

This is only the first part of our monetary program. Our organization maintains that it should be the policy of this Nation to establish a permanent stable measure of value; just as we have established stable measures of weight and length. We propose that since gold has always varied in value because of the fixed price, that we stabilize the value by varying the price of gold. Congress should authorize some governmental agency to raise or lower the buying price of gold; and that the changes shall not be based on the judgment of any person or group of persons, but shall be based on an index number of wholesale prices of commodities as calculated by the United States Bureau of Labor Statistics. This will make our money really a medium of exchange and not a commodity, the handling of which will make a profit to the manipulator.

It, therefore, becomes the policy of the United States Government to (*a*) establish and (*b*) maintain the price level existing from 1921–1929. This would require that all coinage of gold cease and that the gold be held by the Treasury in bars of convenient sizes. All old gold coins should be reclaimed at their bullion value.

There are two great objectives to this proposal. (1) If the price of gold is raised, who will profit from the advance in price? Obviously the holders of gold will sell it back to the Treasury at the new price. The maximum dollar advance in the value of the gold would be less than $2,000,000,000. The dollar advance in the property of America would exceed $100,000,000,000. The gold speculators would be pikers compared with the holders of physical goods. Gold can only rise 45 per cent; property will probably rise more.

If the price of gold is raised what will be the effect of all contracts carrying the gold clause? The price of all such securities will rise by 45 per cent unless Congress invalidates these contracts; and Congress can and should invalidate them. Why should we guarantee the bondholder a given amount of gold rather than a given number of dollars? No other first-class modern nation is confronted with this ridiculous problem. So long as the given amount of gold and the dollar are synonymous there is no problem. If the dollar is changed there is no justifiable reason for a debtor to sell his product in one kind of money and pay interest in terms of another. This gold clause is found in Federal, State, municipal, foreign, railroad, utility and industrial bonds. It is not found in land bank bonds nor in farm mortgages held by insurance companies; nor is it included in your insurance policy.

It is the policy of our organization that whatever dollar we use to pay wages and to buy and sell the commodities of agriculture and industry is good enough for the creditor; and we recommend the enactment of legislation that will invalidate this so-called gold clause and all contracts carrying it.

The fundamental thesis of our organization is the establishment of a stable measure of value by varying the buying price of gold. It is quite frequently, but unjustly, assumed that any departure from our present policy of maintaining a fixed price for gold, $20.67 per fine ounce, is unsound monetary legislation and is in violation of the "sound-money" principles laid down by the Republican and Democratic platforms. It has been further maintained that the "impregnable position" of the dollar must be maintained so that our dollar will "ring true on the counters of the world." These rather striking phrases send a patriotic tingle up the spinal column; the intention being to stiffen the backbone of those doubting Thomases who are about convinced that we should not continue to maintain a fixed price for gold.

The dollar that "rings true on the counters of the world" is nothing more than a dollar that is stable in terms of foreign currency, marks, francs, lira, and the like. This is a hard dollar with 23.22 grains of gold. This is sound money based on unlimited purchase of gold at $20.67 per ounce. There is a much more accurate interpretation of the phrase, sound money. We believe that sound money is a dollar that "rings true on our domestic counters." Our present dollar, which is fixed as to weight, is variable in value. The very fact that the amount of taxes, debts, services, and commodities that this dollar will exchange for is always changing prevents this dollar from "ringing true on the domestic counters" of America. The present so-called sound dollar is therefore in reality an unsound dollar. Our proposal makes our present unsound dollar a sound and honest dollar. We propose that the price of gold which is now fixed be varied; and the present value which is variable be fixed. This has been dubbed a "rubber dollar," and rightfully so; but the inference which I attach to that interpretation is quite different from those who oppose our program. I care not whether you are Jew or Gentile, Democrat or Republican, bitter-end deflationist, or inflationist, you will agree with me that our present money, which is based on the fixed price of gold at $20.67 per fine ounce, is hard and sound as to weight, and rings true on the counters of the world, but that fixed price makes it variable as to value and prevents it from ringing true on the counters of the Nation.

We have never had a dollar that was not variable in value that was based on a fixed price for the metal on which it was based, and it is highly improbable that it ever will occur. At present, we have a dollar that is rubber as to value and sound as to weight. The American farmer wants a dollar that is rubber as to weight but is stable in terms of debts, taxes, services, and commodities which he buys and sells. He wants an honest dollar.

At the present time there are only three countries that have been able to continuously maintain their pre-war fixed, legal, buying prices for gold—Netherlands, Switzerland, and the United States. Germany, France, and Italy are to-day on the gold standard. France and Italy have both raised their buying prices for gold.

Since 1929, 33 countries have found is impossible or inexpedient to maintain their respective fixed legal prices for gold and abandoned the gold standard. It is quite generally asserted that these countries have managed currencies. They are in reality varying the buying prices of gold and maintaining comparatively stable commodity prices.

Italy revalued the lira December 22, 1927—that is, raised the buying price of gold on the basis of about 4 to 1. Her internal price level is therefore about four times that in the United States. Since 1927, Italy has maintained her new buying price for gold. From 1929 to 1932, commodity prices in Italy and the United States have declined persistently. (Figure 4.) The steady decline in prices in both countries has resulted in a contraction of business and a persistent decline in freight-car loadings. (Figure 5.)

Right here I should like to observe that on yesterday I read in the little periodical called Time, a very pertinent statement along that line about Italy. That article goes on to say:

> As to the budget Il Duce boldy ordered the then Finance Minister, Antonio Mosconi, to state, last June, that for the present and during the economic process the Government can not balance the budget, being $158,080,000 or at $3.75 per capita, compared to the current French deficit of $9.85 per capita, or the United States per capita deficit of $12.22.

The United States has a dollar based on a fixed price of gold, a dollar which is sound and hard as to weight but variable as to value. The lira is likewise rubber as to value and fixed as to weight. The same principle is shown for Germany. Germany has a mark that is rubber as to value but fixed and sound as to weight. These countries maintain fixed legal prices of gold and prices in both countries have declined with remarkable similarity. (Figure 6.) In both there has been a slow, persistent and remarkably uniform decline in freight-car loadings. (Fig. 7.)

The same principle has been demonstrated for France. The franc, like the dollar, the lira, and the mark, is rubber as to value; and sound, hard, and fixed as to weight. In these countries, since 1929, the bitter-end deflationists have triumphed, prices have declined and business has slowly melted away.

When a country suspends gold payment, it can establish any price level it desires. Sweden suspended the fixed legal prices for gold September 29, 1931. Prior to that time, commodity prices declined. Since that time Sweden's internal price level has stopped declining and by varying the buying price for gold has managed her currency and maintained commodity prices at a comparatively stable level. This is in bold contrast to the persistent decline in prices in the United States. (Fig. 8.) Since Sweden has stabilized her price level by permitting the price of gold to vary, the decline in car loadings has been retarded. This again is in bold contrast to the persistently diminishing amount of freight carried by our railroads. (Fig. 9.) The Swedish krona is sound as to value but is rubber because the price of gold varies. This is the reverse of our dollar.

England suspended gold payment September 21, 1931, and the price of gold in England has varied. Since that time commodity prices have been maintained at a comparatively stable level, but our price level has continued to decline. (Fig. 10.) In both countries, pig iron production declined from 1929 to 1931. Since the suspension of gold payments, pig iron production in the United Kingdom has been comparatively stable at a relatively high level. (Fig. 11.) In 1932, England produced more steel than in 1931. During this period there has been a persistent tendency for production to decline in the United States. Since the suspension of gold payments, England has had a variable price for gold—a pound that was rubber as to price but sound as to value. The reverse of our dollar.

Senator GORE. I saw a statement the other day in the press that in England in terms of the pound sterling it had been fairly stable, but that gold prices in England had declined 23 per cent, and gold prices in Germany and in the United States had declined 15 per cent, and that gold prices in France had declined 13 per cent. Have you made any study or comparison between gold prices in England since they went off the gold standard and pound sterling prices?

Mr. O'NEAL. I have not. Of course, my main study of this thing, if you could follow these tables through, would give you an illustration exactly of what I am talking about, that prices of commodities follow gold also.

Senator GORE. All right. I do not want to interrupt you.

Mr. O'NEAL. Japan suspended gold payment December 13, 1931, and since then retail prices have been comparatively stable at a level which is relatively high compared to our constantly declining prices. (Fig. 12.) Employment in Japan has ceased to decline but our employment problem is becoming more acute. (Fig. 13.)

Gold payments were suspended in Canada October 19, 1931. Since that time commodity prices have followed a downward course which has been less rapid than that in the United States, but more rapid than in the United Kingdom. (Figure 14.). Industrial production has followed an intermediate course. Business in Canada is "not so bad" as in the United States but much worse than in England. (Figure 15.)

When a country suspends gold payment and permits the price of gold to vary, it can raise its internal price level and business conditions follow the respective price policies. Gold has long been the arbiter of the destiny of most of the world. At the present time, gold at its pre-war fixed price is regulating the destiny of only three countries, United States, Switzerland, and the Netherlands. The fluctuating price for gold is now guiding the destines of most of the world. The fluctuating price of gold has resulted in benefits to the citizens of those countries whether they live on farms or are engaged in industry.

(Figures 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, and 15 are here made a part of the record, as follows:)[1]

[1] These charts were reproduced from G. F. Warren and F. A. Pearson, Business Conditions in Various Countries, Farm Economics, No. 79, pp. 1830 to 1835, February, 1933.

FIG. 4. WHOLESALE PRICES IN U.S. AND ITALY, 1929-32*

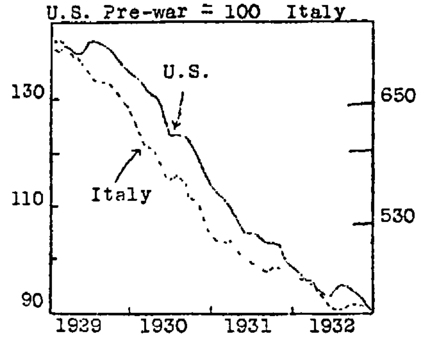
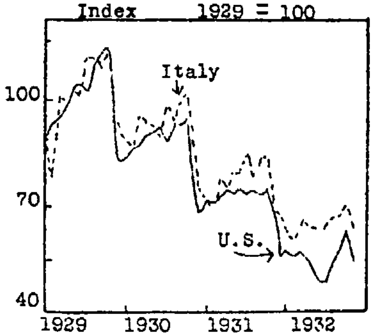



FIG. 5. FREIGHT CARRIED BY RAILWAYS IN U.S. AND ITALY. 1929-32*




Since 1929, prices and railway traffic in the United States and in Italy have followed a similar course.

FIG. 6. WHOLESALE PRICES IN GERMANY AND U.S., 1929-32

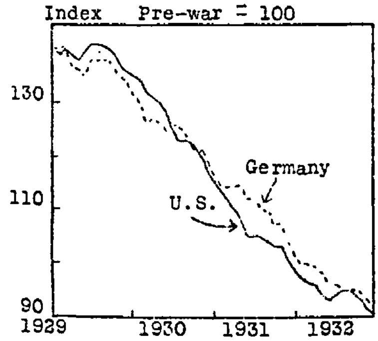
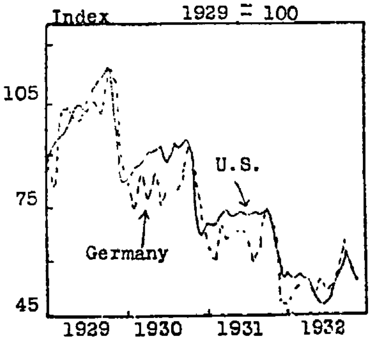



FIG. 7. FREIGHT CARRIED BY RAILWAYS IN U.S. AND GERMANY, 1929-32




Since 1929, prices and railway traffic in Germany and in the United States have followed a similar course.

FIG. 8. WHOLESALE PRICES IN SWEDEN AND UNITED STATES, 1929-32

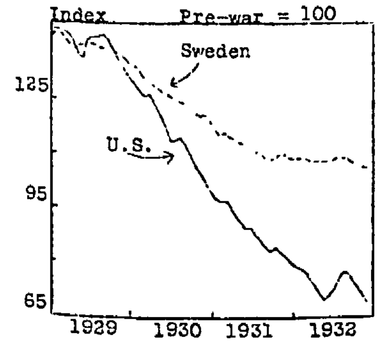
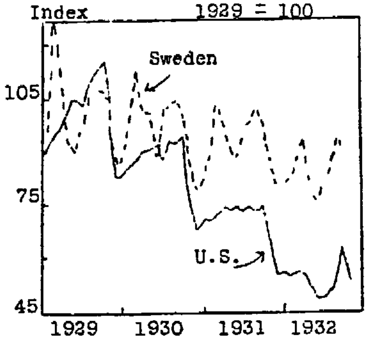



FIG. 9. FREIGHT CARRIED BY RAILWAYS IN U.S. AND SWEDEN, 1929-32



Prices and freight traffic declined continuously in the United States from 1929 to 1932. Prices and freight traffic in Sweden declined from 1929 to the fall of 1931. Since Sweden suspended specie payment September 29, 1931, prices and freight traffic have remained relatively stable at a comparatively high level.

FIG.10. WHOLESALE PRICES IN U.S. AND UNITED KINGDOM,1929-32

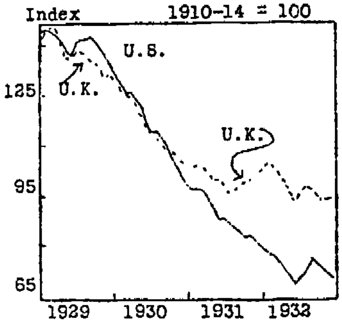
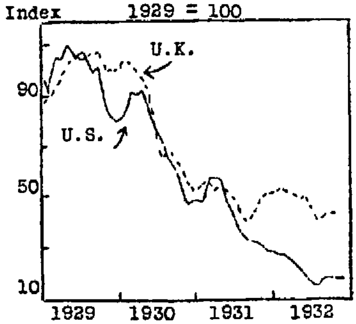



FIG.11. PIG IRON PRODUCTION IN U.S. AND UNITED KINGDOM, 1929-32




Prices and pig-iron production followed a similar course in both countries until the United Kingdom left the gold basis, September 21, 1931. Since then, prices and pig-iron production in the United Kingdom have been comparatively stable, but both have continued to decline in the United States. In 1932 the United Kingdom produced more steel than in 1931.

FIG.12. RETAIL PRICES IN THE U.S. AND JAPAN, 1929-32

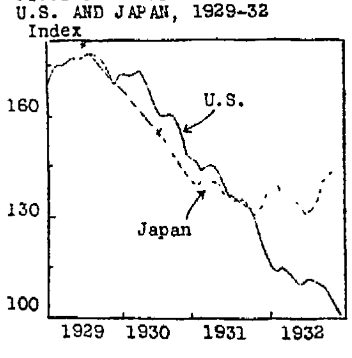
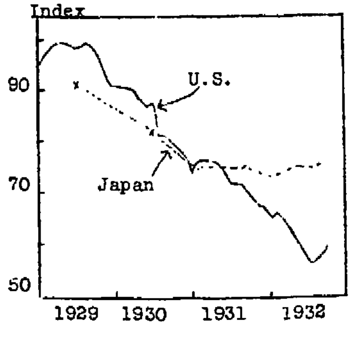



FIG.13. EMPLOYMENT IN THE U.S. AND JAPAN, 1929-32




Prices and employment in the United States declined continuously from 1929 to 1932. Prices and employment in Japan declined from 1929 until Japan left the gold basis, December 13, 1931; since then, they have been relatively stable at a comparatively high level.

Since the suspension of specie payment in the fall of 1931, sterling exchange has been at a 25 to 35 per cent discount, and Canadian dollars 10 to 15 per cent. Prices and industrial production in Canada occupy an intermediate position.

The people of the United States are opposed to the present process of deflation and we recommend that a fixed price for gold should continue no longer to be the arbiter of our destiny and that we should establish a policy of varying the price of gold and make our dollar rubber as to weight and hones, sound, hard, and fixed as to value, instead of our present dollar which is hard, fixed, and sound as to weight and rubber as to value.

In conclusion, gentlemen, I want to reaffirm my strong faith in the purposes and in the ability of our elected representatives here in this Capitol. I do say this as a compliment.

There is a natural and perhaps quite human tendency on the part of many citizens to-day to take anything but a reverent attitude toward Congress. I do not need to tell you this. Your own mail tells you. The people are sorely pressed by this economic extremity. Our 6,000,000 farm homes, in particular, have for a dozen long years been places of privation and even suffering. Such conditions always find expression in dissatisfaction and in bittnerness toward the makers of the laws. But my contact with the Members of Congress has always given me ultimate reassurance. I know that Congress is not only one of the world's greatest deliberative bodies; it is also one of the world's greatest research organizations. I have faith that, in the final analysis, Congress will come to grips with this

FIG.14. WHOLESALE PRICES IN U.S., CANADA, AND U.K.,1931-32

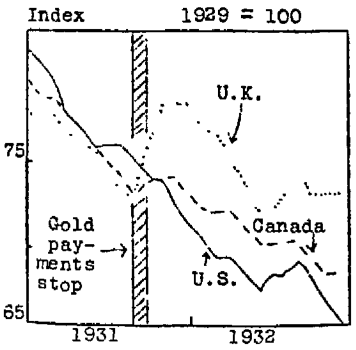
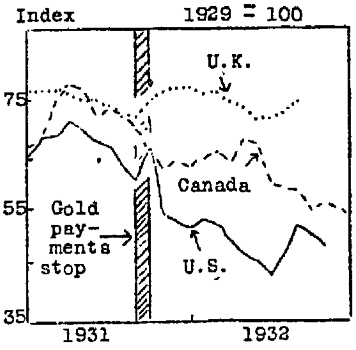



FIG.15. INDUSTRIAL PRODUCTION, U.S., CANADA, AND U.K., 1931-32




terrible price situation and will take the steps which will save our people from the unspeakable nightmare of deflation carried through to the bitter end.

I thank you, Mr. Chairman.

The CHAIRMAN. We thank you. I have a telegram from Mr. Leonard P. Ayres, Cleveland, Ohio, which he asks be read into the record. That telegram is as follows:

I have read with care the newspaper accounts of the views expressed by those who have appeared at the hearings before the Senate Finance Committee and the comments and questions of the committee members. I find that I have little to offer of fact or of theory or of economic history that has not already been placed before your committee by others and so I respectfully request you to excuse me from appearing. I am among those who hold that it is of the first importance for the Congress to take convincing steps toward balancing the regular operating budget and that if this were done funds could be secured through the sale of long-term bonds to meet the extraordinary depression relief expenses. Balancing of the operating budget would help restore public confidence and the history of all depression in all countries shows that increasing public confidence is prerequisite to recovery. I am opposed to inflation or devaluation because I believe that all the projects proposed would fail to produce the beneficial results claimed by their proponents. I favor legislation to facilitate and expedite debt readjustment for much writing down of debts appears inevitable. I favor measures designed to facilitate settlement of the war debts and measures to encourage international trade. I offer no panacea to cure the depression and I think Government can aid most effectively by supporting credit and removing barriers to business.

It is signed Leonard P. Ayres.

Senator HARRISON. I will say that I had a communication to that effect also.

Mr. CHAIRMAN. I notice that Mr. Hearst has found it impossible for him to get here, but he has expressed the hope that the brief he has filed should be read to the committee. I was going to suggest that in view of Mr. Hearst's station and his desire to appear but because of circumstances he could not appear, and his earnest request that it may be read, that if we could meet in the morning about 15 minutes before our usual hour, that the clerk of the committee then could read it. It is not a very long statement, and the calendar is full for to-day.

The CHAIRMAN. Without objection that will be done.

Now, the next witness is Mr. Cone.

## STATEMENT OF JULIUS W. CONE, GREENSBORO, N. C.

Senator REED. What is your occupation, Mr. Cone?

Mr. CONE. I am in the cotton mill business and in the cotton commission business.

Senator HARRISON. I will say that Senator Reynolds is very anxious that we get the benefit of Mr. Cone's views. He spoke very highly of his capacity and qualifications.

Mr. CONE. I appreciate that.

The CHAIRMAN. You may proceed.

Senator WALSH of Massachusetts. What is your company?

Mr. CONE. Proximity Manufacturing Co., of Greensboro.

Senator WALSH of Massachusetts. Is that a textile plant?

Mr. CONE. Yes, sir.

Senator WALSH of Massachusetts. How many persons are employed by you?

Mr. CONE. We have in our plant about 4,500 people.

Senator WALSH of Massachusetts. How many plants have you altogether?

Mr. CONE. We own about 10, and we represent about 15.

Senator WALSH of Massachusetts. All under the same corporation?

Mr. CONE. No; different corporations.

Senator WALSH of Massachusetts. Independent corporations?

Mr. CONE. Yes, sir.

Senator WALSH of Massachusetts. You are an officer in all of them, or stockholder?

Mr. CONE. I am a stockholder and director and an officer in several of them.

Senator WALSH of Massachusetts. All right.

Senator GORE. How many corporations altogether?

Mr. CONE. I would say there are about 15.

Senator GORE. How many spindles altogether?

Mr. CONE. Over 200,000.

The CHAIRMAN. You may proceed.

Mr. CONE. I appreciate the compliment you have extended in inviting me to appear before your honorable committee. I regret my inability to speak with confidence and certainty as to the best means of solving our present distressing problems, but I hope that what I say with respect to existing conditions and suggested solutions may be some slight help, when considered by you in connection with the other facts and suggested remedies which you are having presented to you.

I feel that it is a matter of paramount importance for our Government at the earliest opportunity to come to an understanding with our foreign creditors. These debts, like those of any other creditor, should be settled on a practical, business basis. Before making any compromise, the Government should ascertain the actual conditions existing in each of the debtor countries, and then arrange a settlement, the best settlement possible, in face of the financial condition of each of the foreign nations concerned.

The Government has faced the unemployment problem, and as we all known is extending Federal aid to great armies of the unemployed. I favor a broad plan of constructive public works, which, in addition to giving employment to those needing it, and in addition to aiding industry in furnishing the necessary materials and supplies for this work, would show improvements of permanent value to the Nation as a result of the immense expenditure necessary.

Senator GORE. How much money would you spend on public works?

Mr. CONE. Well, I would not spend any more than you have already allotted for unemployment relief.

Senator GORE. You would not favor a big bond issue of $2,000,000,000 or $5,000,000,000?

Mr. CONE. No; I would not.

Senator GORE. It would have to be paid finally.

Mr. CONE. Yes, sir.

The CHAIRMAN. All right. You may resume.

Mr. CONE. In addition to this, I favor some form of relief to that class of citizens who so far have had no relief extended to them. I refer neither to the farmer, nor to the unemployed laborer, but to the middle class and those men who a few years ago paid millions of dollars to the Federal Government in taxes on their profits, who find themselves now without businesses, without jobs, without homes, without resources of any kind. They are, in the last analysis, far more pathetic and helpless than the farmer. The farmer can make meat and bread, and he has, in most instances, a roof over his head which is his, rent free. But the manufacturer whose plant is closed, the real estate man whose business is gone, the merchant whose store is closed, the clerk who has lost his job—these men are absolutely helpless. It is estimated that 60 per cent of the farms of the Nation are not mortgaged. The farmer like everyone else now out of debt, is in an enviable position.

I do not believe that any relief measure will effect permanent results, unless and until this debt burden is adjusted. I do not believe that this debt can be paid with the present high value of money. It seems to me perfectly clear that one of two courses must be adopted. We must either inflate the value of the dollar, or we must deflate the value of the debt. I should like to go on record as unalterably opposed to paying these debts with cheap money. The history of this country, and of foreign countries likewise, has demonstrated most effectively and finally that every effort to liquidate heavy indebtedness by cheap money results only in disaster.

The CHAIRMAN. For instance, take Italy, and they pay 17 cents on the dollar. Do you think that 17 per cent ought to be canceled at this time?

Mr. CONE. No, sir; I do not.

The CHAIRMAN. Do you think that 17 per cent ought to be cut in two so as to make it, say, 8½ per cent, of what we advanced to them?

Mr. CONE. Well, I can not tell unless I would see their balance sheet and know just what they are able to pay.

The CHAIRMAN. Well, if they say they are unable to pay would you excuse them?

Mr. CONE. Well, I think you ought to make the best trade you can with them by bartering or some other trade.

The CHAIRMAN. We did that once.

Senator REED. Mr. Cone, what percentage of your spindles are actually turning at the present time?

Mr. CONE. At the present time we are running all of our spindles five days a week. But we are not selling our full production.

Senator REED. How many hours a day do you run?

Mr. CONE. We run 10 hours a day, 50 hours a week.

Senator REED. You are running 50 hours each week.

Mr. CONE. Yes, sir.

Senator REED. At your full capacity?

Mr. CONE. Yes, sir.

The CHAIRMAN. They are a long ways better off than most businesses. You may proceed, Mr. Cone.

Mr. CONE. And the disaster has always fallen most heavily on those needing the help which had been vainly expected from the adjustment. In my opinion, the best method of bringing about this greatly needed relief is the reduction of interest rates. Capital is obtainable for approved borrowers at rates of interest of unparalleled cheapness, while the unfortunate debtor is required to pay, in most cases, the highest rate of interest that the law permits to be colleced.

Senator HARRISON. Mr. Chairman, I understood Mr. Cone not to alude to the foreign debt a while ago but to the domestic debt in this country.

Mr. CONE. Yes; absolutely.

Senator HARRISON. I think the chairman misunderstood the witness.

The CHAIRMAN. No. I took his own word about it. He had spoken of the foreign debt before that.

Senator REED. Yes; he had spoken of the foreign debt before that.

Senator WALSH of Massachusetts. Yes.

Mr. CONE. I said in regard to the foreign debt that the best settlement possible should be made in the face of the financial condition of each of the foreign nations concerned.

Senator GORE. Would you apply that same rule to domestic debtors?

Mr. CONE. I think in the end we will have to do that.

Senator GORE. They either have to be scaled down or prices put up or both.

Mr. CONE. In some way. Or we have to extend their indebtedness until times do get right if that time comes in our lifetime.

Senator GORE. If I get your point, it was not so much to reduce the principal as the rate of interest.

Mr. CONE. At the present time, yes.

The CHAIRMAN. You may resume.

Mr. CONE. Another means to this end, which I consider sound—and that is referring to private debts of those poor unfortunate folks who have got heavy real estate mortgages and businesses that are not paying a profit—has been embodied in a bill introduced by Senator Hull. The bill, as you know, provides that over a period of years the Reconstruction Finance Corporation, or some other governmental agency, advance money for interest and taxes to those property owners whose collateral in normal times would be considered ample, thus enabling them to hold their property until conditions can again become stabilized. There should be no risk to the Government in such a measure, as these advances would take priority over the existing debt. I do not, however, mean to suggest that this step would affect any cure, for debts can not be liquidated by lending the distressed debtor more money—it would be merely a palliative, but a helpful one.

Senator WALSH of Massachusetts. Do you know how much money that would take; have you made any estimate?

Mr. CONE. To pay the taxes and interest?

Senator WALSH of Massachusetts. Yes. How much more money would the Reconstruction Finance Corporation have to have in order to meet those private obligations?

Mr. CONE. I have not made any estimate of that at all.

Senator HARRISON. I would say to the Senator from Massachusetts that that matter was heard before a subcommittee of the Committee on Banking and Currency, and purely on the question of advancements for taxes on farm lands they estimated it would only take something under $100,000,000.

Senator WALSH of Massachusetts. All right.

Senator GORE. The total farm taxes of the country are about $700,000,000, and the total interest on farm mortgages is about $500,000,000.

Senator HARRISON. I was not speaking of interest charges on that matter.

Senator GORE. But the whole trouble is, if they start out on this line, it will take over $700,000,000 for the one and over $500,000,000 for the other.

Senator WALSH of Massachusetts. Mr. Cone, your proposition was to have the Reconstruction Finance Corporation advance that amount of money for which loans could be made in normal times?

Mr. CONE. I mean for those who are in distress. Of course, everybody isn't in distress, because some people are still able to pay. But, then, there are a lot of folks who have gotten into a terrible muddle in the last few years by reason of this depression.

Senator WALSH of Massachusetts. But credit has dropped below what it was in normal times.

Mr. CONE. Yes.

Senator GORE. And if we start out by extending relief to those in tress? If you once start out on that line, we can not stop. I think and, secondly, won't we let the distressed decide who are in distress? If you once start out on that line, we can not stop. I think the Hull bill is the least objectionable of the plans proposed, but it covers both interest and taxes. I have had a sort of fundamental objection to the United States, to Uncle Sam, putting his shoulder under taxes, or for any other governmental institution to bear those burdens, like the maintenance of schools, or assumption of taxes. I just want to make my point. I do not want to make a thesis, Mr. Chairman, but I do think that taxes on farm lands and on other real estate in this country are too heavy. It is about 80 to 85 per cent of the total taxes in our States, counties, and municipalities. That is a disproportionate share of the burden of taxation on real estate. Farmers are taxed out of proportion to other classes. I think that is true. I think the farmers do demand not only a reduction in taxes per se but a redistribution of the burden of taxes. But, if the Government of the United States assumes to pay their taxes, I think it removes that incentive; and then, if Uncle Sam pays their taxes, that means really that they are paying it themselves. It is not a matter of getting somebody else to pay it, I mean somebody other than the taxpayers of this country. Now, then, if the United States assumes to pay taxes on real estate, either in country or city, it removes the incentive on the part of real-estate owners to demand that taxes be reduced and to demand that the burden of taxation be redistributed. Don't you think that is likely, Mr. Cone?

Mr. CONE. Well, of course, I think every case should be delved into to see whether, by past records, the party is worth saving. Some folks are going to impose on you and others not; some people are absolutely honest and mean well, while others are shiftless and don't care.

Senator GORE. But when you start out on this line, people will come in and say: You are going to discriminate against us, and this is a country of equality of its citizens.

Mr. CONE. Well, that is unfortunate. When we look backward and find that we were loaning to the farmers money on joint-stock land-bank mortgages when cotton and tobacco were four and five times what they are now, we might say that they did not need it then, that that was a mistake.

Senator GORE. Well, some of it was, wasn't it?

Mr. CONE. It certainly was.

Senator GORE. There is a proposition pending to make those joint-stock land banks take their own bonds in payment of their own debts, and they do not want to do it.

Mr. CONE. Well, I will tell you why: I am interested in a joint-stock land bank, and we would be tickled to death if all the people would do it. But when about half of them who are able to do that do it it leaves you with the other half, whose farms are not worth anything like what the bonds would be, and we would have those bonds on which we have to pay interest and have no earning power in the bank. You see, we are in the position where the good have to help take care of the spread. It would be fine if everybody would do that, if all the landowners would come to you and say, "Here are your bonds," it would tickle us to death. We could liquidate and say, "All right; we are glad to do it."

Senator GORE. I do not want to divert you, but on that point, Mr. Cone, let me ask, if you owed me a $100 note, which I held against you, and pay day came and you brought to me the $100 note that I had given to Senator Walshs and would say, "Here is $100 of your obligation that I tender you in payment of the $100 I owe you," don't you think I ought to take it?

Mr. CONE. If it is absolutely worth 100 cents on the dollar; yes, sir.

Senator GORE. Oh, now, is that the point?

Mr. CONE. That has to be the point.

Senator GORE. Well, say you owe me $100 and I owe Senator Walsh $100, and you buy that $100 note from me and tender it to him in payment of what you owe me?

Mr. CONE. But when you tender to me a bond that you paid 40 cents on the dollar for you are only doing what I can do. One unfortunate situation with this joint-stock land bank matter is: One bank's bonds are selling at 26, and another at 15, while yours are selling at 40, which enables the bank whose bonds are selling at 26 to sell property to people who want to buy it a whole lot cheaper than we can sell it for. We have hundreds of thousands of dollars worth of real estate that has come back on us, on which we are paying taxes, and it is a very heavy burden on the bank. And at the present rate, if the depression is not over, I do not see any hope for the joint-stock land banks, unless the Federal Government comes to their rescue, because people, especially since all of this agitation about the Government helping out, the people who could have paid, have stopped paying their interest and taxes on property.

Senator GORE. Exactly, and that is the vice of this whole business. You invite them to do it, and when you extend leniency to one side, another crowd comes and says: I am as much entitled to your help as they are. And you can not say no. And Congress won't say no. This is a bottomless pit that we have groped into, and we have groped into it more or less with our eyes open. But you may go ahead.

Mr. CONE. I am convinced that your body should take some action in regard to idle capital. By idle capital I mean the hoarded money which is represented by tax-free securities. But there are two kinds of tax-free securities. There is a great difference between the tax-free securities held as backlogs for industry—the securities which are held to carry surpluses that are to be used for expanding industry or for paying dividends when the earnings are not sufficient—and the tax-free securities held for no other purpose than to perpetuate great fortunes, escape taxes, and avoid paying a fair proportion of income to the support of the Government that protects these very holdings. It is my belief that some adequate form of taxation on this last class of holdings should be enacted.

I submit that the Government should so liberalize its control of the railroads of the country as to permit them greater freedom of contract and more adequate control of their own business. The railroads could then introduce such economies as would permit them to meet more adequately the unfair and unsound competition with which they are now competing.

By that I mean, trucks.

It is my belief that the Sherman Act should be modified to relieve legitimate business from restraints which are unreasonable and destructive. Price-fixing should be allowed when it is done in the public interest. This would result in increased employment, and would tend to stabilize legitimate industries. In this connection, if the Federal Government will investigate it will find that the difference in wages being paid in manufacturing plants engaged in the same line of business in the various sections of the country is unfair and economically unsound. This unfair adjustment of wages is disastrous in its effect both on the laborers and the manufacturers.

Now, right there: One of the products we manufacture largely are denims, which go into overalls, and we are paying our people wages that are, in some instances, at least 50 per cent more than are being paid by companies in other parts of the country manufacturing goods of the identical class.

Senator HARRISON. Is that because of the difference in the laws of the various States?

Mr. CONE. There is no law about the price you will pay your laborer in the cotton industry.

Senator GORE. Have you any advantages in the way of water power?

Mr. CONE. No, sir. We manufacture our own power by way of steam.

Senator HARRISON. But certain States may have requirements that other States do not have?

Mr. CONE. Yes; as to hours. You take in the cotton country, where you can hire labor to do the thing for 50 cents a day, or in some cases just what it costs to feed them, and, of course, where cotton mills are right around in that immediate section, why, that basis of wage is reflected in what the cotton mills pay. At that the cotton mills are not making any money. We are over-producing. The industry is in very bad shape financially.

The CHAIRMAN. You may resume.

Mr. CONE. War is always to be deprecated, but as long as it is an evil which must be endured, those who have been injured in the service, and those who incurred illnesses and disabilities directly traced to active service, must be the charges of the Government they have protected. I do not believe that any citizen would question the obligation of the Government to this class of ex-service men. But the payment of a single bonus or disability claim for any other cause should be immediately and finally discontinued.

I am convinced that the Congress should immediately set itself to the task of balancing the Budget. Instead of piling taxes mountain high to meet the ever mounting Federal expenses, the taxes should be reduced, and with their reduction should come a similar reduction in Government costs. There should be an apportionment of the Federal income from these reduced taxes to the various governmental departments, with the requirement that each department live within its incom. The States of the Nation are following this procedure, as are private corporations. The same business principle can be applied to the Federal Government that can be applied to any corporation or any State.

I have reluctantly come to the conclusion that on account of dwindling taxes from both personal and corporate sources that the Government should immediately adopt a form of sales tax. This tax should be collected at the retail end of business, and as the States are going to have to come to this suorce of revenue also, the Federal Government should be empowered to collect the tax and apportion a specific percentage of receipts to the State in which it is collected.

If we have to have a sales tax, and it would seem that that is one of the forms of revenue we must get to, why, the tax should be collected by one head.

This country has recently by an overwhelming majority elected Mr. Roosevelt the next President of these United States. Without regard to politics or party, it seems to me as a business man, that the wise thing to do is to give to the incoming Chief Executive all the power permissible under the Constitution, and all the support that disinterested statesmanship and patriotism can give. I believe it would be wise to empower him to form an emergency economic council, composed of representatives from industry, business, banking, the railroads, labor, education, and other phases of our national life. The economist, too, should have a place in this group. These men should form an advisory committee with whom the President would consult and who, with him, would plan in a large and comprehensive manner the adjustment of all economic forces to meet present conditions, and the changes which must necessarily follow the present crisis.

Gentlemen, I thank you very much.

The CHAIRMAN. Next will be Mr. R. E. Flanders. Come forward and give your name and business and address.

## STATEMENT OF RALPH E. FLANDERS, PRESIDENT JONES & LAMSON MACHINE CO., SPRINGFIELD, VT.

Mr. FLANDERS. My name is Ralph E. Flanders. I am president of the Jones & Lamson Machine Co., of Springfield, Vt., makers of machine tools for this country and abroad.

Senator GORE. Did you say Vermont?

Mr. GLANDERS. Yes, sir. Mostly for abroad in the last two years. I have also been president of the National Machine Tool Builders' Association; and am at present chairman of the committee on economic balance of the American Engineering Council. It is in the latter capacity that I am speaking. The American Engineering Council is a federated body of national and local engineering societies, representing about 60,000 engineers. And it undertook, about 2 years ago, a study in the same type as that which your committee is engaged in; and it wishes to present to you the results of its work to date. I am not going to read this, because it is too voluminous.

The CHAIRMAN. And you desire to have it made a part of your statement, do you?

Mr. FLANDERS. Yes, sir.

The Chairman. That will be done. And if you want to put it in now that may be done, or you may put it in at the conclusion of what you say, just as you like.

Mr. Flanders. I will put it in at the conclusion. But I wish to say a few words about it.

The Chairman. You may proceed.

Mr. Flanders. We were led to make this study on economic matters for two reasons: First, because there was widespread a popular laying of the faults of our economic order at the doors of the engineers for the reason of their devising of new and efficient methods of production and of mechanism; and, secondly, because we were persuaded that an application of the engineering method of study might result in a new view.

I wish to say that we investigated and have made a tentative proposal of some 46 different commonly assigned factors for economic unbalance. I will not even take your time to read all these, but will give you the general headings: Psychological factors, technological factors, business factors, factors resulting in savings and investment, financial factors, agricultural factors, and governmental factors.

Now, the interesting thing about our study was that we did not find, of all these 46 different causes which had been contributing, that any of them could be safely neglected. There was some valuable viewpoint in every one of them; and not merely was that the case but that they had interrelations with each other, so to speak.

The first results of the study of the sort that this committee undertook, was to tend to show the complexity of the problem, and that I think was a perfectly normal result over the two years of study. But there was more than that to it. The complexity, I think, as our work proceeded, has tended to resolve itself into separate particular groups and factors, with more or less common remedies and common characteristics. So that the situation does not look as hopeless as the statement of that number of 46 factors might indicate on the face of it.

Now, that was the first part of this committee's work. The second part was an analysis of the various plans that have been suggested for business stabilization. Our files contain something like one hundred and odd plans, and those plans have been coming in at the rate of several a day for the last two months. I do not know what the number amounts to now, but probably about 150 or 180 different plans.

We, of those plans, took 24 which were typical, and analyzed them on a common basis, which, in the first place, classified them as to their nature, giving the author and origin, stating the objective where possible in the words of the author, the theory or principle on which they were based, the method advanced, the authors' evaluation to the status of the plan, and the tentative comments of the committee.

Senator Gore. Was there any theory common more or less to the whole 24, or did each one rest on an independent foundation?

Mr. Flanders. No; they separate into groups more or less. Some groups, for instance, on the basis of what is required as industry organization to stabilize prices and adjust output to demand. Others are based on the idea of the monetary factor as being predominant and relate to stabilizing the value of the dollar, and so on.

Senator GORE. Are there a good many of that type?

Mr. FLANDERS. There are a good many of that type; yes, sir.

The CHAIRMAN. You may go ahead.

Mr. FLANDERS. And thus, with the hope that this work which has been going on for two years with the committee might be helpful to you, we offer these documents to your committee as a source of codified and I might say digest of many thousand pages of manuscript and talks.

Senator HARRISON. Are they brought up to date?

Mr. FLANDERS. Yes; they have been brought up to the 1st of January of this year. And you can not bring the plans up to date because they come in faster than it is possible to digest them.

The CHAIRMAN. I am quite sure the committee appreciates your labor, and we will put this in the record at this point.

Mr. FLANDERS. I thank you.

(After Mr. Flanders had completed his oral statement permission was given him by the committee to re-edit his prepared statement and have it ready to be printed about March 1. So it will likely be found in another volume of the print.)

The CHAIRMAN. You may proceed.

Mr. FLANDERS. Now I wish, if I may, to give you a few words of personal comment on some personal conclusions after going through these matters. This is not official from the committee because the committee has not arrived at its conclusions. This is a purely personal statement.

The CHAIRMAN. Very well.

Mr. FLANDERS. In the first place, I derive from this mass of material a distinctly hopeful feeling. I believe there is less mystery about the whole situation than there appears to be on first glance at it. There is nothing cataclysmic or irreparable about it as we are led to believe by another group which has recently been developed, the technocracy group, which also had taken upon itself to speak for engineers in general.

It seems to me there is one definite major cause, and that is, that we are recovering from the normal war inflation. No great war has ever been financed except by inflation, and no recovery from war inflation has ever taken place without going through exactly the situation we are going through to-day. That is one great outstanding fact that we should keep in mind.

Senator GORE. I think you are right.

Mr. FLANDERS. That is a thing that we have to recognize. And it also seems reasonable that if we balance all the misery, and the decline of morale, and the breaking up of family, and the destruction of ambitions and hopes, that has gone on with this 10 or 15 or 20 year process following the World War, and such as have followed all wars, with the actual physical suffering of the countries, we will be in doubt as to whether this long drawn-out process of recovery isn't on the whole more painful than the actual physical miseries of the battlefield. Historically the matter of financing a war other than by inflation has never been solved. The only solution we know of at the present moment is never to have any more wars. And the only alternative to a long drawn-out recovery from war-time inflation that has ever been successfully floated is that of devaluation, as was practiced by the Italians and the French after the period of runaway in Italy and France. But I might say that I believe that remedy is not applicable to our case.

Now, the war time rested with particular weight on agriculture. If we remember the war-time measures taken to increase the growing of wheat, for instance, we will remember that the Government by every means within its power urged on the production of wheat, and maintained by means of inflation its price, and produced conditions in general which tended to urge the young and the strong among wheat farmers to undertake obligations in the wheat-raising districts, the incurring of mortgages, which permitted the older generation to retire to Los Angeles and Florida.

Now, that burden undertaken at the height of the war inflation, lasts through until this time, and that is typical of war inflation in general. War inflation, whether in agriculture or industry, results in the undertaking on a tremendous scale of obligations at artificially high price levels, and the grim necessity for retiring them at a later time at a lower price level and under almost impossible conditions.

Senator GORE. And that is what breaks their bones.

Mr. FLANDERS. Yes, sir. Now, there was a major contributing cause, and that was the typical business cycle during the time of recovery, and which was typical but of unusual and almost unprecedented severity.

Now, that phenomena lies, I am convinced, almost completely within your banking and financial policy, the inflation of the typical boom, of the typical business cycle, and puts on all of us in the way of paper instruments, securities of some sort, an amount in excess of the actual volume of goods, the solid material goods, which they pretend to represent.

Of course, this excessive valuation of securities of various sorts, particularly stocks, was hopefully based on a new and increased earning power. Unfortunately, however, there was no provision made for distributing the goods which would have been produced under the expanded production. The only conditions under which the increased volume of goods could look forward to, if its earning power could have been moved, was by making a spread between wages and prices—in other words, increasing the standard of living. That might have been done by raising wages and lowering prices, by holding wages and lowering prices, or anything by way of a combination of the two, that would meet the relative spread. That was not done. so that the hoped-for increase in earning power did not appear. That meant that for the average of the securities which were put on the market at that time there was no value in them, except in the senior securities, which represented actual physical plants and normal operations. For the average of the other, or I will say for the flood of other types of securities, based upon mergers, holding companies, and so forth, we will have to lay the blame, I think, between the investment banker on the one side and the speculative public on the other. Neither the bankers nor the public can put the total blame on the other.

There is another hopeful feature, it seems to me, about the situation we are in. The first hopeful feature was that it is not an incomprehensible mass. It is comprehensible even if difficult.

The second hope is, that we are now at this moment at the bottom of the depression. That is indicated, for instance, in the various curves and indices ordinarily published in the papers, like The Business Week, and The Analyst, and others, where these various curves, whether relating to stock prices or an index of business activity, or other things, have for a number of years past been of the type of a series of descending parallel lines. They have ceased to take on that character and are now moving, very irregularly it may be, either at a lower rate of decline or substantially on a parallel line with considerable ups and downs, but indicating that a sort of dragging along the bottom is under way, which is expressive of that situation.

There are, furthermore, statistical reasons for believing that deflation is complete as a whole. Now, that does not mean that there is not yet, as several other speakers this morning have indicated, a large mass index which has yet to be liquidated. All that means is that the flow of unspent income is now greater than the demands made by the liquidation of bank credits. In other words, the situation is moving sideways rather than down. That process is painful, it is even dangerous, but it is not disastrous.

Another hopeful thing is this: We need have, I am sure, no fear that the rate of production and distribution and consumption and enjoyment of material goods which a large class of the population had in 1927, 1928, and 1929, is something that we can not return to. It was not abnormal. It was not of an essentially unstable volume in itself. There are two rational limitations to that volume of production and enjoyment of physical goods. One is production and use of a flood of goods too great to be rationally enjoyed. And the second is production of a flood of goods so great that we draw on our reserves.

Now, the first, obviously, was not true except for individuals. It was not true for the great mass of the population. There were millions of farmers and workers who were living substandard lives, subnormal lives, so far as their enjoyment of material goods was concerned.

Senator Gore. That was particularly true of farmers.

Mr. Flanders. Yes, sir; and particularly true of working classes in large areas, but more particularly true of the farmers. Tens of millions of our population were not adequately housed, were not adequately clothed, and were not eating the proper food. If those standards could be raised, and it is physically possible to raise them, we could look forward to a volume of production and distribution and consumption and enjoyment of physical goods that is greater than anything we have known.

Now, the second question is as to whether that volume was so great as to draw dangerously on our reserves. I am convinced that that was not true. It did not, for instance, draw on goods laid up by our ancestors. We were not in the sense of the word dissipating the heritage. What we made and distributed and used and enjoyed, we made at the time, and what we made we had the right to enjoy. We were not drawing on goods laid up by our forbears. But the question may still further be raised as to whether we were using all of our irreplaceable natural resources.

Senator Gore. Before you touch that, Mr. Flanders. Do you not think that our borrowing of money to buy, for the consumption of goods, was a little beyond what was wise?

Mr. FLANDERS. Yes. I was going to leave that question along with a dozen of others which would make my remarks too long, but I would just say in passing that that was the expedient undertaken by the manufacturers and sellers of goods to move their product in the absence of sufficient buying power.

Senator GORE. That is just the point. Let me ask you this: A good many of our people spent all they earned and spent all they could borrow, and mass production kept up to the artificial demand based on borrowing and based on credit. The people borrowed to buy as long as they had any credit left, and finally they reached the end of their tether and stopped borrowing to buy, and then mass production found itself without a market, and then came the crash.

Mr. FLANDERS. That situation, I think, can briefly be put in these terms, that too large a percentage of the returns from industry went into the manufacture of capital goods, into the buying of equipment, into the erection of plants and factories, and not enough into purchasing power. That gets back to the original statement I made that there was not a sufficient spread between wages and prices.

Senator GORE. And did not a good deal of it go into the manufacture of goods that were not indispensable, and when the strain came people stopped buying that class of goods?

Mr. FLANDERS. Yes. I am going to touch on that.

Another point on which I think we can look with some hope is that in spite of the predictions and the analyses made by the group which had called itself technocracy, there is no indication, so far as any reliable figures are concerned, of any decrease in the total number of those gainfully employed. Now, that is an old alibi for our protective system, for our mechanized system. And it is not water-tight.

But what did happen is this: That while the number of those gainfully employed did not increase, there was a tendency for them to shift from more or less stable occupation into unstable occupations. And if mechanism has had any harmful effect it is that.

In agriculture, for instance, there has been a shift from subsistence agriculture to staple agriculture, which is in the direction of instability. There has been a shift from agriculture to industrial occupations; from subsistence agriculture to industrial occupations, which is in the direction of instability.

There has been a shift from the industries manufacturing the staples of existence, which are those highly mechanized, with the exception of the automobile industry, to those making luxuries and accessories, and that is just what you refer to.

Senator GORE. Yes.

Mr. FLANDERS. And there also has been an increase in the percentage of those engaged in making capital goods, machinery, mechanism, equipment, and structures, which again is an element of instability. And there has been an increase in those engaged in sales and services, occupations of various sorts, which again is a drift toward a somewhat more unstable type of occupation. These might be compared with regard to their stability with subsistence agriculture as the most stable occupation known to man.

The CHAIRMAN. How much more time will you want? A quorum has now been called for in the Senate.

Mr. FLANDERS. I was going to speak a bit on remedies. I should ask about 10 or 15 minutes. Is that too much?

Senator GORE. I would like to hear what he has to say about remedies.

The CHAIRMAN. Senator Gore, I am compelled to go. Will you adjourn the hearing until 2 o'clock when Mr. Flanders has completed his statement?

Senator GORE (presiding). Yes. You may continue, Mr. Flanders.

Mr. FLANDERS. Let me say first that as a protected manufacturer I can see no objection to one form of the domestic allotment plan for agriculture, which is applicable to wheat and cotton, which would set the allotment at some fraction well below the normal consumption, and thus remove domestic wheat prices from the influence of world prices and make the tariff effective. As a Republican and a manufacturer, I do not see that I could justly object to that particular form of the allotment.

Senator GORE. Mr. Flanders, you are just a little afraid to expose your flank, are you not, on that side?

Mr. FLANDERS. Yes, sir; a little bit, sir.

Senator GORE. Yes. I come from a cotton State. We raise a million bales of cotton a year in Oklahoma. I do not figure out how you relate this allotment plan to cotton in connection with the tariff, when we export 55 per cent of all the cotton we raise, and have not got any tariff, never did have, on short staple cotton.

Mr. FLANDERS. If an allotment of say 80 per cent of the normal consumption of cotton in the country were set and distributed—more difficult on cotton than on wheat, because in the old south the cotton patches are smaller, but still probably possible—if a tariff were applied to it, and if any cotton consumed, even though raised domestically, above that total allotment were required to pay a tariff before it was sent to the mill, then the tariff is effective.

Senator GORE. You call it a tariff, but it is not a protection at all. It is just an artificial contrivance, is it not, to bring the cotton within this scheme?

Mr. FLANDERS. It brings the cotton within the scheme. It does not require the appropriation of money for the allotment but gets it by an artificial rise in price the same as is effected by the tariff.

Senator GORE. And in a way commits the cotton farmer to the general scheme of the high tariff.

Mr. FLANDERS. Yes; if you want to look at it that way.

Senator GORE. Yes. I hate to look at it that way, but that is true.

Mr. FLANDERS. With agriculture, as with the suggestions I am to make later with regard to industry, it is not all governmental. I believe that in your neighboring State of Texas there has been within the last few years—about Oklahoma I do not know so much—a tremendous increase in subsistence farming along with the staple crop, and I have been told that as the result of this in Texas the farm mortgage situation in Texas is in much better shape than in other States similarly situated.

Senator GORE. That might be due to their homestead law, that they can not mortgage it so easily.

Mr. FLANDERS. That might be. I will now just touch on the one most critical thing, so as not to prolong this hearing.

Senator GORE. It is very interesting.

Mr. FLANDERS. The critical thing is that burden of debt which is the normal result of war-time inflation, and has been intensified by the extreme violence of the credit inflation of 1927, 1928, and 1929.

Senator GORE. Exactly. Now I think you have put your finger on two causes, war-time inflation and peace-time inflation in the use of credit.

Mr. FLANDERS. Yes. That leaves a burden of debt. I have no easy remedy for that burden of debt. But I do have some suggestions for carrying what I believe to be a considerable share of it. A considerable share has been liquidated. Another share of it is in process of liquidation. Very painful process indeed. But there is a considerable share of it that does not need to be liquidated if the volume of business can increase slightly but steadily. And among those in particular are certain parts of the burden of debt which the Government through the Reconstruction Finance Corporation has assumed.

In my belief, which is a personal belief, Congress and the President were wise last summer in passing the various elements of the relief bill which provided for putting governmental support under a large amount of this indebtedness. But further it seems to me the event has shown that it was unwise in restricting itself largely to that purely defensive action. At the same time that the Government backs with its credit a large amount of that remaining and intractable indebtedness it, by its policies, continuously reduces the volume of business going through the channels of trade in the country at a time when the only hope of making that indebtedness good is by increasing the volume of business.

Senator GORE. Right there I just want to interject this, that this cutting down of debt may be indispensable, but that is medicine or surgery. Increasing business I look on as food.

Mr. FLANDERS. Yes; that is it exactly.

Now the particular point at which it seems to me the Government could wisely stimulate an increase in business which would make good a large share of the debts which it has assumed is in connection with public works in a way which I think has not had adequate discussion or publicity. And that is in connection with a long-time budgeting policy. We have been confusing economy of Government operations with scale of Government operations. Economy of Government operations requires that necessary work, work which is going to be done anyway, should be done at a time when wages and materials are most favorable; when construction of various sorts is cheapest.

Senator GORE. On that point, Mr. Flanders. There has been a little controversy in this town as to whether the carpenters should receive $11 or $8. I do not know whether it has been finally decided or not, but the preliminary decision was in favor of $11 as against $8 a day. Your theory is that the Government should carry on indispensable construction?

Mr. FLANDERS. I would not say indispensable.

Senator GORE. Well, work that it would otherwise do now or soon?

Mr. FLANDERS. Work that it would otherwise do now.

Senator GORE. Or soon?

Mr. FLANDERS. Yes.

Senator GORE. In order to take advantage of reduced prices on material, and reduced wages, for that matter.

Mr. FLANDERS. Yes. That would be governmental economy in the strict sense of the word. It would not be a reduction in the scale of operations, which, to my mind, is another thing.

Now, those economical operations which should be undertaken at this time should not be financed by taxation, because taxation, again, tends to slow up the processes of business. It should be the normal thing to borrow in times of this sort, and it should be the normal thing to repay borrowing in times when taxing is good. That policy of taxing when taxing is good, building and constructing when construction is less expensive, carries with it a number of remedial features. In the first place, taxation for the retirement of bonds during an inflation tends to put a brake on inflation. Borrowing to do constructive work at the bottom of a deflation tends to put a brake on deflation. They are remedial measures for the extremes of the situation.

Senator GORE. At that point, Mr. Flanders. Your theory is fine. But you have got to deal with politics and politicians. I think during the boom period we had five tax reductions, which we ought not to have had. They were easily paid and ought to have been collected and applied to the reduction of the debt.

Mr. FLANDERS. Yes, sir.

Senator GORE. I think each of the five was made on the eve of an election, for political reasons.

Mr. FLANDERS. Yes.

Senator GORE. Now, then, I think you are getting to the point there that public buildings ought to be carried as capital account and not paid for out of current receipts. Is that not your point?

Mr. FLANDERS. Yes; they ought to be carried as a capital account, built under the most favorable conditions, and paid for when the conditions for payment are the most favorable.

Senator GORE. Yes. I think that is sound in theory. But there is at least one limitation and only one limitation on the amount Congress will spend, and it is not a very fixed or rigid one, and that is the receipts of the Government. Heretofore we have constructed public buildings and paid for them out of current receipts, more or less. If you ever stop that and ever construct these buildings by the issuance of bonds instead of out of current receipts the last anchor is gone. Now I am talking about this Government—these men who have to get elected here.

Mr. FLANDERS. Is it not evident that we have got to behave differently than we have behaved in the past?

Senator GORE. It is evident that we ought to behave differently from what we have behaved in the past. But there are a lot of people here, Mr. Flanders, who think that their highest duty is to keep a good man in public life.

Mr. FLANDERS. The good men probably think so.

Senator GORE. Yes. You can not cut down Government expense. You can not cut down taxes. It can not be done. The taxpayer is unorganized. If he were organized as a group and threatened these people to vote against them if they did not cut down taxes, taxes would be cut down. But you take three charwomen here, and if there is any threat to reduce their wages they will come up here and besiege Congress, and they would not cut them down.

Mr. FLANDERS. Senator, there is no easy way to do what needs to be done.

Senator GORE. Leave out of your equation anything which contemplates any material reduction of Government expenditures. They are not going to do it. It can not be done.

Mr. FLANDERS. We did succeed in reducing the indebtedness by some six or seven billion dollars. We can incur some more indebtedness—not too large an amount—the amount, I am not prepared to state—for public works of the desirable sort expended at this time, and by that expenditure assist in making good the indebtedness that the Government has assumed.

Senator GORE. We cut down the public debt from $25,000,000,000 to $16,000,000,000, but we have run it back up to $22,000,000,000.

Mr. FLANDERS. Yes; we are on the way back, certainly.

Senator GORE. Yes.

Mr. FLANDERS. But my criticism is that too much of that has gone to the purely defensive measure of assuming obligations and not enough of that to the constructive measure of putting some solid business under the repayment of those debts we have assumed.

Senator GORE. But I think a good deal of it has been misused.

Mr. FLANDERS. There are just two other points that I will mention briefly that relate to morale primarily, though with other good results. I believe that the body of people engaged in industry as well as in agriculture are in a poor state so far as their morale is concerned. And there are two measures which are useful and desirable in themselves which will prove, I believe, to be so in the long run, which if undertaken at this time will greatly help that. And again I just want to make sure that it is understood that I am giving only personal views.

Senator GORE. Yes. They are very interesting.

Mr. FLANDERS. One of these is the passage of a law, if it can be done by law, or a Federal amendment, if an amendment is necessary, giving Congress the right to determine hours of labor on goods that pass in interstate commerce and are used in interstate commerce.

Senator GORE. On what?

Mr. FLANDERS. On all goods that enter into interstate commerce. That, of course, is a matter of current discussion. I am not clear, nor do I think anyone is clear, as to it being a fundamental economic remedy. But it is a thing we can certainly safely and wisely do from two or three standpoints. If our mechanized civilization has any worth to society as a whole it is in the production of more goods and more leisure. And we are ready at this moment to declare a dividend of leisure on our mechanical development and advance.

It would have the immediate effect also of distributing the labor as between those who are working and those who are not working more effectively than any of the voluntary undertakings have done. And it would also be a tremendous reassurance to many millions of people who feel that there is a serious cause of economic unbalance in the hours of labor at present commonly worked. It can not be done by industry, it can not be done by State governments, as the history of the textile industry in the last two or three years has shown.

The second and last point is this——

Senator GORE. May I interrupt you right there?

Mr. FLANDERS. Yes, sir.

Senator GORE. We spoke a moment ago about medicine and surgery and food.

Mr. FLANDERS. Yes.

Senator GORE. Is not that suggestion an opiate?

Mr. FLANDERS. I doubt if it is an opiate.

Senator GORE. Here is what I have in view. I have been very much interested in your statement, and I was hoping that you would not embrace what I regard as the doctrine of the defeatist. I believe in mechanization, and I want it carried on until everybody on this globe has everything they need. I might go as far as to say—everything they rationally wanted. For that reason I have not been able to favor as a permanent policy cutting down production—that reason for reducing the days in the week and the number of hours in the day, because I think that is the doctrine of the defeatist. That is negation. That is not getting things that people want to use and wear and enjoy. And I think it is back-tracking. I am afraid it is.

Mr. FLANDERS. I agree with you, sir, on the unwisdom of cutting down production in general. I am, for instance, convinced that it is unwise to give us manufacturers power to organize the hours, and, to use the euphemistic phrase, adjust production to consumption. We had better be adjusting consumption to production. That is the more desirable end.

Senator GORE. Here is the point. Of course you have in mind a flexible scheme in regard to regulating the days in the week and the hours in the day, and when there is an increased demand for goods to increase the days in the week and the hours in the day, have you not?

Mr. FLANDERS. The details of just what the hours should be are not clearly determinable at this present moment.

Senator GORE. I was not talking about details of any fixed point. But the contention that the hours in the day and the days in the week ought to be reduced, cut in certain circumstances, involves the admission that in reverse conditions they ought to be increased, does it not? That the days in the week and the hours in the day ought to be increased?

Mr. FLANDERS. Very likely.

Senator GORE. Now, do you imagine for one moment, Mr. Flanders, that any power on this globe—unorganized power, just consisting as public necessity, public welfare—could ever prevail on this Congress to increase the days in the week or the hours in the day when they have once been limited, when they have once been fixed?

Mr. FLANDERS. It is doubtful if they would need to be greatly increased.

Senator GORE. Do you not know that organized labor would not let Congress increase them?

Mr. FLANDERS. It is doubtful, if that figure really were not set too low, if it really would need to be increased. You see, we are really accustomed to think of how many hours in the day or how many days in the week, when we ought to be thinking of how many months a year or how many years a decade we ought to work. We work a very small number of months a decade compared with the nominal numbers of hours a week.

Senator GORE. I want to improve distribution and restore purchasing power so the people can have what they need and so the things can be available and be in existence at a reasonable price based on cost, plus a profit, and so on. Go ahead, though. Do not let me deter you.

Mr. FLANDERS. I will leave that and go on, owing to the shortness of the time, to my final point, and that is this: You see I am an industrialist, not so much as a farmer, and with not so much knowledge of the farmers' problems. That will account for my referring in most of these points to industrial conditions. We are going to be compelled to undertake, probably, industrial insurance in some form unless we find some better way out of the situation. Industrial insurance to my mind would be a disaster. It is actuarially uncalculable, and it is humanly undesirable, and it is economically unsound.

Senator GORE. If you mean that the Government should put its shoulder under it I agree with you. Is that what you have in mind, or do your statements stand without reference to government auspices?

Mr. FLANDERS. They stand without reference to whether it is under government auspices or the burden fully borne by the industry itself.

Senator GORE. Shared with labor or not?

Mr. FLANDERS. As to share with labor, that takes off some of the objectionable features from the human standpoint, but does not completely remove them.

Senator GORE. Well, go ahead. I am anxious to hear you on that point.

Mr. FLANDERS. Now what an industrial society does owe to its workers is a subsistence wage at all times. That it owes. No more than that. And that subsistence wage should be to my mind paid for out of an income tax. We assume that subsistence wage, the necessity for giving subsistence at the present time. We do it by charity. It is paid by the tender-hearted. It is as much a burden on the social machine as a whole as any burden can be, because these various elements of instability which I described do inhere in a mechanized civilization. And it at least owes that much to those who have come under the conditions of a mechanized civilization.

Now, that subsistence wage means the paying of a wage for work. And that work should be on socially useful projects. It is self-liquidating, because no one will work for that subsistence wage after other work is obtainable. It is humanly right, because the man delivers value received for what he gets in socially useful work.

Senator GORE. Do you mean the Government should impose an income tax and to pay this, what you call subsistence wage, out of the Public Treasury?

Mr. FLANDERS. It now comes out only from a section of the public.

Senator GORE. The soft-hearted.

Mr. FLANDERS. Yes.

Senator GORE. Yes; but there is some incentive to economy and to efficient administration now, is there not?

Mr. FLANDERS. Yes.

Senator GORE. Do you think there would be if the Government ever assumed to do that?

Mr. FLANDERS. It would not be so good, but, on the other hand——

Senator GORE. Mr. Flanders, whenever you put anybody on the pay roll in that capacity they will spend their lives doing two things: Getting the age reduced at which they can go on the Government pay roll, and getting this subsistence wage increased and liberalizing conditions on which they can attach themselves to the Government pay roll.

Mr. FLANDERS. Again you speak as a man with more experience in politics than myself. My interest in this thing has grown from the way in which it is being applied in the town in which I live, in which men instead of being handed dollars in relief are given work at wages which will just provide for food and shelter, and for not much more, for their families. And the condition is infinitely preferable to anything we have ever had from any standpoint. That condition will not continue indefinitely, because they prefer better work at higher wages, and will take it as soon as it comes.

Senator GORE. The people there who constitute your town council know the condition of the people and they know what is going on, and they are in constant touch and association with the taxpayers, they are taxpayers themselves, and they will cut it down if they can.

Mr. FLANDERS. I doubt if it could be a Federal undertaking. It should be a State and local undertaking.

Senator GORE. I am glad to hear you say that. I see no theory on earth why the Federal Government should organize that.

Mr. FLANDERS. It is too big to be organized by the Federal Government.

Senator GORE. It is just an old-age pension; that is all it is.

Mr. FLANDERS. I speak of it here because there is danger that eventually we may have Federal industrial insurance laws, as they have in England and Germany, and in other places.

Senator GORE. I think we will.

Mr. FLANDERS. And this is infinitely preferable to that from any standpoint.

Senator GORE. There is not any doubt of that.

Mr. FLANDERS. I think that concludes what I had in my mind, sir.

Senator GORE. That raises one point that I was hoping you were going to touch on. I have thought a good deal about this unemployment business, and it occurred to me that the burden ought to devolve on industry and the employees, some reasonable and ratable share of the burden being borne by each. Do you think that would be unfair?

Mr. FLANDERS. I can tell you one of the difficulties with that. That is, that there are some comparatively stable types of industries, and some highly unstable types, as we were mentioning before, and those unstable types, with regard to their stockholders or their management, are more the victims of our economic situation, its ups and downs, than they are the causes of it. And that puts the burden of carrying its workers through on the victims themselves.

Senator GORE. Yes; I see your point. It is a very serious social problem. And I do not want a solution that is worse than the problem.

Mr. FLANDERS. The causes, so far as the typical business cycle is concerned, lie in the area of banking and finance, and they would go scot free.

Senator GORE. Here is the thing I want to speak particularly about. That is the rule that seems to prevail in industry of retiring a man at 45 in the meridian of life, when he has accumulated experience and ought to be more fit and efficient, and yet on account of the increasing burden of carrying insurance he is just fired and cast in the heap. Something has got to be done with that fellow by the town, the State and the general Government if industry is going to cast aside men who are perfectly fit and who have no charge against them except advancing years. Something has got to be done to meet that situation sooner or later.

Mr. FLANDERS. Is that not a pretty good argument for shorter hours?

Senator GORE. I do not know whether it is or not. What do you do with him anyway? Then you do not let him work at all. Whether he works 10 minutes or 10 hours he is in the junk heap either way. If you let these other fellows work longer hours and put aside an hour or two for the sake of this fellow I can see where you get somewhere. But if you cast him into the waste-basket and then reduce the hours of the other people you cut down the reserve which might be capable of helping this fellow.

Mr. FLANDERS. I believe there would be a better distribution on the age basis with shorter hours than there is at present.

Senator GORE. Well, I do not relate the two. That is your statement, Mr. Flanders?

Mr. FLANDERS. Yes.

Senator GORE. Thank you. The committee will adjourn until 2 o'clock, at which time it will meet in executive session.

(Thereupon, at 12.35 p. m. an adjournment was taken until 2 o'clock p. m. the same day, Monday, February 20, 1933.)

# INVESTIGATION OF ECONOMIC PROBLEMS

**TUESDAY, FEBRUARY 21, 1933**

United States Senate,
Committee on Finance,
*Washington, D. C.*

The committee met at 9.45 a. m., pursuant to adjournment on Monday, February 20, 1933, in Room 335 Senate Office Building, Senator Reed Smoot presiding.

Present: Senators Smoot (chairman), Reed, Shortridge, La Follette, Metcalf, Harrison, King, Walsh of Massachusetts, Barkley, and Gore.

The Chairman. The committee will be in order. We have a communication from William Randolph Hearst, which will be read to the committee by the clerk.

(Mr. Truman R. Young, the assistant clerk, thereupon read Mr. Hearst's communication, as follows:)

February 11, 1933.

Hon. Reed Smoot,
*Chairman, Senate Finance Committee,*
*Washington, D. C.*

My Dear Senator: As it seems impossible for me to be in Washington during the lifetime of the present Congress, I am mailing my views on cures for the depression.

Briefness in this statement, I imagine, is the first essential.

The cause of the crash seems to have been due to a speculative fever on the part of the public, accompanied by general overexpansion and overcapitalization on the part of industry, and aggravated by the promotion and sale of securities which were more or less obviously worthless, and probably known by the promoters to be worthless.

In the full flood of prosperity there was a continually growing demand for products. Industries, meeting and anticipating this demand, expanded to the danger point, and expanded largely on borrowed capital.

The capitalization of business also increased unwarrantably.

It is observable from the records that business rises to the crest of a wave of prosperity and then sinks to the trough of depression, and repeats this process with singular certainty and regularity, but not with the same degree of intensity.

It must be expected, however, by those who are mindful of the records, that business will first rise to a certain degree of prosperity and then sink to a corresponding degree of adversity.

Therefore, prosperity should not be capitalized at its face value.

To illustrate, if a business is making a comfortable 8 or 10 per cent on the investment in ordinary times, and a period of prosperity raises that income to 25 or 30 per cent, the customary process is to capitalize the business on the basis of this higher income, and to issue securities and sell them to the public, until the business which is paying 30 per cent on its original capitalization is reduced to 8 or 10 per cent on its excess and excessive capitalization.

This additional stock is easy to dispose of in times of prosperity, because everything in those times is on a boom market and the public is in a buying mood.

This process, however, leaves out of consideration the fact that periods of high prosperity are not permanent.

Not only is a return to normalcy inevitable, but as the records show, these periods of high prosperity are generally followed by periods of low depression.

As a consequence, when the period of low depression is reached, these businesses are no longer able to pay dividends on securities based on a period of high prosperity.

So the water is squeezed out of the capitalization, which means that the public is squeezed out, and the public's money is lost.

The investing public generally, in prosperous periods, have been estimating their wealth and their income on a false basis, and have been spending accordingly; and consequently when the crash comes and their securities depreciate to little or nothing, and their incomes disappear, they are compelled to adopt an ultraeconomical system of living and to stop buying.

Production and consequent prosperity depend fundamentally upon the ability of the public to buy, and the willingness of the public to buy.

When the people cut down drastically their expenditure at the shops, the shops of course suffer proportionately in their volume of business and in their volume of profits.

The shops discharge help, and this creates an unemployment problem.

The shops drastically reduce their orders from the factories.

The factories reduce production and profits and discharge help and add to the unemployment problem.

Then the factories drastically cut down their consumption of the products of the mines and the farms, thus reducing the use and price of raw materials, and further reducing employment.

And so the vicious circle rotates, each revolution adding to the severity of the depression.

The essential question in the cure of the depression, then, seems to be how to overcome this tendency downward.

And the crucial point seems to be how to restore the purchasing power of the community, and to make the people not only able but willing to spend money and buy products, and so stimulate production and employment.

I have continually urged that one very important way to accomplish this is for the Government during periods of depression to make exceptional expenditures in public works, and not only give direct employment to some millions of unemployed, but indirectly to give employment to laborers in those industries which create the products employed in construction, and to salesmen and accountants; and also indirectly to give employment, through the increased consuming power of the public, to the workers employed generally in the shops and the factories, et cetera.

Of course, this proposal has been entertained and propounded by many, and by none more convincingly than Mr. Hoover and the President's Conference on Unemployment, of which he was chairman during the Harding administration.

Unfortunately, merely proposing the plan is not sufficient. In order to be effective, the plan naturally has to be carried into effect.

This has not yet been done to any adequate degree at any period of the present depression.

It would seem that the plan should be comprehensive enough to include a system, as was proposed by the Hoover conference, greatly to increase public works during periods of depression and to decrease them to a minimum during periods of prosperity; since in prosperous times not only is employment generally obtainable in private enterprise, but the cost of public construction is excessive; while in periods of depression, Government work takes up the slack of unemployment, and also has the advantage to the Government of being performed at lower cost.

A well-balanced system, therefore, of public construction would not mean, over any considerable period of years, any more public construction than would ordinarily take place in that period.

But the public construction would be, according to this system, increased in bad times and decreased in good times.

In order to provide for this increased construction in bad times, a reserve fund could be accumulated in good times; but since no such reserve fund has been accumulated, the only practicable plan is to issue bonds sufficient to pay for this extraordinary Government construction in bad times and redeem the bonds in good times.

The unfortunate part of the situation is that the Government not only does not proceed according to this comprehensive plan, but it proceeds to the contrary.

It spends its money freely for public works in good times, and cuts down on public works in bad times, thus aggravating instead of relieving the depression.

This is the record not only of the National Government but of the various State governments; and the reverse of the record would be the proper policy.

So much for the program of public construction.

Another question of very serious importance in times of depression is the question of taxation.

In times of depression, there is, of course, business dullness. Profits are less, incomes are less, business is less.

Consequently the governmental income from taxation is less, and consequently the Government proceeds to pile upon income and industry (already staggering under the burdens of adversity) additional burdens of taxation.

This naturally aggravates and intensifies the difficulties of every industry and every investor.

It also drastically reduces the general expenditure which, as I have said, is the fundamental basis of prosperity.

If well-to-do people with incomes have to reserve a great part of their incomes to turn over to the Government, they naturally have less for the purchase of products, and less for investment in enterprise and industry.

Consequently, through diminished expenditure the shops suffer, the factories suffer, and the producers of raw material suffer.

And consequently, through diminished funds for investment, the development of enterprise is retarded and employment is proportionately diminished.

Taxation, like construction, should be accommodated to good times and to bad times.

There should in bad times be more help to the community through construction, and less burden to the community in taxation.

As a matter of fact, let me make the radical and doubtless unacceptable statement that taxation should be diminished in bad times. But if taxation can not be diminished it should at least not be increased.

High taxation is as much responsible for bankruptcies in business, and foreclosures on properties, as the high interest rates of the usurers, or the relentless liquidating processes of the bankers.

In fact the Government, the mortgage holders, and the money lenders have been cooperating in perfect harmony to deflate and liquidate America.

In this combination for extortion the Government is the worst offender, because without any consideration of the obvious fact that dollars have been doubled in value and are doubly difficult to secure; it is extorting more dollars from a community prostrated by adversity than it demanded in times of prosperity.

The income tax especially has degenerated into a racket. It is a racket on the part of the Government, who positively plunder the public under coersion to the point of confiscation. It is a racket on the part of the rich, who disloyally evade taxation and take refuge in tax-exempt securities.

It is a definite damage to the community and the country, because it takes money out of investment and out of the every-day expenditure, which is the basis of prosperity, and hands it over to an extravagant government to be dissipated in bureaucracy.

It is an inequitable tax, an injurious tax; an undemocratic tax, creating class distinctions; an un-American tax, creating class antagonisms, dangerous to the peace and harmony of the Nation. The sales tax should be substituted for it; not added to it.

With the sales tax, a citizen pays in proportion to what he buys.

If he buys little he pays little; but those who buy a lot will not only increase the prosperity of the country by liberal purchasing of products, but they will increase the income of the Government.

An income tax decreases purchasing power. It decreases investment in industry, and consequently decreases employment.

It transfers money from active business into inactive tax-exempt securities. The shrewd evade it. The sincere pay doubly in consequence.

It is in every phase a vicious measure, and shares with prohibition the odium of the two great war-time mistakes.

These two evils—prohibition and income taxation—have been chiefly responsible for demoralizing our people and depressing and disheartening our Nation.

I repeat that excess expenditures of government, over and above income, should be met by bond issues, the proceeds of which to be expended in times of depression, and the bonds themselves to be redeemed in times of prosperity.

The money-lending element of the community will oppose these considerable bond issues with the statement that this means inflation of the circulating medium, and that inflation is dangerous.

On the contrary, these bond issues mean stabilization of the circulating medium, and reduction of the dollar's present $2 value to its legitimate $1 value.

Inflation is dangerous in good times, when the community is in a period of overcapitalization, overexpansion, and overspeculation; and when there is a great amount of natural inflation of bank deposit currency; that is to say, of the checks, drafts, and personal notes, which are actually employed as money in business transactions and are regarded scientifically as an essential part of the circulating medium.

In fact, this bank deposit currency is by far the greater part of the circulating medium.

Indeed, reliable figures seem to indicate that about four-fifths of the circulating medium employed in the transaction of business is this bank deposit currency and one-fifth actual currency; that is to say, metallic money and banknotes.

When a financial crash comes, such as precipitated the present depression, business transactions decrease enormously and bank deposit currency—the checks and drafts and personal notes which constitute the major part of the circulating medium—decrease proportionately. It is estimated by experts that in this depression they have decreased one-half.

This means, obviously, that if the whole circulating medium is five-fifths during times of high prosperity, and the four-fifths of it which is bank deposit currency decreases one-half, the total circulating medium in times of adversity is decreased to three-fifths of what it was in times of prosperity.

The total circulating medium, therefore, has been deflated to the extent of two-fifths of the whole.

We can not reflate at the moment the bank deposit currency, but we can increase the actual currency by increasing the bond issues and the Federal reserve notes based upon the issue of bonds.

Such inflation, or rather, reasonable inflation, is in no sense dangerous, but on the contrary natural, salutary, and indeed necessary to the restoration of prosperity.

In fact, the issue of bonds and Federal reserve notes is the conservative method of procedure.

It would be possible to increase the currency by a direct issue of Government notes and by increased coinage, but this, it is believed, would be disturbing to confidence, and possibly detrimental to the Nation's credit.

However, if the Federal banks should hesitate to absorb reasonable bond issues, the Government could have the direct issue of Government notes to fall back upon.

I am assuming here again that these Government notes, like the bonds, would be retired in times of prosperity, to prevent inflation in periods when inflation is not needed and when it actually would be dangerous as a stimulus to speculation, overexpansion, and overcapitalization, and all such evils attendant upon peaks of prosperity.

To sum up: I think the main cures for depression and stimuli to the return of prosperity are liberal Government expenditures in construction, reduced, or at least restrained, taxation, and reasonable reflation.

As prosperity returns we can diminish the public works, secure more income from taxation, and retire the bonds and bank notes which might in good times constitute undue inflation.

Let me say in conclusion, however, that no plan to increase employment and distribute wealth in wages, no plan to diminish taxation and leave intact the purchasing power of the community, no plan of reasonable inflation to make money easier and commodity prices higher, will be of value in stimulating industry and employment, if American home markets are to be left open to an influx of cheap foreign products, made by war-pauperized labor, under a system of depreciated currency which proportionately decreases the manufacturing cost of the goods.

Such an invasion of American markets by cheap foreign products will create unemployment here faster than any appropriations for public works can create employment.

Such an invasion of cheap foreign goods will put American industries out of commission faster than any favoring governmental legislation or any reduction of taxation can build them up.

Such an invasion of American markets by cheap foreign goods, paid for in their production by depreciated currencies, can only be competed with by an excessive inflation which would reduce our currency to the basis of depreciated foreign currencies, and by a reduction of the standards of living of our citizens; which would completely debase, as it has already partly debased, our American wage standards and living standards.

I believe that all citizens, regardless of politics, should unite in this emergency, to save the American market for American industry, and protect American labor and American standards of living.

The people of this country flatter themselves that they are alert and informed and progressive. Apparently we are not as much so as we think.

France, a great and rich country like the United States, and like the United States on a gold standard, has recognized the danger to her industries and her people in this influx of cheap-made foreign goods from countries which have depreciated currencies, and has established compensatory duties; which, as we all known, are duties in addition to the regular tariff duties upon goods manufactured in foreign countries, and imposed in proportion to the depreciation of the currencies in those countries.

France has furthermore created quotas in imports, as we in our country have created quotas in immigration.

Thus France will not allow her industry and her employment to be disturbed by the importation of cheap goods from foreign countries, beyond a certain definite limitation and allotment well within the amount likely to inflict injury on her people and her prosperity.

Our country was not alert enough, not informed enough, and not progressive enough to originate such measures, but it should be at least intelligent enough to duplicate them when the need for such protection is so obvious, and the condition of our industries and our working people so critical.

The condition of our country demands action by our Government.

We have had, in my humble judgment, ample discussion and ample theorization.

We should reach conclusions, and those conclusions should be followed by prompt and vigorous action.

I forward this message, however inadequate, because I believe the high purpose of your committee is to promote action of exactly this kind.

I have discussed four general propositions only, and have not gone into the details of farm relief and industrial relief, on account of the length to which such discussion would extend.

After all, the farmer is mainly a producer like the manufacturer and the important thing to each is a satisfactory market for his products.

The greater the consuming power of the public, the better the market for farm products, as well as manufactured products.

The more that wealth is distributed in wages, the greater the consuming power of the public and the greater the compensation of the producer.

High standards of living mean high prices. The chief duty of Government is in my opinion to stimulate high wages and high purchasing power.

Beyond creating as far as possible remunerative American markets for American production, the Government should finance the farmer at a low rate of interest and insure him in the possession of his farm over a sufficient stretch of years to nullify the destructive effects of periodic unfavorable climatic and economic conditions.

When the Government has gone that far in farm protection it should certainly have some further function with respect to the regulation and the transportation and the sale and distribution of crops in order to protect its own investment and insure the objective of its paternalism.

Reduced cost of transportation is just as important to the farmers as reduced cost of financing and of marketing.

The welfare of the consumer as well as the farmer demands cheap transportation.

The railroads under the present system, or lack of system, are in no condition to supply cheap transportation.

Railroad freight rates are extremely high when compared with the rates of motor transportation, and the railroads are continually asking for higher rates in the hope of being thus able to meet their obligations; while they should be establishing lower rates not only for the benefit of the community but in order to be able to meet the lower rates and more modern methods of competing transportation.

To come immediately to the point, it seems impossible that the railroads of the United States can pay a high rate for borrowed money, meet their fixed charges, and lower their rates to the point where they will be able to compete with modern methods of transportation, while operating under their present policy of ragged individualism.

Apparently the only way that the necessary complete reorganization and unification of the railroads can be accomplished is through Government ownership. Government ownership will administer the railroads economically in one coordinated system.

Government ownership would secure money to the railroads at half the rate of interest which the railroads now pay, and railroad securities could be retired with a three per cent Government bond. to the advantage and satisfaction of the security holders.

Under a unified railroad system, reorganized and refinanced by the Government, the railroads could economically transport freight of that character of weight and bulk which naturally belongs to them.

Farm products are of this weighty and bulky character, and consequently farm products would greatly benefit by the economical railroad transportation which Government ownership would secure.

Consumers would also benefit; and as the alternative to Government ownership seems to be nothing less than general railroad insolvency and bankruptcy, the whole country would be relieved by Government ownership from this impending disaster.

If the Government is to attempt to rescue the railroads through the Federal Reconstruction Corporation, it must pay out vast sums of money to save them from bankruptcy, yet, after it has done this, and practically paid for the railroads, it will not possess them, nor can be able to systematize them, unless we adopt a policy of Government ownership.

If the people's money is being paid out in sufficient quantities to buy the railroads, then the people should own the railroads and secure the full benefit that would accrue from Government refinancing, Government reorganization, Government unification, and Government operation.

Therefore, I beg to recommend Government ownership of the railroads as an important aid to general economic recovery and general economic stability.

And in this operation, benefit could be conferred upon the farmer without imposing burdens upon the consumer.

However, I am writing interminably. In fact, I must apologize for the length of this letter, which I promised in the beginning to make brief.

Perhaps I should also apologize for the vehemence with which I have expressed my opinions.

Very respectfully,

WILLIAM RANDOLPH HEARST.

The CHAIRMAN. Mr. Henry J. Haskell.

## STATEMENT OF HENRY J. HASKELL, EDITOR OF THE KANSAS CITY STAR

The CHAIRMAN. Mr. Haskell, give your full name and address for the record.

Mr. HASKELL. Henry J. Haskell. Editor of the Kansas City Star.

Senator, I have prepared a rather careful statement here which I suppose would be more orderly than what I have to say, but I do not want to read it because it is too long, and if possible we prefer to have it appear in the record.

The CHAIRMAN. It will appear in the record now without reading, and then anything supplementary thereto you may state now.

Mr. HASKELL. I thought I could give you an informal discussion of the high points.

The CHAIRMAN. You may proceed along that line.

Mr. HASKELL. I come before you, frankly, as a westener. I have lived from my boyhood in the great valley that feeds the Nation, and while I do not presume to speak for that valley, I feel that I at least know something of its needs and aspirations, and what I have to say is directed toward how those needs may be met and those aspirations fulfilled. And while I shall speak from the farm standpoint, what I conceive to be the farm standpoint, I hope that I shall urge nothing for the West which is not also for the national advantage.

The farm market constitutes at least one-third of the national market, and its deep depression is one of the major causes of the country's present plight. One of the major causes though not the sole cause. While the West is unable to buy the radios, the automobiles, the agricultural machinery which it needs, the eastern workman is walking the streets when he might be employed to meet these western needs.

I may venture to say something about the general relation of the western situation as I see it to the general situation. I suppose we all agree that the primary trouble is that our great industrial machine is out of balance so that there can be no free interchange of goods between different sections. Part of it I think is stuck up here on the 1929 level and part of it is down in the cellar of 1933 commodity prices.

On the 1929 level are taxes and, to a considerable extent, debts, interest, railroad rates, wages in some of the key industries like the railroad industry and the construction industries. Down at the low point are the farm prices and commodity prices generally.

Our prime endeavor, as I see it, is to get the machine back into balance where there can be a free interchange of rates, and I do not believe that it is necessary to get everything down to the cellar of the 1933 level. We can bring the high end down and the low end up to create this balance in industry, and that is what I have in mind.

The farm industry itself suffers internally from this maladjustment. Its prices are on the distress level, and its overhead, including chiefly taxes and interest—and I might mention railroad rates, though I am not going into those, are still nearly of the 1929 level.

How important this is I can tell you from the figures from the Department of Agriculture that before the war taxes and interest absorbed about one-twelfth of the farm income. Now they absorb about one-fifth of the farm income. So that there is very little left after the farmer has been able to make his payments—he may be able to get by by living on his land, but there is very little left over for him to buy the products which he needs and which would afford relief to the country.

The CHAIRMAN. In your prepared statement do you suggest how to bring the one down and advance the other?

Mr. HASKELL. I am going into that as I go on, Senator. I am taking up first the reducing of the overhead.

The CHAIRMAN. That is all I wanted to know.

Mr. HASKELL. So that as far as the farm industry is concerned—and this applies to a considerable extent to the rest of the country—this overhead—taxes and interest—must be gotten down. And then if anything can be done to bring prices up it must be considered.

The taxes amount to nearly as much as the interest on the farm country. And we are making very strenuous efforts there to bring the taxes down by State action and by action of local bodies. In Kansas the Democrats and the Republicans in the legislature are working together with the aim of reducing State expenditures by 30 per cent, though they were reduced very considerably last year.

And, if you will pardon me saying so, we in the West sometimes feel that Washington has hardly heard what has happened in dealing with taxes. Those of us who have observed the situation know what pressure you are under to keep up expenditures from various groups, and for that reason there is a very prevalent feeling that it may be necessary to invest the President elect with almost dictatorial power so far as the Budget is concerned in order to accomplish this 25 per cent reduction which is contemplated and which we very desperately need.

Turning to the interest rates, another tremendous item in the farm overhead, we find in the Department of Commerce estimates that the farm mortgages have been reduced somewhat. They now stand at about eight and one-half billion dollars. The other farm debts are estimated by the National Industrial Board at about $3,000,000,000. And the interest charges are a very heavy load.

The debts to a very considerable extent were contracted when wheat was selling at $1 a bushel, and simply can not be met by the wheat selling on the farms at 30 cents a bushel. So the farmer is faced with the very bitter possibility in very many cases of not only losing his home and his savings of a lifetime, but also his means of livelihood. His very job is at stake. So it is hardly to be wondered at that there have been occasional cases of forcible resistance to foreclosure of mortgages.

But while we must have the very greatest sympathy with the farmers who are impelled to such action we must not be stampeded by sporadic uprisings of that sort. They are sporadic. The great bulk of the farmers are steady and level-headed and are trying their best to meet their obligations.

In any program that we contemplate it would be a great mistake to make the farmer feel that he is not expected to meet his obligations, because he will need credit in the future, and we want to see him able to borrow on the same terms on which any other business man can borrow. We do not want him to be regarded as an undesirable risk. This is, I think, a very essential point to be considered.

Senator KING. Mr. Haskell, in discussing the very heavy burden of mortgages upon the farms, aggregating, as you say, about eight and one-half billion dollars, you do not forget, I suppose, that there are billions of dollars of mortgages upon the homes of people who are not farmers?

Mr. HASKELL. That is true.

Senator KING. And that they, too, are suffering from foreclosure proceedings.

Mr. HASKELL. Yes.

Senator KING. And they are suffering from their inability to meet interest payments and partial payments required under many of the contracts for the purchase of homes.

Mr. HASKELL. Yes; but I am speaking chiefly from the farm standpoint. I think we must meet the general situation as well, and I think the pending amendments to the bankruptcy act are very important.

I have no plan to propose on the general mortgage situation. And, in fact, on the farm mortgage situation I will just mention two or three general principles.

I believe, in the first place, that we must recognize the great variety between the individual mortgages. In some sections the loans are not nearly so heavy as in others in proportion to the value of the land. Some farmers can meet obligations. Some could meet them if they were eased off. A few, I am afraid, can not meet them at all.

But a very large amount of readjustment and adjustment is now going on through the insurance companies and the banks. I was informed the other day of a joint-stock land bank which had 5,000 mortgages, of which 1,000 were in default, and they had only foreclosed 13.

This process, as I say, is going on. But I do not know that it will be sufficient. I think that Government aid will be necessary in making these readjustments.

In the first place, I suppose the Federal land banks will have to have some further aid to give them the opportunity to make lenient settlements. It may be necessary to absorb the joint-stock land banks in the Federal system, though I believe if this should be done we should be careful not to give an artificial value to their bonds, at the expense of other taxpayers.

Senator KING. Where will the Government get the money to carry out that policy of absorption? The joint-stock land banks have more than $1,000,000,000 outstanding now. The farmers have, as you say, $8,000,000,000 of mortgage indebtedness. Assume that the Federal Government desired to or had the power constitutionally to take over those obligations; where will it get the money?

Mr. HASKELL. I do not believe it should be expected to take over the obligations. I think that enough easing can be done by selective action in individual cases so that a moderate amount of money and credit would take care of the thing. I would not have the Federal Government take over the whole thing. I would not have a blanket treatment, as I say. I think it may be necessary to set up an emergency corporation which would put some Government credit behind individual cases of easement in which the incentive might be offered to reduce the farmer's unsecured debts and perhaps his second mortgages, and perhaps to give him a little lower interest rate and a longer amortization period on his first mortgages.

Senator KING. I was wondering if you had considered the obvious fact that we are running behind three to five million dollars a day below our revenues; that the revenues for this calendar year will be less probably than for the last calendar year. That there will be a deficit this year of $2,000,000,000, a deficit last year of $3,000,000,000, a deficit the year before that of $1,000,000,000; that we have had to sell Government bonds to meet those deficits; we have to furnish the Reconstruction Finance Corporation approximately $3,000,000,000; the land banks have been furnished some credit. Have you envisioned the possibility of a continued drain upon the Treasury and the effects upon its credit? What the effects would be, if the Government bonds, with these constant demands, should not be sold? Would not our whole system be destroyed?

Mr. HASKELL. I think we should be careful not to bite off more than we can chew. I think, as I say, that we can ease the situation by substituting or by guaranteeing to some extent the bonds at a lower rate of interest in these individual cases in which we feel that the farmer can make the grade if his interest is reduced somewhat. The farmer has got to take a loss, of course, and the creditor has got to take a loss. I merely would have the Government as an intermediary to ease the transition period. And I would not expect the Government to make loans in which they would take any very considerable loss.

The CHAIRMAN. Do you go into any considerable detail and mention these specific items in your prepared statement?

Mr. HASKELL. What I have mentioned so far I give in the statement. I do not go into detail in discussing the various bills that I propose.

The CHAIRMAN. There is really no need of repeating what is in your statement unless it is a part of the explanation.

Mr. HASKELL. I am merely calling attention to the high points.

Senator HARRISON. In reading your statement I was interested in this point: You get out a farm supplement to your paper, the Kansas City Star?

Mr. HASKELL. Yes.

Senator HARRISON. And I understand you have about 500,000 circulation?

Mr. HASKELL. Yes.

Senator HARRISON. You get a great many letters?

Mr. HASKELL. Yes.

Senator HARRISON. And you said that about 5 to 1 of the letters are more favorable to mortgage changes, reduced taxes and interest reduction than they are to the farm-allotment plan?

Mr. HASKELL. Yes. What I said specifically was that of 50 letters received a couple of days before I left only 6 mentioned domestic allotment, 5 are against it and 1 was for it; and most of the rest were discussing taxes and interest. There was a little flurry of interest in possible promoting of trade by issuing scrip-bearing stamps, which is, of course, a part of the sales tax.

Senator HARRISON. You feel that the interest among the farmers in your section is more towards the reduction of interest charges?

Mr. HASKELL. I think so.

Senator HARRISON. More towards the reduction of interest charges and reduction of taxes than anything else?

Mr. HASKELL. From all our contacts I believe that is true, Senator.

The CHAIRMAN. Well, we could not do anything with taxes, to speak of, because that is almost entirely in your State and your cities, and your counties.

Mr. HASKELL. To a very considerable extent, except that on the general proposition of the Federal taxes they do constitute a heavy load on the country in general. Not so much as the others, of course. The total, I believe, is estimated at $15,000,000,000 by the Department of Commerce, in which the Federal Government is only $4,000,000,000.

Senator KING. I have a question apropos of what Senator Harrison asked you. In all these letters that you received do you find any very loud demands for the continuation of the Farm Board?

Mr. HASKELL. No. I should say that in general the farmers are pretty sour on that, as well as on all price-fixing schemes. I suppose that is the reason that the domestic allotment has not appealed to them. They are kind of sour on the whole thing as far as I can see.

Senator KING. They would be glad to have the Farm Board cease to function?

Mr. HASKELL. Well, I do not know that they express themselves that way. They are rather indifferent about it, I feel.

I have mentioned the two things that would get the tilt down. Now, on the matter of getting the down-tilted part up. We come to measures for increasing prices. And there are three that have been urged in our part of the country to considerable extent. One is inflation by devaluing the dollar, the second is domestic allotment, and the third is the withdrawal of marginal land from cultivation by Government rental.

On inflation, of course, I can not speak as an economist, but I will say this, that with the same gold content to the dollar we have seen wheat sell in Kansas City as high as $3.65 a bushel and as low as 40 cents a bushel, and we have seen hogs sold all the way from $23.40 to $1.90. So evidently there is something beside the gold content of the dollar involved in that.

The public mood affects the value of money just as it affects the value of Florida real estate. When you have everything depressed, whether the gold content of the dollar is up or down you have prices down.

I think England has shown what happens to the plain man in devaluing the dollar. I have taken some pains in examining the English situation. They devalued the pound of course by 30 per cent. They have not diminished their debt load one penny. The last figures show that wages went down in the last year about $8,000,000 a week. Unemployment increased by 12 per cent. Of course, they were forced to it, but when they were forced to it they demoralized international prices and sent them down.

I believe we should avoid any serious contemplation of inflation. That with inflation we would find none of the results expected, and we would find that we have contributed to the confusion of international trade. That we would then be holding things back instead of pushing them along. In fact I think it would be such a blow to confidence that it would be a very great impediment to recovery.

I have watched inflation in various countries in Europe. The only time they balk is when they get out of control, and then, as I have compared it sometimes before, it seems to me that the balky horse is the best illustration. You get on the horse and you apply whip and spur, but the horse does not budge. Finally he suddenly bolts, runs away, and you can not control him, and he stops abruptly and throws the rider and leaves him flat on the ground. That is the way it was in Europe. I hope we can avoid it here.

As to the domestic allotment, I was impressed by Professor Black in his book "Agricultural reform in the United States," and by Professor Wilson's very ingenious working out of the theory, but the more I came to consider it the more it seemed to me that they did not consider the farmer's psychology. The farmer has been taught to produce, and when his taxes and interest are high he is trying to produce on every acre he can. And I think it is simply impossible to get the farmer to reduce his acreage by giving him a bonus on production. You can not police him; you can not see that he reduces his acreage. And it tends to aggravate his problem instead of to help it.

A reasonable development of the land-use program, the adjustment to where things can be best raised, which the farmer is now carrying on, and if he can be allowed to carry it on in the free operation of supply and demand, will be the best solution of that. We want to produce wheat where we can produce it most economically and not on marginal land. And the domestic allotment would tend to freeze production horizontally where it is now on high cost lands as well as low cost lands. We want to raise our wheat, as I say, where it can be raised economically, and not on any artificial basis.

And here I want to register my feeling against our interfering with this by our crop-production loans. Our crop production loans last year on wheat, I am told at the department, enabled them to be subsidized in spite of the fact that we had a tremendous surplus of wheat; we subsidized about 100,000,000 bushels of wheat on 9,000,000 acres of marginal land where it ought not to be produced.

We are repeating the same mistake this year, with the same subsidy given on the condition that they should reduce acreage, but who is going to police them to see that they do? It is impossible to reduce acreage by giving higher prices.

And the same objections apply in principle to the proposal to rent marginal land. I was impressed in riding from Kansas City to Washington to see the enormous amount of marginal land which is out of cultivation which could be fed into cultivation just as soon as you began to take the marginal land out of cultivation. You would be pouring money into a rat hole. There is no reason why the farmer could not rent his marginal land to the Government and take it out of production, and put some of his pasture land into production and increase his production. I do not think you can get out that way.

As I say, the farmer, as far as we can see, is not interested in domestic allotment. He is making his adjustments, and it takes from 3 to 5 years to adjust your crops in rotation, and so forth. So we want to give him time and he will work out.

But in the meantime I believe that you can have a program for price recovery which will not necessitate our sweating the thing out. I think that if we abandon as far as possible uncertainty and fear, that we will have the same recovery that we started last summer. If we can approximately balance our Budget and if we can end the fear of inflation, if we can then cut international debts, settle and stabilize currencies, I believe that we will be surprised at the forward movement in prices.

Senator KING. Before leaving that, Mr. Haskell. You referred to these extensive loans made by the Federal Government for crop production. I agree absolutely with what you state. You have noticed, I presume, that Congress in its wisdom, or its folly—I emphasize the latter word—has recently passed a bill carrying $90,000,000 for additional crop production. Do you not think that that would prove a disadvantage, to say nothing of the expenditure of the money? There will be an army of Federal employees that will have to be fed out of the Public Treasury to enforce that.

Mr. HASKELL. Yes. It is impossible of enforcement. I can not see it.

Now, as a further thing, I get on controversial ground. I believe that we have got to open markets to the farm export, foreign markets to farm exports, and I see no way of doing that except through some reciprocal tariff reductions. Now, the whole policy, it seems to me, has been a mistaken policy in recent years, because we have kept raising our tariffs and that has had a tendency to shut off the purchasing power of Europe. And there is a widespread impression that our European farm markets have dried up through their efforts to become self-sufficient on food. That impression is only partly justified.

I have been very much interested in investigating the case of wheat lately. I had had the feeling that the introduction of new lands during the war and since the war had greatly increased the wheat production and so swamped the world with wheat. That is not true. The big increase in wheat production came a generation ago. I suppose it was with the development of the reaper abroad, and so forth. Wheat production in 15 years went up 40 per cent. The 15 years in the nineties and before the war. Whereas in the last 15 years it went up 20 per cent. In spite of the big crop of 1928 and 1929 and Russia getting into the market with export wheat unexpectedly, under normal conditions there would have been a disappearance of this surplus in Europe, but conditions were abnormal, and through underconsumption and through tariff restrictions largely to protect currencies, we had the surplus dammed up.

But in spite of these disadvantageous factors Broomhall estimates that this year the world will take 700,000,000 bushels of export wheat, and we will supply about 56,000,000 bushels—about 8 per cent of that. We ought to be supplying about 20 per cent of that as we did during the most of the decade before the crash. Of course part of our trouble has been due to our price pegging which in the light of experience I believe has proved to be a mistake. Part of it is due to the competition with depreciated-currency countries. But to a considerable extent I believe it has been because we have not allowed the foreigners to pay for what they took with goods.

The Government, of course, financed through the war days the great prosperity era of our export trade when workmen wore silk shirts, but after that the private investor took up the load, and then when the private investor stopped lending that was one of the contributing factors to the sudden fall of our trade.

You can see what happened to the farm industry. In 1920 it was virtually in balance. That is, the index figures of farm prices stood at 205 and of the things the farmer bought stood at 206. That was virtually balanced. After that the farm index constantly sagged until it got down to 94 in 1931, and it took a nose dive to 51 last year. At the same time the index of what the farmer had to buy went down to 105. So the ratio now instead of being balanced is now 49, which is to the great disadvantage of the farmer.

I am asked how it would be possible to decide what industries we might make reciprocal reductions on, and I talk about reciprocal reductions because the agenda for the world economic conference, recognizing the need of reducing trade barriers, suggests that no nation can afford to make tariff reductions by itself but there must be reciprocal reductions undertaken.

I have been asked just which American products I would sacrifice by reducing their protection, in order to promote export trade. The general principles of the answer are clear. We should make the reductions in uneconomic industries.

We sold in 1926 $1,600,000,000 of farm products abroad, and just the recovery of part of that market would very greatly stimulate our farm industry.

There are uneconomic industries which we are maintaining at too great cost, at the expense of our farms and other exporting industries. These include industries in which hand work enters to an unusual degree. Certain other products are uneconomically produced because of unsatisfactory natural resources.

I would urge that our Tariff Commision be empowered to make a survey to disclose which these economic industries are.

In France I have talked to business men who have told me that they felt it was a great hardship for us to undertake hand industries when they were prepared through their long training to supply hand-made goods while we could supply machine-made goods with greater efficiency. And every time I am over there I am impressed by the terror of the European people who talk about the efficiency of American production. Yet we are frightened at the appearance of even a trickle of foreign-made goods in this country. It seems that some of our great industrialists are like the girl who jumps on a chair and screams at the sight of a mouse.

I have been impressed with this, that we can see manufactures deteriorate, we can see men thrown out of work, and we are sorry, but we do not do anything, but if we suggest taking any action which will temporarily perhaps throw some men out of work but with the prospect of improving general conditions by improving our export trade and putting more men back to work we shrink back from it.

We are very much in the condition of the man who is sick, who could be cured by surgical operation, but he dreads the operation so that he would much rather keep on getting sicker and die than go through the operation. That is essentially the situation, it seems to me.

I believe we must settle the debts, stabilize currencies, and get some reciprocal reductions in order to promote our farm trade abroad.

The CHAIRMAN. Have you taken the time to figure out on pounds and yardage the goods that have come into this country under existing prices as compared with the pounds and yardages before the passage of the bill?

Mr. HASKELL. Senator, I have not gone into it in detail, but I have noticed that the gold-standard countries have not been very different from the others in their falling off of trade. And before I came away I got a very frantic protest from the salmon packers of the Northwest about the terrible condition of the salmon-canning industry from the Japanese imports. The Japanese imports have increased 2,500 per cent in nine months.

The CHAIRMAN. So you would like to have the tariff reduced on that?

Mr. HASKELL. No. But let me tell you, Senator, what happened. I came to Washington and looked them up and I found that we had started with 1,600 pounds of Japanese imports and we had increased those to 44,000 pounds, which was an increase of over 2,500 per cent. At the same time during that year we had packed—this other was for nine months, so the comparison is not quite true, but in the year we had packed over 300,000,000 pounds. Those 44,000 pounds were just a drop in the bucket. And I trust that we will not be stampeded by some instances of that sort to cut off the ability of the foreigner to buy our farm products still further and to make his currency situation still worse, which retard instead of hasten recovery.

I feel that the "Buy American" campaign is in the same category. It hurts our farmers, because if we are going to sell our export products abroad we must buy abroad. And I think it can be done without any damage as the thing is readjusted.

Gentlemen, that is essentially the thing. I mentioned getting the thing down. The machine that is tilted high, get it down from two angles, reduction of interest and taxes, and get it up by removing the element of fear and uncertainty, settling the debts, stabilizing currencies, and reciprocal tariff reductions.

Senator KING. I think you have made a very fine statement.

The CHAIRMAN. The settling of the debts in what way? Do you mean by cancelling them?

Mr. HASKELL. I should like to speak a word about the debts. I would not cancel them; I see no reason to cancel them; but I think we can get some compensating advantages for the sacrifices that we must inevitably make. With regard to those compensating advantages I believe we might be able to do some bargaining on their taking some farm products, but I should think they would come more in bargaining for them to stabilize their currencies and to make some reciprocal tariff reductions. I think if our farmer could be convinced that his foreign market was going to be opened up through the debt settlement, that he would not oppose a reasonable settlement.

The CHAIRMAN. Thank you.

(Mr. Haskell's prepared statement is as follows:)

### A 4-POINT PROGRAM FOR FARM AND NATIONAL RECOVERY

1. Radically reduce taxes.
2. Adjust and scale down farm indebtedness where necessary.
3. Depend for price recovery, not on domestic allotment or Government rental of marginal lands, but on an intelligent land-use program worked out voluntarily by farmers; combined with removal of elements of uncertainty and fear from the national situation by balancing Budget, rejecting inflation, settling international debts, stabilizing currencies; plus—
4. Lower trade barriers by reciprocal tariff revision to open foreign markets to surplus farm products.

I come before you frankly as a westerner, as a resident since boyhood of the great valley that feeds the Nation. I can not presume to speak for that valley. But I believe I know something of its needs and aspirations. What I shall have to say is directed toward how those needs may be met, those aspirations fulfilled. And, while I shall speak from what I conceive to be the farm standpoint, I shall urge nothing for the West which, in my view, is not for the national advantage as well.

The farm market makes up at least a third of the national market. Its deep depression is certainly a major factor, though not the only factor, in the country's present plight. Its recovery would be an immense stimulant to general business. There is an enormous dammed-up demand on the farms for goods produced in the East. But with the farmer's net income at the vanishing point, this potential demand for goods remains paralyzed, and the man in the East who might be at work satisfying it must walk the streets unemployed.

Before I speak on the specific farm problems, let me indicate briefly their connection with the general problem of the depression. We agree that the whole industrial machine is badly tilted. Some of it is stuck on the 1929 level, part of it is down at depression depths. So long as it is so out of balance there can be no free interchange of goods, and we founder along. Goods will begin to flow freely as we get it back in equilibrium. This will be attained, not by bringing the whole machine down to the 1933 level, but by lowering the uptilted part and at the same time raising the downtilted end.

On the high level are taxes, part of the debts, interest rates, railroad rates, wages in some key industries, such as railroads and the building trades, rents. On the low level conspicuously are commodity prices, including those of farm products. We face a situation in which manufacturing industry in distress seeks to curtail production and maintain prices, and in which the farm industry has been unable to curtail production and so has seen prices go to distress levels.

Our prime undertaking, then, from the national standpoint, is to get the high-level costs down and to raise the part of the machine that is down in the cellar, particularly the farm industry.

The farm industry itself suffers internally from this general maladjustment. It needs to get its overhead down, as well as its prices up. The main items in this overhead are taxes and interest.

### I. FARM RELIEF THROUGH REDUCING THE OVERHEAD—TAXES

The first and most direct measures for farm relief have to do with reducing the overhead of taxes and interest. Before the war these two items absorbed about one-twelfth of the gross farm income. To-day they are absorbing more than one-fifth. Evidently, even when the farmer can meet these charges, he has almost nothing left to spend for the things he ordinarily would buy.

The tax burden is a vital factor in depressing not alone the farm industry but industry in general. The Department of Commerce estimated it last year at nearly $15,000,000,000, of which $4,000,000,000 was national, the rest State and local. This was more than a third of the national income for 1932. Gentlemen, business can not stand this load.

States and local taxing bodies, at least in the West, are making strenuous efforts to bring down that share of taxes which they control. In Kansas, for instance, Republican and Democratic legislators are working together for drastic reductions. Expenditures were cut heavily last year. This year further reductions of at least 30 per cent in the State budget are in prospect.

If you will pardon my saying so, out in the West we sometimes feel that Congress has not yet heard that anything has happened. There is extreme resentment at the failure to accomplish substantial reductions at Washington. Those of us with experience in watching public affairs know the pressure to which Congress is subjected to maintain expenditures. In view of this pressure we doubt whether it is capable on its own of making the necessary reductions. I have found everywhere strong approval for the suggestion to invest the President elect with almost dictatorial powers to balance the Budget. We believe the eagerly expected 25 per cent cut can be made in no other way.

A real lightening of the tax load would be a direct and effective method to promote business recovery.

II. FARM RELIEF THROUGH REDUCING THE OVERHEAD—DEBTS

Turning to farm debts, we find the Department of Agriculture estimates farm-mortgage indebtedness at about eight and one-half billion dollars. Other farm indebtedness amounts to nearly $3,000,000,000. With existing low prices of commodities, interest and amortization charges can not be met by a large number of farmers, and they face the bitter possibility of losing not only their homes and savings of years but their jobs, their means of livelihood, as well. It is little wonder that in some instances there has been forcible resistance to mortgage foreclosure sales.

But great as must be our sympathy for farmers made desperate by their misfortunes, we must not allow ourselves to be stampeded by the sporadic farm uprisings that have occurred. Resistance usually has followed futile efforts to have loans extended, and the probability of facing deficiency judgments, that is, covering the difference between the mortgage and the amount brought by the farm at a forced sale.

The great bulk of the farmers are steady and level headed. They have no disposition to evade payment of their debts. They can be depended on to make every effort to meet their obligations.

In any program that is proposed especial care should be taken not to create the impression that the farmer is not expected to pay his debts. That would be an impossible as well as a demoralizing policy. We in the West know that the farmer is going to need credit when times become normal. We want him to be able to borrow on the terms open to other business men. There are inevitable losses in farm loans in the depression, as there are in industrial loans. But we must not promote the idea that the farmer is an undesirable risk and so impair his credit for the future.

Adjustments are constantly in progress between farm creditors and debtors. Many insurance companies, Government loaning agencies, banks, and individuals owning farm mortgages are meeting the situation realistically. They do not want to take over farms. So they are scaling down interest rates where necessary and making every effort to keep the farmer in his home. One joint-stock land bank, I am informed, with 5,000 farm loans, has foreclosed on only a dozen, although a quarter of the mortgages are in default.

Still, individual adjustments are not equal to the job. There is need for Government intervention to carry through the necessary compromises and to ease the general situation. Government credit may fairly and wisely be employed to help tide this debt-burdened farmer over the present emergency pending a rise in prices, which I shall discuss later.

Various measures have been proposed to Congress. I shall not undertake to discuss them in detail, but merely to emphasize general principles on which sound action can be taken.

Blanket proposals to refinance all farm mortgages seem to me unnecessary and unwise. We must recognize that there is a wide variety of mortgage indebtedness. In certain sections the mortgages represent a much higher proportion of the value of the land than in others. Some farmers are able to carry their indebtedness. Others are not. The mortgage treatment should be selective.

In the large majority of cases where mortgages are in trouble, the situation could be made bearable by a reduction in interest rate, with a longer amortization period—perhaps up to 40 years—and with principal payments suspended in the emergency for perhaps three years.

The Federal farm loan banks will need help to ease the situation and make lenient settlements with competent farmers who can not make the grade on present prices. It may be necessary to provide for taking over the joint-stock land banks into the Federal system—though not on a basis that will give an artificial value to their bonds at the expense of the taxpayers.

In addition, perhaps, the Government might set up an emergency corporation which would provide Government credit in individual cases to induce the creditor to allow the farmer to scale down his unsecured debts, or his interest rates, the creditor accepting a Government guaranteed security bearing a low rate of interest.

It would be necessary to set up rather extensive machinery to handle individual cases, but I see no sound alternative. The procedure would be akin to that proposed in the amendment to the bankruptcy act and there seem no insurmountable obstacles in the way. The cost to the Government would be moderate and the reduction in interest rates would ease the farm burden, put new hope into the farm industry, and put it in a position to contribute powerfully to general recovery when farm prices rise.

### III. INFLATION—A CURE THAT WILL NOT WORK

But it is not sufficient to get the farm overhead down through reduction in taxes and interest. Prices must rise as well to restore farm purchasing power.

Three major proposals have been urged to meet the situation. The first is inflation, the second domestic allotment, the third the withdrawal of marginal land from cultivation by Government rental.

It is agreed on behalf of inflation that it would not merely raise prices, but that it would relieve the debt burden everywhere. The method of inflation that has commanded the largest support in the Middle West involves altering the gold content of the dollar. Cut the value of the dollar in half, it is urged, and you have a controlled inflation that would automatically cut the debt burden in half.

I have no sympathy with the argument that this proposal is dishonest. It might just as well be argued that it is dishonest to require the payment of debts contracted with the cheap dollar of 1929 with the dear dollars of 1933. My objection to devaluing the dollar is that it would not work as its proponents expect; that it would make conditions far worse, instead of better. With the content of the dollar unchanged, wheat has sold in Kansas City as high as $3.65 a bushel and as low as 40 cents. Hogs have sold all the way from $23.40 to $1.90. These facts suggest that the gold content of the dollar is only one of many factors affecting its value.

The public mood affects the value of money just as it affects the value of Florida real estate. We have more money in the country now than we had in 1929. It is lack of velocity in circulation of money, and what is of immensely greater importance, credit in the shape of bank checks, that has depressed prices. And this lack of velocity reflects lack of business demand and impaired confidence.

England has given us an example of what happens by devaluing the money unit. She was forced to devalue the pound by 30 per cent. But that has not reduced the internal debt loan by a penny. Wages went down in the last year, according to official figures, about $8,000,000 a week. Unemployment increased by 12 per cent. The fall in sterling sent international prices down to new low levels. World recovery has been set back badly, not helped, by England's action.

If the United States were to add to the general price confusion by devaluing its currency, the world's plight would be even worse.

It is possible to depreciate the value of currency in a depression without producing inflation. But where currency inflation has really taken, I know of no case in which it has not got out of control with disastrous consequences.

If currency inflation is really to take in a time where there is a surplus of goods, it must go to a point where people lose all confidence in the value of money. Postwar Europe shows the disastrous outcome.

What seems to me the best illustration of what happens is the comparison of inflation to a balky horse. The rider applies whip and spur, but the horse does not budge. Finally, he suddenly bolts, runs away, stops abruptly, throws the rider, and leaves him flat.

Perhaps you will permit me on this point to digress for a moment from the farm application to more general considerations. Occasionally western business men tell me the country is simply sunk beneath the debt load and that it can not make the grade without such inflation as they believe devaluing the dollar would produce. I have cited reasons why I believe they are mistaken about the effectiveness of their remedy. But, they ask, what about the debts? My friend, Congressman McGugin, of Kansas, paints a black picture of what he calls "the sweating-out process" which he thinks would last for years, and which the country could not stand.

The National Industrial Conference Board estimates the indebtedness of the country in 1929 at $155,000,000,0000. A good share of this, including the debts of public agencies, can be met even at the present price level. We are apt to take too dark a view of the rest. A vast amount of liquidation and scaling down has been done in the last three years. More remains to be done. But the whole picture will change rapidly for the better with a moderate rise in prices.

Such a rise I believe is possible even without world recovery. Prices are now at an abnormally low level—a shock level—due to fear and lack of confidence. Given half a chance and they will move upward. Last summer when fears over inflation and an unbalanced Budget were quieted and when it was seen that reparations were approaching a settlement, there was a strong upward trend which was stopped only by political uncertainties.

Balance the Budget, so the banks will know they will not be called on to absorb billions more of Government securities; and fears of inflation which profoundly disturb all business confidence; settle international debts so that world currencies may be stabilized; and we will be amazed at the forward movement of business and prices.

For we have all the essentials to recovery, a great productive plant, the ability to finance it, and the unfilled wants of an intelligent and industrious population of 120,000,000 people.

## IV. DOMESTIC ALLOTMENT AS A REMEDY

Returning to the next plan proposed to raise farm prices, domestic allotment, I began its study with high hopes. Its exposition by Prof. John D. Black in his book Agricultural Reform in the United States, and the development of the plan of Prof. M. L. Wilson, were impressive. It looked as if they were working on promising lines of providing the farmer an incentive to reduce his production to manageable proportions.

Further consideration of the complicated problems involved, and of the habits and mind of the farmer, developed what seem to me insuperable objections.

I am not impressed with the contention that it is unfair to tax the whole population for the benefit of one class. That is precisely what the tariff does. What is sauce for the eastern goose certainly should be sauce for western gander.

The difficulties lie deeper. The farmer has been schooled to produce all he can. He is under especial compulsion to do this under pressure of meeting taxes and interest charges. I believe it is simply impossible to offer a bonus on production to groups each including a million or more farmers and then to police them to see that production is held down. Practically the payment of the allotment bonus would almost certainly increase production and so aggravate the problem. If we are to stimulate the reduction of acreage on surplus crops, we must find some way to do so without offering artificially high prices.

In an allotment plan it would be out of the question to include dairy products. The industry is too scattered and widespread to be subject to effective supervision. As to pork products, the packers already are selling all the market will absorb at present low prices. An increase in prices would curtail demand and so drive prices still lower. On hogs the allotment plan would produce results the absolute reverse of those intended.

There would be the same tendency in wheat and cotton, although I am not prepared to say whether it would produce results so pronounced as with hogs. Certainly if the experiment is to be tried it should be confined to these two major products.

Our intimate territory is more concerned with wheat than with the other products included in the plan. A further objection here is that an artificial price applied to all wheat would tend to freeze production in its present position—that is, it would keep uneconomical marginal land in production. What we imperatively need is a land-use program to be adopted voluntarily by farmers under the free play of economic forces, that would produce wheat and other products where they can be produced most efficiently and at the lowest cost. This adjustment is now going on. The allotment bonus would block it.

You must remember that it takes a farmer from three to five years completely to readjust his production. Farmers who already have made progress in readjustment would be unfairly penalized by the allotment plan.

Here I venture a protest against the scheme of crop production loans, especially for wheat, which go chiefly to keep uneconomic marginal land in production and so hold to distress levels the price of wheat on land where it can be produced economically. Last year, when we were seeking desperately to get wheat production down, Congress subsidized the production of about 100,000,000 bushels of wheat on 9,000,000 acres of marginal land. Is not that a perfectly foolish and destructive policy?

This year we are preparing to do the same thing, with the futile safeguard of allowing the Secretary of Agriculture to insist that production be cut as a condition to receiving the loans. Who will police the farms to see that this is done?

I may add that The Kansas City Star publishes a farm weekly with a circulation of 500,000, that goes to more farmers than any other single weekly publication. We have a constant stream of letters from our subscribers discussing their problems and only the smallest fraction of them show the slightest interest in the domestic allotment plan. They are concerned with taxes and interest—not with price-pegging plans on which they have gone sour since the futile efforts for stabilization of wheat prices. On a recent day about which I inquired, 50 letters had been received, of which one spoke favorably of domestic allotment and five opposed it. The rest were concerned chiefly with taxes and interest which are the farmer's pressing problems to-day, and with the possibility of stimulating trade by the issuing of script bearing stamps—a form of the sales tax.

A variant of domestic allotment is the proposal that the Government lease enough marginal land to bring the major crops toward manageable levels. This would be pouring money into a rat hole. Nobody can travel from Kansas City to Washington without being impressed by the amount of pasture and timber land that might be brought into production if the Government began to take some of it out of production. Under such a plan the Kansas farmer might rent part of his crop land to the Government and plant wheat on land he had been using for pasture.

No; there is no hope of getting farm production adjusted to a reasonable demand through the measures proposed. If we will let the farmer alone, he will work out a reasonable land-use program as he is working it out on a large scale to-day, that will be effective in producing results. There is one practical way in which the Government could promote this program. That is by helping abate taxes on land taken out of production.

As I have said, one reason why the farmer is under pressure to use every possible acre for production in spite of low prices is that he must meet taxes and interest. Let taxes be abated on land taken out of production and he will have a real incentive to push his program for the most effective use of his land. States could not do this generally without amendments to their constitutions. The bulk of farm taxes go to school districts and other local taxing units. But the Federal Government could reimburse the taxing units for their loss from tax abatement. The cost would be moderate. There would be no bargaining as there would be if the Government were attempting to rent the marginal land, and the effect on reducing excess production would be reflected back to the Nation through increased farm prosperity.

### V. RECIPROCAL TARIFF REVISION TO RAISE FARM PRICES

We now have surveyed the important possibilities of farm relief through a reduction of taxes and interest charges. We have considered next the proposed remedies of the domestic allotment plan and Government rental of marginal lands in order to take them out of production. Unfortunately, our discussion of these remedies has been chiefly destructive criticism. On the positive side, however, we have suggested tax abatement on marginal lands, and a rational program of land utilization.

But while we are waiting for this long-time program to develop, must the farm industry continue to sweat it out on the low price level? Is there nothing the Government can do to help the situation?

I have already suggested certain measures that would vastly improve the domestic situation, including farm prices, the balancing of the Budget, the ending of the fear of inflation, the settlement of international debts, and the stabilization of world currencies, to which I will refer later. Is there nothing more direct the Government can do?

I earnestly believe there is. It can take down the bars it has erected which block the expansion of our foreign trade. Our primary farm products—wheat, cotton, pork products, animal fats and oils, fruit and nuts, tobacco—require foreign markets. In the middle of the last decade we sold $1,600,000,000 worth of these products abroad in one year. If we could bring back a considerable fraction of this trade, our farm situation would be transformed.

There is a widespread belief that European nations have been taking such energetic measures to become self-sufficient on food that our great European market has largely dried up. There is a measure of truth in this, but it is far from the whole truth.

Take wheat. We generally assume that with the mechanization of the farm the war brought vast areas of new land into cultivation and that world wheat production increased so rapidly that it outstripped demand. Only part of this assumption is correct. It is true that large areas of new wheat lands came into production and that great dislocation of the industry resulted. But the big world expansion in wheat came a generation ago. The war caused an abrupt drop in world production and it was not until 1925 that the yield had reached 1913 figures. Even the abnormally large crops in America in 1928 and in Europe in 1929, with the addition of Russia as an exporting nation in 1930–31, would not have swamped the world had it not been for the depression, with underconsumption, and artificial trade restrictions, largely for the protection of currencies.

In spite of unfavorable conditions the world is still consuming a large amount of wheat. In this crop year of 1932–33 Broomhall estimates that the world will absorb more than 700,000,000 bushels of export wheat. But the United States is not getting anything like its fair share of the trade. It is expected to supply only 56,000,000 bushels—less than 8 per cent of the total.

In the 2 years immediately following the war, before Europe had got back into production, we supplied 41 per cent of the export wheat. With the readjustments toward normal, our percentage dropped. But for several years we averaged 21 per cent of the world exports. In the last four years our percentage has fallen sharply again. Part of the trouble lies in our attempt at price pegging which, in the light of experience, has proved a mistaken policy. We kept the domestic price above export levels. Now we are suffering from competition with depreciated currency countries. But these difficulties are not the whole story.

Our farm trouble goes back primarily, I believe, to a wrong tariff policy which has seriously affected all our great export industries producing petroleum, copper, motor cars, typewriters, sewing machines, locomotives, agricultural machinery, printing machinery, as well as farm products.

Here I am on ground with which you are familiar. Our enormous exports during the war, which produced the feverish prosperity under which day laborers wore silk shirts, were possible only because the United States Government lent the money to finance our sales abroad, through the war loans. In the subsequent decade the continuance of our profitable export trade depended on private loans abroad. That is, foreigners paid us with credits obtained from the sale of goods in the United States, from tourist expenditures, immigrant remittances, and various services. But these credits were not sufficient, and they borrowed the balance from us.

When we stopped lending in 1929 they were forced to cut their purchases. They could not pay in goods because of our tariff policy.

Our postwar tariff policy, as I see it, was an important factor in getting our general industrial situation out of balance. We were promoting the building of industries behind the tariff wall at home, as well as stimulating production of competing foodstuffs abroad, while our export farm industries could not be protected and were forced to sell in a world market. What happened is shown in the ratio of prices received by the farmer to the prices paid by him. In 1920 the ratio stood at 99. Then in the high-tariff era it sank. In January, 1933, it stood at 49.

In 1920 the index number of prices received by farmers stood at 205, compared with the 5-year pre-war average, while the index number of prices paid by farmers for commodities bought stood at 206. The situation was in balance. Since then the farm index has been declining until it took a nose dive to 94 in 1931 and to 51 in January of this year. In the same period the index of commodities bought has fallen to only 105. General commodity prices are almost back to the pre-war level, while farm prices as a whole are only half of pre-war, and in such fundamental products as wheat and hogs, they have touched record lows.

The facts seem to me to point irresistibly to the conclusion that our national policy tended to expand our industrial production on a high price level at the sacrifice of our farm industry, and thus to get our national machine out of balance, to the detriment of all industry.

### VI. How to Discover the Uneconomic Industries

What would be the immediate program to remedy this situation?

First, the farm industry, in common with our other export industries, needs currency stabilization throughout the world. So long as currencies are fluctuating trade is disorganized and farm exports come into unfair competition with products from depreciated currency countries.

The stabilization of currencies presupposes the settlement of international debts. England can not stabilize sterling, to which so many currencies are attached, until the debt situation is cleared up. Further payments in gold under existing conditions would simply weaken sterling and drive the world price level still lower, to the disadvantage of the farm market.

I see no reason for cancellation. But I believe we can adopt a businesslike attitude of enlightened self-interest, make the best of a bad situation and reach agreements with our debtors out of which we can get compensating advantages for the sacrifices we shall have to make.

If we can show our farmers that they will receive profit in expanded markets in return for debt concessions, I believe they will not oppose reasonable settlements.

These settlements should include or imply reciprocal tariff reductions which will open foreign markets for farm products. It is true the great industrial nations of western Europe are deliberately trying for self-sufficiency on food—France, with a tariff of 85 cents a bushel on wheat; Italy, with $1.07; Germany, with $1.62. Of course, this policy is uneconomic and results in artificial prices for bread. It would be worth while exploring the situation to see whether concessions could not be obtained.

In any event, there is a market in Europe this year for more than 500,000,000 bushels of wheat, according to Broomhall, and we should make tariff arrangements that would permit Europe to pay in goods for our share of wheat and other surplus products.

Now, this trade is going to other nations partly because their tariff policy permits such payments. We are quite needlessly and deliberately blocking ourselves off from world markets which our farmers and many manufacturers need.

Radical tariff reductions on the part of the United States would be unwise. The agenda for the world economic conference, recognizing the need of reducing trade barriers, suggests that no nation can afford to make reductions by itself. Reductions must be reciprocal.

I have been asked just which American products I would sacrifice by reducing their protection in order to promote export trade. The general principles of the answers are clear. We should make the reductions in uneconomic industries.

In most lines of manufacture, through the intelligence of our workers, the competence of our managers, the use of machinery and mass production, we can beat the world. I am constantly surprised at the timidity of many great industrialists. At a hearing of the Ways and Means Committee in Washington a quarter of a century ago I heard Andrew Carnegie say he believed steel tariffs generally were obsolete. "But," he continued, in effect, "most of my associates have been made so soft by protection that they are scared to death at any suggestion of lowering the tariff."

Every time I go to Europe I am impressed with the prevalence there of American exports in spite of high duties and with the fear of European business men of the terrible efficiency of American manufacturers. Yet many of our own manufacturers are frightened at the appearance of even a trickle of foreign-made goods in this country. They are like the girl who jumps on a chair and screams at the sight of a mouse.

So I would suggest that Congress bear this peculiar psychology in mind in dealing with the tariff.

But as I said a moment ago, there are uneconomic industries which we are maintaining at too great cost, at the expense of our farm and other exporting industries. These include industries in which handwork enters to an unusual degree. Certain other products are uneconomically produced because of unsatisfactory natural resources.

I would urge that the Tariff Commission, as an expert body, be empowered to make a survey for the purpose of congressional action, to disclose which these uneconomic industries are.

Let me say here that we are off on the wrong foot when we direct the Tariff Commission to use difference in cost of production at home and abroad as the criterion for judgment as to which industries should have more or less protection. On that basis we might establish tariffs so high that pineapples could be grown in Maine. If we are to provide adequate protection for any industry that desires to produce goods that can not be economically produced in this country, we could virtually kill our foreign trade. Of course that would lower our standard of living, and cause immense dislocation throughout our structure. There is no use fooling ourselves. We must have foreign markets to support essential industries in the United States.

Which hand industries are uneconomic would be roughly measureable by the relation between the number of men employed and the wages paid, and the amount of capital invested. The presumption would be, too, that industries that had failed to expand in spite of high protection, were uneconomic. The fact that natural resources and conditions were unfavorable in certain industries could readily be recognized.

In our tariff policy in recent years we have set up duties that would set 100 men to work in some industry, while by so doing we have thrown 125 men out of work in some other industry by cutting down the foreigner's capacity to buy its products.

Our feeling toward even moderate tariff adjustments to promote trade is human. We see trade deteriorate and men thrown out of work, without any great shock. But we are terribly perturbed by the suggestion that we take certain tariff action that may temporarily put some men in uneconomic industries out of work, but that will start an upward movement in farm prices and in business that will bring work to many more than are temporarily displaced.

Our attitude is much like that of the sick man who could be cured by a surgical operation. But he so dreads the thought of surgery that he is willing to continue to suffer and finally to die in order to avoid the operation.

Meanwhile we should avoid, if possible, any increase in tariff against goods from countries with depreciated currencies, until we can make reciprocal tariff adjustments. These imports help keep our export industries going. To be frightened into cutting them off not only would reduce our exports of farm products but would accentuate the currency depreciation abroad and thus militate against world recovery.

The prevalent "buy American" movement is in the same class with other high-tariff proposals. If effective, it would be harmful to the farm industry and the whole country by impairing foreign capacity to absorb our exports. If we would sell our wheat and cotton and pork products and automobiles abroad—and we must—we must be willing to buy abroad.

## VII. IN CONCLUSION

The picture I have sketched from the viewpoint of a midwesterner who appreciates the gravity of the farm situation in its bearing not only on the farm industry but on national recovery, is far from hopeless.

While certain proposals for relief seem to me unwise and impracticable, I do not believe we need to fall back on the desperate expedient of sweating the thing out.

I propose this concrete program:

1. Radically reduce all taxes; industry, including the farm industry, can not carry the 1929 load.
2. Adjust and scale down farm indebtedness where necessary, by selective treatment under which creditors and debtors should share unavoidable losses, avoiding wherever possible the crash of bankruptcy. In many cases of mortgage loans, interest rates must be reduced and the amortization period extended.
3. Depend for price recovery, not on domestic allotment or government rental of marginal lands; but first on the upward movement that would come immediately through removing elements of uncertainty and fear. Balance the Budget, reject inflation, settle international debts, stabilize currencies, encourage the farmer through abatement of taxes on land taken out of production

to continue to adjust his farm production to normal supply and demand conditions through an intelligent land-use program.

4. Depend further for price recovery on the lowering of trade barriers by reciprocal action so as to give the farmer his necessary and fair foreign market for his surplus products.

It is not necessary to go through a long period of distress liquidation. An energetic endeavor to work out such a program as I have sketched, I believe, would send the farm industry and the Nation on a rapid upward spiral out of the depression.

The CHAIRMAN. We will next hear Mr. Dexter Keezer, of Baltimore, Md.

## STATEMENT OF DEXTER M. KEEZER, BALTIMORE, MD., ECONOMIST AND ASSOCIATE EDITOR BALTIMORE SUN

The CHAIRMAN. Give your full name for the record, Mr. Keezer.

Mr. KEEZER. Dexter M. Keezer, Baltimore, Md.

The CHAIRMAN. What is your business?

Mr. KEEZER. I am economist on the Baltimore Sun; associate editor.

The CHAIRMAN. You may proceed with your statement, Mr. Keezer.

Mr. KEEZER. The present depression in the United States is compounded, in large part, of great dislocations in the price structure and a consuming state of financial fear. The contribution which the Federal Government, in the present state of public opinion, can make toward the ending of the depression must be directed largely toward getting the price structure straightened out and relieving this fear.

In seeking these ends there should be consideration of a general policy directed toward relief from enormous concentrations of economic power whose growth has far outstripped the capacity to manage them effectively.

The extent to which the price system has been thrown out of gear during the depression can be crudely indicated by what has happened since 1929 to the averages of the various groups of prices which go to make up the United States Bureau of Labor Statistics' Index of Wholesale Prices. From 1929 to 1932 (using yearly averages) there was a decline of 32 per cent in the general average of wholesale prices. The price of farm products, however, declined 54 per cent while the price of fuel and lighting declined 15.3 per cent, that for house furnishing goods 20.2 per cent, and that for building materials 25.1 per cent.

*Wholesale commodity prices*

| Commodities | Average of year 1929 | Average of year 1932 | Per cent of change |
|---|---|---|---|
| Fuel and lighting | 83.0 | 70.3 | −15.3 |
| Metals and metal products | 100.5 | 80.2 | −20.2 |
| House furnishing goods | 94.3 | 75.1 | −20.4 |
| Chemicals and drugs | 94.2 | 73.5 | −22.0 |
| Miscellaneous | 82.6 | 64.4 | −22.0 |
| Building materials | 95.4 | 71.4 | −25.1 |
| All commodities | 95.3 | 64.8 | −32.0 |
| Hides and leather products | 109.1 | 72.9 | −33.2 |
| Textiles | 90.4 | 54.9 | −39.3 |
| Foods | 99.9 | 61.0 | −38.9 |
| Farm products | 104.9 | 48.2 | −54.0 |

In the meantime long-term interest rates, fixed by contract, have declined none at all, taxes have frequently gone up, and many freight rates are even higher than they were in 1929. It is obvious that the farmers, receiving less than half of what they received for their products in 1929, when they were far from prosperous, can not get very far in buying house furnishings whose average price has declined 20 per cent, or in making debt payments which remain at the 1929 level. Similar price impasses, which might be multiplied almost indefinitely, paralyze the entire economic system in varying degrees.

The extent to which financial fear besets the country needs elucidation even less than the jam in the price system which contributes to it. Perhaps as good an index as any is the fact that well over a billion dollars of currency is being hoarded by people who are not willing to entrust it to the established financial institutions.

Unfortunately the Federal Government is frequently forced to work at cross purposes so far as the elimination of these major contributors to depression is concerned. In the effort to allay fear it has been necessary to take steps which work against a straightening out of the price system, essential to recovery; and it will presumably be necessary in the future. A case in point is provided by the action of the last Congress in levying taxes on manufactured products in an effort to protect the Federal credit and finance emergency relief, which tend to increase the disparity between the prices of raw materials and finished products. The emergency Federal crop loans also work in opposite directions as a measure of economic relief.

The necessity of employing contradictory measures in efforts to relieve the depression makes the position of the Federal Government peculiarly difficult. It might be helpful if more emphasis were placed upon the paradoxical situation into which the depression forces the Federal Government, than upon the too simple inconsistencies in the steps it takes. There are some custodians of financial institutions who seem to divide their time between preparing pleas for fierce retrenchment to protect the Federal credit, and wringing their hands while waiting for representatives of the Reconstruction Finance Corporation to arrive and make another draft upon that credit for their particular benefit. This hardly contributes to a useful public understanding of the complicated position of the Federal Government in dealing with the depression.

Although the Government is cast in a difficult rôle it should be possible to handle the situation more helpfully. With reference to protecting the Federal credit by balancing the Budget, which is widely urged as the most effective step the Government could take to relieve the depression, it is extremely difficult to convince most people that that credit is in such desperate condition when, on February 1 of this year, the Treasury received subscriptions of $7,802,843,600 for its offering of about $250,000,000 of 5-year notes, to pay 2⅝ per cent annually. In spite of careful explanations of the peculiar conditions surrounding such subscriptions many people tend to conclude, particularly in the light of their own difficulties in borrowing from banks, that the credit of the Federal Government is not so bad, or that the bankers are not so bright.

It would be very helpful, however, if the Federal Government, without attempting to effect an exact mathematical balance of its

Budget, as at present set up, would give the country a more convincing demonstration of its capacity to get its receipts and expenditures moving more surely toward the balance. This would aid in the conversion of a large share of the public debt, which is becoming to be decidedly in order, and in getting the Federal Government in shape for large ventures in economic enterprise which may become necessary in the effort to lift the depression. In the minds of many such a demonstration comes down primarily to reducing the expenditures on behalf of war veterans.

Some of the organizations at present agitating large cuts in these expenditures make it difficult for Congress to make headway along this line because their demands are not respectable. They ask that pensioners be thrown off the lists wholesale and at a time when neither they nor their friends and relatives have any alternative methods of support. That is an unwarranted procedure. It is difficult to see, however, why there should not be a general 20 per cent cut in the allowance to all veterans, which, judging from the Government figures on the cost of living, such as they are, would provide a standard of relief as high as it was three years ago while reducing Federal expenditures substantially. If this step were followed by repeal of the acts which have made possible the creation of a large roll of war pensioners who are not properly entitled to relief, and the establishment of review boards to weed out the beneficiaries of administrative laxity, budgetary relief could be accomplished on a reasonable basis, and public confidence would be much improved.

To further restore that confidence, and in continuance of the paradoxical rôle of the Federal Government in saving and spending to relieve depression, provision should be made in some completely convincing way for the adequate feeding of the unemployed and their families. There is nothing more devastating to the restoration of confidence on the part of the great body of the population than uncertainty as to whether or not the man who asks for a dime to get something to eat actually needs it to keep from starving in a country bulging with foodstuffs. And, judging from the hearings on the La Follette-Costigan unemployment relief bill, that uncertainty now exists in many places, including those where the unemployed are nominally being cared for.

In the light of recent newspaper reports of organized opposition to foreclosures as well as echoes of confidential on refusals to meet farm mortgage payments, the problem of relief for farm debtors has shifted considerably toward that of relief for their creditors. To promote creditor relief and orderly liquidation of farm debts the Federal Government might take a lead through the land banks by providing for the adjustment of debt payments which can not be met in full to payments geared to commodity prices. In relief of debtors, the plans at present before Congress to permit an orderly scaling down of the burden of debts contracted when prices were far higher would, if perfected, contribute greatly to the relief of the depression. It is hard, however, to see why Federal funds or credit should be poured directly into the readjustment of these debts, as is at present being proposed.

Relief of farm debtors, as well as debtors generally, could be secured by monetary inflation on a grand scale, but unless launched without advance publicity by one with dictatorial powers there is much reason to believe that it would create another wave of panic. More inflation of the type of which we have already had a considerable dosage, as a result of successive Federal deficits (aggregating about $4,000,000,000) would presumably be less immediately disturbing. But inflation employed on a surely effective scale would work a great injustice on a large share of the population, including particularly wage workers, who, in many cases, have already been very much deflated. For them it would be as though they had been put well through a wringer, only to go through again in reverse with inflation. And, most important, it would do relatively little to restore a workable balance between different sets of prices, which must be restored to break the depression. It would serve rather to boost the distorted structure to a higher level, and at great risk.

In an effort to restore this price balance the congressional imagination seems to be at present gripped largely by schemes to lift the prices secured by producers in unprotected industries toward the level of prices prevailing in the protected industries. The domestic allotment plan for farm relief is such a scheme. In spite of a movement from city to farm which suggests that agriculture is becoming, relatively, a preferred pursuit, there is widespread sympathy for any plan to relieve the farmer, who, willingly or not, has been one of the few practitioners of the "rugged individualism" we have heard so much praised in recent years.

Adoption of the domestic allotment plan, however, involves a solemn governmental declaration that in order to gain a decent livelihood under the economic system prevailing in the United States it is necessary to restrict the production of much-needed commodities. That is a shocking and dangerous declaration. And, perhaps more important, the domestic allotment plan would not do much to reduce the desparity between the prices of farm products and finished products. If it could be made to work along the lines originally contemplated it would raise the prices of certain farm products, but along with them the prices of finished products.

While it may be necessary to convert American agriculture into a great cartel, along the lines of the domestic allotment plan, such an indictment of our economic system should not be made until there has been further exploration of the possibilities of restoring a workable price balance through reduction of the prices of the things the farmer, as well as those in other unprotected industries, would like to buy.

In this connection it might be desirable to consider the advisability of having the beneficiaries of the "self-liquidation" projects financed by the Reconstruction Finance Corporation, undertake to study carefully the justification for the prices of their supplies. It would also be highly desirable to consider the possibility of securing more effective enforcement of the antitrust laws, as well as revision of these laws to restore some of their lost strength. The neglect of these laws, as well as their disastrous interpretation by the courts, was a very considerable contributor to the violence of the recent depression. If the incoming Democratic administration would fulfill its campaign pledge of "strict and impartial enforcement of the antitrust laws to prevent monopoly and unfair trade practices" quite a lot might be accomplished in the deflation of prices whose present altitude perpetuates depression.

Another desirable method of getting the price system into gear again, as well as to break the international trade impasse, built up over the past decade, is a lowering of the tariff on the products which have yielded relatively little in the downward movement of prices. There is also much reason to believe that a long postponement of war debts payments, if not outright cancellation, would relieve this international trade jam to an extent which, in its beneficial effects upon our economic life, would far surpass any immediate loss incurred. Relief of this type may well be in the category of "finished business" already, but, if not, it should be easier of accomplishment in this country now that plans are being advanced for domestic debtor relief.

A governmental program deliberately directed to deflation of that share of American enterprise now protected both by tariffs and vast corporate bulk would presumably be quite difficult politically at this juncture, and would, no doubt, have to be attended by the application of more financial poultices of the type administered by the Reconstruction Finance Corporation. If it could be accomplished, however, there is no doubt that the country would be better served than by trying to seek a workable balance of the price system by undertaking to put more stilts under the unprotected industries.

As matters stand we have permitted concentrations of economic power which far surpass the capacity to manage them effectively. And, for all we know, they far surpass the limits of economic efficiency under the most effective management which is their only possible justification. That competition, the traditional regulator of private profit-seeking in the public interest, is only a partial check upon such enterprises is obvious. And that we do not begin to understand how to regulate them effectively through public commissions is equally obvious from the recent course of regulation of the electric power industry, which permitted speculation in its excess profits, both earned and hoped for, to contribute substantially to the depth of the present depression.

The same lack of capacity to manage the concentrations of economic power we have devised is found in the decision of the Federal Reserve Board, in 1927, to make its credit more bountiful, largely in an effort to correct what was regarded as a "maldistribution of gold." This decision, which has been characterized by a member of the board as "one of the most costly errors committed by it or any other banking system in the past 75 years," eased the way for a disastrous flood of speculation, with attendant large-scale jobbery, which got entirely out of control, to our present misery. Tragically enough, however, that misery can not be relieved at this juncture by what might seem to be equally sweeping financial strokes in the right direction.

The very extent of the present economic disorganization may afford something of an opportunity to reconstitute our economic system more nearly along the lines of individual endeavor and responsibility about which we are still talking though the reality has largely departed. It may be possible to move out of this depression by moving toward a freer economic system instead of drifting, so far as general design is concerned, further into a structure of cartels and giant and necessarily semimonopolistic corporations which magnify the catastrophic effects of ignorance from which we are now suffering. The country would be benefited if this committee, in pursuing its inquiry, would consider this phase of the depression, by way of formulating a general policy, in addition to considering the measures which must be taken to get through next week, next month, or next year.

The CHAIRMAN. Thank you, Mr. Keezer. That is a very good statement.

Is Mr. Frank H. Simonds here?

(There was no response.)

The CHAIRMAN. Mr. J. J. Pelley.

Senator HARRISON. Mr. Pelley was here, but I thought these other gentlemen would occupy the whole of the morning and told him he could leave until this afternoon.

The CHAIRMAN. Then the committee will adjourn until 2 o'clock.

(Thereupon, at 11 o'clock a. m., an adjournment was taken until 2 o'clock p. m. the same day, Tuesday, February 21, 1933.)

AFTER RECESS

The hearing before the Senate Finance Committee was resumed at 2 o'clock p. m., Tuesday, February 21, 1933, at the expiration of the noon recess.

Senator HARRISON (presiding). The committee will be in order. You may proceed, Mr. Pelley.

## STATEMENT OF J. J. PELLEY, PRESIDENT OF THE NEW YORK, NEW HAVEN & HARTFORD RAILROAD, NEW HAVEN, CONN.

Senator HARRISON. Mr. Pelley, I wish you would give, for the record, your business.

Mr. PELLEY. I am president of the New York, New Haven & Hartford Railroad and its subsidiary companies.

Senator HARRISON. You may proceed.

Mr. PELLEY. Mr. Chairman, I would like to talk to the text of Senator Smoot's telegram. He asked that I talk about what caused the depression, and legislative remedies, and cures. I do not think I want to say anything about what caused the depression. There has probably been enough said about that.

Senator HARRISON. There has been a good deal said.

Mr. PELLEY. And on the legislative remedies I want to confine myself entirely to my own business, transportation.

Senator SHORTRIDGE. Of course, as it relates to the general conditions of the country.

Mr. PELLEY. Yes. I would say in connection with that that anything that can help the transportation situation will make a contribution to return of prosperity, because we are the largest concentrated industry and we are probably about one-sixth the total industry of the United States.

I have some specific suggestions to make for legislation that will be helpful to the railroads. Not a panacea in any sense of the word, but this legislation will be decidedly helpful to the railroads.

The first thing I suggest is the enactment into law of the present Hastings bill in the Senate as it was reported to the Judiciary Committee, which is an amendment to the bankruptcy law.

Senator HARRISON. As it was reported to the Judiciary Committee?

Mr. PELLY. Yes. I have a copy of it here.

Senator HARRISON. Yes; we are familiar with that.

Mr. PELLY. It was amended in the Judiciary Committee, as I understand it. And I favor it as it was reported in so far as it pertains to railroads.

Senator HARRISON. You have not analyzed it as to the other features?

Mr. PELLY. I have not analyzed it as to the other features of it. So far as I know I have no objections to it. But I do know that I am in favor of the railroad portion of the so-called Hastings bill as reported to the Judiciary Committee.

Senator SHORTRIDGE. You mean as he introduced it?

Mr. PELLEY. Yes.

Senator SHORTRIDGE. And before it was amended?

Mr. PELLEY. Right. And the purpose of that bill, as all you gentlemen know, is to make it possible for railroads to reorganize their capital structures expeditiously and inexpensively.

The second thing I have to suggest is a modification of the antitrust laws so as to permit of a reduction probably to the minimum of competitive waste on the railroads. And I think I can tell you why I suggest that quicker by reading a short statement that I have prepared on it. (Reading:)

The antitrust laws, beginning with the Sherman Act of 1890 and ending with the Clayton Act of 1914, were framed for the purpose of protecting trade and commerce against unlawful restraint and monopoly. They proceeded upon the theory that inasmuch as railroads were capable of exercising monopolistic control over transportation, it was essential that such control should be regulated, and that as a part of such regulation competition should be compelled.

This policy of Congress has persisted to date—the expression being contained in transportation act, 1920, wherein it was provided that in the consolidation of the railway properties of the continental United States into a limited number of systems, the several systems shall be so arranged that competition shall be preserved as fully as possible and wherever practicable the existing routes and channels of trade and commerce shall be maintained. The act went further and provided that the several systems shall be so arranged that the cost of transportation as between competitive systems and as related to the values of the properties through which the service is rendered shall be the same, so far as practicable, so that these systems can employ uniform rates in the movement of competitive traffic and under efficient management earn substantially the same rate of return upon the value of their respective railway properties.

Under the mandate contained in this and other paragraphs of transportation act, 1920 (not section 5 of the interstate commerce act), the commission endeavored for a number of years to prepare and adopt a plan for the consolidation of the railway properties of the continental United States into a limited number of systems. In the plan as finally filed and approved, the commission, pursuant to the requirements of existing legislation, endeavored so to arrange the systems that competition should be maintained, and this was the only basis upon which the railroads becoming parts of these groups could be relieved from the operation of the antitrust laws.

With the growth of other methods of transportation (notably of the highways) it is apparent that the railroads no longer monopolize transportation, and no reasons now exist for laws predicated upon the railroads being a transportation monopoly. This was strongly reflected in the Salt Lake City address of Governor Roosevelt on September 17, last, wherein he said:

"I believe the policy of enforced competition between railroads can be carried to unnecessary lengths. For example, the Interstate Commerce Commission should be relieved of requiring competition where traffic is insufficient to support competing lines, recognizing, of course, the clear and absolute responsibility for protecting the public against any abuses of monopolistic power."

In the same speech he stated:

"Proposed consolidations of railroads, which are lawful and in the public interest, should be pressed to a conclusion. At the same time the provisions of the law should be revised in line with the policies here proposed and with repeated suggestions of the Interstate Commerce Commission and of representatives of shippers, carriers and their employees, to insure further protection of public and private interests involved."

This idea was further developed in the report of the National Transportation Committee of February 13, wherein they stated:

"In earlier development, the railroad franchise created an effective and complete monopoly against which industrial and social segments had no defense. Rigorous governmental control was inevitable. It took two forms: first, an effort to foster competition among different railroads and to create and maintain, by Federal financial aid, other forms of competing transportation, such as waterways; second, an intense regulatory control of the railroads themselves. The latter has been practiced long enough and sufficiently extended to prove that it dominates competition or any other influence as the governing law of railroad practice. To the extent that the monopoly inherent in the railroad franchise was a menace, it is of the utmost importance to recognize that current railroad regulation safely controls it. Other safeguards have appeared. With increasing effect, new methods of transport are invading customary fields of railroad patronage."

And in the conclusion upon this paragraph the committee uses the following language:

"The development of regulation and of new methods of transport make it unnecessary for Government further to create and foster competition with or among railroads as a defense against monopoly."

Here are two authoritative recommendations against continuing unnecessary competition. What stands in the way of abolishing or diminishing this competition are the antitrust laws. They stand in the way of regional consolidation, and they stand in the way of the reduction of competitive waste.

I propose that consolidations may be effected and provision looking to a reduction of waste may be adopted, after approval of the Interstate Commerce Commission, and that as to such procedure the railroads shall be relieved of the prohibitions or penalties of the antitrust laws.

Senator SHORTRIDGE. Entirely relieve them?

Mr. PELLEY. Yes, if the commission approves it. I think probably you will find that the railroads will be agitating some such revision of the antitrust laws in the form of a bill. And I make this suggestion to you, that if the commission approves it—it first must be submitted to the commission—and if they approve it and find that it is a good thing for the railroads, and it is not adverse to the public interest, that we may then go ahead and that we will not be penalized if it happens to be in conflict with the antitrust laws. That is the suggestion I make to you.

Senator SHORTRIDGE. I see. That the law be amended giving the commission the power to pass on the question.

Mr. PELLEY. Yes, sir.

Senator SHORTRIDGE. And to that extent amend the existing law.

Mr. PELLEY. Right. My third suggestion—I would be glad to answer any questions as I go along with this. Anything that occurs to you.

Senator HARRISON. You mean to promote economies when you talk about the matter of waste?

Mr. PELLEY. Yes. There is the feeling that there is considerable waste in the operation of railroads that can be saved. Now there is some that can be saved without any legislation, and the railroad organization, the railroads as a whole I think are doing more in that direction than they have ever done before in my time. We have organized to do everything that we can to reduce competitive waste. But there are some things that——

Senator SHORTRIDGE. By that phrase "competitive waste" you mean, do you, that you should have the power, if you have not that power now, to so change your methods, your rates, your wages, and so forth, as to reduce expenses?

Mr. PELLEY. Right. Exactly what I mean.

Senator SHORTRIDGE. That is, to reduce the expenses of the company?

Mr. PELLEY. Of the companies.

Senator SHORTRIDGE. Or companies?

Mr. PELLEY. Yes.

Senator SHORTRIDGE. Without adding to the cost of transportation of merchandise or of passengers or freight?

Mr. PELLEY. Yes.

Senator HARRISON. And if in doing that it conflicts with the Sherman antitrust law now, that it will not, provided you get the approval of the Interstate Commerce Commission?

Mr. PELLEY. Yes. You see, we have been under the mandate of the Sherman Act since 1890, to maintain competition.

Senator SHORTRIDGE. Exactly.

Mr. PELLEY. Now, it might be interesting to you to know, and I believe this is a fact that can be verified, that in 1917, when the railroads were coordinating as much as they could to handle the traffic to help win the war, the Attorney General called attention to the fact that some of the things they were doing were in conflict with the law.

The third thing is the legislation covering interstate highway transportation. And I would be very glad to submit to you for your consideration a bill which I have prepared, to take care of the highway traffic.

Senator HARRISON. Has that bill that you have there been introduced?

Mr. PELLEY. I think not. I am quite certain that this bill in this form has not been introduced, Senator. And I would like to talk with you about that a little.

I represent a railroad that is in all forms of transportation.

Senator HARRISON. Let me ask you before you get into it. Do you agree with Mr. Loree's statement on that proposition?

Mr. PELLEY. What did he say, Senator?

Senator HARRISON. He does not believe that trucks and busses engaged in interstate shipment ought to be regulated by the Interstate Commerce Commission.

Mr. PELLEY. I do not agree with him.

Senator HARRISON. That is the way I interpreted his statement.

Mr. PELLEY. I certainly do not agree with him.

Senator HARRISON. He stated that in that position he was different from most of the railroad presidents.

Mr. PELLEY. Well, he certainly is different from me, I will say that.

Senator HARRISON. Go ahead and give your views, Mr. Pelley.

Mr. PELLEY. I just want to point out to you that the road that I represent is engaged in all forms of transportation except the air. It has not yet gone into the air service. But we operate busses and trucks, steamships, trolleys. We have got it all.

Senator SHORTRIDGE. Freight and passenger?

Mr. PELLEY. Freight and passenger. And I speak in this respect more as a highway operator, if you please, than a railroad operator. I know from my experience in conducting transportation on the highway that it must be regulated in order to stabilize it.

Senator SHORTRIDGE. Generally speaking what area of the country does your company operate in?

Mr. PEELEY. Southern New England. From Boston to New York. Connecticut, Rhode Island and Massachusetts and some of New York. Our main line is from New York to Boston. And we have a network of railroads all over that southern portion of New England.

The reason I say that this highway traffic should be regulated—and I know it can be with fairness to all interests—there are discriminations of all sorts, and, to say it quickly, in a few words, all of the conditions, or practically all, that obtained on the railroads at the time of the enactment of the interstate commerce law now obtain on the roads. This is a controversial question, I know. As far as I know all of the railroad men, except possibly Mr. Loree, think there ought to be some measure of regulation. And the regulation that I advocate, and I tell you in this bill specifically how it can be done—I place it so far as the National Government is concerned in the Interstate Commerce Commission, and I do not believe that the transportation situation is ever going to be stabilized until we have something just about what is in this bill.

Senator HARRISON. I wish you would hand the bill to the clerk, and it will be printed in the record.

(The motor bill presented by Mr. Pelley is printed in the record at the conclusion of his statement.)

Senator SHORTRIDGE. In other words you think that the Interstate Commerce Commission should have jurisdiction over an automobile truck carrying passengers or freight just the same as it has now jurisdiction over a railroad?

Mr. PELLEY. Just the same. I do not mean to say, Senator Shortridge, that everything that applies to the railroads——

Senator SHORTRIDGE. No; but I mean it would have jurisdiction and control over the automobile trucks?

Mr. PELLEY. Yes. And I leave a bill with you here that I think will do it with fairness to all interests and in the public interest.

I would be glad to talk to you some about this, because this is one of the most important things I am talking about. There is a great deal of damage being done now.

Senator SHORTRIDGE. To whom or to what?

Mr. PELLEY. One trucker with another, and to the railroads.

Senator SHORTRIDGE. The truck, if that be a proper term, comes in competition with the railroad.

Mr. PELLEY. Oh, yes.

Senator SHORTRIDGE. You have to meet that competition.

Mr. PELLEY. I have to meet that competition.

Senator SHORTRIDGE. You suffer from that competition?

Mr. PELLEY. Yes, sir. And I think probably all I need to say to you right there, unless you have some definite questions in mind—and I feel fully qualified to talk about this.

Senator HARRISON. Go ahead and express yourself, because Mr. Loree the other day expressed himself on that proposition. What the committee wants is to get your suggestions.

Mr. PELLEY. I say this, that it is impossible for a regulated transportation to compete with unregulated transportation. You certainly have a chaotic condition on the highway—and I am talking as a truck man when I say that.

You hear people say that we, the railroads, ought to get in the trucking business. Well, now we are in it. There are some things that we can not do as a railroad that truckers can do. No one has any control over their rates, their services. They are accountable to nobody. They are responsible to no one. They can start in business when they please and quit when they please. There is no stabilization there; there is no dependence with the service, which I think is quite essential to the public interest.

Now, I have no desire to do anything that would be unfair to trucking, because I am in it myself. And I think that until the whole transportation situation is stabilized, the bus doing what it can best do, the truck doing what it can best do, and the railroad doing what it can best do, and each of them quit trying to do what the other can do better—which I believe would be accomplished under this bill I am leaving with you—until that is done the thing will remain in a chaotic condition. So I advocate it very strongly, and I am very glad to leave with you that bill that would regulate it as I would have it regulated.

Senator SHORTRIDGE. It gives the power to the Interstate Commerce Commission to make detailed rules and regulations?

Mr. PELLEY. Yes, sir. It gives them power to issue certificates of convenience and necessity, permits, and to regulate their rates. It establishes their responsibility.

The next subject that I would present to you is a bill which takes the Government out of the Mississippi-Warrior River barge service. That has been talked of so much I doubt if you want to hear a great deal about it. But it does not seem fair to me to have the Government conducting a water transporation at a deficit in competition with rail transportation. There is already some private operation on the same river. To discontinue this does not necessarily mean that there will not be the barge service on the Mississippi River, because there is already a private company competing. I think it ought to be discontinued, and I have a bill here for that purpose.

Senator SHORTRIDGE. The Government is suffering a deficite now in the operation of that line?

Mr. PELLEY. Yes.

Senator HARRISON. Is there not some question about that, Mr. Pelley? Does not the Mississippi Barge line claim that they are showing a profit, but that the Warrior Barge line is showing a deficit? Of course, that does not take into consideration their exemption from taxes and the various other things. I imagine that you are of the opinion that if you apply all that cost on the proposition that they would be in the red?

Mr. PELLEY. That is exactly what I mean. When they pay their full way they would be in the red.

Senator HARRISON. I understand.

(The bill above referred to, presented by Mr. Pelley, is here printed in the record in full, as follows:)

AN ACT To provide for the discontinuance of the operation of the transportation and terminal facilities of the Inland Waterways Corporation and to provide for the disposition of its properties and for its liquidation

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That at midnight of June 30, 1933, the Inland Waterways Corporation (hereinafter referred to as the "corporation") shall discontinue the operation of the transportation and terminal facilities now being operated by it. From and after the passage and approval of this act the corporation shall not extend or enlarge its operations.

SEC. 2. At the earliest possible date the Secretary of War shall dispose of all properties of the corporation for the best price obtainable: *Provided, however,* That any contracts providing for the disposition of the property shall, before they become effective, be approved by the President: *And provided further,* That possession of the said property must in no event be given to the person or persons entitled to the possession thereof under said contracts until July 1, 1933.

SEC. 3. Immediately after the discontinuance of operations of the transportation and terminal facilities of the corporation, and after the disposition of its property, the Secretary of War shall proceed with the liquidation of said corporation, settling all claims against it and collecting all sums due it. All moneys remaining in the hands of the Secretary of War after the liquidation of the corporation shall be returned to the Treasury of the United States and the stock of said corporation owned by the United States shall be cancelled.

SEC. 4. All parts of the statutes of the United States known as an act to create the Inland Waterways Corporation for the purpose of carrying out the mandate and purpose of Congress as expressed in sections 201 and 500 of the transportation act, and for other purposes, approved June 3, 1924, and an act to amend the act entitled "An act to create the Inland Waterways Corporation for the purpose of carrying out the mandate and purposes of Congress, as expressed in sections 201 and 500 of the transportation act, and for other purposes," approved June 3, 1924, approved May 20, 1928, which are in conflict with the provisions of this act are hereby repealed.

Mr. PELLEY. My next suggestion is the regulation of the water transportation. There is a bill on the calendar now, House Resolution 11497, that provides for the regulation of common carriers by water. I indorse that bill, and I submit an amendment to it. That is a bill that is on the calendar. I do not know whether it has ever been heard or not. That regulates common carrier water service.

Senator HARRISON. Who introduced that bill?

Mr. PELLEY. Representative Lonergan. It is known as the Lonergan bill. I submit for your consideration an amendment to that bill, which will apply to the contract carrier by water the regulations that are proposed in this bill to the common carrier. The explanation so far as I know, and I think it is a correct one, as to why the contract water carrier was not included in the common-carrier bill is there was some question as to whether or not a contract carrier either on the highway or by water can be regulated, but the Supreme Court has since decided that it can be.

Senator HARRISON. That may be placed in the record.

(The proposed bill submitted by Mr. Pelley as an amendment to H. R. 11497, is here printed in the record in full, as follows:)

A BILL Amending the interstate commerce act, as amended, for the purpose of regulating carriers for hire by water, other than common carriers by water, engaged in interstate commerce, whether coastwise, intercoastal, or on the Great Lakes or inland waterways of the United States, and for other purposes

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled*, That paragraph (1) of section 1 of the interstate commerce act be amended by adding thereto the following paragraph to be designated "(d)":

"(d) (1) That the provisions of this act shall apply to carriers for hire by water (other than common carriers by water) engaged in the transportation of property by water, whether coastwise, intercoastal, or on the Great Lakes or inland waterways, or between ports of the United States (hereinafter referred to as contract carriers by water) between the points named in paragraph (1) of this section, but only in so far as the sections, subsections, paragraphs, or subparagraphs of this act are by appropriate reference to contract carriers by water made specifically applicable to such carriers."

"(2) The regulation of contract carriers by water to the extent that such carriers are herein regulated, is necessary and required in the national interest in order to preserve and maintain for the Nation an adequate system of transportation by common carriers subject to this act, in order to prevent the impairment and destruction of the transportation services that are now rendered by such common carriers, upon which the national welfare depe..ds, to prevent the destruction of the efficacy of the regulation herein provided for of such common carriers, and that the various agencies of transportation may be so adjusted and correlated as best to serve the national interest."

SEC. 2. That paragraph (7) of section 1 of the interstate commerce act be amended by adding thereto the following sentence: "The provisions of this paragraph shall apply to contract carriers by water."

SEC. 3. That paragraph (8) of section 1 of the interstate commerce act be amended by adding thereto the following sentence: "The provisions of this paragraph shall apply to contract carriers by water."

SEC. 4. That section 1 of the interstate commerce act be amended by inserting after paragraph (22a) the following paragraph to be designated "(22b)":

"(22b) (a) Within 60 days after the enactment of this act every contract carrier by water in interstate commerce shall file with the commission in full and complete detail and under oath a statement of all the transportation services engaged in by it, directly or indirectly, during the preceding three years; such statement to show specifically the ports between which such services are operated, the corporate name, or if not a corporation, the name of the owner or owners of the carrier operating each particular service, and the trade name or names, if any, used in connection therewith, the number of ships operated (including boats and barges of all kinds), the total carrying capacity in tons of all such ships, the frequency of the sailings to and from each port served during the said 3-year period, and with definiteness the character of the transportation services that were engaged in, such as whether of general cargo without restriction, or of a limited class of freight, or of refrigerator cargo, and any other information that the commission may require in order to enable it to inform itself respecting the nature, kind and extent of the transportation services rendered during the said 3-year period by such contract carrier by water.

"(b) From and after three months after the enactment of this act, no contract carrier by water, not now actually engaged in operating a ship or ships as contract carriers by water (including boats and barges of all kinds), shall inaugurate any such service, and no contract carrier by water now actually engaged in operating ships (including boats and barges of all kinds) as contract carriers by water, shall increase the number of such ships or the total carrying capacity in tons thereof that have been operated by it during the said preceding three years, or increase the number of ports that have been served by it during that period, unless and until upon application by such contract carrier by water the commission has issued a certificate that the public convenience and necessity require the inauguration of such service, or an increase in the number of such ships, or in the total carrying capacity in tons thereof, or an increase in the number of ports, as the case may be. From and after the date of the enactment of this act a contract carrier by water may decrease the number of such ships operated by it, or the total carrying capacity in tons thereof, or the number of ports served by it, without obtaining the consent of the commission, but such contract carrier by water may not thereafter either by the purchase of such ships or by the construction of such ships increase the number of such ships operated by it, or the total carrying capacity of such ships, or the number of ports served by it, without first obtaining a certificate that the present or future public convenience and necessity require or will require such increase in the number of such ships or an increase in the total carrying capacity in tons of such ships, or in the number of ports. From and after the date of the enactment of this act it shall be unlawful for any contract carrier by water to operate otherwise than in accordance with the statement and certificate filed or issued as provided for by this paragraph.

"The provisions of this paragraph (22b) (b) shall not apply to any contract carrier by water, all of whose ships (including boats and barges of every kind), have a total carrying capacity of less than 500 tons, or to any contract carrier by water who transports property for hire for distances less than 100 miles.

"(c) That subparagraphs (c), (d), (e), and (f) of paragraph (22a) of section 1 each be amended by adding thereto the following sentence: 'The provisions of this paragraph shall apply to contract carriers by water.'"

SEC. 5. That section 2 of the interstate commerce act be amended by inserting at the end thereof the following sentence: "The provisions of this section shall apply to contract carriers by water."

SEC. 6. That paragraph (1) of section 3 of the interstate commerce act be amended by inserting at the end thereof the following sentence: "The provisions of this paragraph shall apply to contract carriers by water."

SEC. 7. That section 3 of the interstate commerce act be amended by inserting after paragraph (2) thereof the following paragraph to be designated "(2a)":

"(2a) No contract carrier by water subject to the provisions of this act shall deliver or relinquish possession at destination of any freight transported by it until all the rates and charges thereon have been paid, except under such rules and regulations as the commission may from time to time prescribe to govern the settlement of all such rates and charges of such contract carriers by water and to prevent unjust discrimination: *Provided*, That the provisions of this paragraph shall not be construed to prohibit any carrier from extending credit in connection with rates and charges on freight transported for the United States, for any department, bureau or agency thereof, or for any State or Territory or political subdivision thereof, or for the District of Columbia."

SEC. 8. That paragraph (1) of section 4 of the interstate commerce act be amended by adding thereto the following sentence: "The provisions of this section shall apply to contract carriers by water."

SEC. 9. That the interstate commerce act be amended by inserting after section 6 a new section to be known as "section 6a" and to read as follows:

"SEC. 6a (1) That every contract carrier by water subject to the provisions of this act shall file with the commission and print and keep open to public inspection schedules showing the minimum rates and charges for transportation of property between different points on its own route and between points on its own route and points on the route of any other contract carrier by water when a through route and a joint rate have been established. If no joint rate over the through route has been established, the several contract carriers by water in such through route shall file, print and keep open to public inspection as aforesaid the separately established minimum rates and charges applied to the through transportation. The schedules printed as aforesaid by any such contract carrier by water shall plainly state the places between which property will be carried, and shall contain the classification of freight in force, and shall also state separately the minimum terminal charges, the minimum storage charges, the minimum icing charges, and all other minimum charges which the commission may require, all privileges or facilities granted or allowed, and any rules or regulations which in anywise change, affect, or determine any part or the aggregate of such aforesaid minimum rates and charges, or the value of the service rendered to the shipper or consignee. Such schedules shall be plainly printed in large type, and copies for the use of the public shall be kept posted in two public and conspicuous places in every depot, station, or office of such contract carrier by water where freight is received for transportation, in such form that they shall be accessible to the public and can be conveniently inspected.

"(2) Any contract carrier by water subject to the provisions of this act receiving freight in the United States to be carried through a foreign country to any place in the United States shall also in like manner print and keep open to public inspection, at every depot or office where such freight is received for shipment, schedules showing the through minimum rates established by such contract carrier by water to all points in the United States beyond the foreign country to which it accepts freight for shipment; and any freight shipped from the United States through a foreign country into the United States, the through minimum rate on which shall not have been made public, as required by this act, shall, before it is admitted into the United States from said foreign country, be subject to customs duties as if said freight were of foreign production.

"(3) No change shall be made in the minimum rates and charges or joint minimum rates and charges which have been filed or published by any contract carrier by water in compliance with the requirements of this section, except after thirty days' notice to the commission and to the public published as aforesaid. which shall plainly state the changes proposed to be made in the schedules then in force and the time when the changed minimum rates or charges will go into effect; and the proposed changes shall be shown by printing new schedules, or shall be plainly indicated upon the schedules in force at the time and kept open to public inspection: *Provided*, That the commission may, in its discretion and for good cause shown, allow changes upon less than the notice herein specified, or modify the requirements of this section in respect to publishing, posting, and filing of tariffs, either in particular instances or by a general order applicable to special or peculiar circumstances or conditions: *Provided further*, That the commission is hereby authorized to make suitable rules and regulations for the simplification of schedules of the minimum rates, charges, and the classification of contract carriers by water, and to permit in such rules and regulations the filing of an amendment of or any change in any minimum rate, charge or classification, without filing complete schedules covering minimum rates, charges, or classifications not changed, if, in its judgment, not inconsistent with the public interest.

"(4) That paragraphs (4), (5), and (6) of section 6 of the interstate commerce act be amended by adding thereto the following sentence: 'The provisions of this paragraph shall apply to contract carriers by water.'

"(5) No contract carrier by water, unless provided by this act, shall engage or participate in the transportation of property, as defined in this act, unless the minimum rates and charges upon which the same is transported by said carrier have been filed and published in accordance with the provisions of this act; nor shall any contract carrier by water charge or demand or collect or receive a less compensation for such transportation of property, or for any service in connection therewith, between the points named in such tariffs, than the minimum rates and charges which are specified in the tariff filed and in effect at the time; nor shall any contract carrier by water refund or remit in any manner or by any device any portion of the minimum rates and charges so specified, nor extend to any shipper or person any privileges or facilities in the transportation of property, except such as are specified in such tariffs. This paragraph is not to be construed as preventing a contract carrier by water from charging, demanding, collecting, or receiving a greater compensation for the transportation of property than the minimum rates and charges which are specified in the tariffs filed and in effect at the time, and which may be agreed to between such contract carriers by water and any shipper or person, it being the intent and purpose of this act that contract carriers by water may contract for the transportation of property by water at rates and charges that are greater than the minimum rates and charges specified in the tariffs filed and in effect at the time but that they shall not contract for the transportation of property by water at rates and charges that are less than the said minimum rates and charges.

"(6) Paragraphs (9) and (10) of section 6 of the interstate commerce act each be amended by adding thereto the following sentence: 'The provisions of this paragraph shall apply to contract carriers by water.'"

SEC. 10. That section 8 of the interstate commerce act be amended by adding thereto the following sentence: "The provisions of this section shall apply to contract carriers by water."

SEC. 11. That section 9 of the interstate commerce act be amended by adding thereto the following sentence: "The provisions of this section shall apply to contract carriers by water."

SEC. 12. That paragraph (1) of section 10 of the interstate commerce act be amended by adding thereto the following sentence: "The provisions of this paragraph shall apply to contract carriers by water."

SEC. 13. That paragraph (2) of section 10 of the interstate commerce act be amended by adding thereto the following sentence: "The provisions of this paragraph shall apply to contract carriers by water, it being understood that the regular rates of the contract carriers by water shall be the minimum rates referred to in paragraph (1) of section 6a."

SEC. 14. That paragraph (3) of section 10 of the interstate commerce act be amended by adding thereto the following sentence: "The provisions of this paragraph shall apply to contract carriers by water, it being understood that the regular rates of the contract carriers by water shall be the minimum rates referred to in paragraph (1) of section 6a."

SEC. 15. That paragraph (4) of section 10 of the interstate commerce act be amended by adding thereto the following sentence: "The provisions of this paragraph shall apply to contract carriers by water."

SEC. 16. That section 12 of the interstate commerce act be amended by inserting after paragraph (7) the following paragraph to be designated "(8)":

"(8) All the provisions of section 12 shall apply to contract carriers by water."

SEC. 17. That paragraph (1) of section 13 of the interstate commerce act shall be amended by adding thereto the following sentence: "The provisions of this paragraph shall apply to contract carriers by water."

SEC. 18. That section 14 of the interstate commerce act be amended by inserting after paragraph (3) the following paragraph to be designated "(4)":

"(4) All the provisions of section 14 shall apply to contract carriers by water."

SEC. 19. That paragraph (1) of section 15 of the interstate commerce act be amended by inserting after paragraph (1) the following paragraph to be designated "(1a)":

"(1a) That whenever, after full hearing upon a complaint made as provided in section 13 of this act, or after full hearing under an order for investigation and hearing made by the commission on its own initiative, either in extension of any pending complaint, or without any complaint whatever, the commission shall be of the opinion that any individual or joint minimum rate or charge whatsoever demanded, charged, or collected by any contract carrier by water or carriers subject to this act for the transportation of property as defined in the first section of this act, or that any individual or joint minimum classification, regulation, or practice whatsoever of such carrier or carriers subject to the provisions of this act, is or will be unreasonably low or unjustly discriminatory or unduly preferential or prejudicial, or otherwise in violation of any provisions of this act, in so far as they apply to contract carriers by water, the commission is hereby authorized and empowered to determine and prescribe what will be the just and reasonable individual or joint minimum rate or charge, or minimum rates or charges, to be thereafter observed as the minimum in such case, and what individual or joint minimum classification, regulation, or practice is or will be just, fair, and reasonable, to be thereafter followed as the minimum, and to make an order that the contract carrier or carriers by water shall cease and desist from such violation to the extent to which the commission finds that the same does or will exist, and shall not thereafter publish, demand, or collect any rate or charge for such transportation lower than the minimum rate or charge so prescribed, and shall thereafter observe as the minimum classification, regulation, or practice, the minimum classification, regulation, or practice so prescribed."

SEC. 20. That paragraph (2) of section 15 of the interstate commerce act be amended by adding thereto the following sentence: "The provisions of this paragraph shall apply to contract carriers by water."

SEC. 21. That paragraph (7) of section 15 of the interstate commerce act be amended by inserting immediately after paragraph (7) the following subparagraph to be designated "(7a)":

"(7a) The provisions of paragraph (7) of section 15 of the interstate commerce act shall apply to any schedule stating a new, individual, or joint minimum rate or charge or any new, individual, or joint minimum classification, or any new, individual, or joint minimum regulation or practice affecting any minimum rate or charge of contract carriers by water. But the power of the commission shall extend no further than to a determination of what would be a just and reasonable individual or joint minimum rate or charge, a reasonable minimum classification, or a reasonable minimum regulation or practice, and to the enforcement thereof by appropriate orders."

SEC. 22. That paragraph (11) of section 15 of the interstate commerce act be amended by adding thereto the following sentence: "The provisions of this paragraph shall apply to contract carriers by water."

SEC. 23. That paragraph (12) of section 15 of the interstate commerce act be amended by adding thereto the following sentence: "The provisions of this paragraph shall apply to contract carriers by water."

SEC. 24. That paragraphs (1) and (2), subparagraphs (3) (a) to (3) (f), inclusive, and paragraphs (4) to (13), inclusive, of section 16 each be amended by adding thereto the following sentence: "The provisions of this paragraph shall apply to contract carriers by water."

SEC. 25. That subparagraph (3) (g) of section 16 of the interstate commerce act be amended by adding thereto the following: "except that in the case of contract carriers by water the term 'overcharges' ts used in this section shall be deemed to mean charges for transportation services in excess of those agreed to between the contract carrier by water and the shipper or other person."

SEC. 26. That section 16a of the interstate commerce act be amended by adding thereto the following sentence: "The provisions of this section shall apply to contract carriers by water."

SEC. 27. That paragraphs (1) to (10), inclusive, of section 20 of the interstate commerce act each be amended by adding thereto the following sentence: "The provisions of this section shall apply to contract carriers by water."

SEC. 28. That section 22 of the interstate commerce act be amended by inserting after paragraph (1) thereof the following paragraph to be designated "(1a)":

"(1a) The provisions of paragraph (1) of section 22, in so far as they relate to the carriage, storage, or handling of property, or the transportation of persons, shall apply to contract carriers by water."

Mr. PELLEY. Now, there is the same argument for the regulation of water transportation as highway transportation. I think it is decidedly in the public interest. There is not any doubt in my mind but what the regulation of the railroads has been in the public interest and in the interest of the railroads themselves, and being engaged in water transportation I recommend the regulation, and I am inclined to think most water operators are in favor of it.

Senator HARRISON. Does your railroad own any ships?

Mr. PELLEY. Yes, sir. We own the New England Steamship Co., the Sound line.

Senator HARRISON. Where does that operate?

Mr. PELLEY. It operates all over the Sound. Bridgeport to Fall River, New Bedford, Marthas Vineyard and New London, New Haven, New York.

My sixth and last suggestion is the repeal of the recapture provision of the transportation act. It is here now in H. R. 11642. That repeals the recapture provision, and I submit an amendment to it that will repeal the valuation provision of the transportation act.

Senator HARRISON. Have you got your amendment there?

Mr. PELLEY. Yes.

Senator HARRISON. Hand that to the clerk so he can put it in the record at this point.

Mr. PELLEY. Here is the amendment I suggest be made to H. R. 11642. I recommend provision merely for keeping up current physical inventories in place of present valuation requirements. This can be covered by the following amendment of pending legislation, involving modification of section 15 (a) of the interstate commerce act, H. R. 11642, now pending in the House:

That Section 19 (*a*) of said act be, and it is hereby, repealed. The commission shall carefully preserve in its archives all documents and papers connected with work so far done by it under said section and shall hereafter keep itself informed of all new construction, extensions, improvements, additions, betterments, and retirements and of all changes in investment therein.

I do not know whether you want any argument in favor of the repeal of the recapture provision or not. So far as I have been able to learn there is no opposition to repealing it.

Senator HARRISON. Has that bill been favorably reported by the committee?

Mr. PELLEY. I do not know the status of it, Senator Harrison. But I thought that it is a bill that will just come up and go through some day when they get around to it.

Senator HARRISON. Has the Interstate Commerce Commission taken any action on that proposition?

Mr. PELLEY. They have recommended it two or three times. I think at least twice in their annual report or probably by special recommendation.

Senator GORE. There is no opposition on the part of the weaker railroads that are supposed to profit by this?

Mr. PELLEY. So far as I know, Senator, there is no opposition to it. The railroads are in favor of it. The commission is in favor of it. I think the 21 labor organizations on the railroads have gone on record in favor of it. And you had a hearing on it here either in the House or Senate.

Senator HARRISON. Yes.

Mr. PELLEY. And as I recall the record, there was no one appeared to oppose the repeal of it.

Senator HARRISON. Mr. Pelley, you studied, of course, the report that was made the other day by the so-called Coolidge Commission. What was your reaction to it, generally speaking?

Mr. PELLEY. Well, I have read the report once, Senator Harrison. There are a number of good things in it, and there are some things that I do not subscribe to. I think I would have to say that as a whole it was a disappointment to me in that it was not more specific as to what ought to be done to the transportation situation. Personally, I had hoped that they would give us a specific and definite suggestion as to what is the cure, if there is one. And I believe there is.

Senator GORE. You have outlined in your statement what you think the solution is? I am sorry I arrived late.

Mr. PELLEY. Well, Senator Gore, this is all I have done, and this is all that it seemed to me that I should do at this time. You gentlemen asked me for suggestions or—well, I think the telegram that I have here says you would be glad to have me talk about what caused the depression, and what legislation I could suggest.

Senator HARRISON. That is what we wanted—constructive suggestions.

Mr. PELLEY. Yes. Now, I am making to you here six definite specific suggestions as to what this Congress can do to help this industry that I represent. I think most of them are not the subject of a great deal of controversy, except probably the regulation of highway traffic. Some people do not agree with that.

Senator GORE. I understood you to say that you favored the Federal system of regulating railroads in interstate commerce.

Mr. PELLEY. Yes.

Senator GORE. Mr. Pelley, the present system was instituted largely when the railroads were what we call natural monopolies and really not encountering any serious competition. The system was adapted to that state of circumstances. Has the state of circumstances changed so that the system itself ought to be changed, to adapt itself to the changed conditions?

Mr. PELLEY. I think so, Senator. I am suggesting here a modification of the antitrust laws that were made when we were a monopoly, and that monopolistic aspect of the railroad situation does not now exist, as it did then.

Senator GORE. No; it does not now exist. The point I had particularly in mind is this: You did not have any competition when the rate structure was set up. You do have competition now; whether serious or not you know better than I. Ought the railroads to have a little freer hand and ought the system to be a little more flexible so you can adjust your rates to meet this competition?

Mr. PELLEY. Well, yes. We ought to have some relaxation of our regulations. But what I am proposing is that these other agencies of transportation be regulated somewhat similarly to what we are regulated.

Senator GORE. Yes; I got that point. But whether to make them all rigid as the railway regulations are to-day, or whether they should all be more or less flexible? I hear a good deal of complaint that when an effort is made to change a rate now it takes so long to do it, even in the event they secure favorable action in the long run that the conditions have changed so that nobody is concerned in the new rate or regulation.

Mr. PELLEY. Well, I doubt if there is as much in that as you have heard.

Senator GORE. I had two specific cases in mind: The shipment of oil in Oklahoma, and perhaps glass.

Let me ask you this: Do you think it would be feasible, and if it were feasible would it be desirable for the Government to encourage what I will call a national system of transportation, embracing and integrating and trying to relate more or less the railroads, the inland waterway shipping, ocean-bound shipping, pipe lines, trucks, busses, air lines? Are the things too different and too unlike for there to be any sort of coordination brought about?

Mr. PELLEY. I think that coordination should be brought about. And what we are working for on our railroad system is a coordinated transportation system. We are already in all the forms of transportation there are except the air. And I think that our system in southern New England, where we are almost by ourselves, can not properly be coordinated until the other systems are regulated somewhat like we are, some of the restrictions taken off of us and some put on them. And after that is done then we, so far as our railroad is concerned, will be a coordinated system of transportation conducting all forms and giving the people what they want and what they are willing to pay for.

Senator GORE. You think that would be better than any effort to establish a national system, a sort of holding concern in which the railroads and all these other concerns could participate, and if there is a profit in one let all share it, and if there is a loss in one let all bear it, and try to have a national system? I do not know whether I make myself clear.

Mr. Pelley. You do, Senator. I think the accomplishment of that is impossible under private ownership.

Senator King. And it would not be desirable for the Government to undertake that, would it?

Mr. Pelley. Well, I would say no.

Senator King. I have not heard your testimony.

Mr. Pelley. I would certainly say no. Not desirable.

Senator Gore. I can see one objection to it. It would petrify the system. There would never be any more progress in either case, whether the Government owned it or private people owned it, if it once got set.

Mr. Pelley. Before I leave I would like to call your attention to the fact that I have made six definite, concrete suggestions as to what you gentlemen can do to help the industry that I represent. It will not cost the Government a cent to do all of this.

Senator Gore. That would recommend it to me.

Mr. Pelley. And all of it will be in the direction of stabilizing the general transportation situation, which is most essential.

Senator Gore. Does some one or more of your suggestions relate particularly to the point of bringing about that situation where you can earn your fixed charges of the railroads generally?

Mr. Pelley. I would answer that by saying this, Senator Gore: This will help us. Now, whether we will be able to make our fixed charges is more or less in the laps of the gods.

Senator Gore. I ask you that question in order to ask this further question. We had a gentleman before us the other day and he said that if the law and the requirements in regard to depreciation were relaxed or suspended that the railroads now for the most part could pay their fixed charges out of their earnings.

Mr. Pelley. Well, I do not see how that would make a great deal of difference to me on my railroad.

Senator Gore. I think he said the depreciation allowance was something like two hundred-odd millions a year, and I think they sell below earning their fixed charges by approximately the same amount. Of course I do not know enough about the way you conduct your business, your general set-up, to have an opinion about it as yet.

Mr. Pelley. Well, certainly it is proper to have some depreciation account on a railroad, in my opinion.

Senator Gore. I figure, Mr. Pelley, in that connection that these bus lines and truck lines some day through the very fact that they do not have, as I presume, generally speaking, a depreciation policy, will find that they have worn out their trucks and busses and have not set aside anything for replacement under the illusion that they were making a profit, that all that they took in was a profit.

Mr. Pelley. Well, that is true, Senator. And some of them pass out of existence, and some others come in.

Senator Gore. They use their equipment up and make no provision for replacing it.

Mr. Pelley. No.

I would like to take the time of you gentlemen to call your attention to this fact. To repeat what I have already said. Talking of my own railroad, we have no quarrel with any form of transportation. We are in all of it except the air. And probably the reason why we are not in that is that up to this time we have not seen any way of getting in it without a certain loss. Probably some day we will be in that. I think we will.

Senator GORE. You overlook the subsidy.

Mr. PELLEY. Sir?

Senator GORE. You overlook the subsidy that we give everybody.

Senator HARRISON. Well, he is going on the theory that he will not have the influence to get the mail contract.

Mr. PELLEY. Well, I do not want to talk about that. I can tell you a lot about that if you want to hear it.

Senator GORE. It would be interesting, but unavailing, I suppose.

Mr. PELLEY. Well, I do not know about that.

Senator KING. We were triumphant in the Senate in eliminating $19,000,000 for those air-mail subsidies but the House conferees, I am advised, very promptly restored it. So I think our efforts have been unavailing.

Mr. PELLEY. Well, I do not know how much longer the American people are wanting to go ahead spending seventeen or eighteen or nineteen million dollars a year to subsidize air mail service, since you bring that up, because we of the railroads think that is wrong.

Senator GORE. I think it is outrageous myself.

Mr. PELLEY. We think any subsidy is wrong. I saw some figures the other day that indicated that for every passenger the air-mail people carried last year it cost the Government $38.

Senator GORE. And they are not concerned, Mr. Pelley, about passenger service. And I want to put this in the record at this point. I have a friend who was a minister, under Wilson, to one of the South American countries, and he was talking to one of the Pan American men in one of these South American countries, and made suggestions as to how they could improve their passenger traffic, and he got the supercilious answer that they were not concerned about the passenger traffic; that the Government subsidy was sufficient. And that concern gets about $7,000,000 a year subsidy. And why should they worry about business?

Senator KING. May I ask whether you railroads have been asking for a subsidy the same as the shipping interests and the aviation interests?

Mr. PELLEY. We have not, and we have never had one. The railroads were never subsidized. Notwithstanding all the talk you hear now and then about the land-grant subsidies, they were never a subsidy, and they were a great investment for the Government. The Government is making some $4,000,000 a year now on their land grants to the railroads.

Senator GORE. Have you ever given any thought to this Inland Waterway Corporation that the Government has created and is financing and sponsoring in competition with the railroads?

Mr. PELLEY. Yes; and I am just definitely recommending here that it be stopped to-morrow if you can get to it, Senator Gore. That is one of my recommendations, to stop that.

Senator GORE. You mean to stop a Government subsidy?

Mr. PELLEY. Well, I mean to stop the operation of the Mississippi-Warrior barge line service.

Senator GORE. Mr. Pelley, if you will let me say so, I was taking you seriously, but if you are facetious I will keep that in mind.

Mr. PELLEY. Well, the thought I want to leave with you gentlemen is this. That notwithstanding what you hear to the contrary, on our railroad we have gone into every form of transportation. We are conducting each of these forms of transportation as best we can. We have many difficulties because of the fact that the water and the highway is not regulated.

Senator GORE. Neither as to service nor rates.

Mr. PELLEY. No. And we have done all the big things that we can do to help our general transportation situation so far as our company is concerned. And we now need some public support. We need some regulation. We want the interstate traffic regulated and placed under the Interstate Commerce Commission, and we want the intrastate traffic regulated and placed under the various commissions in our States. And we are seeking that legislation at this time.

Senator GORE. In that you include busses and trucks?

Mr. PELLEY. Yes, sir.

Senator KING. My recollection is that Mr. Loree, the railroad representative who spoke a few days ago, did not ask for busses and motor transportation to be placed under the control of the Federal Government.

Senator HARRISON. I called that to the attention of Mr. Pelley and he disagrees, and he said that the railroad presidents generally disagree with Mr. Loree on that proposition.

Mr. PELLEY. Senator Harrison said that Mr. Loree said that probably no other railroad man would agree with him, or some such point as that.

Senator HARRISON. Yes; he said that.

Senator GORE. That is the point.

Senator HARRISON. If that is all, Mr. Pelley, we are very much obliged to you. We have two other witnesses, Mr. Litchfield and Mr. Frank Simonds, this afternoon.

Mr. PELLEY. I am very much obliged to you gentlemen for this opportunity.

(The motor bill previously referred to, and presented by Mr. Pelley for the record, is here printed in the record in full as follows:)

A BILL To regulate the transportation of passengers and property in interstate and foreign commerce by motor carriers operating on the public highways, and for other purposes

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled*,

DEFINITIONS

SECTION 1. (a) As used in this act—

(1) The term "corporation" means a corporation, company, association, or joint-stock association.

(2) The term "person" means an individual, firm, or copartnership.

(3) The term "board" or "State board" means the commission, board, or official (by whatever name designated in the laws of a State) which under

the laws of any State in which any part of the service in interstate or foreign commerce regulated by this act is to be performed, has or may hereafter have jurisdiction to grant or approve certificates of public convenience and necessity or other form of permit to motor carriers, or otherwise to regulate transportation by motor vehicle, in intrastate commerce over the public highways of such State.

(4) The term "commission" means the Interstate Commerce Commission.

(5) The term "certificate" means a certificate of public convenience and necessity issued under this act to common carriers by motor vehicle.

(6) The term "permit" means a permit issued under this act to contract carriers by motor vehicle.

(7) The term "interstate or foreign commerce" means commerce between any place in a State and any place outside thereof; or between points within the same State but through any place outside thereof.

(8) The term "public highway" includes the public roads, highways, streets, and ways in any State.

(9) The term "motor vehicle" means any vehicle, machine, or trailer propelled or drawn by any power other than muscular power and used upon the public highways for the transportation of passengers or property, but does not include any vehicle, locomotive, or car operated on a rail or rails.

(10) The term "State" means any of the several States and the District of Columbia.

(11) The term "common ctrrier by motor vehicle" includes any carrier of passengers or property by motor vehicle for compensation in interstate or foreign commerce which undertakes or offers to transport passengers or property for the general public.

(12) The term "contract carrier by motor vehicle" means any carrier by motor vehicle engaged in the business of transporting passengers or property for compensation in interstate or foreign commerce under a contract, agreement, or arrangement, and which does not undertake or offer to transport passengers or property for the general public.

(13) The term "motor carrier" includes both a common carrier by motor vehicle and a contract carrier by motor vehicle.

(b) Nothing in this act shall be construed to include (1) motor vehicles employed solely in transporting school children and teachers; or (2) taxicabs, or other motor vehicles performing a bona fide taxicab service, having a capacity of not more than 6 passengers and not operated on a regular route or between fixed termini; or (3) motor vehicles owned or operated by or on behalf of hotels and used exclusively for the transportation of hotel patrons between hotels and local railroad or other common carrier stations; or (4) motor vehicles operated, under authorization, regulation, and control of the Secretary of the Interior, principally for the purpose of transporting persons in, into, and about the national parks and national monuments.

GENERAL DUTIES AND POWERS OF THE COMMISSION

SEC. 2. (a) It shall be the duty of the commission—

(1) To supervise and regulate common carriers by motor vehicle as provided in this act, and to that end the commission may establish reasonable requirements with respect to continuous and adequate service, transportation of baggage, a uniform system of accounts, records and reports, preservation of records, qualifications and maximum hours of service of employees, safety of operation and equipment, comfort of passengers, and pick-up and delivery points whether on regular routes or within defined localities or districts.

(2) To supervise and regulate contract carriers by motor vehicle as provided in this act, and to that end the commission may establish reasonable requirements with respect to systems of accounts, records and reports, preservation of records, qualifications and maximum hours of service of employees, safety of operation and equipment, and comfort of passengers.

(3) To administer all other provisions of this act relative to motor carriers and to prescribe rules and regulations for such administration.

(4) To inquire into the management of the business of motor carriers, to keep itself informed as to the manner and method in which the same is conducted, and to transmit to Congress, from time to time, such recommendations as to additional legislation relating to such carriers as the commission may deem necessary.

(b) Upon complaint in writing to the commission by any person, corporation, or State board, alleging a failure by any motor carriers to comply with any provision of this act, or with any requirement established pursuant thereto, or upon its own initiative without complaint, the commission may, after notice and hearing, investigate any such matter. If the commission finds upon any such investigation that the motor carrier has failed to comply with any such provision or requirement, the commission shall issue an appropriate order to compel the carrier to comply with such provision or requirement.

(c) After a decision, order, or requirement has been made by the commission in any proceeding under this act, any party thereto may at any time make application to the commission for rehearing of the same, or of any matter determined therein, and it shall be lawful for the commission in its discretion to grant such a rehearing if sufficient reason therefor be made to appear. Applications for rehearing shall be governed by such general rules as the commission may establish. No such application shall excuse any motor carrier from complying with or obeying any decision, order, or requirement of the commission, or operate in any manner to stay or postpone the enforcement thereof, without the special order of the commission. If, after such rehearing and the consideration of all facts, including those arising since the former hearing, it shall appear that the original decision, order, or requirement is in any respect unjust or unwarranted, the commission may reverse, change, or modify the same accordingly. Any decision, order, or requirement made after such rehearing shall be subject to the same provisions as an original decision, order, or requirement.

### ADMINISTRATION OF THE ACT

SEC. 3. (a) Except in case of a matter which is referred to a joint board as provided in subdivision (c), any matter arising under the administration of this act shall be heard and decided by the commission, or shall, by order of the commission be referred to a member or examiner of the commission for hearing and the recommendation of an appropriate order thereon. With respect to such matter the member or examiner shall have all the rights, duties, powers, and jurisdiction conferred by this act upon the commission, except the power to make the final order thereon. Any order recommended by the member or examiner with respect to such matter shall be in writing and be accompanied by the reasons therefor, and shall be filed with the commission. Copies of such recommended order shall be served upon the persons specified in subdivision (f) who may file exceptions thereto, but if no exceptions are filed within 20 days after service upon such persons, such recommended order shall become the order of the commission and become effective, unless within such period the order is stayed or postponed by the commisison. Where exceptions are filed as herein provided it shall be the duty of the commission to consider the same and, if sufficient reason appears therefor, the commission shall grant such review or make such orders or hold or authorize such further hearings or proceedings in the premises as may be necessary or proper to carry out the purposes of this act; or the commission may, on its own motion, review any such matter and take action thereon as if exceptions thereto had been filed as herein provided.

(b) Hearings by any member, examiner or joint board upon any matter referred to him or to such board shall be held at such convenient places within the United States as the commission may by rule or order direct.

(c) Whenever there arises under the administration of this act any matter that the commission is required to refer to a joint board, or that the commission determines, in its discretion, to refer to a joint board, as hereinafter provided, and if no joint board eligible to consider said matter is in existence, then the commission shall create a joint board to hear the matter when referred and recommend appropriate order thereon under such rules governing meetings and procedure of joint boards as the commission shall prescribe. Such joint board shall consist of a member from each State in which the motor-carrier operations involved in the matter are or are proposed to be conducted. The member from any such State shall be nominated by the board of such State from its own membership or otherwise; or if there is no board in such State or if the board of such State fails to make a nomination when requested by the commission, then the governor of such State may nominate such member. The commission is authorized to appoint as a member upon the joint board any such nominee approved by it. All decisions and recommendations by joint boards shall be by majority vote. If the board of each State from which a member of a joint board is entitled to be appointed shall waive action on any matter referred to such joint board, or if any joint board fails or refused to act or is unable to agree upon any matter submitted to it, or if both the board and governor of any State fail to nominate a joint board member when requested by the commission, when such matter shall be heard and decided as in the case of any matter not required to be referred to a joint board. Joint boards when administering the provisions of this act shall be agencies of the Federal Government, and members shall receive such allowances for expenses as the commission shall provide. A joint board shall continue in existence for the consideration of matters referred to it by the commission until such time as its existence may be terminated by the commission. A substitution of membership upon a joint board from any State may be made at any time by nomination and appointment in the same manner as an original nomination and appointment.

(d) The commission shall, when operations of common carriers by motor vehicle conducted or proposed to be conducted involve not more than three States, and the commission may, in its discretion, when operations of common carriers by motor vehicle conducted or proposed to be conducted involve more than three States, refer to a joint board for hearing and recommendations or appropriate order thereon, any of the following matters arising under the administration of this act with respect to such operations: Applicttions for the issuance of certificates of public convenience and necessity (except in so far as the action upon such applications is based solely upon answers to questionnaires and information furnished to the commission, as provided in section 5 (b)); the suspension, change, or revocation of such certificates; applications for the approval and authorization of consolidation, mergers, and acquisitions of control; complaints as to violations by motor carriers of the requirements established under section 2 (a); complaints as to rates, fares, and charges of motor carriers; and the approval of surety bonds, policies of insurance, or other securities or agreements for the protection of the public, required on the issuance of a certificate, application for which is referred to a joint board. The joint board to which any such matter is referred shall be a joint board composed solely of one member from each State within which the motor-carrier operations involved in the matter referred to are or are proposed to be conducted, unless it is necessary for the commission to appoint one of its own members or examiners in order to avoid a joint board with an even number of members. In acting upon matters so referred joint boards shall be vested with the same rights, duties, powers, and jurisdictions as are vested hereinbefore in this section in members or examiners of the commission while acting under its orders in the administration of this act. Orders recommended by joint boards shall be filed with the commission, and shall become orders of the commission and become effective in the same manner, and shall be subject to the same procedure, as provided in the case of orders recommended by members or examiners under this section.

(e) In so far as may be necessary for the purposes of this act, the commission and the members and examiners thereof and joint boards shall have the same power to administer oaths, and require by supoena the attendance and testimony of witnesses and the production of books, papers, tariffs, contracts, agreements, and documents, and to take testimony by deposition, relating to any matter under investigation, as though such matters arose under the interstate commerce act, as amended and supplemented; and any person subpoenaed or testifying in connection with any matter under investigation under this act shall have the same rights, privileges, and immunites and be subject to the same dutes, liabilities, and penalties as are provided in the interstate commerce act, as amended and supplemented.

(f) In accordance with rules prescribed by the commission, reasonable notice shall be afforded in connection with any proceeding under this act, to all parties of record and to the governor and the board of any State in which the motor carrier operations involved in the proceedings are or are proposed to be conducted, and opportunity for hearing and for intervention in connection with any such proceeding shall be afforded to all interested parties.

(g) The commission is authorized to confer with and/or to hold joint hearings with any authorities of any State in connection with any matter arising in any proceeding under this act. The commission is also authorized to avail itself of the cooperation, services, records, and facilities of any State, or any officials thereof, in the enforcement of any provision of this act.

(h) Any final order made under this act shall be subject to the same right of relief in court by any party in interest as is now provided in respect to orders of the commission made under the interstate commerce act, as amended and supplemented.

(i) All the provisions of section 17 of the interstate commerce act, as amended and supplemented, with reference to divisions of the commission shall apply to all proceedings under this act.

(j) The commission is authorized to employ, and to fix the compensation of, such experts, assistants, special agents, examiners, attorneys and other employees, and to create such administrative bureaus, as in its judgment may be necessary or advisable for the convenience of the public and for the efficient administration of this act.

APPLICATION FOR CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

SEC. 4. (a) No corporation or person shall operate as a common carrier by motor vehicle in interstate or foreign commerce on any public highway or within any reservation under the exclusive jurisdiction of the United States unless there is in force with respect to such carrier a certificate of public convenience and necessity authorizing such operation: *Provided*, That any common carrier by motor vehicle in operation on the date of the enactment of this act may continue such operation for a period of ninety days thereafter without any such certificate, and if application for a certificate authorizing such operation is made to the commission within such period the carrier may, under such regulations as the commission may prescribe, continue such operation until otherwise ordered by the commission.

(b) Application for certificates of public convenience and necessity shall be made in writing to the commission, be verified under oath, shall state the number of motor vehicles proposed to be operated, and be in such form and contain such information as the commission shall require.

ISSUANCE OF CERTIFICATE

SEC. 5. (a) A certificate of public convenience and necessity shall be issued to any qualified applicant therefor, authorizing the whole or any part of the operations covered by the application if it is found that the applicant is fit, willing, and able properly to perform the service proposed and to conform to the provisions of this act and the requirements, rules and regulations of the commission thereunder, and that the proposed service is required in the interest of public convenience and necessity.

(b) If the corporation or person making application for a certificate of public convenience and necessity sets forth therein that it or any predecessor in interest was operating as a common carrier by motor vehicle in interstate or foreign commerce on any public highway on ———, and claims the benefits of this subsection, the commission upon receipt of such application shall serve such carrier with a questionnaire in respect to the matters on which the commission may require information. The applicant shall answer the questionnaire under oath within forty-five days from the receipt thereof. A copy of all questionnaires and answers thereto shall be furnished by the commission to the board of every State in which any part of the operations of the carrier shall be furnished by the commission to the board of every State in which any part of the operations of the carrier are conducted. If the commission is satisfied with the answers to the questionnaire or from the information otherwise furnished, (1) that the carrier or a predecessor in interest was in bona fide operation on ———, as a common carrier by motor vehicle in interstate or foreign commerce on any public highway and (except as to seasonal service or interruption of operations over which the applicant or its predecessors in interest had no control) continuously has so operated since that date, and (2) that such operations were bona fide for the purpose of furnishing reasonably continuous and adequate service at just and reasonable rates, and (3) that the applicant is fit, willing, and able properly to perform the service required, and to conform to the provisions of this act and the requirements, rules, regulations, and orders of the commission thereunder, then a certificate shall be issued to the applicant by the commission without further proceedings and without a finding that the public convenience and necessity will be served by such operations; otherwise, the question whether or not such facts appear shall be decided in accordance with the procedure provided in section 3 (including reference to a joint board in a proper case), and the certificate under this subsection shall be issued or denied accordingly. For the purpose of this subdivision a common carrier by motor vehicle furnishing seasonal service shall be deemed to qualify under clause (1) if such carrier or a predecessor in interest was in bona fide and continuous operation as a common carrier by motor vehicle in interstate or foreign commerce in 1931 during the season ordinarily covered by its operation, and during each such season thereafter, except as to interruption of operations over which the applicant or its predecessor in interest had no control.

(c) Nothing contained in section 500 of the transportation act, 1920, as amended, shall be construed as expressing a preference by Congress for rail or water transportation over transportation by motor vehicles or to affect in any manner the issuance of a certificate of public convenience and necessity under the provisions of this act; and nothing contained in this act shall be construed as a declaration by Congress of the relative importance to the public of the several kinds of transportation.

(d) No certificate of public convenience and necessity issued under this act shall be construed as conferring any proprietary or exclusive rights in the public highways.

(e) In the administration of this act, the commission shall so far as is consistant with the public interest, preserve competition in service.

TERMS AND CONDITIONS OF CERTIFICATE

SEC. 6. (a) Any certificate of public convenience and necessity issued under section 5 shall specify the routes over which, the fixed termini between which, and/or the territory within which, the carrier is authorized to operate; and there shall, at the time of issuance and from time to time thereafter, be attached to the exercise of the privileges granted by the certificate such reasonable terms and conditions as the public convenience and necessity may from time to time require, including terms and conditions as to the furnishing of additional service over the specified routes, between the specified termini, or within the specified territory, and the extension of the line or lines of the carrier, and such terms and conditions as are necessary to carry out, with respect to the operations of the carrier, the requirements established by the commission under section 2 (a) (1) and (3).

(b) A common carrier by motor vehicle operating under any such certificate may occasionally deviate from the route over which, and/or the fixed termini between which, it is authorized to operate under the certificate, for the purpose of complying with such rules, regulations, and orders as the public authority having jurisdiction over the highways along the route or between such termini, may prescribe from time to time.

PERMITS FOR CONTRACT CARRIERS

SEC. 7. (a) No corporation or person shall operate as a contract carrier by motor vehicle in interstate or foreign commerce on any public highway or within any reservation under the exclusive jurisdiction of the United States unless there is in force with respect to such carrier a permit, issued by the commission, authorizing such operation; except that any contract carrier by motor vehicle in operation on the date of the enactment of this act may continue such operation for a period of ninety days thereafter without a permit, and, if application for a permit authorizing such operation is made to the commission within such period, the carrier may, under such regulations as the commission may prescribe, continue such operations until otherwise ordered by the commission: *Provided*, That nothing in this section or act shall be construed to repeal, amend, or otherwise modify any act or acts relating to national parks and national monuments under the administrative jurisdiction of the Secretary of the Interior, or to withdraw such authority or control as may by law be held by the Secretary of the Interior with respect to the admission and operation of motor vehicles in any national park or national monument of the United States.

(b) Applications for such permits shall be made to the commission in writing verified under oath, shall state the number of motor vehicles proposed to be operated, and shall contain such other information as the commission may require. If it appears from the application or from the information otherwise furnished that the applicant is fit, willing, and able properly to perform the service proposed, and upon compliance with the provisions of section 12, a permit shall be issued to the applicant by the commission. The commission shall specify in the permit the operations covered thereby and shall attach to the permit, at the time of issuance and from time to time thereafter, such terms and conditions as are necessary to carry out, with respect to the operations of such carrier, the requirements established by the commission under section 2 (a), (2), and (3).

BROKERAGE PERMITS FOR PASSENGER TRANSPORTATION

SEC. 8. (a) No person or corporation shall sell any ticket providing for the transportation of any person in interstate commerce by motor vehicle, or make any contract, agreement, or arrangement to provide such transportation for compensation, or by advertisement or solicitation attempt to arrange for such transportation, unless the person or corporation selling such ticket, or contracting, agreeing, arranging, or attempting to arrange to furnish such transportation, has secured from the commission a brokerage permit, which shall be publicly posted, to engage in such transactions and complies with such rules and regulations as the commission may by order establish for the protection of travelers by motor vehicle, and the commission is hereby authorized to prescribe for this purpose reasonable rules and regulations, including requirements for bonds or other securities in such form and amount as will insure financial responsibility and the supplying of transportation in accordance with contracts, agreements, or arrangements therefor: *Provided*, That the provisions of this section shall not apply to any person or corporation who is a bona fide employee or agent of a person or corporation holding a certificate of public convenience and necessity, or permit, in conformity with the provisions of this act, as to transportation to be furnished wholly by such person or carrier or to be furnished through joint arrangements by such person or carrier and other carriers holding like certificates or permits.

(b) The commission and its special agents and examiners shall have the same authority as to accounts, reports, and records, including inspection and preservation thereof, of any person or corporation holding a brokerage permit issued under the provisions of paragraph (a) of this section, that they have under this act with respect to motor carriers subject thereto.

REGISTRATION AND LICENSES FOR MOTOR CARRIERS

SEC. 9. (a) Every motor carrier shall, before operating any motor vehicle in interstate commerce, apply to the commission for and obtain the registration thereof: *Provided*, That any motor vehicle in such operation on the date of the approval of this act may be operated for a period of ninety days thereafter without such registration, and if application for registration thereof is made to the commission within such period the carrier may, under such regulations as the commission may prescribe, continue the operation of such vehicle until otherwise ordered by the commission.

(b) Application for registration of motor vehicles hereby required to be registered shall be made by the owner thereof upon the appropriate form approved or furnished by the commission and contain such information as the commission may require.

(c) The commission, upon registering a vehicle shall issue to the applicant a registration card which shall contain such information as the commission may deem necessary. The registration card issued for a vehicle required to be registered hereunder shall at all times while the vehicle is being operated upon a highway in interstate commerce be in the possession of the operator or carried in the vehicle and subject to inspection by any municipal, State, or Federal officer.

(d) The commission shall also furnish to every applicant whose vehicle shall be registered two number plates for every such motor vehicle and one number plate for each semitrailer. Such number plates shall have displayed thereon the registration number assigned to the vehicle and the year for which it is issued. Such number plates shall be attached to the front and rear of every motor vehicle, including trailers, and to the rear of semitrailers.

(e) Every motor vehicle registration under this section shall expire December 31 of each year and shall be renewed annually upon application and by payment of the fees required by law, such renewal to take effect on the 1st day of January of each year.

(f) For the purpose of defraying the expenses of administering this act every motor carrier now operating, or which shall hereafter operate in interstate commerce, shall, in addition to other fees and charges provided for by law, at the time of registration, or renewal thereof, pay a fee of $—— for each motor vehicle registered as a motor carrier of passengers, and $—— for each motor vehicle, including trailers and semitrailers, registered as a motor carrier of property.

(g) Payment of fees provided for in this section may be by United States postal money order or certified check or draft, made payable to the Treasurer of the United States. Said money orders, checks, or drafts shall be transmitted by registered mail to the Secretary of the Interstate Commerce Commission at Washington, D. C.

SUSPENSION, CHANGE, REVOCATION, AND TRANSFER OF CERTIFICATES AND PERMITS

SEC. 10. (a) Certificates of public convenience and necessity and permits shall be effective from the date specified therein, and shall remain in effect until terminated as herein provided unless otherwise provided by the commission. Any such certificate or permit may, after hearing, be suspended, changed, or revoked, in whole or in part, for failure to comply with any provision of this act, or with any lawful order, rule, or regulation of the commission promulgated thereunder, or with any term or condition of the certificate or permit.

(b) Except as provided in section 11, any such certificate or permit shall be transferable, upon approval by the commission. Applications for transfers shall be accompanied by a fee of $5 per motor vehicle proposed to be operated.

CONSOLIDATION, MERGER, AND ACQUISITION OF CONTROL

SEC. 11. (a) Any corporate consolidation or merger of two or more corporations, at least one of which is a common carrier by motor vehicle, and any acquisition of control of any common carrier by motor vehicle shall be invalid and unlawful unless approved and authorized as hereinafter provided. For the purposes of this section control of any common carrier by motor vehicle shall be deemed to be acquired if any person or corporation acquires (except pursuant to court order or by operation of law), directly or indirectly, through purchase, exchange, lease, gift, or corporate distribution, any right, title, or interest in (1) any certificate of public convenience and necessity of such carrier or (2) all or substantially all the properties of such carrier of use in its operations under any such certificate, or (3) voting stock or other voting evidences of interest in such carrier in an amount sufficient to obtain control of such carrier.

(b) Any person or corporation may apply to the commission for the approval and authorization of any such proposed consolidation, merger, or acquisition. The application shall set out the terms and conditions of the proposed consolidation, merger, or acquisition and such other information as the commission may require. If it is decided, in accordance with the procedure provided in section 3, that the proposed consolidation, merger, or acquisition will be in the public interest, an order shall be issued (1) approving such consolidation, merger, or acquisition upon the terms and conditions set out in the application, or with such modification thereof and upon such other terms and conditions as may be prescribed in the public interest, and (2) granting authority to any corporation or person involved in the consolidation, merger, or acquisition necessary to carry into effect the consolidation, merger, or acquisition as approved. Any such corporation or person, and any corporation or person to whom a certificate of public convenience and necessity is issued or transferred under this Act, shall be relieved from the operation of the antitrust laws, as designated in section 1 of the act entitled "An act to supplement existing laws against unlawful restraints and monopolies, and for other purposes," approved October 13, 1914, and from all other restraints and prohibitions of Federal or State law, in so far as may be necessary to enable such corporation or person to carry into effect the consolidation, merger, or acquisition as approved and to conduct the operations authorized by the certificate.

(c) no consolidation, merger, or acquisition of control shall be approved under this section if it involves the consolidation or merger of two or more carriers by railroad or the acquisition of control of any carrier by railroad by another such carrier.

SECURITY FOR THE PROTECTION OF THE PUBLIC

SEC. 12. (a) No certificate or permit shall be issued to a motor carrier, or remain in force, unless such carrier complies with such rules and regulations as the commission shall adopt governing the filing and approval of surety bonds, policies of insurance, or other securities or agreements, in such form and adequate amount and conditioned as the commission may require, for the payment, within limits of liability fixed by the commission, or any final judgment recovered against such motor carrier on account of death or injury to persons, or loss of or damage to property, resulting from the operation, maintenance, or use of motor vehicles under such certificate or permit.

(b) Upon the approval of any such bond, policy, security, or agreement, there shall be issued to the motor carrier a certificate of approval, and such copies thereof as may be necessary; and no such carrier shall operate, maintain, or use any motor vehicle under a certificate of public convenience and necessity, or a permit, unless there is posted in such motor vehicle, in accordance with such regulations as the commission may prescribe, a copy of such certificate of approval.

RATES, FARES, AND CHARGES

SEC. 13. (a) The rates, fares, charges, regulations, and practices of common carriers by motor vehicle shall be just and reasonable and free from unjust discrimination, undue preference, or undue prejudice; and every unjust and unreasonable, unjustly discriminatory, unduly preferential, or unduly prejudicial rate, fare, charge, regulation, or practice, is prohibited. Any person, corporation, or State board may make complaint in writing to the commission that any such rate, fare, or charge, in effect or proposed to be put into effect, is or will be in violation of this section or section 14.

(b) Whenever, after full hearing, upon complaint or in an investigation on its own initiative, the commission shall be of the opinion that any individual rate, fare, or charge demanded, charged, or collected by any common carrier by motor vehicle for transportation in interstate or foreign commerce within the United States, or that any regulation or practice whatsoever of such carrier, is or will be unjust or unreasonable, or unduly discriminatory or unduly preferential or unduly prejudicial, the commission is hereby authorized and empowered to determine and prescribe what will be the just and reasonable maximum or minimum, or maximum and minimum rates, fares, or charges thereafter to be observed in such case, and what regulation or practice will be just and reasonable to be thereafter followed, and to make an order that the carrier shall cease and desist from such violation to the extent to which the commission finds that the violation does or will exist, and shall not thereafter publish, demand, or collect any rate, fare, or charge for such transportation in excess of the maximum or less than the minimum so prescribed, and shall observe the regulations and practices so prescribed.

(c) Whenever there shall be filed with the commission any schedule stating a new rate, fare, or charge for the transportation of passengers or property by a common carrier by motor vehicle, in interstate or foreign commerce within the United States, the commission is hereby authorized and empowered upon protest of interested parties or upon its own initiative at once and, if it so orders, without answer or other formal pleading by the interested carrier, but upon reasonable notice, to enter upon a hearing concerning the lawfulness of such rate, fare, or charge, and pending such hearing and the decision thereon the commission, by filing with such schedule and delivering to the carrier affected thereby a statement in writing of its reasons for such suspension, may from time to time suspend the operation of such schedule and defer the use of such rate, fare, or charge, but not for a longer period than seven months beyond the time when it would otherwise go into effect; and after hearing, whether completed before or after the rate, fare, or charge goes into effect, the commission may make such order with reference thereto as would be proper in a proceeding instituted after it had become effective. If the proceeding has not been concluded and an order made within the period of suspension the proposed change of rate, fare, or charge shall go into effect at the end of such period.

(d) In any proceeding to determine the justness or reasonableness of any rate, fare, or charge of any such carrier, there shall not be taken into consideration or allowed, as evidence or elements of value of the property of such carrier, either good will, earning power, or the certificate under which such carrier is operating; and in applying for and receiving a certificate under this act any such carrier shall be deemed to have agreed to the provisions of this subsection, on its own behalf and on behalf of all transferees of such certificate.

(e) Nothing in this section shall be held to extinguish any remedy or right of action under other law.

TARIFFS

SEC. 14. (a) Tariff charges of motor carriers shall be stated in money and shall be in effect only when properly filed and posted in such form and manner as the commission shall by regulation prescribe.

(b) No common carrier by motor vehicle shall charge or demand or collect or receive a greater or less or different compensation for transportation or for any service in connection therewith between the points enumerated in such tariff than the rates, fares, or charges specified in the tariffs in effect at the time; and no such carrier shall refund or remit in any manner or by any device any portion of the rates, fares, or charges so specified, nor extend to any person any privileges or facilities for transportation in interstate or foreign commerce except such as are specified in its tariff; except that any such carrier may issue or give free tickets, free passes, and free or reduced transportation to persons engaged in the service of such carrier.

(c) No change shall be made in any rate, fare, or charge specified in any effective tariff of a common carrier by motor vehicle, except after 30 days' notice of the proposed change filed and posted in accordance with paragraph (a) of this section. Such notice shall plainly state the change proposed to be made and the time when such change will take effect. The commission may, in its discretion and for good cause shown, allow the changes upon a less notice than that herein specified or modify the requirements of this section with respect to posting and filing of tariffs, either in particular instances or by general order applicable to special or peculiar circumstances or conditions.

(d) It shall be the duty of contract carriers to file with the commission, and keep open for public inspection, in the form and manner prescribed by the commission, tariffs, or schedules of the minimum rates, fares, and charges for the line-haul carriage of passengers or property in interstate or foreign commerce within the United States. No change shall be made in any such rate, fare, or charge except after 10 days' notice of the proposed change filed and posted in the aforesaid form and manner. Such notice shall plainly state the change proposed to be made and the time when such change will take effect. The commission may, in its discretion and for good cause shown, allow changes upon less than the notice herein specified, or modify the requirements of this section in respect to publishing, posting, and filing of tariffs, either in particular instances or by a general order applicable to special or peculiar circumstances or conditions. No such carrier shall demand, charge, or collect a less compensation for such line-haul carriage than the rates, fares, and charges filed in accordance with this paragraph, and it shall be unlawful for any such carrier, by the furnishing of special services, facilities, or privileges, or by any other device whatsoever, to charge, accept, or receive less than the minimum rates, fares, and charges so filed.

If at any time after full hearing, upon complaint or in an investigation on its own initiative, the commission finds that any rate, fare, or charge of a contract carrier is unduly low, in that such rate, fare, or charge (1) gives or causes any undue or unreasonable advantage or preference to those whom it serves as compared with the patrons of any common carrier, or (2) subjects the patrons of any common carrier to any undue or unreasonable discrimination or disadvantage, or (3) by unfair competition unduly impairs (a) the service or business, or (b) the regulation of the service or business of any common carrier in interstate commerce, the commission may determine, prescribe, and order the minimum rate, fare, or charge to be thereafter assessed and collected by such carrier. All complaints shall state fully the facts complained of and the reasons for such complaint and shall be made under oath. Whenever, in its judgment, the commission is of opinion that any complaint does not state reasonable grounds for investigation and action on its part, it may, in its discretion, dismiss such complaint.

(e) No motor carrier, unless otherwise provided by this act, shall engage in the transportation of passengers or property unless the rates, fares, and charges upon which the same are transported by said carrier have been filed and published in accordance with the provisions of this act.

INSPECTION OF FACILITIES AND RECORDS

SEC. 15. (a) The commission shall at all times have access to and shall have authority to inspect and examine all lands, buildings, equipment, accounts, records, and memoranda, including documents, papers, and correspondence now or hereafter existing, and kept or required to be kept by motor carriers subject to this act. The commission is also authorized to employ special agents or examiners for the purpose of carrying out the provisions of this subdivision.

(b) The commission shall also have authority by general or special orders to require motor carriers subject to this act, or any of them, to file periodical or special, or both periodical and special, reports concerning any matter about which the commission is authorized or required by this or any other law to inquire or keep itself informed, or which it is required to enforce. Such reports shall be under oath whenever the commission so requires.

(c) The copies of schedules and tariffs of rates, fares, and charges, filed with the commission as herein provided, and the statistics, tables, and figures contained in the annual or other reports of motor carriers made to the commission as required under the provisions of this act shall be preserved as public records in the custody of the secretary of the commission, and shall be received as prima facie evidence of what they purport to be for the purpose of investigations by the commission in all judicial proceedings; and copies of and extracts from any of said schedules, tariffs, or reports, made public records as aforesaid, certified by the secretary, under the commission's seal, shall be received in evidence with like effect as the originals.

ORDERS, NOTICES, AND SERVICES OF PROCESS

SEC. 16. (a) It shall be the duty of every motor carrier to file with the board of each State in which it operates under a certificate or permit issued under this act, and with the commission a designation in writing of the name and postoffice address of a person or corporation upon whom or which service of notices or orders may be made under this act. Such designation may from time to time be changed by like writing similarly filed. Service of notices or orders in proceedings under this act may be made upon a motor carrier by personal service upon it or upon the person or corporation so designated by it, or by registered mail addressed to it or to such person or corporation at the address filed. In default of such designation, service of any notice or order may be made by posting in the office of the secretary or clerk of the board of the State wherein the motor carrier maintains headquarters and in the office of the commission. Whenever notice is given by mail as provided herein the date of mailing shall be consdered as the time when notice is served.

(b) Every such motor carrier shall also file with the board of each State in which it operates a designation in writing of the name and postoffice address of a person or corporation in such State upon whom process issued by or under the authority of any court having jurisdiction of the subject matter may be served in any proceeding at law or equity brought against such carrier. Such designation may from time to time be changed by like writing similarly filed. In the event such carrier fails to file such designation, service may be made upon any employee of such motor carrer within such State.

UNLAWFUL OPERATION

SEC. 17. (a) Any corporation or person willfully violating any provision of this act, or any rule, regulation, requirement or order thereunder, or any term or condition of any certificate of public convenience and necessity or permit shall, upon conviction thereof, be fined not more than $100 for the first offense and not more than $500 for any subsequent offense. Each day of such violation shall constitute a separate offense.

(b) If any motor carrier operates in violation of any provision of this act, or any rule, regulation, requirement, or order thereunder, or of any term or condition of any certificate of public convenience and necessity or permit, the commission or any party injured may apply to the district court of the United States for any district where such motor carrier operates, for the enforcement of such provision of this act or of such rule, regulation, requirement, order, term, or condition; and such court shall have jurisdiction to enforce obedience thereto by a writ of injunction or by other process, mandatory or otherwise, restraining such carrier, its officers, agents, employees, and representatives from further violation of such provision of this act or of such rule, regulation, requirement, order, term, or condition and enjoining upon it or them obedience thereto.

(c) Any person or corporation whether carrier or shipper who shall knowingly offer, grant, or give, or solicit, accept, or receive any debate, concession, or discrimination in violation of the provisions of this act shall be deemed guilty of a misdemeanor and upon conviction thereof be fined not more than $100 for the first offense and not more than $500 for any subsequent offense.

POWER OF STATES

SEC. 18. Nothing in this act contained shall be construed to affect the powers of taxation of the several States or to authorize a motor carrier to do an intrastate business on the highways of any State. It is not intended hereby to interfere with the exclusive exercise by each State of the power of regulation of intrastate commerce by motor carriers on the highways thereof, and notwithstanding this act, motor carriers operating in intrastate commerce on the highways of a State shall continue to be subject to the laws of the State regulating such intrastate commerce; and motor carriers operating in interstate commerce shall be subject to the proper exercise by the State of its police powers.

EXPENSES OF ADMINISTRATION

SEC. 19. There are hereby authorized to be appropriated such amounts as may be necessary to carry out the provisions of this act. All moneys received by the commission from applicants for license plates or for the transfer of certificates or permits shall be held by it as a separate fund and used, so far as necessary, to defray expenses incurred in the administration of this act.

SEPARABILITY OF PROVISIONS

SEC. 20. If any provision of this act, or the application thereof to any corporation, person or circumstance, is held invalid, the remainder of the act, and the application of such provision to other corporations, persons, or circumstances, shall not be affected thereby.

RESERVATION OF RIGHT TO ALTER, AMEND, OR REPEAL

SEC. 21. The right to alter, amend, or repeal any provision of this act is hereby expressly reserved.

SHORT TITLE

SEC. 22. This act may be cited as the "Federal motor carrier act, 1933."

Senator HARRISON. Mr. Litchfield.

## STATEMENT OF P. W. LITCHFIELD, PRESIDENT THE GOODYEAR TIRE & RUBBER CO., AKRON, OHIO

Senator HARRISON. Mr. Litchfield, you are president of the Goodyear Tire & Rubber Co., are you?

Mr. LITCHFIELD. I am president of the Goodyear Tire & Rubber Co., of Akron, Ohio.

Senator HARRISON. Proceed, Mr. Litchfield.

Mr. LITCHFIELD. I have briefed some of my views on this. I suppose each one comes from a different section and is brought closer in touch with its situation than some others, and so I will try to brief it in about 10 minutes so you can see it from our standpoint.

DEPRESSION CAUSES

Major causes of the depression might properly be lumped together under the embracing title of extravagance.

Following the war there was a gapping void created by four years of nonproductivity on the part of the warring nations. To fill this void America's capacity to produce was stepped up enormously. Huge expenditures were made for additional facilities with which to meet the vastly but temporarily stimulated demand for our goods.

We erred in regarding this temporary situation as a new and permanent order. Producing more and more goods, paying more and more wages, we fancied we had attained a formula for a new prosperity which would never cease to grow. Senses of values were lost. The counsel of prudence was hooted.

In few words, we discounted the inexorable law of supply and demand. When export needs were satisfied, we continued to produce on the inflated scale, applied high pressure methods to our selling and stimulated domestic purchasing power through deferred payment plans. We used up current earning power and mortgaged that of the future.

By a series of loans to other nations we are not only stimulated a false demand for our goods but gave the foreigner means to establish industries on bases competitive with our own. Thus we exported and lost both the money and the products. In our domestic credit losses, we at least retained the products within our own domain.

The inevitable day of reckoning came. Since the fall of 1929 we have been engaged in the very painful process of paying for our mistakes.

EVILS OF SURPLUS

Since we attained dizzy heights of inflation it was inevitable that the reaction had to be severe. Unfortunately, the return to new, same levels could not be accomplished in an orderly manner; we could not deflate uniformly. Our production capacity, remaining at high potential, the proven theory that unit costs are lowered as unit production is increased, the unwillingness to recognize that deflation must be general, all conspired to bring about a resistance to the forces of deflation. The result is that our economic machinery has been thrown completely out of gear. We are plagued by a great mass of surpluses. It is this situation which confronts us now—the problem of the surplus must be solved before we can start to build anew.

Our most perplexing and vital surplus, in my opinion, is the labor surplus. A great mass of potential workers, although willing and able to work, are idle. Our capacity to produce on the farm, in the mines, and in the factories is far in excess of our needs.

SHORTER WORKING PERIODS

There is no point to producing more than we can legitimately consume. To do so would be extravagantly wasteful. Therefore, it seems to follow naturally that the work necessary to supply current demands should be spread to the number of workers who are available. Only in this way can we absorb the labor surplus and restore some measure of purchasing power to the millions who are now idle and, therefore, out of the market for our products.

From the viewpoint of general welfare it is far better to have all of our workers employed 75 per cent of the time than to have 70 per cent or 80 per cent of our workers employed 100 per cent of the time.

I believe that for the period of the emergency there should be fixed a work-week limit of 30 hours for what are classed as fatigue jobs and a limit of 40 hours for nonfatigue work. Ample flexibility should be allowed in agricultural work because of its seasonal nature.

AGRICULTURAL RELIEF

Farm surpluses should be reduced through some form of temporary subsidy which would include provision for bringing agricultural production into line with our needs.

SOUND CURRENCY

There should be no inflation of currency. Without sound money we can not cure our economic ailments. I do, however, favor a reasonable expansion of credit controlled along the lines now followed by the Reconstruction Finance Corporation.

UNBEARABLE TAXES

The present tax burden is not entirely necessary. All forms of tax spending should be sharply reduced. We can not now afford the governmental luxuries built into our system during flush times. Sweeping elimination of all but the primary and essential activities of government appears to me to be mandatory unless we care to face dire and immediate consequences.

The vast sums now collected from all and turned over by an indulgent Government to war veterans should be sharply reduced. I am not advising the withdrawal of relief for those who were actually injured by the war, but at that point we should stop.

The policy of singling out specific industries against which special taxes are levied is fraught with danger. In paying the special excise tax on tires for the last six months of 1932 Goodyear turned over to the Federal Government $2,260,000. We paid Government this sum and yet there was no profit made for the stockholders who own the business.

Senator SHORTRIDGE. How much, Mr. Litchfield?

Mr. LITCHFIELD. $2,260,000.

Senator SHORTRIDGE. In the way of taxes?

Mr. LITCHFIELD. Special excise taxes on tires alone on a business of $30,000,000. The automotive and allied industries are the particular target of the tax hunter. If the automotive industry is to be a big factor in our business recovery, it must be relieved of this excess burden.

A general manufacturer's sales tax is fair and scientific in principle. Such a method spreads the burden equitably. Where the income tax is a levy against thrift and initiative the general manufacturer's sales tax would be a levy on extravagance and ability to spend.

FOREIGN DEBTS

Reasonable downward adjustment of our loans to other nations is clearly indicated. In making such concessions, we should endeavor to improve our status in the matter of export trade and we should also promote the cause of international disarmament.

Senator SHORTRIDGE. Do you mean to cut down the amount now due or to become due?

Mr. LITCHFIELD. I mean we should negotiate with some of those foreign governments to see if in exchange for reduction we can not benefit our trade and promote international disarmament. I do not think they should be reduced without any compensating factor.

SELECTIVE IMMIGRATION

I believe that after we have obtained a good measure of recovery and the labor surplus is remedied, but before we have relaxed the suggested limits on working periods, we should encourage selective immigration. Only in this way can we step up the Nation's consuming capacity and resume employment of some of our excess agricultural and manufacturing facilities. This is the method by which the country overcame many previous depressions in our history.

NEW INDUSTRIES

The Government should extend a reasonable measure of encouragement to new industries which promise to improve the lot of mankind. I have particularly in mind the Zeppelin industry in America. In this case, large expenditures have been made for manufacturing and fabricating facilities, an efficient organization of builders has been assembled and trained. Two great airships have been built for the Navy. Similar vessels can be constructed for commercial operation between continents. This new industry offers complete safety and greatly increased speed in intercontinental hauling. The fact has been established that there is a definite place in the field of transportation for the giant airship and that it does not trespass upon or compete with existing methods. The commercial Zeppelin can not compete with heavier-than-air lines in their realm of fast flights over land. Nor can the Zeppelin compete with the merchant marine in carrying heavy freight and large numbers of passengers. It can, however, offer a fast, de luxe passenger service and a means of transporting trade samples, fast express and fast mail, because it reduces by 65 per cent the time now required for crossing the Atlantic. The very fact of increasing speed will stimulate trade and bring the peoples of the earth into better and more friendly relations.

To be commercially successful, the projected Zeppelin lines must be given the benefit of the postal contracts and the legal status America gives its merchant marine in other respects. Unless this legal status is given, through the passage of the McNary-Crosser bill now before the Senate, Zeppelin plant facilities will lapse into idleness and the construction organization will be broken up.

LAWS THAT HAMPER

Speaking from the viewpoint of the rubber industry—and I believe it applies to many other industries—certain Federal laws preclude any successful solution of the problem of destructive price cutting. Tires are now selling below production cost; workers and shareholders suffer. Were we permitted to establish fair and reasonable prices through group agreements, the best interests of the country, social and financial, would be served. I am not recommending the sacrifice of the public's right to governmental protection against extortionate price fixing but merely that the Sherman and similar acts be liberalized to meet an especially acute evil. Unless there is some form of immediate relief extended, the tire industry and its employees face a bad situation.

INCREASED PRESIDENTIAL POWER

In closing, this is not a time for consideration of selfish interests when they delay or make impossible the remedial steps which must be taken if we are to return to normal conditions. Our governmental machinery is too cumbersome to meet the immediate and rapidly changing situation. It is a time when quick, unhampered action is called for. I therefore urge that adequate latitude be given at once to the executive arm of our Government to take such measures as are needed to meet the crisis which now exists.

Senator HARRISON. Mr. Litchfield, when the tax was placed on tires was the price of the tire increased any?

Mr. LITCHFIELD. Very shortly afterwards.

Senator HARRISON. In other words, you try to draw up that gap by passing it on?

Mr. LITCHFIELD. The industry about two or three months afterwards were able to increase it, but since that time there has been a lot of price cutting so it is back to where it was about before.

Senator HARRISON. It was the thought of Congress when it was placed there, I think, that it would be passed on to the consumer.

Senator KING. Well, every sales tax is passed on to the consumer, Mr. Litchfield.

Mr. LITCHFIELD. I suppose it is. But everything that tends to increase the cost tends to shorten the market to some extent.

Senator KING. The prices of tires have been decreased generally during the past 10 or 15 years because of the increase in the consumption and in the technical improvements which have enabled the cheapening of production?

Mr. LITCHFIELD. That is true. And also the lower cost of material has more to do with it than anything else.

Senator HARRISON. You import your rubber here?

Mr. LITCHFIELD. Yes; all rubber is imported. None produced in this country.

Senator HARRISON. Where do you get it from?

Mr. LITCHFIELD. We get it mostly from Sumatra and the Malay Peninsula around Singapore.

Senator HARRISON. What per cent of your organization, your factory, is running now?

Mr. LITCHFIELD. About 25 per cent.

Senator KING. The production of tires and all rubber products is greater now than ever before, is it not?

Mr. LITCHFIELD. No, sir; it has been falling off very rapidly. The production of tires in 1928 and 1929 in this country was about 70,000,000 tires a year. Last year it was about 77,000,000, and in 1933 it will probably come down to 32,000,000.

Senator KING. Well, you do not expect that your business would continue to expand if other activities were slowed down?

Mr. LITCHFIELD. It can not. It must come down with the others. It must come down with purchasing power, naturally.

Senator KING. You have discovered that the people do not have as much money to purchase automobiles as they had in 1928.

Mr. LITCHFIELD. Quite true.

Senator KING. Of course, with the reduction in the output of automobiles there would be a reduction in the rubber production.

Mr. LITCHFIELD. Yes.

Senator KING. I understand from your statement that there ought to be a reduction in taxes of the automobile industry. The railroads of the United States are paying in the neighborhood of 700 or 800 millions of dollars of taxes a year. The automobile industry, as you know—trucks and automobiles for carrying passengers and so on—that industry has greatly diminished the earnings and the transportation of the railroads in the United States. Notwithstanding that fact it is stated that the railroads paid this enormous tax. You do not think that the automobile industry—including the tax on gasoline and so on—should be freed from taxation, do you?

Mr. LITCHFIELD. No; but they are paying about $1,000,000,000 in taxes at the present time. A little over $1,000,000,000.

Senator KING. You mean the automobiles?

Mr. LITCHFIELD. Yes.

Senator KING. With the tax on gasoline and so on?

Mr. LITCHFIELD. Yes. The direct and indirect taxes on the automotive industry alone, I believe, are well in excess of $1,000,000,000, which is about one-fourth as much as is spent on the Federal Budget, and about one-tenth of the total National, local, and State Budgets.

Senator KING. I know, but is not the greater part of that used for the construction of highways which are essential for the automotive industry?

Mr. LITCHFIELD. A great deal of it is; yes.

Senator KING. Whereas, the railroads have to buy their own right of way, pay for it, and maintain it, whereas the States and the Federal Government are acquiring the highways and maintaining them and building them and so on in order to increase the production of your industry.

Mr. LITCHFIELD. Yes; but they are being paid for indirectly by the industry through these taxes on the gasoline and so forth.

Senator KING. Yes; but a very large part of that $1,000,000,000 of which you spoke goes for the purpose of constructing roads that will expand the production of automobiles and thus increase the use of rubber?

Mr. LITCHFIELD. That is quite true.

Senator GORE. Did you say, Mr. Litchfield, that tires are being sold at less than cost?

Mr. LITCHFIELD. Yes; the tire industry would show that in the last few years they are sold at less than cost.

Senator GORE. You suggested that some sort of price fixing ought to be authorized by law. There has been a good deal of agitation along that line for some time now. We have had a great deal of antitrust legislation and court decisions to prevent monopolies from fixing prices, and it is going to be pretty hard to get Congress to authorize anybody to fix prices. Would it be of any service if we should pass a law going so far as to forbid them from selling, or reselling, rather, at less than cost?

Mr. LITCHFIELD. No, I do not think that would; no, sir. The antitrust laws were really designed to protect the public from paying undue prices for their goods. The trouble is that under the protection of the antitrust laws certain unfair practices in the industry can be brought about, and what you might call bootlegging under this protection, and to prevent the industry from constructively formulating policies which are not to the detriment of the public, but that would be favorable to the industry if they would be protected against minor interests. In other words, we think that they should be liberalized to such an extent that if the majority of the industry formulated policies which were fair in the opinion of a properly authorized Federal body, that they could compel a minority of one or two to abide by them.

Senator GORE. Well, that introduces a new point which is very important, that some authority should have power to revise or supervise these prices. Otherwise, if you allowed by law the fixing of prices the public would not get any benefit at all out of reduced cost without the consent of the manufacturers who are profiting by maintaining the fixed price.

Mr. LITCHFIELD. That should be regulated by the Government to the extent that unless it was approved by a properly appointed Federal body that it could not be done, that it could not become effective.

Senator KING. Would not that policy, Mr. Litchfield, standardize the conduct and the production of all commodities that were brought within the influence of that policy, lead to inefficiency, to poorer quality, stifle competition and lead to an increase in prices, or at least to a stabilization which would deny to the people the advantages of improved technological developments and scientific improvements?

Mr. LITCHFIELD. No; I do not think it would have that effect at all. I think the Federal body would have sufficient control to prevent that.

Senator GORE. Well, would it not petrify and peg the price level so that our inflationist friends could not raise the amount of money and reduce the amount of money and change the number of grains in the gold dollar ad libitum as fluctuations required?

Mr. LITCHFIELD. No; I do not think so.

Senator SHORTRIDGE. Mr. Litchfield, do you think the Federal Government should have the power, or that it has the power under our Constitution, to fix the price of flour, for instance?

Mr. LITCHFIELD. No.

Senator SHORTRIDGE. Or wheat or corn or cotton? Or a knife?

Mr. LITCHFIELD. No.

Senator SHORTRIDGE. Do you think the Federal Government under our system has the power to-day to regulate the price of merchandise generally?

Mr. LITCHFIELD. No; I do not think that it has. I think it should be left to supply and demand.

Senator SHORTRIDGE. That answers probably this question. You may have stated your view, but I will put it in this form. Do you think that the Federal Government has the power under the Constitution, or if as a legal matter it has the power it should exercise it to fix the price of automobile tires?

Mr. LITCHFIELD. It is not a question of fixing price. It is the question of preventing the small minority interests in an industry from taking advantage of a law which is designed to protect the public.

Snator SHORTRIDGE. I did not understand that answer.

Senator GORE. I think it is this, Senator, if you will pardon me.

Your point is that manufacturers ought to be allowed to enter into a contract with their retailers who handle their goods that they can not sell them at less than a fixed price, and what you want is to render that sort of a contract lawful and not in violation of the antitrust law. That is the point, is it not?

Mr. LITCHFIELD. Yes, very largely.

Senator SHORTRIDGE. You represent the Goodyear Tire and Rubber Co., with large capital. There are certain other rubber companies in the United States, are there not?

Mr. LITCHFIELD. There are.

Senator SHORTRIDGE. Some great and some small in capital. Your idea, if I grasp your answer, is that two or three big companies could bring about the fixing of price so that a new company coming in could not break into the field by underselling you?

Senator KING. He would be called a bootlegger.

Mr. LITCHFIELD. Not at all.

Senator SHORTRIDGE. Is not that what it amounts to? If the Government undertakes to fix the price of an article of merchandise, does it not prevent legitimate competition and freedom?

Mr. LITCHFIELD. The Government does not undertake to fix the price. I am taking an illustration, possibly, of a situation along these lines: At the present moment there is a large surplus of labor in the country. We are trying to share the work and spread it out. Some of the companies are doing that. They have shortened the hours, and spread the work over longer hours. On the other hand, some of the smaller companies are taking advantage of that situation to lengthen hours and lower the wages. In this particular situation, that could be considered unfair competition, and somebody could regulate that thing to prevent advantage being taken of a situation like that.

Senator SHORTRIDGE. That would be the death of individual freedom, would it not? Our forefathers fought for freedom, individual freedom. Now you propose to have the Government regulate the activities of men in the way you have indicated. However, it is all right.

Senator KING. One other question: Do you favor subsidies for the Zeppelin?

Mr. LITCHFIELD. With regard to the Zeppelin, if it is in the national interest to have airships in commerce, if they are really worth while, and they are in competition with a form of transportation which, in the opinion of the Government, should receive support of that nature, so long as that other form of transportation receives such support, I think it is proper that that should be extended to the airship, as well as to the merchant marine. The airship should not be penalized, but should have the same privileges which are given to similar forms of transportation—no more, and no less.

Senator KING. Your company has been building Zeppelins, has it not.

Mr. LITCHFIELD. We have built two.

Senator KING. You would like, of course, to have an opportunity to build more, naturally, and you would like a subsidy from the Government to aid you in the construction of them?

Mr. LITCHFIELD. If it is in the national interest that that should be done for the merchant marine.

Senator KING. Who is to determine whether it is advantageous for the general public? I am one of those who do not believe it is to the interest of the general public to pay subsidies for the airplane or for the merchant marine or for the Zeppelin. I am only one. Is it not a fact that these subsidies, as a rule, have been the result of powerful lobbying and influence being brought upon Congress?

Mr. LITCHFIELD. I do not think that is necessarily the case. With regard to the merchant marine, if it is desirable to have a merchant marine, and it is in the Government interest to have a merchant marine, it is proper for the Government to give it such support as is necessary to have a merchant marine, or else they would not be justified in doing it. If the airship is another form of transportation performing the same service, it should have the same form of help to the extent that the merchant marine has it, no more and no less. In other words, it should not be discriminated against. If national policy favors it for one, it should favor it for the other. If it does not favor it for one, there is no reason why the other should have it.

Senator KING. Then, one bad precedent justifies an additional bad policy?

Mr. LITCHFIELD. That is a question of whether the first one is a bad precedent, or not. Is it a bad precedent for the Government to encourage a national merchant marine?

Senator KING. Do you not think that as the needs of the Government develop, private capital, particularly with the initiative which has always characterized the American people, will be available for whatever legitimate needs there are for the welfare and the business development and the economic happiness of the people? It may not come all in a day.

Mr. LITCHFIELD. It will not come in a day. Oftentimes it has been the policy of this Government—and wisely so, I think—to encourage an infant industry to get on its feet and demonstrate its value, and to the extent that has been done in the past and things have developed which have been beneficial to our national interests, to that extent it has been justified.

Senator GORE. Do you not think subsidies breed, as a rule, inefficiency?

Mr. LITCHFIELD. That all depends upon the nature of the subsidy.

Senator GORE. And the nature of the management?

Mr. LITCHFIELD. And the management. For instance, private capital has got to have some assurance that there may be some future for its safe investment before it will enter into a business. If a form of transportation exists which carries certain privileges of that nature, and you are to compete with that, naturally you can not compete if the other form is discriminated against in that respect. It would have to have the assurance of the Government that it will not discriminate, but will treat one form of business the same as another.

Senator GORE. Suppose we subsidized our merchant marine until we had ships enough to carry every pound of outgoing freight, and that every other seafaring country did the same thing. Then every ship would come home empty, would it not?

Mr. LITCHFIELD. I suppose that would be the case. I have a little different idea from what the national policy is, as to how that thing should be regulated. It has always seemed to me that we protect our coastwise shipping, for instance, 100 per cent. We grant it a monopoly. We do not allow any foreign shipping; but, on the other hand, international trade in many respects is not favored at all. National traffic is 100 per cent protected, and international traffic is not protected at all. It would seem that international traffic is a 50-50 proposition, and in engaging in international traffic the interests of each end should be considered.

Senator HARRISON. Mr. Litchfield, the committee thanks you for your statement. Are there any further questions?

Senator SHORTRIDGE. Of course, you carry in mind that a subsidy given to the merchant marine has relation to possible national defense?

Mr. LITCHFIELD. Yes.

Senator SHORTRIDGE. And I assume that all Senators and all thoughtful people carry that in mind?

Mr. LITCHFIELD. And I assume also that that is true of the airship. That would be the reason for discrimination, but if it is true of the merchant marine, in the future development of air traffic between nations, it would bear the same relation as the merchant marine does on the surface transportation.

Senator SHORTRIDGE. We must bear in mind two things when we think of the merchant marine: First, that the United States may occupy the position of a neutral; and, again, may occupy the position of a belligerent, which I hope will never come.

## STATEMENT OF FRANK H. SIMONDS

Senator HARRISON. Mr. Simonds, will you give to the reporter some designation? You are a journalist, international writer, and so forth?

Mr. SIMONDS. Yes. If it is in accordance with your procedure, I would like to read this little statement into the record.

No single step in the direction of promoting American recovery from the depression of the present time can, in my judgment, be more important than that of settling the question of American policy in the matter of the foreign debts, and in this respect I am speaking alike of the amounts owed the United States Treasury and the American investor. Together, these sums aggregate $20,000,000,000, about equally divided into the two categories. Until a definite decision is made in respect of these vast sums, they must remain a shadow over all progress.

So far, however, the United States, the Congress, and the public alike has, since the making of the original debt settlement, resolutely refused on the one hand to consider canceling these debts, and on the other making any readjustment of American domestic economy in order to permit payment. Such payment, too, is possible only as the United States undertakes to buy more abroad, or sell less. It must, then, lower its own tariffs or restrict its own exports.

American opinion in the great debt controversy has so far been confused by the fact that the United States was suddenly, by the accident of the war, transformed from a debtor to a creditor Nation and from a self-contained country to a great trading country. In fact, it had been overnight thrust into the situation which Great Britain had won for itself in the century between Waterloo and he Marne by patient and sustained effort.

But in this hundred years, Britain had steadily transformed its domestic circumstances to correspond with its foreign mission. Thus it had abandoned its agriculture in favor of its industry, enabling the foreign peoples who bought British goods to pay in their own foodstuffs. It was then always able to collect what was owed abroad for one kind of goods by receiving others.

But although between 1914 and 1921 the United States had wholly changed its condition and where in the former year it owed $3,000,000,000, in the latter it was owed upwards of $15,000,000,000, it still remained a great exporter of manufactures and raw materials and by tariff prevented the entrance of competing products. Such a course reduced our foreign trade practically to the dimension of a 1-way street. The world could only buy from us to amounts equal to what it sold us, and it had no means by which to pay the debts. In fact, since we pushed out goods in high pressure manner, it could not even pay for all of them.

In this situation the only escape was for the United States to lend Europe and the world the money to pay its debts, and also its excess of American purchases over sales. And that was what we did between 1924 and 1929, lending Europe upwards of $5,000,000,000 and collecting from it $2,000,000,000 on account of debts. But when in 1929 we stopped lending, Europe stopped paying and reduced also its purchases to balance its sales.

Now it is always possible to start debt payments again by starting the lending process. It is equally possible to start it by buying more foreign goods, but to collect the debts, both public and private, we should have to buy annually something like $1,500,000,000 more foreign goods than we do now. The only other course would be to reduce our export by that amount, which is of course absurd. But these are the only three ways in which debts can be collected.

Now so far from being ready to buy more foreign goods, the United States is to-day going through a period of agitation to "Buy American." But the ironical circumstances about this is that the man who urges his fellow countrymen to buy American is really trying to make cancellationists out of them, wholly unintentionally, to be sure. On the other hand, the man who urges you to "Buy British" or to "Buy French" is really a collectionist in practice. The reason is clear. The former is depriving the debtor of means to pay the debts; the latter is supplying it.

Meanwhile, you hear on all sides the statement that to cancel the debts is to transfer the burden from European to American shoulders. And that is exactly true. What you hear less about is the alternative, because to collect amounts to transferring the burden to the shoulders of the American workingman. If you cancel the debt, you will increase the taxes. But if you collect it, you will reduce American employment, because you will substitute foreign for domestic goods in the home market. In a word, you have got to let the European debtor off, or provide him with the opportunity to get the American money with which to pay.

Now this fact is gradually becoming clear. And in this situation you hear more and more about trading in the debts for tariff favors. We, for example, are to reduce the British debt, and the British are to open their markets to our goods. But the trouble is that this will only mean that more American goods will flow into Britain, without providing the British with any new means to pay for them. Somehow they will have to get new business to pay for new purchases, but we shall not supply that by cancellation.

Well, then, it is argued that at least the French, with their vast gold supply, could pay. But in the first place, one-third of their gold is owned abroad by foreigners who store it in Paris. And of the balance a large part is necessary to support French currency. Thus to collect gold from France would eventually drive her off the gold standard, as Britain was driven. But we are now striving to get the British back on the gold standard, and thus to get rid of the unequal competition growing out of a depreciated currency. To push France off, then, would be to start this competition in a new direction.

In this situation it is urged that at least we might get disarmament in exchange for debts, but this is a dangerous illusion. Suppose we got France to abolish her army in return for debt cancellation. The result would be to lower French taxes enormously, and thus the costs of production in France correspondingly. And at that point France would become a dangerous competitor of ours in the world market in textiles and steel, for example.

The trouble is that on the one hand no one has ever been able to find in the light of economics how to collect these international debts, or on the other hand, in the light of politics, how to cancel them.

Senator Shortridge. I have a very simple method. I shall elaborate it in a day or two in the Senate. That method is to pay the debts, that is all.

Mr. Simonds. But everyone does see that until they are removed from the track of all international undertakings to restore world business, nothing is going to happen. They are a great, perhaps the greatest obstacle, not any more on the economic side, because no payments will ever be made on war debts beyond the instalment of last December, save as we lend the money for such payments in one form or another, but on the political side.

And that is why I said at the outset that it seemed to me one of the most essential steps toward recovery must be an American decision to cancel or collect the debts, a decision translated into appropriate action making receipt of payment possible, if the decision is to collect. Removal of the debt problem, either by cancellation or by possible collection, will not at once or directly start business, but it will make it possible at last to talk business.

Senator KING. With some modifications, would not the same principle which you have advocated here, or elaborated, extend to our relations with our debtor nations in Latin America?

Mr. SIMONDS. Oh, yes, Senator. I tried to make clear that, as a matter of practice, there is no difference between the debts in South America and Europe, and between the governmental debts and the private debts. The matter of payment is all that is involved.

Senator GORE. They have to pay in goods or gold.

Senator KING. Latin America owes us between five billion and seven billion dollars.

Senator SHORTRIDGE. As private debts?

Senator KING. Public and private—perhaps more than that. We have extended credit to the extent of more than five billions, or have made loans, rather, taking their bonds to the extent of more than $5,000,000,000 during the past few years. There are debts in excess of that five billions. As you know, those nations have either gone off the gold standard, or the gold exchange standard, or they have interdicted the export of gold, and they are unable to pay the obligations due the United States, by virtue of the tariff policies which we have pursued, and which later they have followed in part. They are not exporting to the United States very much, and we are not exporting to them very much, and we are losing our export market there by reason of the recent invasion of European nations.

Assuming that my statement of the premises is correct, then we are in the same attitude with South America in regard to being paid, as European nations are, except the European nations have the debts due our Government growing out of the war, and those in South America are debts growing out of trade relations and the unloading in the United States of their securities.

Mr. SIMONDS. The actual physical payment of all of them must be by the same method.

Senator KING. Yes. South America has neither the gold nor the silver—at least in sufficient quantities—to pay the debts due the United States. So, if we refuse to receive her commodities, or services, then it is obvious that she will be in default, and as she is in default, it affects her internal credit and stability, and is provocative of the political revolutions and the violence of which we have evidence from day to day. Is that an accurate statement?

Mr. SIMONDS. I would not like to say, Senator, what part of the economic depression is due to our foreign debt, and what is due to the domestic debt. Unquestionably, some of the economic troubles they are going through explain their political troubles.

Senator SHORTRIDGE. During the war we furnished supplies to certain European nations, and also advanced to them cash aggregating some $9,000,000,000, in round figures. After the armistice we advanced a large sum, did we not?

Mr. SIMONDS. Yes.

Senator SHORTRIDGE. We held what might be called the demand obligations of those nations. Then we sat up our funding commission, and the Chancellor of the Exchequer of the United Kingdom, the honorable Stanley Baldwin, came here to Washington, as did representatives from all these other debtor nations, and they sat down with us to agree as to the several sums due us for the supplies and for money advanced. Is that correct?

Mr. SIMONDS. Quite.

Senator SHORTRIDGE. Do you recall that the Chancellor of the Exchequer specifically stated that he wished to enter into commercial contracts—not political contracts—and that in the adjustment of these accounts the settlement should be regarded as a purely commercial account? Is that right?

Mr. SIMONDS. Right.

Senator SHORTRIDGE. There was no concealment on our part. There was no threat on our part, no coercion.

Mr. SIMONDS. None whatever.

Senator SHORTRIDGE. They were not under duress, and we gave them some 62 years within which to pay, is that right?

Mr. SIMONDS. Yes.

Senator SHORTRIDGE. Then later, and for certain reasons which we need not now go into, we extended or suspended the payment of one annual payment to all these several nations, did we not?

Mr. SIMONDS. Yes.

Senator SHORTRIDGE. And gave them 10 years, in installments, to pay that deferred annual payment?

Mr. SIMONDS. Yes.

Senator SHORTRIDGE. The amounts were definite and fixed and there was a low rate of interest, and it was understood by everybody.

Mr. SIMONDS. Quite true.

Senator SHORTRIDGE. In order to advance this money to those nations, and in order to supply them with goods, we, the United States, had to borrow the money, did we not?

Mr. SIMONDS. Undoubtedly.

Senator SHORTRIDGE. And issue our bonds?

Mr. SIMONDS. Quite right.

Senator SHORTRIDGE. And there are now outstanding some twenty-odd billions of our interest-bearing obligations, are there not?

Mr. SIMONDS. $12,000,000,000, or $11,000,000,000 and something, covering the European loans.

Senator HARRISON. Twenty-odd billion in all.

Senator SHORTRIDGE. We have outstanding now $21,000,000,000 or $22,000,000,000.

Senator HARRISON. Something over $22,000,000,000.

Senator SHORTRIDGE. Something over $22,000,000,000 of interest-bearing obligations.

Senator KING. It is fair to state, though, Senator, that four or five billions have been the result of—I will not say the extravagance of

Congress, but by reason of the deficit resulting from the large appropriations we have made.

Senator SHORTRIDGE. I will grant you that. That large indebtedness has arisen from various causes. What I am coming to is this: We owe this money. Does anybody suggest that Uncle Sam can pay that money other than by paying it? How are we going to pay our twenty-odd billion?

Mr. SIMONDS. Some people are beginning to suggest, Senator, that we will not even be able to pay that. The point I am trying to make in my statement is that I agree that any part that is cancelled would be transferring the burden to the shoulders of the American people. There is no question about that. I tried to be very clear in what I said, that any reduction, cancellation, or what you please, indulged in by the United States, vis a vis its foreign debt, would unquestionably be transferred to the shoulders of the American taxpayer.

Senator SHORTRIDGE. Beyond any question.

Mr. SIMONDS. But what I also tried to point out, was that so far no method of collection has been found which will not transfer the burden, instead of to the taxpayer, to the working man.

Senator SHORTRIDGE. Now, take Great Britain, France, Italy, Poland, or Czechoslovakia. They have a certain national debt, severally. They owe us. Is it your thought that we should cancel the debt?

Mr. SIMONDS. No, Senator.

Senator SHORTRIDGE. Or reduce the debt?

Mr. SIMONDS. My thought is that you should find a means of collecting it.

Senator SHORTRIDGE. Of course, we have no collateral. We have no mortgage on Czechoslovakia, or little Latvia. It is really their moral obligation as honorable nations.

Mr. SIMONDS. But they can not, by giving us morals, pay the debt.

Senator SHORTRIDGE. Of course, they can not, but if they have the honor of honorable men, or the honor of honorable nations, or the honor of an untutored savage, they will try to maintain their reputation as honorable nations, and pay the debt. Why not? They can do it.

Senator KING. How can those nations pay Great Britain? Great Britain has due her from France, from Italy, from Poland, from Czechoslovakia, from Austria, and from Greece, considerably more than she owes the United States. I am not justifying cancellation of debt, but she is perfectly willing to cancel all the obligations due from those countries to her, which, as I stated, in the aggregate, are larger than the obligations due the United States, because she believes it will stimulate business, and she can get more in trade than she would ever get in money. She knows she will never get the money from them.

I assume Mr. Simonds, in his illustration of this question—and he has done it so artfully and in such a statesmanlike manner—has in mind the same philosophy that actuates Great Britain in taking the position that she can not collect any money, because they have not got it, from those countries owing her, and she is perfectly willing to enter into trade relations with them and, by mutual trade concessions back and forth, she will get her pay in commodities and the profit from other business, rather than in gold, which she never can get.

Senator SHORTRIDGE. We have outstanding, let us say, $20,000,000,000 of interest—debt, represented in different forms. I have heard no one suggest how we are to pay that, other than by paying it in money. I have heard no Senator, no Representative, no newspaper, and no writer, suggest any other method for Uncle Sam to pay, other than to pay in money, and if that be true of him, in my simple way I think it is similarly and equally true of these several European nations.

Mr. SIMONDS. We will not take their money, Senator.

Senator SHORTRIDGE. We will take it, according to the contract, which said that it had to be paid in gold coin of the present weight and fineness. We stand upon the contract, not as a Shylock, but as an honorable Nation.

Mr. SIMONDS. The British have a limited amount of gold. If the British were to discharge their debt in gold to us, they would postpone their return to the gold standard by reducing their coverage of their money, and it is agreed, I think, very clearly by most observers, that one of the objectives of the new conversations that are to take place, is to get England back on the gold standard, so that our goods will not suffer from the unequal competition in the depreciated currency.

Senator SHORTRIDGE. True.

Mr. SIMONDS. You simply reduce the possibility of restoring Great Britain to the gold standard, thereby prolonging the period of her unequal competition in the world market, as you take her gold to fulfill the standard of honor, as you call it.

Senator SHORTRIDGE. I am not indifferent to the welfare of any of those nations, but I am thinking primarily of my own——

Mr. SIMONDS. Senator, forgive me. I am testifying, I hope, as an American taxpayer whose only desire is to get somebody else to pay his bills.

Senator SHORTRIDGE. The welfare of America is uppermost with us, of course.

Mr. SIMONDS. But if you want to get the British back on the gold standard, and at the same time you want to take the gold away from them to fulfill their contract, are you not rather moving around in a circle? You will want to get the British back on the gold standard only because you want to restore an equal chance for American goods in the world market. Therefore, you want England back on the gold standard, not for English reasons, but for American reasons.

Senator SHORTRIDGE. When I say the contract provides that they shall pay us in gold coin of the present weight and fineness, I should add that the contract provides that they may pay us in our United States bonds.

Mr. SIMONDS. But they have to use their gold to get them.

Senator SHORTRIDGE. Grant that; but our outstanding bonds may be scattered over the whole world. Many may be in England; many may be in Germany; many may be in France; and many may be in Italy, to-day. Those several nations can pay us by delivering the bonds.

Mr. SIMONDS. To the extent that the British might have those bonds, they could transfer those bonds to us and pay their own people in their own currency. There is no question about that. Nobody has made a statement of any considerable holding of the British at the present time in American securities.

Senator HARRISON. I want to ask Mr. Simonds this: Is there any sentiment in England to get back on the gold standard?

Mr. SIMONDS. Senator, there is, I think, a very considerable sentiment in certain sections to get back on the gold standard. My experience with the Englishmen I have talked with, is that they have a feeling that a return to the gold standard will not be safe for the English, until the circumstances which explain their going off it are removed. I think there is a school who are talking about that thing. If you could guarantee to the English that when they went back on the gold standard this time, they would not be driven off as they were driven off before, I do not think there would be any question about it.

Senator HARRISON. In other words, they are in a better position off the gold standard to-day to negotiate with reference to this debt, than they would be if they were now on the gold standard?

Mr. SIMONDS. I do not think that has anything to do with it, Senator, because as long as they are off the gold standard, they are being paid themselves for what is owed them abroad, in their own depreciated currency, and therefore they are losing more at that end, because they are owed more—infinitely more. If you take the sum of the things that are owed the British Government, and the things that are owed the British producers privately, you will see that there is going into England, as a result of the depreciation of their currency, vastly less than the amount of the debt would make if it were restored.

Senator HARRISON. I wanted to ask you this: I was very much interested in your discussion——

Senator GORE. Are you passing from this phase, Senator?

Senator HARRISON. Yes.

Senator GORE. I would like to ask one question on this particular point, because there are two views in this country, two suspicions in regard to England and the gold standard. One is, that England went off the gold standard deliberately; that she has depreciated her currency deliberately; that she has deliberately manipulated the machinery of depreciated currency and exchange, to her advantage and our disadvantage, with the ultimate end in view of coercing the United States into a more acceptable adjustment on these international debts. The other view is, that England is the victim of this set of circumstances, and that the horse is running away with her, and that she is not guiding it, and that she has not done it with the deliberate purpose to serve herself at our expense. What is your view? Was she coerced off the gold standard by necessity, and, if so, is she now taking advantage of her own calamity to our disadvantage?

Mr. SIMONDS. It is the latter, Senator, in my judgment.

Senator GORE. That she is not guiding the runaway horse?

Mr. SIMONDS. Anybody who was familiar with the circumstances which attended the British going off the gold standard, the events that took place at that period and the efforts that were made by the British to prevent going off, and the shock to British prestige and position in the world, and everything of that sort that resulted——

Senator GORE. It looked as though they skidded off.

Mr. SIMONDS. On the other hand, I am quite sure that now, being off, the British are making the best they can out of the situation, and, through the fact of depreciated currencies, they are, to a certain extent, able to undersell us in the world market. Having fallen off the roof, at least they are saved the trouble of going down the elevator.

Senator HARRISON. Do you not think, Mr. Simonds, that our policy with reference to these tariff increases in 1929, say, was a very wise policy with reference to stabilization of exchanges, and good relationships with the world, helping in the economic stability of the world?

Mr. SIMONDS. My own feeling is that it set the example and then supplied the excuse for the whole series of tariff raising, and so forth.

Senator HARRISON. I do not understand you to mean that after we had instituted that policy that other countries of Europe followed that policy.

Mr. SIMONDS. Perhaps they would be equally unwilling to admit they followed, but the effect of it was that.

Senator SHORTRIDGE. What nation in Europe recently has been on what we might call a free-trade basis?

Mr. SIMONDS. The departure of England from the free-trade basis was a perfectly enormous thing. For a century the English were a tariff country. When they made up their minds to undertake a kind of mission in the world, when they undertook to be a trading and lending nation, then they became a free-trade nation. When I was testifying a moment ago I said there is no difficulty about collecting the debts, if we are prepared to remove our tariffs and let the foreign goods come in to pay them.

Senator HARRISON. Do you not think that there are certain products that would not come in such great competition with the products of American labor, that might be able to come in, and which would help in the solution of this problem to some extent?

Mr. SIMONDS. Perhaps very little, Senator; but when you consider that in the first place Europe and the world are now buying all they can buy from us, and paying for it, you have one and a half billion a year that they will have to pay in addition. I do not think that by a little juggling around of this tariff schedule or that tariff schedule you can provide the way for the admission of enough to make any difference with the larger amounts. They might get in 1 per cent more, or 2 per cent more, and be able to pay $1,000,000 or $3,000,000 or $5,000,000.

Senator HARRISON. To whatever extent, it would help to that extent?

Mr. SIMONDS. It would help to that extent, but in my judgment the thing is so big that the larger thing would go on piling up—the multiplication of what they could not pay.

Senator SHORTRIDGE. You are engaged in the newspaper field, so to speak. I have in mind a great newspaper that claims to be a great protective tariff paper, getting its supply from Sweden, whereas if it bought from the State of Washington, it would help greatly. Would you have wood pulp or newsprint paper come in free?

Mr. SIMONDS. I would, Senator, if I were going to collect the debt, because in that way, by the newspaper buying it, pulp abroad, it would provide the country from which it bought it, with the means of paying the American debt.

Senator SHORTRIDGE. Put it this way: In the State of Washington, they have paper mills. I have in mind one great newspaper that buys its paper from that American mill, and to-day it costs the proprietor or owner of that great newspaper, say, $25,000 or $30,000 a month more than he could get his paper for from abroad. I have in mind another newspaper that shouts and bellows about its protective tariff notions, which, instead of buying from the American factory, thereby putting men to work in the State of Washington, is buying its paper from abroad. As between the two, having in mind the national debt, would it not be better to buy from our own people?

Mr. SIMONDS. You see, Senator, what you are asking me is a question rather off line. You are asking me about protection inside the domestic field.

Senator SHORTRIDGE. You connect it up with this question of the national debt.

Mr. SIMONDS. Yes; but in this sense: Suppose, for example, I were—as I never shall be—the owner of one of those great newspapers. Then I would have before me this question: Should I buy my paper abroad, and help the foreigner to pay his debt to my Government, or should I buy my pulp at home and contribute to American employment?

Senator SHORTRIDGE. With that problem, what would you do?

Mr. SIMONDS. Personally?

Senator SHORTRIDGE. Yes.

Mr. SIMONDS. Personally, I should have to say, "Shall I collect, or shall I cancel?" And I would say I would rather employ American workmen.

Senator GORE. Mr. Simonds, I do not want to get into any argument with you about protection, or with Senator Shortridge, but suppose this San Francisco publisher who buys his paper in Sweden pays for that with prunes and raisins and English walnuts raised in California.

Mr. SIMONDS. Yes.

Senator GORE. Did not the production of those raisins and prunes and walnuts give employment to American labor to exactly the same extent as if he had bought his wood pulp in the United States, which had, in turn, given the employment to American labor?

Senator SHORTRIDGE. I would like to have Senator Dill answer that question, Senator Gore, or the other Senator from the State of Washington.

Senator GORE. I do not want to get too far into this protection question because there is no shore to that sea.

Senator SHORTRIDGE. I would answer that it would be far better for America to buy the paper from the State of Washington mills than to buy it abroad.

Senator GORE. And give employment to the laborers in Washington to produce wood pulp and print paper, and put the laborers in

California out of business who produce prunes and raisins—and they are out of employment now.

Mr. SIMONDS. Senator, this is the point there, if I may say so: At the present time we are sending as many prunes and all the other things as we get paper for. This is the question now, whether you are going to get more, because you are not getting your debt. Now, you want to collect your debt. We have never collected in money for the debt. We are starting de novo. Already, the people are buying all they can pay for. We are going to start something new. We are going to try to collect more money. We can not give them any more prunes because they can not take them. They are taking all they can.

Senator GORE. But they would take less, Mr. Simonds, if we shut out print paper and would not let them trade print paper for prunes.

Mr. SIMONDS. That might be, Senator. I was trying to avoid going into the main question of the tariff.

Senator GORE. I think we will all agree that we had better waive that.

Senator SHORTRIDGE. I can not conceive that there is any exchange, as you say, or that the buying of less pulp or print paper from Sweden would affect the foreign trade in prunes.

Senator GORE. Senator, unless we buy from them, we can not sell to them.

Senator SHORTRIDGE. I grant you that, in a sense. I do not want to take up too much time, but let me say this for this record:

These foreign nations, Mr. Simonds, agreed to pay us a certain amount of money in cash or in bonds. We gave them 60-odd years within which to do so, at a very low rate of interest. As to France, of course, we gave her the best terms.

Senator KING. Not as fine as you gave Italy.

Senator SHORTRIDGE. That is true. I stand corrected. But we gave them excellent terms. Now, suppose I owed you $1,000,000, and you gave me 15, 20, 30, 40, or 50 years to pay, at a very low rate of interest. You or your successor would expect me, or those who follow me, to pay it.

Mr. SIMONDS. Exactly. But that has not anything to do with the foreign question.

Senator SHORTRIDGE. Why not? I see no difference at all. They are sovereign nations, obligated to make certain payments.

Senator KING. Mr. Simonds, we have a bankruptcy bill in the Senate which we may take up this afternoon, which provides that men who have made solemn contracts to pay their obligations in gold at the present weight and fineness, may be relieved of those obligations. We recognize their inability to pay, and we are providing a means by which they may escape payment by going before a court and, under certain procedure, their debts will be reduced, if not absolutely canceled. If the philosophy which is being contended for is immoral for a nation that is bankrupt, would it be immoral for Congress to pass this bill to aid the distressed debtors of the United States?

Mr. SIMONDS. If you can not collect, you can not collect.

Senator KING. That is all there is to it.

Senator SHORTRIDGE. I grant you, Senator, that is very thoughtful. If England or any one of those debtor nations should stand before the world and say they were bankrupt, and wanted to go through bankruptcy, it is conceivable that morally they might be relieved and that we might cancel the debt. But they do not take that attitude—not at all.

Senator GORE. Mr. Simonds, you say we are not collecting, and they are not paying. That is true; and I do not fancy for a moment that they ever will pay. I do not think they ever will pay.

Mr. SIMONDS. The point is, is it better to cancel or is it better to let them repudiate?

Senator SHORTRIDGE. I do not think they will dare to stand before the world and repudiate.

Senator GORE. I think they will, Senator. I do not think they will pay, and if they repudiate the situation would be the same. They would not be paying in either contingency, but it might affect their credit in the future, so that easy marks like the United States would not advance credit in such large amounts.

Mr. SIMONDS. In the first place, Senator, I think that that would not last very long. For example, in the matter of Russia, France loaned Russia billions of dollars before the World War, and lost it all in Russia, and is now prepared to lend to countries in the same situation, or even to lend money to Russia again. I do not think that lasts very long.

My impression is, very strongly, that the only question that remains about the debts at the present time, is the question of whether the debtors can persuade us to cancel, or whether, as a choice between another payment and default, they will default. No more money will ever be paid on the debts, except what we lend.

Senator SHORTRIDGE. That is what France said a long time ago, but there was then, thank God, an Andrew Jackson, and he said to France, in the end, " You pay," and France paid. You remember that, do you not, full well? If we had another Andrew Jackson to-day—I wish to God we had—we would not hear so much quibbling and talking about not paying that debt.

Senator HARRISON. This is a very admirable statement you have given to the committee, because of your great knowledge on this question from an international standpoint. Let me ask you, if you were in the position of President elect Roosevelt, or anyone else here that was going to negotiate upon this proposition, and try to effect a settlement on it and come to some terms of agreement that would meet the approval of the American people, with your knowledge of the sentiment in America, against cancellation, or any great modification of it, what would you suggest? What kind of trade could we make?

Mr. SIMONDS. I do not think any trade can be made, Senator.

Senator HARRISON. You do not think anything can be done? It is just a question of cancellation or repudiation?

Mr. SIMONDS. If the Senator will permit me, the situation is very nearly on all fours with the situation in respect to the French people and reparations. The French people set out to collect their reparations, firmly convinced that they had a moral claim to them. No government, no prime minister, and nobody during a period of 10 years could have lived who endeavored to tell the French people that they could not collect. They went so far—Poincare being another Andrew Jackson—as to occupy the Ruhr, but, occupying the

Ruhr, they did not get any money. All last summer, at the time of the conference of Lausanne, the French people at last realized that they could not get money. They could not get tariffs. They could not get securities, and then the public sentiment of France, recognizing the impossibility, the Government of France was told to make a realistic settlement, which was a practical cancellation, without any promise that amounted to anything about a return, because, if you will remember——

Senator SHORTRIDGE. You draw a distinction between a demand for reparations and a bona fide equitable debt, do you not?

Mr. SIMONDS. The Senator asked me about giving the American state of mind. The French state of mind in connection with reparations was identical with the American state of mind. The French Government was unable to do anything until at last the French people appreciated that, while to their minds those were sacred claims, they could not by bayonets, they could not by threats, they could not by politics, get anything out of it, and so finally, after 10 or 12 years, you had the agreement of Lausanne, which recognized the impossibility of collecting the debts.

Senator HARRISON. You do not think, then, that in the negotiations you could get England to agree to take a certain percentage more of some of our raw products that they need, which are produced here, such as cotton, for instance, or some percentage more of our wheat, of which we have a surplus, or some other products, which I might enumerate, and agree upon their part to make certain agreements with reference to their going back upon the gold standard, involving the stabilization of exchanges, and some payment, probably, in silver? You do not think that we would get anywhere upon any such proposition as that?

Mr. SIMONDS. You made two propositions, one about the tariffs, and one about the gold standard.

Senator HARRISON. I am just trying to get your viewpoint, as to whether or not there is any basis for a meeting of minds.

Mr. SIMONDS. Suppose, for example, the British do make certain tariff concessions that would allow us to sell more wheat, and so forth. It is still necessary for the British to get the necessary American exchange to pay for that.

Senator HARRISON. But if they get back upon the gold standard——

Mr. SIMONDS. If they go back on the gold standard, Senator, for the time being, they will sell less, not more, because they will lose this advantage that they now have.

Senator HARRISON. They would probably sell less.

Mr. SIMONDS. As to the gold standard, when our representatives go to talk with the British, the British will say, "The question of the debt was not responsible in any degree for our going off the gold standard, because at the time we went off the gold standard we were receiving, in reparations and our other debts, what we were paying you. We were driven off the gold standard by something quite different. Therefore, now to cancel the debt would not in any degree protect us against the things that drove us off before."

Therefore, in the matter of tariffs, when you come to discuss tariffs, the British, French, and everybody else would say, "Yes, let us talk tariffs, but it must be a reciprocal concession."

When you come to the question of the gold undoubtedly the United States will be asked to associate itself with France in guaranteeing to sustain England on the gold standard if she is again assailed and finds herself in a difficult situation.

Senator GORE. And if we get a tariff concession from Great Britain, so that more of our goods could go in there, we would have to admit more of her goods into this country to pay for them.

Mr. SIMONDS. Certainly. With reference to practically everything that you admit, you are then up against the domestic question. What they pay us now is for what they take. You would have to make new business on both ends, not on one side. If you made new business here, you would have to make new business to pay for it.

Senator HARRISON. In this country, for instance, we are trying to restrict the production of cotton. We believe that is one of the ways to stabilize the price of cotton. We have too much of a surplus. Could not England use its good offices in some of the other countries with reference to the restriction of their cotton, so that they might take a little more of ours?

Mr. SIMONDS. They could not do that. To give you one example, the French are engaged down in Senegal trying to start a cotton industry of their own. There is nothing the British could do to persuade them to do it.

Senator HARRISON. It seems, from your viewpoint, that we would have to give everything up, and get nothing in return.

Mr. SIMONDS. Senator, the point I have tried to testify to was the fact that so far as I have yet been able to see, no one has found a means for taking payment on a debt, because none of them want to pay the taxes themselves. I have not tried to testify that I believe in cancellation. I have tried to testify that it seems to me that until we make up our minds whether we are going to cancel or make the changes in our own system that would permit us to collect, this great obstacle to talk about anything else is there. I do not believe there will be an enormous recovery when the debts are removed, and I do not believe there will be any effect from talking about it until this obstacle is removed.

Senator KING. You have expressed your view as to the payment of debts by European nations. I suppose you referred to public debts, and not to private debts.

Mr. SIMONDS. I do not remember the connection in which I spoke, Senator.

Senator KING. My recollection is you said you did not believe that European nations would pay their debts.

Senator HARRISON. Foreign debts.

Senator KING. Pay their foreign debt to the United States. You referred to the debts which the nations owed the United States, and not the debt which individuals owe.

Senator HARRISON. The war debts.

Mr. SIMONDS. Senator, I do not think there is any difference. You have to invent some means of taking payment on your private debt, just as on your public debt.

Senator METCALF. Was there not a banker who came back a few years ago from Germany who said that our Government had to give up its debt so the private debts could be paid?

Mr. SIMONDS. Giving up the governmental debt will not contribute the least bit to collecting the private debts—not the slightest degree. Both of them can be paid only in goods.

Senator KING. As you know, a number of the cities of Germany have floated their bonds in the United States, and those bonds have been purchased, in the main, by private individuals.

Mr. SIMONDS. Yes.

Senator KING. Do you include, in your expression of your belief that the European debts will not be paid, the debts due from the municipalities to individuals who hold their bonds?

Mr. SIMONDS. With this qualification, Senator: I said I did not think they would be paid unless the United States provided some method of receiving; and in that I referred to everything, private and public, municipal and everything else that there is now standing to our account in Europe.

Senator KING. I understand that we have loaned probably two or three billions to European private corporations and individuals.

Mr. SIMONDS. We have two and a half billion in Germany alone. Some of that is municipal, and some of it is industrial, but it is all there.

Senator KING. Then, you include in the category of nonpayment, not only public debts, but private debts?

Mr. SIMONDS. Everything that we do not, Senator, by some action of our own, provide a method of receiving. The whole problem, as I see it, is the problem of receipt.

Senator GORE. We have to be paid in goods or in gold. They have not the gold, and we will not let them send the goods in.

Senator SHORTRIDGE. What is the difference, Mr. Simonds, between these two suggested situations? Let us say that a municipality in Germany issues bonds which are sold in America, and are now held in America; and a municipality in California issues its bonds, which are held by the citizens of the State of New York. Is there any difference in the matter of payment?

Mr. SIMONDS. A complete difference, Senator. There is no resemblance.

Senator SHORTRIDGE. Where is the difference? Does the intervening water make the difference?

Mr. SIMONDS. The intervening water in the money would.

Senator SHORTRIDGE. I grant you that. The debtor must find the money with which to pay the creditor, whether they be divided by a continent, or an ocean.

Mr. SIMONDS. The division has nothing to do with it, Senator.

Senator KING. They have free trade between California and New York, do they not?

Mr. SIMONDS. The American dollar has to be purchased by German money before the German can use it to pay his bills. If he tries to buy it with German money, the result would be to lower the value of the German money, so the German money will be steadily going down, so fast that he can not ever get the American money to pay.

Senator SHORTRIDGE. When the German municipality issued its bonds and sold them to American citizens, it carried the promise to pay, did it not?

Mr. SIMONDS. Every borrowing carries the promise of the borrower to pay.

Senator SHORTRIDGE. At what juncture does the debtor have the right to talk about tariffs, or anything else?

Mr. SIMONDS. At the time when he is no longer able to pay, as the Senator said about the western situation.

Senator SHORTRIDGE. Oh, of course, if a given nation goes bankrupt and takes advantage of some international bankruptcy law, and becomes relieved from its obligation, that is one thing.

Senator KING. Is a nation bankrupt when it is producing large quantities of commodities for consumption by its own people; when it produces, likewise, large quantities of commodities which it has been in the habit of exporting, and from which it derived a profit, and all at once its export trade is absolutely cut off? It desires to trade. It has outstanding obligations with other countries. It can not get the gold exchange to pay the obligations. It has no gold. It has the same houses, the same lands, the same internal wealth as it always had. It is not bankrupt, is it? It may not be able to get the gold to pay.

Mr. SIMONDS. Only in the sense, Senator, that we have a new situation. We have not a new word, so we use the word "bankruptcy."

Senator HARRISON. Thank you very much, Mr. Simonds.

The committee would like to have an executive session at this time.

(Whereupon, at 3.55 o'clock p. m., the subcommittee went into executive session, at the conclusion of which an adjournment was taken until to-morrow, February 22, 1933, at 10 o'clock a. m.)

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# INVESTIGATION OF ECONOMIC PROBLEMS

**WEDNESDAY, FEBRUARY 22, 1933**

COMMITTEE ON FINANCE,
*United States Senate, Washington, D. C.*

The committee met, pursuant to adjournment, at 10 o'clock a. m., on Tuesday, February 21, 1933, in room 335, Senate Office Building, Senator Reed Smoot presiding.

Present: Senators Smoot (chairman), Watson, Shortridge, Couzens, Metcalf, Harrison, King, Walsh of Massachusetts, Barkley, and Gore.

The CHAIRMAN. The committee will come to order. We will first hear Mr. Aldrich.

## STATEMENT OF WINTHROP W. ALDRICH, CHAIRMAN OF THE GOVERNING BOARD AND PRESIDENT OF THE CHASE NATIONAL BANK OF NEW YORK

The CHAIRMAN. Mr. Aldrich, will you give your name to the committee?

Mr. ALDRICH. Winthrop W. Aldrich.

The CHAIRMAN. The position you hold?

Mr. ALDRICH. Chairman of the governing board and president of the Chase National Bank of New York.

The CHAIRMAN. You may proceed, Mr. Aldrich.

Mr. ALDRICH. Mr. Chairman: I am glad to appear before you in response to your invitation, not because I have any panacea to present, but because I think it eminently desirable that there should be frank interchange of opinion between those who are charged with responsibility for government and those who are charged with responsibility for finance and for other phases of the economic life of the country. It is in some ways unfortunate that the political capital and the financial capital of the country should be separated. Misunderstandings between the financial community and the Congress have created many needless difficulties. I feel sure that much of this misunderstanding would pass away and better cooperation would exist if we knew one another better personally and had the opportunity of talking more frequently and frankly with one another.

I understand that you wish me to present my views as to proper remedies for the present economic trouble. In order to do this it is necessary that I should first undertake to diagnose the situation, and I will ask you to bear with me, therefore, while I present something of the history of the events which led up to the existing situation. This will introduce the presentation of the remedies which I shall venture to propose.

CAUSES

The present depression has, of course, many features of preceding depressions. Any period of intense financial and business activity develops stresses and strains and maladjustments which compel liquidation and reaction. But the unprecedented severity—absolutely unprecedented as far back as good statistical records go—of the present depression, and the slowness with which the automatic restorative forces have worked, must be found in certain unprecedented circumstances which have preceded it. These are, I believe, as follows:

First. The immense shift produced by the war in international debtor and creditor relations, and, very specially, the great shift of the United States from a debtor to a creditor nation.

Before the war we owed Europe a great deal of money, represented largely by American stocks and bonds held abroad. During the war we repurchased most of those and we bought a great many European securities. Finally, following our entrance into the war in 1917, our own Government advanced roughly $10,000,000,000 to our European allies.

Before the war we paid interest and amortization on our debt to Europe by sending out an excess of exports over imports. In general, the normal thing for debtor countries is to have an excess of exports over imports, and for creditor countries to have an excess of imports over exports, or a so-called "unfavorable" balance of trade. England before the war regularly received about a billion dollars more imports than she sent out in exports, the difference being covered by her interest on foreign investments, her shipping services, banking services, and other items. France regularly received about half a billion dollars more a year than she sent out in goods. Germany, the Netherlands, and Switzerland all had import surpluses or unfavorable balances of trade, because the rest of the world, debtor to them, paid them in goods. The logical expectation following the war was that countries formerly creditor and now debtor would send out an excess of exports, and that countries formerly debtor and now creditor would receive an excess of imports.

Second. One of the worst legacies of the war was the existence of the intergovernmental debts, and especially the reparations. These debts involve both a budgetary problem and a transfer problem.

The budgetary problem is the problem of raising the money that has to be paid in the foreign government through taxation or other means in the debtor country, and in the currency of the debtor country. As all the principal debtor countries, very especially Germany, had exceedingly high taxes anyhow, taxes running far beyond anything we have experienced in the United States, the additional pressure on their budgets of raising the money for intergovernmental payments was very severe. This was softened for England, and eliminated for France, so long as Germany paid reparations. In the case of Germany herself, however, the pressure was so great as really to be endurable only in times of very active business, and it was a major contributing factor to the fiscal deficit which was so embarrassing to Germany in late 1928, in 1929, and in subsequent years. The existence of the huge reparation debt, moreover, greatly lessened the credit of the German Government, so that it was unable to make much use of the resource which a great government usually can use in times of depression of borrowing to fill in the gap between its revenues and its expenditures.

The CHAIRMAN. Mr. Aldrich, can you tell us whether France paid England on the amount that she owed England for war debts an amount equal to what England paid us?

Mr. ALDRICH. Doctor Anderson?

Mr. BENJAMIN M. ANDERSON, Jr. (economist of the Chase National Bank). The question is: Did France pay England?

The CHAIRMAN. Yes. Do you know how much France has been paying England on the French debt to the English Government, which was about $4,000,000,000?

Mr. ANDERSON. I have not the exact figures. I would be very sure that it was less than the British paid us.

The CHAIRMAN. It was less than the British paid us?

Mr. ANDERSON. It was less than the British paid us.

The CHAIRMAN. That is as I understand it, but I did not know but that you had the figures.

Mr. ANDERSON. I can get them for you, Senator, if your wish them.

The CHAIRMAN. I wish you would.

Mr. ANDERSON. Yes, sir.

Mr. ALDRICH. The other problem involved in intergovernmental debt payments, as in all international payments, is the transfer problem, the problem of exchanging the domestic currency for the foreign currency in which the debt payments have to be made. A debtor country can make payments in the currency of the creditor country to the extent that it can send out a surplus of exports over imports, or can entertain foreign tourists or can perform shipping services, and so forth, or to the extent that it can borrow foreign currencies, the latter being, of course, not a real solution but merely a deferment of the problem.

If there had been adequate freedom of movement of goods from country to country, the debtor countries could have solved this transfer problem by sending out goods. But the existence of the reparations and other intergovernmental debts was a great factor contributing to international fears regarding the movement of goods, and intensified the widespread policy of tariffs and other trade restrictions which the world has been engaging in on an increasing scale since the war. During the period when bank credit was expanding rapidly and foreign loans were placed easily, transfers were made without difficulty. But when there came a sudden cessation of foreign loans and debtor countries were suddenly called upon to pay, the problem of transition was a grave one. Germany herself did make the transition in 1929, and began to send out more goods than she took in, and some other countries made heroic efforts along these lines. But almost immediately a movement began to stop this by further trade restrictions and when we ourselves raised our tariffs still higher in 1930 there came a very general and widespread intensification of trade restrictions throughout the world. Tariffs are not the only, or even the worst, trade barriers. Quotas, vexatious inspections, exchange controls, and many others can be even more restrictive. The payment of intergovernmental debts became increasingly difficult, although they were continued down into the summer of 1931.

Third. Our own high protective tariff policy inaugurated in 1922, preceded by some increases in 1921, prevented our foreign debtors from sending us goods in adequate amount to pay interest and amortization on their debts and at the same time buy our exports in accustomed amount. This tariff policy would promptly have checked our export trade but for the extraordinary financial development next listed.

Fourth. The gigantic and unprecedented expansion of commercial bank credit in the United States from the middle of 1922 to early 1928, amounting to fourteen and one-half billion dollars in loans and investments and thirteen and one-half billion dollars in deposits, accompanied by great expansion of bank credit in many parts of the world. This expansion was due (*a*) to gold coming to us from other countries which were off the gold standard, and (*b*) to cheap money policies of the Federal reserve banks, both of which operated to create excess reserves in the member banks, with the resultant multiple expansion of member bank credit.

Perspective on the figures for expansion given above is gained by recalling that the expansion of bank credit required to win the war, from early 1917 to the end of 1918, was only 5,800,000,000 in deposits, and 7,000,000,000 in loans and investments.

The vastly greater expansion in the period from 1922 to 1928 was not needed by commerce and was not used by commerce, and went into (1) real estate mortgage loans in banks; (2) installment finance paper in banks; (3) stock and bond collateral loans in banks, including loans against foreign stocks and bonds; and (4) bond purchases by banks, including foreign bonds. The consequences of this great expansion of credit, used in these ways, were, of course, excess construction, including road building, real estate speculation on a great scale, overexpansion of installment buying, and an immense overissue of securities including many ill-considered securities, but including also many others which would have been good if the total overissue had not been so great, the rapid multiplication of bond houses, investment trusts, and other financial machinery and a progressive deterioration in the quality of bank credit. The 25,000 banks of the country were not in a position to prevent this expansion and their managements were inevitably led into many mistakes in policy because of it. The control of the expansion was in the hands of the Federal reserve system.

One very important incident of this expansion was the masking of the difficulties of international debt payments, including interallied debts and reparations, and the maintenance of our export trade despite trade barriers.

Senator King. You mean by extending credit?

Mr. Aldrich. By extending foreign credit.

This was particularly true following the Dawes plan in 1924. The Dawes plan was accompanied by an immense government security buying program on the part of the Federal reserve banks. Following this came a tremendous volume of foreign loans which offset the influence of the high protective tariffs upon our export trade. We were able to get out, especially following the summer of 1924, a great volume of farm products and raw materials at good prices which restored, in a precarious fashion, the balance between agricultural and raw material production on the one hand, and manufacturing on the other hand, giving us active business while the foreign loans went on.

The following table, which I shall not read, Mr. Chairman, unless some of you gentlemen would like to have me do so, exhibits the relationship between American exports, foreign loans and agricultural prices. I might say that that table is for the years 1922 to 1932, inclusive, and this shows the trend of it.

In 1922 our exports were $3,832,000,000 and our imports $3,113,-000,000. Or an excess of exports of $719,000,000. And the new foreign securities issued in that year were $630,000,000. And the index of agricultural prices at the farm, the yearly average 1910 to 1914 being 100, was in that year, 1922, 124.

In 1924 this increase in new foreign security issues commenced and in that year we floated $1,047,000,000 of new foreign security issues. And for the next five years in each year we floated more than a billion dollars of such securities, and in the year 1927 we floated $1,562,000,000.

In 1928 our exports were $5,128,000,000, imports, $4,091,000,000, or an excess of exports to the extent of $1,037,000,000. And at that time the index of farm prices was 139 as compared with 124 in 1922.

After 1930 the foreign lending dropped down in 1931 to $255,000,000, and in 1932 to $26,000,000.

At the same time the exports dropped down in 1931 to $2,424,000,000 and the imports to $2,091,000,000, or an excess of exports of $333,000,000, and the agricultural price index at that time, in 1931, was 80 as against 136 in the year 1926.

In 1932 our exports were $1,618,000,000 and our imports were $1,323,000,000, an excess of exports of $295,000,000, and the index for agricultural farm prices was 57.

(The table is as follows:)

*American exports, imports, foreign loans, and agricultural prices*

| | Exports | Imports | Excess of exports | New foreign security issues | Index of agricultural prices at the farm yearly average 1910-14=100[1] |
|---|---|---|---|---|---|
| 1922 | 3,832,000 | 3,113,000 | 719,000 | 630,000 | 124 |
| 1923 | 4,168,000 | 3,792,000 | 376,000 | 267,000 | 135 |
| 1924 | 4,591,000 | 3,610,000 | 981,000 | 1,047,000 | 134 |
| 1925 | 4,910,000 | 4,227,000 | 683,000 | 1,078,000 | 147 |
| 1926 | 4,808,000 | 4,431,000 | 377,000 | 1,145,000 | 136 |
| 1927 | 4,865,000 | 4,185,000 | 680,000 | 1,562,000 | 131 |
| 1928 | 5,128,000 | 4,091,000 | 1,037,000 | 1,319,000 | 139 |
| 1929 | 5,241,000 | 4,399,000 | 842,000 | 759,000 | 138 |
| 1930 | 3,843,000 | 3,061,000 | 782,000 | 1,010,000 | 117 |
| 1931 | 2,424,000 | 2,091,000 | 333,000 | 255,000 | 80 |
| 1932 | 1,618,000 | 1,323,000 | 295,000 | 26,000 | 57 |

[1] Year Book of Agriculture, 1932, p. 902. Crops and Markets, January, 1933, p. 31.

Senator KING. Mr. Aldrich, that table does not accurately, does it, represent all of the credit and loans made to foreign countries?

Mr. ALDRICH. No, sir; it does not.

Senator KING. Because in some years the loans made to private individuals, to municipalities and to governments in Latin America and in Europe greatly exceeded the maximum figures indicated in your table.

Mr. ALDRICH. That is a fact. These are the foreign security issues as we get the figures. In addition to that there are all kinds of credits granted that are not in there. The credits by an American manufacturer to a foreign buyer. The volume of credit is probably very much greater than is shown there.

Senator GORE. Does this undertake to include short-time loans as well as long-time loans, or is this limited to long-time loans?

Mr. ALDRICH. It is long time chiefly. Mr. Anderson can answer that.

Mr. ANDERSON. It is the Commercial and Financial Chronicle's record of new foreign securities. There is some short stuff in there, but chiefly long stuff.

The CHAIRMAN. Mr. Aldrich, you will notice there that about the same proportion of imports to exports continues from 1922 down to 1932. In other words, last year the exports were $1,618,000,000 and our imports were $1,323,000,000. In other words, as our imports decreased so did our exports decrease.

Mr. ALDRICH. That is correct. The whole volume of foreign trade has been diminishing.

The CHAIRMAN. The whole volume. The world trade has shrunk, I suppose, in just exactly the same proportion as here?

Senator ALDRICH. Yes.

The CHAIRMAN. Not only, as shown in this report, that between America and Europe, but that of every other country in the world?

Mr. ALDRICH. Yes; that is correct. The barriers to trade are having their effect in a worldwide way, not only in this country, but generally.

Senator KING. As barriers were raised and new impediments and barriers were erected the export trade and the import trade diminished.

Mr. ALDRICH. That is right.

Senator KING. In this and the other countries.

Mr. ALDRICH. That is true in a worldwide way.

The CHAIRMAN. And that is true in every country in the world.

Mr. ALDRICH. I think that is true.

The CHAIRMAN. Their trade does not amount to what it was before.

Mr. ALDRICH. Yes; that is correct.

Senator KING. I think you might modify that by saying that China's export trade, because of her low purchasing power, because she is on the silver basis, has not suffered the diminution that other nations have suffered.

The CHAIRMAN. Well, she has had so little in the past.

Mr. ALDRICH. I will take up that question about China in connection with the silver discussion.

The CHAIRMAN. Very well. You may proceed, then.

Mr. ALDRICH. Fifth. In these three factors, then, (*a*) intergovernmental debts, (*b*) high protective tariffs and other trade barriers, increasing in severity throughout the commercial world, including high protective tariffs on the part of our own great country, which had suddenly become creditor on a great scale, and (*c*) six years of cheap money and rapid bank expansions, we have the main explanation of the unprecedented financial boom, the unprecedented financial break, and the unprecedented severity of the depression.

The CHAIRMAN. I think we would have felt it more, would we not, had we allowed further importations here do displace the goods that were manufactured in this country? Supposing the imports had increased $1,000,000,000 in 1932, making them $2,323,000,000, what would we have done with our exports?

Mr. ALDRICH. The thesis that I am making here, Senator, is this, that the present situation is a matter of lack of balance, fundamentally between the producers of farm products and other raw materials which enter into our export trade and are governed by world prices, and the production of manufactured goods by our industries.

The CHAIRMAN. In other words, if we had imported a billion dollars more of manufactured goods it would have——

Mr. ALDRICH. It would have increased our exports. That is what would have happened.

The CHAIRMAN. You think it would?

Mr. ALDRICH. Yes.

The CHAIRMAN. What would become of the employees in the industries that make the goods?

Mr. ALDRICH. It would make the purchasing power of these farmers and producers of raw materials increase to such an extent that the employees of manufacturing concerns would have been sustained on a much higher level than now. That is the thesis of this discussion.

The CHAIRMAN. I judge so up to the present time.

Senator GORE. Those imports, Mr. Aldrich, would have been paid for with our exports, and those exports would have given employment to American labor just the same as if they had produced the stuff that was imported?

Mr. ALDRICH. That is the point exactly. The increased purchasing power of the farmer and the producer of raw materials would have gone directly to the benefit of the producer of manufactured goods and would have increased our total trade above exports and imports.

The CHAIRMAN. In other words, if we could have made goods cheaper then of course we could have exported more goods.

Mr. ALDRICH. Well, we would have increased our domestic market at the same time.

Senator GORE. We would have had a comparative advantage in production.

The CHAIRMAN. Of course I would rather have our local market than rely upon a foreign market.

Mr. ALDRICH. Well, the thesis of this discussion on my part is that the local market is improved as you improve the condition of the farmer and the producer of raw materials to a point which more than counterbalances anything that may come in from abroad, and that our foreign trade is a unit; that the export and import sides must come together, and these totals show that they do come together.

Senator KING. You would not disagree with the statement made by Mr. Hoover when he was running for the presidency four years ago, when he said in his speech in New Jersey that our exports furnished employment directly to more than four and one-half million of laborers, and employment indirectly to more than two and one-half million more? And the statement of Mr. Chapin a few months ago in his report as Secretary of Commerce that even now more than 18 per cent of those gainfully employed in the United States were employed in furnishing exports to foreign countries?

Mr. ALDRICH. I should think that those statements were unquestionably true. But I have not examined the figures as to employment in that connection.

Senator KING. If we were projecting the tariff discussion into this we would be ready to discuss that now. That is not necessary.

The CHAIRMAN. No, not necessary; but now that you have brought it up, I would rather look after the 82 per cent than the 18 per cent.

Senator KING. In looking after the 82 per cent you have to look after all.

Mr. ALDRICH. Senator, I have got here a discussion of the meaning of this statement that has been made—I think it is on the authority of the Department of Commerce—that 10 per cent of our trade is foreign trade. And I expect to give you some figures here that will show that that is probably erroneous in itself and completely misleading when you come to consider the effect on the country. Not from the point of view of employment, but from the point of view of the commodities involved and the percentage of those commodities in foreign trade, and the distribution of those commodities in production over the country.

Senator GORE. It certainly is misleading, because over half our cotton goes abroad and a third of the country depends on cotton, and the rest of the country depends indirectly upon the prosperity of the cotton States. But I am getting ahead of you; you have that farther on in your paper.

Mr. ALDRICH. You are anticipating exactly what I am going to say.

Senator GORE. Yes. I believe it would br a good idea to let you finish your paper, as far as I am concerned.

Mr. ALDRICH. The next point, Sixth, is artictiial price maintenance.

An important secondary factor was growing interference with natural competitive markets in the period preceding 1929, partly governmental and partly by private organizations. The efforts to valorize wheat by holding movements went on on a great scale from 1926 to 1929. Through the activities of the Canadian grain pool and holding movements under government auspices in Hungary and elsewhere, the world's visible supply of wheat was nearly doubled between the summer of 1926 and the summer of 1929. In the autumn of 1929 our own Farm Board stepped in. The net effect of these efforts to maintain the price of wheat was merely to defer the facing of facts. Production held up more than it would otherwise have held up, consumption was checked, and surplus was accumulated. A similar policy, with a similar result, appeared in the case of copper, though the business interests responsible for the policy were quicker to recognize their mistake and quicker to change their policy than was our Government in the case of wheat.

Seventh. The cheap money policy of the United States was part of a policy of cooperation between the Bank of England and the Federal Reserve Bank of New York. The British believed that cheap money and expansion of bank credit was all that was necessary to get good business going again, and that it could be used as a substitute for industrial readjustments, including the scaling down of prices and costs.

Senator GORE. That was the English theory, wasn't it?

Mr. ALDRICH. Yes, sir. They have gone very far with that.

Senator GORE. Yes. The managed-currency school of philosophy.

Mr. ALDRICH. Yes.

Without the strength in gold which we had in the United States, they tried to force the policy through anyhow. They failed to get good business by this policy, but they did succeed in getting credit so overexpanded that when the acute pressure came in the summer of 1931 they found themselves in a frozen position and without adequate gold reserves, and abandoned the fold standard.

The last chance the world had to call a halt on the overexpansion of credit and on the speculation based on the overexpansion of credit without an unmanageable reaction was in 1927. I am informed that the Bank of France and the Reichsbank in Germany did try to tighten up then, Paris warning London that it was having to buy too much sterling, that easy money in London was financing speculation in the French franc and that the Bank of France, though reluctant to pull gold out of the London money market, would have to convert sterling into gold unless the process stopped.

The conference of governors of the central banks held in New York in the summer of 1927 had a very momentous decision to make. Represented there were the Bank of England, the Bank of France, the German Reichsbank and the Federal Reserve Bank of New York. The representatives of the Reichsbank and of the Bank of France are understood not to have made any commitment regarding policy at this conference except a promise to communicate their intentions with respect to taking gold from London and New York in the future. They left the country before the governor of the Bank of England did. Following this conference in the early autumn of 1927, a renewal and an intensification of the cheap-money policy of the Federal reserve system came. The rediscount rate was first reduced by the Kansas City Federal Reserve Bank, followed shortly by most of the others. Several hundred millions of Government securities were purchased by the Federal reserve system. Bank expansion moved rapidly, and almost all of it went into the securities market, either in the form of bank investments in bonds or in the form of collateral loans against securities. Shortly following this began a very intense speculation in securities, with rising security prices, which ran through 1928 and into the late autumn of 1929.

Senator GORE. Right there, Mr. Aldrich, one question. Was not the rediscount rate made lower than the market rate for money in 1927?

Mr. ALDRICH. All through that year.

Senator GORE. Becoming acute in the Chicago controversies, as to whether it ought to be reduced that low or not. I suppose that meant that the banks could get money at the Federal reserve banks at one rate and could lend it in the markets at a higher rate.

Mr. ALDRICH. Yes. And of course the open-market policy was forcing credits into the banks.

Senator GORE. Yes; anyway.

Mr. ALDRICH. Which they naturally attempted to use in the most remunerative way, at the most remunerative rate that they could, and they got the highest rates in the security market.

Senator GORE. And one of the points in that was to help England from going off the gold standard.

Mr. ALDRICH. Yes.

Mr. ANDERSON. Keep on the gold standard.

Mr. ALDRICH. Yes.

Senator GORE. And they accumulated gold to stay on it.

Mr. ALDRICH. Yes. Point 8 is the gold exchange standard.

Beginning in the middle of 1926, there came an extraordinary development in the substitution of balances in foreign banks, for actual gold in the central banks, as reserve money. The so-called gold exchange standard, as distinguished from the strict gold standard, and in the two years that followed this went very far. In particular, dollars borrowed in the United States through the flotation of bonds was used by foreign central banks as a substitute for gold——

Senator GORE. Repeat that last sentence.

Mr. ALDRICH. In particular, dollars borrowed in the United States through the flotation of bonds was used by foreign central banks as a substitute for gold, and funds borrowed in London in the form of sterling balances in British banks were similarly used as the reserves of continental banks.

You see, they had a bank credit in this country in dollars, and this country being on the gold basis they used that foreign exchange in dollars as gold reserve in lieu of actual gold reserve.

Senator GORE. Yes.

Senator KING. Of course that foreign exchange was available for the purpose of drawing gold from the banks.

Mr. ALDRICH. Yes.

Senator KING. So it was just a matter of bookkeeping.

Mr. ALDRICH. No; because it had the effect of increasing the expansion of credit in this country, because the gold remained there.

Senator GORE. They thought that some things were gold in those countries that did not glitter.

Mr. ALDRICH. Yes. You see, they were borrowing money and getting a bank balance in this country which they were using as part of their own gold reserve.

Senator GORE. Yes; which would have been all right if the dream had continued and had not turned into a nightmare, possibly.

Mr. ALDRICH. Yes, possibly. I doubt even that.

This permitted the credit expansion at home and abroad to go much further than if each bank had carried its own gold. It created a very dangerous situation, the extent of which we realized in the winter of 1931 and the spring of 1932.

Events began to move very rapidly in 1931. First, Austria was pulled down, then Germany, though repaying gigantic sums to her creditors, was finally obliged to ask for moratorium and stand still, and then the run on England's gold reserve began. The gold exchange standard on a great scale is only a fair-weather proposition. When doubt arises regarding the goodness of balances in foreign markets, and different countries seek to convert their balances into gold and bring them home, a very difficult situation is created. England and Germany were unable to meet this situation. We ourselves were so strong in gold that we did meet it. But the liquidation in 1931 and 1932 of the gold exchange standard, which had been built up by the overexpansion in 1926–1928, was one of the big factors in intensifying the present depression and making it as severe as it is. We must never let international short-term credit relations get overextended to this extent in the future.

Senator GORE. I would like to interject right there, Mr. Chairman: I was reading in an old Economist of a long time ago an article written in 1893, when this gold exchange standard was just in the offing, and the writer said that these countries were contemplating the establishment of a phantom gold standard in the name of a gold exchange standard. And that is what it turned out to be, did it not?

Mr. ALDRICH. Yes. If confidence is absolutely unaffected it looks all right.

Senator GORE. A glass ship will stand fair weather; it won't stand a storm.

Mr. ALDRICH. Yes, that is it.

### INTERNATIONAL COOPERATION OF CENTRAL BANKS

This leads me to an observation regarding proposals that there be international central bank cooperation designed to regulate commodity prices or designed to keep cheap money throughout the world in ordinary times, with a view to making world prosperity. The experimence of recent years surely justifies grave reservations on this point. Our efforts to cooperate with England from 1924 on, and especially in 1927, was very largely responsible for the excess of cheap money which has made us so much trouble, and, incidentally, created a world situation which meant a breakdown of central bank cooperation in 1931 and 1932, when the central banks of the continent tried, unsuccessfully, to withdraw their balances from the Bank of England, and did successfully withdraw their balances from us. I firmly believe that the best policy is for each central bank, including the Federal reserve bank, to look after their own money markets in ordinary times and to reserve international cooperation for special limited purposes, and for times of emergency.

I might say paranthetically that what I have in mind when I say special limited purposes is in the case where a country is about to return to the gold standard, where cooperation is needed to make them feel the confidence that is necessary during the period of time to do that. But ordinarily I believe that the central banks should look after their own affairs and not try to cooperate with each other in some artificial way.

This was the rule in pre-war days, and it was a good rule. Any country, in pre-war days, which was expanding credit too rapidly, was very likely to find its expansion checked as other money markets pursuing a more prudent policy began to take some gold away from it. Booms did not go so far, and setbacks were not so violent.

Ninth. The international scare in the autumn of 1931 and the spring of 1932 regarding the standard of value itself, the fear lest we and other countries should abandon the gold standard, precipitated the severest of all the troubles. No other fear so terrible as this. The countries of Europe which had had, during and following the war, such cruel experiences with depreciating and fluctuating currency, reacted to it in an extreme way. Our own people very generally trusted the American dollar, in view of our unbroken record since the end of 1878 in keeping the dollar good as gold, but even they could not escape the pall of fear which pulled down the volume of business in this country by almost one-third from the middle of 1931 to the middle of 1932, which brought the greatest percentage decline of all in security values, and which pulled railroad traffic from the levels at which the railroads' credit was good to levels at which the railroads' credit has been gravely shaken, and which intensified the problem of unemployment to an appalling degree. I shall refer again to this point in discussing "inflation" as a possible remedy for the present trouble.

X. BROKEN EQUILIBRIUM

Business life goes on well when different kinds of production are in good balance, different types of goods being produced in right proportions, so that the sale of one kind of commodity produces income which can be used to purchase other commodities, so that goods can clear the markets of one another. The gravest effect of the breakdown of international trade, in the United States as in many other countries, is to throw out of balance the different kinds of production. At the present time nearly every country is geared up to do more export business than it can do under existing conditions, and has an undue percentage of its labor and resources directed toward foreign markets.

Every country is faced with the necessity of a radical shift in its activites, reducing its activities for export and increasing its activities for internal consumption, unless the trade barriers can be reduced and the foreign markets restored. In the United States, this means especially that agriculture and other raw-material production are greatly overexpanded in relation to manufacturing, which has meant so great a break in the prices of agricultural and raw-material commodities that the producers of these things can not buy even the relatively scant present output of the factories at prevailing prices. The balance among industries must be restored, and the only quick and sure way to do this is to restore the export market.

The importance of foreign trade in our economic life has been questioned on the basis of certain estimates by the Department of Commerce, which made foreign trade 9.9 per cent of the production of movable goods in 1927, and 9.8 per cent in 1929.

I must say first, that these figures of the Department of Commerce do not seem to me quite correct. In figuring the total of movable goods they have taken account of agricultural products, mining products, and value added by manufacture, which is right, and then they have added to the totals railway freight receipts, which I think is wrong when we are seeking a total to compare with exports. If we are going to consider freight receipts at all they should be divided between export business and domestic business and allowance should be made for the longer haul in the export trade. Further, the department should consider shipping and other items. But I think the simplest and best way is to consider merely goods produced and goods exported. When this is done the percentages rise somewhat, standing at 11.2 per cent in 1925, 11 per cent in 1927, and 10.8 per cent in 1929. I have before me the table which I shall put into the record, without reading, using the Department of Commerce figures but eliminating the freight receipts.

The table is as follows:)

*Production of movable goods and proportion exported (freight receipts eliminated)*

[Millions of dollars]

| Year | Agricultural products | Manufactures | Mining | Total | Exports United States merchandise | Per cent of total |
|---|---|---|---|---|---|---|
| 1899 | 3,355 | 4,831 | 600 | 8,786 | 1,253 | 14.3 |
| 1904 | 4,262 | 6,179 | 850 | 11,291 | 1,426 | 12.6 |
| 1909 | 6,472 | 8,385 | 1,238 | 16,095 | 1,707 | 10.6 |
| 1914 | 8,165 | 9,710 | 1,450 | 19,325 | 2,071 | 10.7 |
| 1919 | 17,677 | 24,809 | 3,158 | 45,644 | 7,750 | 16.9 |
| 1921 | 10,268 | 18,332 | 2,900 | 31,505 | 4,379 | 13.9 |
| 1923 | 12,382 | 25,850 | 4,300 | 42,532 | 4,091 | 9.6 |
| 1925 | 11,938 | 26,778 | 4,100 | 42,851 | 4,816 | 11.2 |
| 1927 | 11,616 | 27,585 | 4,000 | 43,201 | 4,759 | 11.0 |
| 1929 | 11,911 | 31,885 | 4,100 | 47,896 | 5,157 | 10.8 |

Source: Foreign Trade of the United States—Department of Commerce, 1931, p. 11.

Mr. ALDRICH. But I do not rest the argument on this percentage. 11 per cent of our total business is a big percentage, but the percentage of many highly important individual products is enormously greater. The following table shows the percentage of various important exports exported in 1929:

| | Per cent | | Per cent |
|---|---|---|---|
| Cotton | 55 | Gasoline | 14 |
| Tobacco | 41 | Typewriters | 40 |
| Lard | 33 | Printing machinery | 29 |
| Wheat | 18 | Sewing machines | 28 |
| Copper | 36 | Agricultural machinery | 23 |
| Kerosene | 35 | Locomotives | 21 |
| Lubricating oils | 31 | Passenger automobiles | 14 |

(Source: Moulton & Pasvolsky's "War Debts and World Prosperity," p. 409.)

Senator GORE. Some of those commodities represent whole industries too.

Mr. ALDRICH. Yes. I was about to say, not even these percentages, however, tell the whole story. For important great areas, the dependence on foreign markets is even greater. Bright tobacco in Virginia, and cotton in Texas, are cases in point. You can prostrate a whole State when the foreign market for its principal crop is cut off. No percentages can take adequate account of the organic interdependence of foreign and domestic business.

Senator GORE. I think there is one step further. Take this tobacco industry in Virginia. All the creditors of Virginia in New York and other markets are all directly affected by this shrinkage of the tobacco business in Virginia. Take the creditors of Texas, the bankers, the merchants, and the manufacturers in Texas that sell to the cotton farmers. They are all directly involved in this. There is a direct reaction.

Mr. ALDRICH. I agree with you.

Senator GORE. So with the wheat farmers and the copper producers.

Mr. ALDRICH. The whole country is an economic entity and a community, and if large sections of the country are in a condition where they have lost their purchasing power and can not pay their debts, obviously the country as a whole is very seriously affected, including the producers of manufactured goods.

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Senator GORE. I think old Gregory King about 1680 figured out that one-tenth increase in supply would cause a fall in price of three-tenths. You see those ratios are not even. The fall in price is out of proportion to the increase in surplus.

Mr. ALDRICH. There is no doubt at all but what the prostration of these large sections of the country by reason of the loss of their export markets has an effect which it is impossible to exaggerate in the economy of the country as a whole.

## REMEDIES

I think that the foregoing analysis of the major causes of the present situation will justify my proposals as to remedies. Some of them I shall list briefly.

I. Prompt settlement of the interallied debts.

II. Prompt reciprocal reduction of tariffs and the moderation of other trade barriers.

The CHAIRMAN. In your remedies you say, first, prompt settlement of the interallied debt. Have you any idea that you would like to express to the committee as to how those settlements should be made?

Mr. ALDRICH. I have ideas about it, but I do not think it is appropriate to express them just at the moment when the whole thing is going into negotiation. I would say this, Senator, that I do not want to put any emphasis on these things by reason of the numerical way that I list them.

The CHAIRMAN. Well, I did not take it as such.

Mr. ALDRICH. They are all part of one problem.

These two things are basic to the restoration of our export trade, which, in turn, is basic to the restoration of balance in our own economic life, so that our farmers and other producers of raw materials, receiving good prices for their products, may be able to buy the products of our factories in adequate volume, restoring activity and employment in the cities and restoring an adequate volume of traffic for the railroads.

III. While these basic measures for restoration of normal activity are being put through, I would continue a policy of emergency credit relief, making use of the Reconstruction Finance Corporation. We must face the fact, however, that not all of the existing fabric of capital debt can be maintained in full. There are important cases where the capital structure is top-heavy, and where it is desirable to scale it down to conform to the existing facts. The Reconstruction Finance Corporation should not be called upon to validate capital structures which can not be maintained even when we get a moderate business revival. Instead, we should scale down fixed charges in a good many important cases. It is good credit policy to tide over in emergencies solvent institutions whose total assets exceed their total liabilities, but it is not good policy to undertake to validate the really inadequate assets of insolvent institutions.

Senator GORE. That is binding up the wound that is gangrenous, is it not?

Mr. ALDRICH. Absolutely. We must face the fact. We have lived too long in a state of illusion.

To facilitate reorganizations, the new bankruptcy legislation, that relating to corporations as well as that relating to individuals, should be enacted as soon as possible.

IV. I would extend emergency credit relief to the farm-mortgage situation, and also to certain city-mortgage situations when, in the judgment of the Reconstruction Finance Corporation—I mention that because it seems to be the instrumentality which is handling the matter—a general financial interest is involved. In connection with farm-mortgage relief—and in fact any credit relief—I would make every effort to deal with intelligent discrimination with individual cases, seeking to bring debtors and creditors into agreement with one another, seeking to limit the Government's financial commitments to what is necessary to persuade creditors to make the necessary adjustments but still doing the thing in a big enough way to make sure that an honest and competent farmer doesn't lose his farm. It is to the interests of the country and to the interests of the creditors, by and large, that that farmer, who, with his family, knows the farm, knows its potentialities, knows his local markets and has the home lover's interest in the farm, should be able to stay upon it and to control it.

I think that also applies to the home owner generally.

I think we ought to avoid sweeping legislation making a general rule for every farmer. There are some farm mortgages which are perfectly good, where the farm debtor is able to pay interest and amortization, where he needs no relief, and there is no reason why the contract should be altered. There are other cases where he needs a great deal of relief. The same thing is true in connection with city mortgages and other debts.

Senator GORE. Right there I want to get this in the record. I had a letter from a prominent insurance company the other day in which they said that only 15 per cent of the farm mortgages were really distress cases.

Mr. ALDRICH. I was talking to a banker the other day from the Middle West, and he gave me these figures, which he gave me from memory, and I have not got a memorandum of them, but I have great confidence in the gentleman and I think they are probably approximately accurate. He said that the farms owned by individuals are encumbered in the State which has the highest average of that kind to the extent of about 59 per cent in number of the farms. That is in the highest State, which would be in Iowa or some State like that.

Senator GORE. Yes, Iowa is the worst. That is the plague spot.

Mr. ALDRICH. Yes. That the average is less that that. That it is something over 50 per cent. That is to say that of the farmer-owned farms, 59 per cent is the highest percentage in any State of farms that are mortgaged. That of that 59 per cent, not over 50 per cent are in difficulties. Even in the worst States. That the average is somewhat lower. He would put the average of farm mortgages in difficulty as between 25 and 27 per cent.

Senator GORE. That is of the toal farm mortgages. The figures I had I believe related to all farms. Fifteen per cent of all farms represented distressed mortgagors.

Mr. ALDRICH. Yes.

Senator GORE. Which would make it work out about the same as yours.

Mr. ALDRICH. Yes. It would work out about that, yes. An he also pointed out that of the mortgages that were in distress a large percentage were not first mortgages. They were second mortgages. But the distress was caused by the liens on farm equipment which the farmer had bought, or other expenditures that he had made other than in connection with the purchase of his land. Of course that does not help the farmer any, but that is the fact. It simply illustrates the necessity of dealing with these cases on an individual basis.

Senator GORE. Theoretically that is true, Mr. Aldrich, and it would make the problem much simpler. But when a Government comes to deal with it, and men who have to get elected to office have to do with it, and they say that John Doe is entitled to have his mortgage burden ameliorated but Richard Roe is not, Roe is going to vote against the fellow that says that.

Mr. ALDRICH. I am getting rather beyond my depth I think, in talking about farm mortgages, but——

Senator GORE. I agree with you that there ought to be discrimination in the handling of this thing, but when it comes to the question of constituents that want favors I am not so certain that this discrimination will prevail.

Mr. ALDRICH. I would say that the sound way to handle the situation is to get right straight behind the farm loan banks. I have been told by people who know a great deal more about the situation than I do that the farm loan banks are handling the problem with great discrimination and wisdom.

Senator GORE. I think they were doing that until Congress appropriated $125,000,000, subscribed for new stock, setting aside $25,000,000 for extension purposes, and after that the bank presidents tell me that the good and the bad sought extensions and sought favors. It multiplied the demand for leniency. I knew that would happen. It could not be otherwise. That illustrates the evil.

Mr. ALDRICH. Of course the next two sentences I am going to read here——

Senator GORE. I beg your pardon for interrupting you. I apologize to you and the committee.

Mr. ALDRICH. I am only mentioning that because of the fact that this brings up a point that I am just going to cover.

Senator GORE. Proceed.

Mr. ALDRICH. I have said that these things should be treated on a case basis. Such relief as is given should be given to embarrassed debtors and not to debtors as a class. We must protect the commercial morality of the country in the interests of the future giving and taking of credit. We must seek to be fair to creditors as well as to debtors. If we establish a precedent of allowing men who are perfectly able to pay their debts to escape from them in part merely because other men are unable to pay their debts in full, we shall strike a very severe blow at the fabric of confidence in the future.

Now the worst thing for the credit of the farmer in the future that could possibly happen is to have the men who can pay their debts not obliged to pay them because of the fact that other men can not. We must discriminate to protect the creditor so that we do not destroy credit in the future. In fact the most important thing in this whole situation is to preserve the credit structure of this country.

Senator GORE. We are complaining here that banks will not extend credit, and other people who have money will not extend credit on the one hand, and on the other hand we are preparing to make it impossible for them to collect what they already have out, and that accounts for the necessity of the Government entering into the credit market and extending credit to everybody.

Mr. ALDRICH. Senator, I believe that if we are left alone in this situation to deal with these cases on an individual basis, that the wisdom and fairness of the creditor class of this country can be depended upon not to destroy the farm fabric or the home fabric of the country.

Senator GORE. You think the creditors would finally face the fact that they have suffered a loss, and would treat that loss as a fact?

Mr. ALDRICH. They have got to do it.

SENATOR GORE. They ought to do it.

Mr. ALDRICH. As a matter of fact, they will, on this basis, that if a man can not pay, he has got to be given accommodation which will enable him to pay, and still continue him on the farm if he is an honest man who desires to pay his debts. It seems to me that is the test, from the point of view of the creditor.

Senator GORE. I think you are right. If the committee will indulge me for a minute, I tried to work out a scheme of that sort, to get the 14 big insurance companies that hold most of the farm mortgages to agree on some sort of plan under which the Government would issue a Federal charter to these insurance companies as a sort of holding company, and let them turn their notes and mortgages over to this company, extending the time of payment, converting short-time farm loans into long-time farm loans, and letting the present interest rate, which is comparatively high, cover both interest payments and amortization in future.

I got this answer: They do not seem to be disposed to take these losses as facts, and they said they had four sorts of securities outstanding: Government securities, railroad securities, utilities securities, and farm mortgages, and that they had stipulated to earn, say, 4.60 for their policyholders. Their Government securities yielded about 3 per cent; the railroad securities, 4¼; the utilities 4.60, what they had stipulated to earn, and they told me that they had to preserve these 6 per cent farm mortgages in order to lift the average of the four up to the point where it would meet the obligations of their contracts with their policyholders, which I inferred to mean that they would not take the loss on these farm mortgages as a fact, because they are not getting the money from these farmers, and they are not going to get it. It is a loss which has been sustained, and much of it will never be recovered.

I just throw that in to show their reaction.

Mr. ALDRICH. My recollection is, Senator, that the last statement of the Metropolitan Life Insurance Co.——

Senator GORE. They do not have many farm mortgages.

Mr. ALDRICH. They do not have many farm mortgages.

Senator GORE. Very few.

Mr. ALDRICH. But I think the farm mortgages they have are probably of a similar character to other farm mortgages. Their statement showed that less than 2 per cent of those farm mortgages were in the process of foreclosure. Therefore, it would indicate that they had not been putting pressure on the farmer, which would result in his being taken off the land.

Senator GORE. They have a very small percentage of farm mortgages, and may be dealing with them very reasonably. They may all be.

Mr. ALDRICH. I think they are. Doctor Anderson is more familiar with the farm problem, because he has been out there. Don't you think that is a fair statement, Doctor, that they are dealing with this situation fairly?

Mr. ANDERSON. The local creditors are dealing with it very realistically, as far as I could judge from Central Missouri, where I know the situation best, from studying individual cases. Outside lenders are not quite so realistic, but in the case of the Metropolitan, to which Mr. Aldrich refers, I am told by the chairman that they are studying very closely the individual cases. In regard to the matter of going into a combination of 14 insurance companies, the Metropolitan would probably prefer to handle each case itself.

Senator GORE. That is one of the companies that I not only wrote to, but visited in person to discuss the matter.

Mr. ALDRICH. I now come to the subject of inflation.

My view is that we shall get out of this depression by removing its causes. The chief of these is a broken equilibrium, growing out of strangled international trade. This has made raw materials and farm products pile up unsold in the United States, even though offered at very low prices, and has led to an immense contraction in the volume of manufactured goods, and in manufacturing activity, though the prices of those things have not fallen nearly as much as farm prices and raw material prices have fallen. I would ease off the situation by giving emergency credit to prevent further forced liquidation of good assets at depression levels. And I would emphasize the necessity of undeviating adherence to sound money and to sound public finance as vitally important to alleviate the fears which have arisen with respect to our currency and our Government credit.

But I am aware that there is another view, or set of views, advanced by men who think that the trouble with the world is simply a shortage of money and credit, and who propose to bring about a revival of business by what they call "inflation."

The word "inflation" is a very unsatisfactory word. It covers a wide variety of meanings and I believe it best to distinguish among some of these different meanings and to talk about concrete proposals. Among the possible meanings are the following:

(1) The issue of irredeemable paper money.

(2) The debasement of the standard of the currency, (a) by reducing the gold content; (b) by introducing silver bimetallism.

(3) Going off the gold standard by suspending gold payments, which gives you practically the same situation, as (1), namely, the issue of irredeemable paper money.

(4) Some men would call a great increase in gold producion in the world leading to an increase in gold throughout the world, "inflation."

(5) Some have called the concentration of gold in a single country, "inflation." Thus Professor Fisher referred to the gold which we obtained during the war as causing "gold inflation."

(6) Some would call any expansion of bank credit, "inflation."

(7) Some would limit the word "inflation" to those changes in the currency and credit situation which raise commodity prices. This, for example, was Professor Cassel's view, and he denied pointedly

that there was any "inflation" from 1922 to 1928, because commodity prices didn't rise. The fact that credit expanded enormously and that we were having great speculative excesses and great price rises in real estate and in the stock market meant nothing at all to him, and he demanded even more credit when commodity prices softened a little. Mr. J. M. Keynes, in his recent treaties on money (Vol. II, p. 190), says with respect to the years 1926–1929:

Anyone who looked only at the index of prices would see no reason to suspect any material degree of inflation; whilst anyone who looked only at the total volume of bank credit and the prices of common stocks would have been convinced of the presence of an inflation actual or impending. For my own part, I took the view at the time that there was no inflation in the sense in which I use this term. Looking back in the light of fuller statistical information than was then available, I believe that while there was probably no material inflation up to the end of 1927, a genuine profit inflation developed some time between that date and the summer of 1929.

This confession of error on Mr. Keynes' part comes too late to do anybody any good. He was one of the men who were urging cheap money through the whole of the period from 1922 on, and he continued to do it after the stock market broke in 1929.

Senator COUZENS. Mr. Aldrich, I am obliged to leave to attend another meeting, but would you mind amplifying this statement on page 12, at the top of page 12, where you say the following:

I would ease off the situation by giving emergency credit to prevent further forced liquidation of good assets at depression levels.

Mr. ALDRICH. Senator, that goes back to the statement that I had made earlier in this analysis with regard to remedies, where I speak of the Reconstruction Finance Corporation. It is on page 10, at the bottom of the page, where I say:

I would continue a policy of emergency credit relief, making use of the Reconstruction Finance Corporation. We must face the fact, however, that not all of the existing fabric of capital debt can be maintained in full. There are important cases where the capital structure is topheavy:

And so forth.

Senator COUZENS. As I understand it, when you talk about the giving of emergency credit, you mean that to be given by the governmental agency.

Mr. ALDRICH. Through the Reconstruction Finance Corporation, for the purpose of permitting, as I say on page 11, solvent institutions whose total assets exceed their total liabilities, to mobilize their assets so that they do not have to dispose of them at deflated prices.

Senator COUZENS. You mean by that, then, that they should give credit to manufacturers direct, whose commodities have backed up?

Mr. ALDRICH. No, I do not.

Senator COUZENS. Then who is to extend this emergency credit to the manufacturer or producer?

Mr. ALDRICH. I think that that ought to be done through the banks, the ordinary banks.

Senator COUZENS. That is what I am wondering. Why don't they do it?

Mr. ALDRICH. I thnk they are doing it, as a matter of fact, whereever they have sound assets.

Senator COUZENS. Of course, there is always an "if" in all those things, Mr. Aldrich. Perhaps you can give me a definition of what you consider a sound asset, because my observations are that, notwithstanding the nearly $2,000,000,000 that has been advanced by the Reconstruction Finance Corporation, very little has gone back to the producers for the purpose of accomplishing the very thing that you suggest should be accomplished.

Mr. ALDRICH. By the producers, what do you mean?

Senator COUZENS. Manufacturers.

Mr. ALDRICH. I have to look at this from a personal point of view, as I see the thing myself. Take my bank, for example. Our lines to manufacturers have not been contracted. We have lines out to manufacturers all over the country, which are not being made use of.

Senator COUZENS. Is that emergency credit? Do you call that emergency credit?

Mr. ALDRICH. No, I do not.

Senator COUZENS. I am trying to get an amplification of what you call emergency credit.

Mr. ALDRICH. When I am talking about emergency credit, I am talking about a situation which would involve forced liquidation.

Senator COUZENS. Forced liquidation of what?

Mr. ALDRICH. Of commodities, or assets. I am talking about emergency——

Senator COUZENS. Just a minute. What kind of assets do you mean, outside of commodities?

Mr. ALDRICH. Assets of manufactured goods, if that were the case—liquidation of credit of various kinds of institutions; liquidation of railroad credit, for example. Take these banks that have been in difficulties. I think that certainly the Reconstruction Finance Corporation should advance credit to those banks, to the point where they can advance the credit on good assets. I do not think, myself, that corporations that are insolvent, whether they are banks, railroads, or anything else, should be maintained. I think they ought to be let go.

Senator COUZENS. What is the definition of "insolvency" at the present time?

Mr. ALDRICH. That is a difficult thing to determine.

Senator COUZENS. Then, so long as you are advising the Congress here, it seems to me you ought to define it for us. We are unable to define it for ourselves.

Mr. ALDRICH. Do you think it is possible to define it?

Senator COUZENS. I doubt it, but you are talking about it, and so long as you are talking about it, I want you to define it.

Mr. ALDRICH. Senator, there is a line where it is perfectly obvious one way or the other. Just how broad that line is I would not dare say. There is a twilight zone, undoubtedly, on either side of the line of solvency or insolvency.

Also, there is another difficult thing about it, to determine whether we are justified in believing—take the case of the railroads—that the economic situation is going to change with sufficient rapidity to enable a particular road to go on and do business and carry its capital structure in its present form. I do not think anybody can foresee exactly when a particular railroad would be determined, under the economic situation that we saw ahead of us, to be faced with reorganization. I think that is a question in which you have to look at all the circumstances surrounding the individual case. I think that is equally true of any institution to which the Reconstruction Finance Corporation is advancing emergency credit.

Senator COUZENS. While we are doing that, we have to speculate as to the future.

Mr. ALDRICH. Right.

Senator COUZENS. How far can we speculate as to the future with Government credit?

Mr. ALDRICH. I must say that is a very difficult question to answer.

Senator COUZENS. You are right in the heart of Wall Street, in the financial interests, and I would like to know, or I would like to get some advice as to how far you think the Federal Government can go in selling securities to finance all these projects and activities.

Mr. ALDRICH. I am afraid, Senator, that I am one of those who do not think they ought to go very far.

Senator COUZENS. We have approximately $21,000,000,000 out now. How much further do you think we could go?

Mr. ALDRICH. You mean of Government debt?

Senator COUZENS. Yes. That has all been built up—at least a couple of billion dollars have been built up to carry out the very policy you are recommending.

Mr. ALDRICH. I do not think it is possible to answer that question. In fact, Doctor Anderson and I discussed at great length whether we should attempt to answer it.

Senator COUZENS. Do you think we should go on, then, and do all you say here, furnish emergency credit for the manufacturers, and all of these other activities?

Mr. ALDRICH. I did not propose that, Senator.

Senator COUZENS. But you said you proposed to ease off by giving emergency credit to prevent further forced liquidation of good assets. That means——

Mr. ALDRICH. What have you been doing, as a matter of fact? You have been assisting the banks. You have been assisting the railroads. You have been assisting the institutions which the Conress has felt were fundamental to the economy of the country. That is what you have been doing, is it not?

Senator COUZENS. Yes.

Mr. ALDRICH. I would continue that.

Senator COUZENS. You would continue that?

Mr. ALDRICH. Yes.

Senator COUZENS. How far?

Mr. ALDRICH. I would continue that to the point—and I think this is the most difficult question that you have to decide, as a matter of fact——

Senator COUZENS. That is what we want your help on.

Mr. ALDRICH. I will give you my help, but I do not want to say something that I do not mean, or that is ill considered. Every time you try to determine whether any given institution is sound financially you have to study it against a background of economic conditions as they exist, and project that into the future, have you not, to come to any reasonable conclusion?

Senator COUZENS. I assume that is true; but how far into the future? Ten years, five years, or what?

Mr. ALDRICH. Personally, I would say that you would have to do it for at least a year.

Senator COUZENS. Only a year?

Mr. ALDRICH. At least a year.

Senator CLUZENS. If we could stop at a year, we would not make any more loans.

Mr. ALDRICH. I think some of these institutions you are loaning to, if conditions do not change within a year, are going to be faced with reorganization.

Senator COUZENS. Say that over again.

Mr. ALCRICH. I think some of the institutions to which the Reconstruction Finance Corporation is lending money, if conditions do not change within a year, will be faced with reorganization, because of the fact thay you will come to the conclusion that you do not want to go on supporting them any longer.

Senator COUZENS. Would you advise that we go on supporting them to the point where we could not sell all our Government securities, or at least the prices are so depressed——

Mr. ALDRICH. I would not go on supporting them to the point of jeopardizing the Federal credit, for a minute.

Senator COUZENS. Will you tell us just at what point you would stop? If you were operating as a financial czar in the Government, where would you stop selling Government securities?

Mr. ALDRICH. I do not think you have to be faced with that question, as a matter of fact. The public are going to answer that question for you. The only way you can sell Government securities in the volume you are doing it, and will have to do it—unless you go right bang into some kind of inflation, such as I am going to describe here in a few minutes, and sell your securities to yourself, is to sell them to the public. The public will be the judge of whether you are jeopardizing the credit of the Government by what you are doing, and the manner in which they judge is the fact that they will not continue to buy your bonds at the rate of interest that you will feel justified in selling them at.

Senator COUZENS. So that when we reach the point where we have to raise the interest substantially, then you think we ought to stop, is that right?

Mr. ALDRICH. I should suppose that was one test, but I think you will find that your own instinct will tell you when that time comes. It becomes obvious, when credit is so overextended that they are not going to absorb any more of your securites——

Senator COUZENS. Just what is the difference between instinct and woman's intuition? Is there any great difference?

Mr. ALDRICH. That is an unfortunate thing to say. I will withdraw that remark.

Of course, as a matter of fact, Senator, the whole thing depends on two factors, your taxation policy, the policy with regard to the Budget, and the policy which you are continuing with regard to Government expenditure. Obviously, you can not continue to spend money that you can not borrow. That policy is fatal. If you are impairing your own credit, the Government must stop.

Senator COUZENS. We have practically half of all the Government securities in the Federal reserve banks, and members of the Federal reserve system. Assuming the almost unbelievable situation, that business should start to recover rapidly, they would have to unload, would they not?

Mr. ALDRICH. I do not think so, no.
Senator COUZENS. What would they do?
Mr. ALDRICH. Whom do you mean by "they"?
Senator COUZENS. The Federal reserve banks, and the members of the Federal reserve system, if credit was needed by industry.
Mr. ALDRICH. You mean if we needed an expansion of credit and currency?
Senator COUZENS. No. I am talking about credit, not currency—expansion of credit. In other words, if there were a very prompt demand, even within a year, for money for industry, the member banks and the Federal reserve system would have to commence to unload the Government bonds, would they not?
Mr. ALDRICH. No, I do not think so.
Senator COUZENS. How could they carry both?
Mr. ALDRICH. Because of the fact that the Government bonds are available to the Federal reserve for rediscount, and a good many of them have the issue privilege now.
Senator COUZENS. But, as a matter of fact, just as soon as these banks commence to have any substantial withdrawals, even now, before any recovery is in sight, they have to unload these securities to pay off their depositors.
Mr. ALDRICH. No, that is not true. You do not have to unload them.
Senator COUZENS. What do they do with them?
Mr. ALDRICH. We have been carrying, as I am about to point out here, excess reserves. Banks have been carrying excess reserves to an extent which, I think, under present conditions, is unjustified. I think that they have been too great, but it is not necessary to sell those Governments. You can take them to the Federal reserve and rediscount them. You can use them as a pledge for an advance.
Senator COUZENS. But they have to pay more interest when they do that, than they do if they sell them.
Mr. ALDRICH. That is true.
Senator COUZENS. I know as a fact that banks that are having heavy withdrawals are selling their Government securities on the market to-day, rather than rediscounting them and losing the difference in interest rate, especially if they have any of these short-time, low-interest-rate notes. A process of that kind will obviously depress the value of Government securities, will it not?
Mr. ALDRICH. If the banks are obliged to liquidate their Government holdings, of course it will. There is no doubt about that at all. But the only point I am making is that primarily a Government security is a liquid asset of a bank, which is does not have to sell in order to realize on, because it can take it to the Federal reserve bank, and also national banks have wide latitude in connection with the issue of currency against Governments.
Senator COUZENS. Has your bank borrowed anything from the Reconstruction Finance Corporation?
Mr. ALDRICH. No.
Senator COUZENS. You have not borrowed anything?
Mr. ALDRICH. No, indeed.
Senator COUZENS. Here we are confronted with prospective loans, prospective requests for loans running up into $7,500,000,000, and collateral to be offered for those loans consists of real-estate mort-

gages—we will assume that most of them are not more than 90 days past due, either as to interest or principal—and notes collateraled by stocks of questionable value—and when I say that, I mean that they are questionable now, but I am not saying that they will not recover. Do you believe that the Government is justified in going out, for instance, and borrowing $100,000,000 on its own paper to lend to a banking institution with that kind of collateral?

Mr. ALDRICH. I think that it is, but that question requires a rather lengthy answer. I think it is an entirely proper function of the Reconstruction Finance Corporation to make liquid for a bank, an asset like a real-estate mortgage, which is frozen in its nature, which can not be realized on immediately, by advancing against it, provided that that real estate mortgage is a sound mortgage—and most of them are. Therefore, I should say that it was entirely proper to advance against real-estate mortgages, and thereby make liquid an asset which is frozen.

Senator COUZENS. Would you extend that view to real-estate mortgages on apartment houses, office buildings, and hotels?

Mr. ALDRICH. I think you have to use a great deal more discretion in the case of a hotel or an apartment house, than you would in the case of an office building, or seasoned piece of real estate which was not in the hotel or apartment-house business, because I think that those projects are having a great deal of difficulty to-day. Therefore, I think you have to use discretion in the individual instance, and I would approach that kind of a mortgage with a great deal more hesitancy than I would, perhaps, a more seasoned one. But I think that that is a proper loan.

Senator COUZENS. Have you any views concerning legislation which would authorize the national banks to sell preferred stock?

Mr. ALDRICH. I have, yes.

Senator HASTINGS. Just before you leave that other subject, may I inquire, Mr. ALDRICH, whether in your judgment the advancing of money by the Reconstruction Finance Corporation to banks that tender as security mortgages which are considered, as far as the banks are concerned, a frozen asset—is not that the greatest opportunity for the Government to aid the banks under these present conditions?

Mr. ALDRICH. This is exactly what I think, yes. In fact, I have said so in this memorandum. I think the proper function of the Reconstruction Finance Corporation is to permit the making liquid of good but slow assets.

Senator HASTINGS. All right. Thank you.

Senator GORE. May I ask one question, Senator Couzens?

Senator COUZENS. Certainly.

Senator GORE. First observing that it is easy to lay down a rule in the abstract to guide the Government in advancing credit, and that it is hard to apply that rule in the concrete. Of course, everybody would say the Government ought to advance credit to deserving debtors who are in distress, but who have a reasonable prospect of making payment in the long run. If we agree to any rule at all, we agree to that. You do that, and John Doe comes along and proves himself to be in that category and gets a loan. Richard Roe comes along and says, "Here, you have let Doe have a loan." Congress would say he deserved it. He is a good fellow. Roe says, "I need it." There are more members of the Roe family than there are of the

Doe family. I had this concrete case, and that is the reason I mention it. A representative of a group came to me the other day. He wanted the Government to advance them credit, and wanted the law changed so the Government could advance them credit. They did not undertake to make a case on their own merits. The only point they made was this, "Are you going to discriminate against us? You have loaned money to other people, and loaned money to our competitors. Now, are you going to discriminate against us?"

That was the only argument, and they put in the form of a question. I say that to bring you up against our practical difficulty here, Mr. Aldrich. It is not at all certain that when Congress votes to grant a favor to a citizen, or a group of citizens, that those citizens will vote for those Congressmen or Senators. If you refuse them a favor, they will vote against you. There is the psychology we have to combat, and that some do not combat successfully. Of course, I would not expect you to answer that point, but I would like to have you keep that in mind in all your recommendations. We are all human beings here.

Pardon me for one more remark. An engineer, in constructing a building, will not put any more stress and strain on a piece of steel that it will stand. He can calculate how much it will stand, and he will not put an excess burden on it. I think that in our policies here we ought not to put a stress or strain on human nature that we know it will not stand, but we constantly do it.

Mr. Aldrich. Senator, you asked me if I had considered the question of preferred stock for a bank.

Senator Couzens. Yes.

Mr. Aldrich. I have. In fact, I have a memorandum in my bag on that subject. I think it ought to be done.

Senator Couzens. I have a bill which I have had drafted, which I am considering introducing, but there is quite a difference of opinion as to it. I do not want to take you off your paper, but if you could briefly state what the possibilities were of selling any such preferred stock, I would be glad to have you do it.

Mr. Aldrich. I really could not express an opinion on that. The matter of selling preferred stock of any corporation is a question of the circumstances surrounding that particular corporation. I think it is desirable to permit banks to issue preferred stock in the future, and the question of whether that stock should be given such character as to make it particularly attractive to investors is one I would like very much to discuss with you. I think it is a very interesting problem.

Senator Couzens. It is. I have discussed it with Mr. Traylor of Chicago, and others, including Senator Glass, and there is some difference in view about it. I would be glad to discuss that later. I do not want to take up the time of the committee on that now.

There is one more question I would like to ask you, with respect to these loans to banks. Seven hundred banks, after having come and gotten money from the Reconstruction Finance Corporation, have closed, and hundreds more are going to close, which have already gotten money from the Reconstruction Finance Corporation. What happens is this: I have, for example, a deposit of $100,000 in a moderate bank—say a couple of hundred thousand capital. I go in, and I am a rather influential citizen in my town, and I say to the president or cashier, "I want to withdraw my money." "Oh," he says, "don't do that. We are in bad shape. We don't want any such substantial withdrawals now." So I say to him, "You go to the Reconstruction Finance Corporation and get the money. You have collateral." So he goes to the Reconstruction Finance Corporation and he gets the money, and I withdraw my $100,000, and the rest of the depositors and creditors have had their security substantially reduced, almost, perhaps, eliminated. I have my $100,000, and the rest are all high and dry. What can you do to prevent that?

Mr. ALDRICH. You cannot prevent it, under that system.

Senator COUZENS. I want you to suggest a system to prevent that, so long as you recommend that we continue to make those loans, because I know of an instance——

Mr. ALDRICH. Haven't you got pretty closely on the track of that yourself, as to how to do it?

Senator COUZENS. No; I do not know just how to do it. The only way I know how to do it——

Mr. ALDRICH. I think you know how to do it. I think your bill will do it.

Senator COUZENS. I know how they are doing it in Michigan.

Mr. ALDRICH. I would like to discuss that with you. I think you are on the right track.

Senator COUZENS. I am glad to hear you say that. That substantially means this, that there has got to be, in all of the States where there is a lack of liquidity, a partial moratorium, or a restriction on withdrawals?

Mr. ALDRICH. I would not go so far as to say that.

Senator COUZENS. How are you going to restrict withdrawals?

Mr. ALDRICH. I would say this, that where you have a bank that is insolvent, you simply creat preferences.

Senator COUZENS. I do not know hou you arrive at insolvency. I can not get an interpretation of insolvency during these days.

Mr. ALDRICH. The national bank examiners are pretty good at determining whether a bank is solvent or not.

Senator COUZENS. At present-day values, they are not solvent.

Mr. ALDRICH. Senator, that is a pretty broad statement, to say that at present-day values, they are not solvent.

Senator COUZENS. You say in this statement here——

Mr. ALDRICH. As a matter of actual fact——

Senator COUZENS. You say in this statement, "forced liquidation of good assets." Now, forced liquidation of good assets obviously wrecks the bank, does it not?

Mr. ALDRICH. If you go back to page 10, Senator, you will see that I feel exactly about this thing as you do.

Mr. ANDERSON. May I interject, Mr. Aldrich? That sentence on page 13 was one which you dicatated very hastily, designed to summarize what you had said on the bottom of page 10 and the top of page 11, and I think you might just withdraw that sentence at the top of page 12, and say that that means no more than what you have said in section 3.

Mr. ALDRICH. That, of course, is exactly what it is. I stated the thing fully, Senator. You did not hear what I said on page 10. You asked me to expand that. As a matter of fact, I had already fully said it on page 10. I think you and I are in accord on the wisdom of using the credit of the Reconstruction Finance Corporation to bolster up a situation which is inherently unsound. I would not put the statement anywhere near as broadly as you just did, about moratoriums, because I do not think it represents the facts. But I do think that proceeding along the lines of the bill which you have introduced, which, again, I would like to talk to you about, because I have some perfectly definite ideas about it, is a sound method of approach.

Senator COUZENS. Then, assuming that this bill is passed and becomes a law—this is a joint resolution—then how does it operate? How would it operate? It would have to operate, would it not, in accordance with the laws of any of the several States?

Mr. ALDRICH. That is the one thing about the bill I disagree with. I think what you are aiming to do is exactly right, but I think it should be a Federal law which is uniform.

Senator COUZENS. You can not draft a Federal law in these chaotic times which will act in all of the different circumstances that exist in the several States.

Mr. ALDRICH. I think you can.

Senator COUZENS. You are a banker, and I am a legislator.

Mr. ALDRICH. I do not think we can do it here, but I think it could be done.

Senator COUZENS. I want to come back to this question of borrowing again. How can you stop preferences or withdrawals under any circumstances? I mentioned the example that I just gave you as a concrete case. Assuming that you are a director of a bank, and you are also a great manufacturer, and you have $25,000,000, $40,000,000, or $50,000,000 of deposits, and you know that the rate of withdrawals is such that all of the deposits can not be paid, and so you, being on the inside, and having this knowledge, withdraw your money; or, if you do not withdraw it right away, you arrange it so that money is borrowed from the Reconstruction Finance Corporation, and then, as the days go by, you see the constant withdrawals, and you obviously get yours out. There are 50,000 other depositors in that bank who have not the same knowledge you have, and in the meantime the securities of that bank are hypothecated with the Reconstruction Finance Corporation, and the other 50,000 depositors have had their security weakened for the purpose of making preferential payments to depositors. How are you going to stop that by law?

Mr. ALDRICH. You can not.

Senator COUZENS. Then, I do not think we ought to go on assisting if it can not be stopped by law.

Mr. ALDRICH. When you use the word "preference," you assume insolvency.

Senator COUZENS. Not necessarily.

Mr. ALDRICH. You do. You can not get away from it. You assume ultimate insolvency, or there is no preference.

Senator COUZENS. Yes; there may be ultimate insolvency. No one knows as to that.

Mr. ALDRICH. If the bank is in condition where it ultimately pays all its depositors, there is no possiblity of preference.

Senator COUZENS. You are injecting another word into the discussion, and that is "ultimate."

Mr. ALDRICH. All right.

Senator COUZENS. I do not claim that these banks may not ultimately pay out, especially if we have any degree of recovery. I am not talking about what they may ultimately do. I am talking about the present situation. Whoever gets his deposits out of the banks now, speculates on whether the bank will ultimately be solvent. I do not propose, so far as the Government is concerned——

Mr. ALDRICH. To my mind, Senator, the solution of that is to give power to treat the situation along the lines that I know you have in mind, where it is necessary to do it, but not to do it in cases where it is not necessary. In the first place, you do not want to throw any cloud on the perfectly solvent institutions of this country.

Senator COUZENS. Certainly not.

Mr. ALDRICH. By any legislation which is general in nature.

Senator COUZENS. I understand that.

Mr. ALDRICH. It must be specific.

Senator COUZENS. But you talked about the twilight zone a while ago. There is a twilight zone, and nobody knows when the cloud is going to come over that twilight zone.

Mr. ALDRICH. If you approach that twilight zone, then the situation is such that some action protecting the depositors of the bank must be taken. I think I can show you how that can be done by legislation, but I think myself it should be Federal legislation which is uniform in its scope, rather than legislation which would result in the Comptroller of the Currency administering some 45 different kinds of law.

Senator COUZENS. This proposal of mine is only to last a year, and obviously we could not get any such program as you suggest through before this session expires. It would take too much study.

Mr. ALDRICH. As an emergency measure, I think you and I are in entire accord. It is a little difficult for me to talk about it.

Senator COUZENS. Be frank.

Mr. ALDRICH. I have to have in mind the fact that every statement that I make might be thought to be wider than I intended it to be.

Senator COUZENS. That happens with every Member of Congress. What is the difference between you and any Member of Congress?

Mr. ALDRICH. I think we are all probably embarrassed at times by making statements that are broader than we intended them to be.

Senator GORE. Here is the impossible main point: You are in favor of extending first aid to those who are injured, and need it. How can you do that without raising the suspicion that these people who do not need it and have not been hurt, really have been? In other words, without destroying confidence in those that deserve confidence?

Mr. ALDRICH. As a matter of fact, those that deserve confidence are not afraid of it. I personally do not believe that the banks that are in a perfectly sound position here have anything to fear whatever.

Senator COUZENS. I want to say this, that in my judgment—and I want to know if you differ—every bank that has to come to the Reconstruction Finance Corporation for a loan, is in the twilight zone.

Mr. ALDRICH. I do not think that is necessarily true.

Senator COUZENS. I have not observed any loan that they have made, where the bank was not in the twilight zone. I do not mean to carry the impression by that that they are not ultimately going to pay out, but I mean it is questionable, because it is in the twilight zone, and the cloud may pass over it, or it may not touch it at all.

Mr. ALDRICH. Obviously, Senator, if that statement were true, and you are going to publish the loans made by the Reconstruction Finance Corporation, a bank might much better close at once than get a loan from the Reconstruction Finance Corporation.

Senator COUZENS. In my judgment, 90 per cent of the banks had better close than to get money from the Reconstruction Finance Corporation.

Mr. ALDRICH. I would not agree with that. I think the Reconstruction Finance Corporation has done a great good in permitting banks to liquidate slow assets—banks that are perfectly sound, that have, perhaps, too heavy a commitment in real estate, which they can not liquidate. But I certainly do not think it is true that every bank that has borrowed money from the Reconstruction Finance Corporation is thereby committed to preference. I am sure it is not true, as a matter of fact.

Senator COUZENS. Do you believe the Reconstruction Finance Corporation should put a qualification on loans made by it, as to what they should do with the money, in the form of permitting a percentage of withdrawals?

Mr. ALDRICH. No. I prefer to see it done the way you are planning to do it. I think the evil you want to strike at is the giving of preferences.

Senator COUZENS. Yes.

Mr. ALDRICH. That question only comes up, not because of any loan from the Reconstruction Finance Corporation, but because of the financial condition of that institution. It is entirely conceivable that a bank might be clearly solvent, and might have slow assets, and might want to get a loan from the Reconstruction Finance Corporation. I think that to make the statement that every bank that has borrowed from the Reconstruction Finance Corporation is in the twilight zone, is absolutely erroneous. I know it is not true.

Senator COUZENS. I modify it to say, perhaps, 90, perhaps.

Mr. ALDRICH. I can not agree with that.

Senator COUZENS. I have gone into a lot of them. We will take a case in Michigan—and I am not going to mention any names, but they are not limited to the withdrawal of 5 per cent of their deposits. Supposing to-morrow the restriction is lifted, and a bank goes down to the Reconstruction Finance Corporation and gets a substantial loan, and by Friday or Saturday the loan is granted, and the bank opens up so that 100 per cent withdrawals may take place. And supposing a depositor has a very substantial deposit, and he, immediately after the Reconstruction Fianance Corporation loan has been granted, withdraws his deposit, and then there is a still continuing withdrawal. How is the bank saved?

Mr. ALDRICH. Of course, the bank is not saved, and if the bank is insolvent you have a preference.

Senator COUZENS. You come back to insolvency. I can not measure insolvency on the basis of present day values, and I do not think anybody can. It is just a guess. You may guess right or wrong.

Mr. ALDRICH. Your only alternative, in my opinion, is some such legislation as you are thinking of. I think you are absolutely on the right track.

Senator COUZENS. I am sorry to have interrupted the orderly procedure so long.

Mr. ALDRICH. I hope I have made my position clear, and I would like very much to talk to you about that legislation, because I really think I could be helpful.

Senator COUZENS. Thank you very much.

Mr. ALDRICH. I was just starting to discuss the question of inflation, and I had mentioned the various forms which inflation can take. I will go on to say that one very important distinction must be drawn in connection with these various ideas; (1) that of an impairment of the quality of the currency itself, and the other of mere quantitative increase either of money or of credit.

But then a further point comes up at once, that an increase in quantity, if it goes far enough, will impair quality. If paper money, redeemable in gold, is issued in such quantity as to raise doubt about the adequacy of the gold reserves on the part of the issuing authority, runs can be started which will either force a great contraction of the quantity or force suspension of gold payments and damage the quality.

Similarly, an overexpansion of bank credit impairs the quality of credit. We saw this on a great scale, running progressively from 1922 into 1929. Bank credit expansing in excess of commercial needs went into capital uses, speculative uses, and consumption loans, taking the form of real estate mortgages, installment finance paper, stock and bond collateral loans, and bank investments in bonds.

Moderate amounts of any of these would have been all right, but the total was so great that there came impairment of quality, and the capital values of securities and real estate which underlay the credit became topheavy and broke violently. Then there came loss of confidence in the assets of many banks, followed by a loss of confidence in their liabilities, namely, their deposits, which led to runs on banks, which took reserve money out of them and which forced even strong, solvent banks to contract credit. We thus ran through the scale whereby expansion or inflation of bank credit forced liquidation or "deflation" of bank credit.

When there is sufficient loss of confidence in the quality of credit, this can generate doubt also as to the goodness of the currency itself, and we saw this on a great scale in 1931–32. Foreign fears regarding the goodness of the American dollar led to withdrawals of hundreds of millions of gold from us and further quantitative contraction in bank credit in the United States, even though the dollar itself stood sound and strong.

Whatever else we may have in the matter of currency and credit policy, we must at all hazards protect the quality both of our currency and of our credit.

Paper money is, after all, a credit instrument—a promissory note. I know of no case where a government has actually issued such paper with an announced intention of never redeeming it. The value of irredeemable paper money rises and falls with the prospect of redemption. There is no mathematical rule relating quantity of issue to the extent of depreciation. Unpredictable events may cause the value to slump or recover violently—as the Battle of Gettysburg, which caused a great rise in the value of the greenbacks in three days. These fluctuations are disturbing to all business, and only a few reckless speculators gain.

Debtors are supposed to gain by currency depreciation. But Germany, 85 per cent of whose mortgage debt was wiped out by the disappearance of the mark, shows no gains as a result. Following stabilization, it was compelled to pay such fantastic rates of interest for all new credit that its debt burden was soon very heavy again.

That links in, Senator Gore, with what we were talking about, the destruction of credit for the future.

The issue of new paper money currency is futile. If it is redeemable and confidence in the gold standard remains unshaken, the paper will not stay in circulation, but will merely pile up in banks. If confidence, however, is shaken, the effect is either forced liquidation, or else the abandonment of the gold standard. In the latter case, you can't multiply quantity fast enought to keep up with depreciation. The gold value of the trillions in circulation in Central Europe in 1921 was a fraction of the value of the billions in circulation in 1913.

## DEBASING THE GOLD CONTENT OF THE DOLLAR

With respect to the quality of credit and to the efficiency of credit in accomplishing economic purposes, it is clear, of course, that there must be confidence. But confidence is not a vague general thing. It is a specific thing. Confidence in bank deposits means confidence that the bank will be able to pay cash on demand. Confidence in the currency means confidence that the Government or bank of issue will pay gold on demand, and the full amount of gold specified.

Two factors are involved in both these things: (1) Belief in the ability to pay, and (2), belief in the intention and good will of the bank or government. The latter is of absolutely vital importance.

The preservation of good faith, the keeping of contracts, even though it hurts, is absolutely vital. An honest man can go bankrupt and retain his reputation, if he has clearly done the best that he can and protected his creditors to the extent of his ability. Such a bankrupt can come back again and receive credit again in the future. But the man who has turned sharp corners, who has evaded obligations, whose word is not accepted because he has broken his word, must for the future either pay cash or offer excellent collateral with a big margin.

The proposal that our Government should deliberately debase the dollar by reducing its gold content, if carried out, would shock credit throughout the world for a prolonged period.

The shock to confidence, at home and abroad, of a deliberate breach of faith of the United States Government with respect to the gold standard of the present standard of value (meaning the present standard of weight and fineness) would be something we could not get over in years. Our Government has given its solemn promise on every Liberty bond to pay gold coin of the United States of the present standard of value. The same promise is on the Federal reserve notes and the laws relating to them. The law defines the standard of value as 23.22 grains of fine gold, or 25.8 grains of standard gold nine-tenths fine. The same promise is printed on vitually all our privately issued bonds and State and municipal bonds, and in a multitude of mortgages. We are bound by every promise.

These gold clauses in the Government bonds were put there because of the fears which had risen in investors' minds growing out of our greenback period and growing out of the silver agitation of the nineties. They were put there to assure our investors that, even if the Government should ever get into such a position that it could not redeem its paper money, it would still pay interest and principal on its public debt in gold, which the country did even in the years 1861–1879. It could not redeem its greenbacks in gold, but it could pay interest and principal on the public debt in gold, and it did so. For the greatest government in the world, without compulsion, deliberately to break these solemn promises would be an incredible shock to good faith everywhere. Excuse can be made for embarrassed countries like England for going off the gold standard that they couldn't help it, but no excuse could be made for us if we did it deliberately.

The result of an action of this kind on our part, from the standpoint of the volume of credit and revival of gold prices throughout the world in the future would be demoralizing in the extreme. The actual quantity of circulating money in the world constitutes a very small part of the world's buying power. The great bulk of it is credit. If we should do this thing, creditors, investors, and lenders everywhere would for years to come be timid and apprehensive. The experience of the French people with the depreciation of their own currency has already put them in this frame of mind. France with all her gold has done very little in the way of investing since the de facto stabilization in the winter of 1926–27, and when she has put out her cash she has done it for the most part on short term, constantly watching, frequently calling it back. The French people are continually apprehensive regarding currency. In the winter of 1931–32 they were hoarding gold. They could not get gold in small amounts from the Bank of France. The bank pays out only large gold bars, and the French people were constantly paying a premium over the French franc for American gold coin, and were paying a premium on small slices cut from gold bars. If we should deliberately debase our currency, as an act of choice, we should make general this kind of fear. Instead of getting easy and automatic expansion of credit in the near future, we should have a world much more reduced to a cash basis than it is even to-day.

This consideration should make it clear why those who would expect a doubling of commodity prices to follow a cutting in half of the gold dollar would be radically disappointed. The weight of purchasing now carried by gold and credit together would, in that case, be thrown back to a disproportionate extent on gold alone, and the value of gold would consequently undergo a real rise. Prices in terms of gold would fall. Prices in terms of the new 50 per cent dollar might rise a little, but not at all in proportion to the cut in its gold weight, and not certainly at all.

The prestige and the reputation for financial integrity of the American Government, of the United States Treasury, and of the Federal reserve banks, is one of the biggest capital values in the world, and is one of the most essential features of world financial organization. Wantonly to destroy it, quite apart from the question of morality, would be an act of economic destruction of fearful magnitude.

The worst of our whole trouble come from the end of September, 1931, into the middle of June, 1932. England's abandonment of the gold standard caused a great scare regarding the standard of value itself. Creditors and investors evereywhre called loans, refused new credits and sold investments. In two immense waves, foreigners pulled hundreds of millions of dollars out of the United States. Fear and hysteria drove the New York Times index of production down from 75 to 52 within 12 months. With a demonstration in the middle of June, 1932, that we could meet the foreign drain of gold, and with magnificent vote of the United States Senate on June 17 against the soldiers' bonus bill, an immense sigh of relief went up. Securities rallied, and then business bad its first real upward move in three years. Whatever else we do, we must not invite a repetition of this panic regarding the standard of value itself.

I want to say one further thing with respect to those who would advocate cutting the gold content of the dollar as a means of raising the farmer's prices. Quite apart from the moral and financial objections which seem to me so vital, I would observe that the plan doesn't do the farmer anything like enough good, even if it worked out perfectly. Suppose that the dollar were cut in two and suppose that all commodity prices should double. The farmer could then see his fat hogs rise from 3¼ cents a pound to 6½ cents a pound; but at the same time the prices of everything he buys are doubled. This doesn't help the farmer much. I would like to see the farmer get 9 cents or 10 cents for his hogs, and I want the price of his cotton double or more than double, without a rise in the prices of the manufactured goods which he buys.

That is the only thing that is going to do him any good. A horizontal rise of commodity prices would not do it.

Senator GORE. Except as to his debts, Mr. Aldrich, and that seems to be the point in the campaign.

Mr. ALDRICH. That, of course, ignores so many factors. As a matter of fact, in the first place, no debtor can benefit except at the expense of his creditor, and if you look at our economy as a whole, the damage of that alone is enormous. I do not think we have, in this paper, gone sufficiently, Dr. Anderson, into the effect of this thing on the wage earner. Any help that is given to the debtor by depreciation of the currency, is taken right out of the pockets of the wage earner. Suppose you increased your currency twice. You cut all wages, all fixed income, in half.

Senator GORE. There is no doubt of that, but the laborer is a creditor, and he is paid at the end of the week, or at the end of the month, as the case may be. Meantime, he is a creditor.

Mr. ALDRICH. The circle does not stop with the position of the creditor. It affects our entire economy. It affects the debtor. It affects the wage earner. It affects the reservoir of fixed income. I am not sufficient of an economist to be sure that I am covering every point on that, Doctor. Have you anything you would like to say in connection with it?

Mr. ANDERSON. I think you have covered it. The first point is that it would not raise prices, as assumed, because of the destruction of credit, which is so important in the price picture; but the second point is that it does not eliminate this disequilibrium. It does not give the farmer back his price relation to other prices. It does not give him his export market again.

Mr. ALDRICH. How about the Senator's remark about debt? Did I answer that as fully as I should have? Can you think of anything further on that point?

Senator GORE. That is the center of gravity in this problem here, and it is the burden of the farmer's complaint, that he is having to pay his debts two or three times over. There is a good deal in the complaint. There are only two ways out, of course. One is to cut debts down, and the other is to raise prices—or both.

Mr. ALDRICH. Of course, what we are advocating here, really Senator, is this, that the way to raise prices is to get back our export trade.

Senator GORE. I think we will have to trade ourselves out of this trouble, for that matter.

Mr. ALDRICH. That is one thing; and the other is that we should treat with this debt situation on a case system, to use the legal expression, by determining, as between the debtor and the creditor in each individual case, what is fair and proper.

Senator GORE. I look upon cutting debts down as medicine, narcotics, or smelling salts; and raising prices as food.

Mr. ALDRICH. I think that comes right back to the reestablishment of the export trade. I do not know any other way to do it.

Mr. ANDERSON. Our compromise, Senator, is that while we are getting the export trade restored, we have an acute debt situation, and we want to ease it off.

Mr. ALDRICH. That is the essence.

Senator GORE. To prevent wreckage until they get where they can stand the storm and pay their debts.

Mr. ALDRICH. As somebody said to me the other day, it does not do any good to light a match under the thermometer. What we are trying to do is to start the furnace.

Senator METCALF. Mr. Aldrich, it is just 12 o'clock. Would it be convenient for you to come back at 2.

Mr. ALDRICH. Yes, sir.

Senator GORE. Will you discuss the gold clause any further, Mr. Aldrich?

Mr. ALDRICH. You mean from a legal point of view?

Senator GORE. Yes.

Mr. ALDRICH. No, sir.

Senator GORE. Then I will ask you this question here, so that it will be in connection with what you have already said: There are some in Congress who contend that Congress should pass a law declaring the gold clause in existing contracts to be void, and that the courts would sustain the validity of such a law. I do not think that. I do not think Congress could directly impair the obligation of a contract. It can do so indirectly. But it has been suggested here that we pass a law prohibiting the making of contracts in the future that do contain the gold clause, or to make them unenforcible in the courts. Eliminating past contracts containing the gold clause, what would you think of it as a ploicy to be adopted now with reference to future contracts?

Mr. ALDRICH. I think the maintenance of the integrity of the Government and the gold standard, and the gold content of the dollar, are so important that I would deplore any legislation that would prohibit the entering into of such contracts in the future, and

I can not see that it would have any bearing on the present situation at all.

Senator GORE. The trouble is, you can not make the people who have the money lend it except on the terms on which they are willing to lend it.

Mr. ALDRICH. It would have that effect, of course, because the lender would not lend.

Senator GORE. The lender would not lend. He would come to Congress, and we would exhaust the Government credit making the loan. That is what I am afraid we are going to do, anyway.

Mr. ALDRICH. You are perfectly right.

Senator GORE. It is hard to put on the brakes.

Mr. ALDRICH. That would be absolutely futile. Personally, it is impossible for me to see how anybody can propose seriously a repudiation of the Government contract which is written on every bond and every piece of Federal reserve currency that is outstanding. To me, it is simply incredible.

Senator GORE. I do not think that will be done.

Mr. ALDRICH. I can not imagine such a thing.

Senator METCALF We will resume at 2 o'clock.

(Whereupon, at 12 o'clock, noon, a recess was taken until 2 o'clock, p. m.)

AFTER RECESS

The hearing before the Senate Finance Committee was resumed at 2 o'clock p. m., Wednesday, February 22, 1933, at the expiration of the noon recess.

The CHAIRMAN. The committee will come to order. Mr. Aldrich, you may proceed.

## STATEMENT OF WINTHROP W. ALDRICH—RESUMED

Mr. ALDRICH. Mr. Chairman, I would like to interject at this point an observation growing out of some of the things that were said this morning, if I may.

The CHAIRMAN. You may do so.

Mr. ALDRICH. It is in my judgment not correct that the mere fact that a bank has borrowed from the Reconstruction Finance Corporation justifies any suspicion as to its solvency. There are plenty of cases where banks have borrowed on slow but good assets from the Reconstruction Finance Corporation merely for the purpose of increasing their liquidity and for the purpose of making more loans to customers. If they had been content to give inadequate accommodation to customers they would have had no need to borrow from the Reconstruction Corporation. There are many cases where strong banks have borrowed temporarily, and some cases where strong banks have borrowed with a view to having a long loan from the Reconstruction Finance Corporation so that they might be liquid for emergencies.

It is my conviction that for the overwhelming bulk of the banks the liabilities of American banks are very substantially overtopped by the assets of the banks both in the aggregate and individually, even at these low levels of values, and there are many other cases where with consideration and nursing and a very moderate improvement in values the situation is perfectly safe.

I can not concur in the view that banks generally have been harmed by borrowing from the Reconstruction Finance Corporation. It has been definitely harmful to have their borrowings published and I think that it is generally recognized in the Congress to-day. Very many banks have borrowed from the Reconstruction Finance Corporation and have repaid their loans from the ReconstructionFinance Corporation. Very many others can speedily repay their loans.

The usefulness of the Reconstruction Finance Corporation, which it was hoped would permit many small banks in the interior to increase their loans to customers has, of course, been very largely impaired by the publication of the loans. Many banks which would have borrowed to relend have not done so since these figures have appeared. But I want to express with vigor and emphasis my conviction that the banking situation is thoroughly manageable, and that the great bulk of banking liabilities are adequately overtopped by assets, taking the figures bank by bank, and in the aggregate.

The CHAIRMAN. I think that is a very fair statement, Mr. Aldrich. I know some of the very strongest banks in the United States have made loans there for the purpose of carrying their customers, and if they had not done it in some cases, at least, a solvent institution would have failed.

Mr. ALDRICH. That is absolutely true.

The CHAIRMAN. And it simply made an advance to them for the purpose of carrying over.

Mr. ALDRICH. That is absolutely true, Senator.

Senator GORE. You stated this morning that your bank had not borrowed and would not borrow, of course, from the Reconstruction Finance Corporation. Notwithstanding that, do you think that it is in the interest of accelerating the return of prosperity and stabilizing conditions not to require these loans to banks to be made public, in the case of banks which have borrowed from the Reconstruction Finance Corporation?

Mr. ALDRICH. That is an absolutely correct statement, Senator.

Senator GORE. Yes; and that, at least, ought to be discontinued.

Mr. ALDRICH. I agree with that entirely.

The CHAIRMAN. You may proceed now with your statement, Mr. Aldrich.

Mr. ALDRICH. The manufacturer doesn't need higher prices—what he needs is volume—but the farmer must have radically higher prices. We must get the balance restored between the manufacturer and the farmer. This means that the farmer must get his export market again. I would strike at the export trade—not at the currency.

SILVER INFLATION

Testimony before your committee, and the cross examinations, have raised questions regarding the possibility of using silver, either under a bimetallic-system or in some other way, and I want to make some observations regarding that. First, let me say that, in my opinion, the suggestion that our foreign trade has been primarily damaged by a decline in the price of silver seems to me to have no merit. Our trade with the one great silver country, China, has kept up a great deal better than our trade with the world as a whole, as shown by the following figures:

*United States exports*

| | Total | Index | To China | |
|---|---|---|---|---|
| | | | Total | Index |
| 1929 | $4,814,444,000 | 100 0 | $114,437,000 | 100.0 |
| 1930 | 3,568,494,000 | 74.1 | 82,157,000 | 71.8 |
| 1931 | 2,240,219,000 | 46.5 | 84,193,000 | 73.6 |
| 1932 (11 months) | 1,481,750,000 | 30.8 | 52,165,000 | 45 6 |

The index figures of the United States exports as a whole have declined from 100 per cent in 1929 to 74.1 per cent in 1930, 46.5 per cent in 1931, and 30.8 per cent in 1932.

At the same time the index figures of our exports to China have declined from 100 per cent in 1929 to 71.8 per cent in 1930, 73.6 per cent in 1931, and 45.6 per cent in 1932. That is to, not by, those percentages. In other words, the Chinese trade has stood up better than the foreign export trade as a whole.

Silver bimetallism at 16 to 1, or any other ratio than the commercial ratio, would mean the debasement of the currency and the abandonment of the gold standard, but the adoption of bimetallism at the current ratio would still involve breach of contract under the gold standard and undermine confidence and good faith, and, moreover, would accomplish none of the purposes that the silver people have in mind, because what they want to do is to raise the price of silver.

I see no reason to go any further with silver than is proposed by the economic experts who prepared the agenda for the coming World Economic Conference. They rule out the use of silver, even in moderate amounts, as part of the reserves in central banks, saying that silver is unsuitable for such use because there is no fixed price at which it would be received by other central banks in settlement of balances on international account. They make a few minor concessions to the notion that certain countries might withdraw very small denominations of bank notes and substitute silver subsidiary coins for them, and that some other countries might enlarge the use of subsidiary silver coinage. But they accept none of the main proposals made by the silver advocates, and in this I think they are right. I recommend their view to your committee, and I submit for your records what appears to be a verbatim account of their recommendations.

This excerpt I will not read, Mr. Chairman, with your permission, because it is quite long.

The CHAIRMAN. It may be placed in the record.

(The excerpts referred to are as follows:)

EXCERPTS FROM REPORT PREPARED FOR WORLD ECONOMIC CONFERENCE—PAGE 8

(By Theodore C. Wallen)

WASHINGTON, February 8.—The official agenda for the World Economic Conference, containing the report of the preparatory commission of experts, was received to-day by the State Department.

[New York Herald-Tribune of February 9, 1933, pp. 1 and 8]

After keeping relatively stable from 1921 to 1929, the price of silver in gold currencies fell abruptly by more than one-half in less than three years. There is no doubt that this sudden decline must, in the main, be attributed to the same causes as have acted on the general level of prices, and may thus be said to illustrate in a particular case the incidence of the world depression. Some special factors can, however, be found which have accentuated the downward trend, and these were to some extent already operating before the depression set in. Such factors are the demonitization of silver, the reduction of the silver content of token coins, and also the disposal of surplus stocks.

We have considered a series of proposals which have been discussed in recent years with a view to raising the price of silver, and we wish, in this connection, to make the following observations.

(I) It has been suggested that some form of bimetalism should be introduced. We would point out that a bimetallic standard, which presupposes a fixed relation between the value of gold and that of silver, could be safely introduced only if the most important countries of the world agreed to such a measure. As the only international monetary standard which is at present likely to command universal acceptance is the gold standard, the idea of introducing bimetallism must be regarded as impracticable.

(II) It has been proposed that banks of issue should be allowed to hold increased quantities of silver in their legal reserves.

On the assumption that no form of bimetallism will prove acceptable, silver is unsuitable for extensive inclusion in the metallic reserves of a central bank, there being no fixed price at which it would be received by other central banks in the settlement of balances on the international account.

(III) It has also been suggested that governmental action should be taken for the purpose of improving the price of silver.

MIGHT ENLARGE USE OF SILVER

We would, in this connection, refer to the suggestion made in a previous part of this report, to the effect that, in countries where banknotes of small denominations are in circulation, these small notes might be withdrawn and replaced within proper limits by subsidiary coins, and we think that the conference should, in this connection, examine to what extent the use of silver in subsidiary coinage could be enlarged. Whatever sales of Government stocks of silver may be deemed desirable it is important to conduct these in such a manner as to avoid any unnecessary disturbance of the market.

The conference should also consider whether, and if so by what methods, the marketing of the metal by producers and currency authorities is susceptible of improvement. The question of developing new and enlarged industrial uses for silver is, in our judgment, also worthy of careful consideration.

From the point of view of commercial relations with silver-using countries, particularly China, trade interests would best be served, not by a rise in the price of silver, as such, but by a rise in the general level of commodity prices. Any action may be expected to have a favorable effect on the price of silver, and would, on general grounds, be welcome.

Mr. ALDRICH. "Inflation" by Government borrowing.

Among the many meanings of "inflation" is one that relates to public finance, and here there are many proposals, ranging from moderate notions of necessary Government borrowing, which I should favor, to extravagant notions regarding Government borrowing which would be dangerous in the extreme. Excessive borrowing by the Government can, of course, impair, first the credit of the Government, and then, ultimately, as the Government leans on the Federal reserve banks too heavily, can threaten the currency.

We must have sound public finance. This means: (*a*) Reduced expenditures and increased Federal taxation. I personally do not like a sales tax applied at a uniform rate to all manufacturers. A very moderate tax would bear very heavily on some lines where demand is highly elastic and a heavy tax would not make much difference in certain lines where demand is very inelastic. Necessities could stand much heavier percentage taxes than can articles which people can easily do without. Taxes could be put on tea and coffee, for example, and on such things as spices, of which small amounts are used in the individual's daily consumption, at much higher rates than on articles which make up a substantial part of the day's consumption. I don't pretend to have worked this out with any detail, but I do believe that a series of special sales taxes at different rates, classifying commodities with reference to elasticity of demand, would be less burdensome by far than one uniform flat rate.

The CHAIRMAN. You would have some difficulty in selecting the articles to impose that tax upon, and unless we did have a basis for rates covering nearly all the commodities we could not raise the necessary money.

Mr. ALDRICH. I think that would apply more to the rate than it would to the levying of the tax.

The CHAIRMAN. That is why I say the rate should be low, and being low, it should cover all the commodities. You can take a manufacturers' sales tax of say three-quarters of 1 per cent or 1 per cent, and you will raise a vast amount of money.

Mr. ALDRICH. I think that is a correct statement. I think that if you get the rate low enough that this criticism of the impinging of the flat rate rather than the graduated or differentiated rate is less.

The CHAIRMAN. Of course I have always been in favor of a sales tax, but a general sales tax rather than taxes that we are imposing upon certain articles at a higher rate.

Mr. ALDRICH. I think I would be inclined to agree with you on that; if your general rate is so low that it does not violate the principle of elasticity of demand.

The CHAIRMAN. I have figured out that the tax on nearly half of all the commodities at a low rate would never be passed on to the consumer.

Mr. ALDRICH. I think there is a great deal of truth in that, if your rate is low enough.

The CHAIRMAN. That they never would think of passing the tax on at all to the consumer.

Mr. ALDRICH. Yes.

Senator GORE. We can only judge the future by the past. We have had some experience in the sales taxes on gasoline, beginning at 1 cent, 2 cents, 3 cents, 4 cents, 5 cents, 6 cents, 7 cents. Then we have superadded 1 cent to the Federal Government. Mobile has a tax that aggregates 11 cents on sales. Now that is one infirmity of the sales tax. It will not ever stop.

The CHAIRMAN. On that one article, of course, on which you say there is a tax of 11 cents, that would be over 100 per cent. No general manufacturers' sales tax could be put on like that.

Senator GORE. The price that the refiner got was 3 cents.

The CHAIRMAN. Nearly 400 per cent.

Senator GORE. Yes.

The CHAIRMAN. No one thinks of putting on a general manufacturers' sales tax of more than 2 per cent.

Senator GORE. No; not to start with.

The CHAIRMAN. They would not have to.

Senator GORE. In France before the Revolution from the grape on the vine to the wine on the table there were 28 different taxes.

The CHAIRMAN. And they still drank wine.

Senator GORE. Yes; they still drank wine. In Mexico from the wheat in the fields to the bread on the table there were 32 different taxes. And Diaz abolished them. Now it is all right, but do not ever embark on it with the assumption that there is any stop to it and that the poor devil in the country who pays it will not have an increased burden. When you want more money you will add to his burden. He will grunt and groan and pant and struggle with it, but he never will get rid of it.

These nuisance taxes have one virtue—they are nuisance taxes. People that pay them are tax conscious, and they will get rid of them if they can, when they can. But take the man that you subject to a general sales tax—he will never get rid of it. Pardon this digression. The chairman and I do not agree.

Mr. ALDRICH. I go on to say that of course, taxes should not be pyramided, they should strike production only in one stage and not in successive sales.

I am very hopeful, too, quite apart from reasons of taxation, that you will soon be getting a good revenue from beer and from wines.

Senator SHORTRIDGE. From wine?

Mr. ALDRICH. That is my hope, Senator.

Senator SHORTRIDGE. The present bill calls for 3.2 by weight, and of course that is not wine.

Mr. ALDRICH. Well, I permitted myself to make a digression from the economic field and said, "quite apart from reasons of taxation" I hope that it will be so.

Let me add that more moderate tariffs, which will let goods in, instead of keeping them out, will be of real help to this problem of raising the Government's revenues. In pre-war days, the tariff was in fact our main source of Federal revenue, down to the time when the income tax came in.

But, in addition, expenses must be cut drastically. The discussion which has already taken place at these hearings has indicated possibilities of a saving of $400,000,000 in connection with the Government's outlay to veterans who have not suffered disabilities connected with service in the war, and the possibility of cutting that item very drastically is one which we can not afford, for political reasons, to ignore.

The CHAIRMAN. $400,000,000 could be saved there.

Mr. ALDRICH. That is what I understood.

The CHAIRMAN. I introduced a bill on that, but I do not think we can get it through.

Mr. ALDRICH. It is my understanding that very great reductions of expenditure can result from reorganization and consolidation of Government bureaus, and from the elimination of overlapping functions. The political difficulties of this are, of course, recognized, but, in a great fiscal difficulty, political difficulties must be overcome.

I think, too, that the reduction in prices which has taken place ought to make it possible for us to cut almost every item of Government expense except the fixed interest on public debt, and even there something can be done by refunding.

The Budget ought to be balanced in the sense that all ordinary expenses are covered by current taxes and that the borrowings for special and nonrecurrent purposes should be covered by additional taxes to the extent of current interest.

The orthodox canons of sound public finance would require, under anything like ordinary conditions, further taxes to cover current sinking fund on all new borrowings and also on existing debt. I have not consulted other bankers with respect to this point, but my personal view would be that, in a time of great depression, such as the present, it is entirely legitimate to borrow for contractual sinking fund requirements and to eliminate this item from the Budget proper. Taxes which under existing conditions are adequate to balance the Budget in the sense above described would, with any considerable improvement in business, be very much more than adequate for sinking-fund requirements. My personal view is that we need not count in the deficit any expenditure which does not actually increase public debt.

I understand that that is the way the Treasury is now reporting, and it seems to me personally that that is sound.

Senator SHORTRIDGE. That is to say, you would not insist upon the raising of money by taxing to provide for the sinking fund?

Mr. ALDRICH. Currently?

Senator SHORTRIDGE. Currently?

Mr. ALDRICH. Yes. In other words, if the current debt is not increased it does not seem to me that it is necessary to count the sinking fund in the deficit. In other words, if you borrow for that sinking fund.

Senator SHORTRIDGE. I think there is much in what you say.

Mr. ALDRICH. I think that at a time when there is such a drain on the Government credit it is a fiscal mistake to attempt to raise taxes to reduce the public debt by sinking fund.

Senator SHORTRIDGE. In other words, let it ride.

Mr. ALDRICH. Let it ride. Borrow to cover it. I think that saves out of the deficit $450,000,000, a year.

Mr. ANDERSON. $498,000,000.

Mr. ALDRICH. Was it as much as that?

Mr. ANDERSON. Yes.

Mr. ALDRICH. $498,000,000.

Senator SHORTRIDGE. That much was set apart for the sinking fund?

Mr. ALDRICH. Yes. As a matter of fact I think that the Treasury reports of the present time are both ways. But I think that the way I refer to is sound, under these conditions.

If the Congress and the Treasury give definite and convincing evidence of their intention of dealing with this problem with full responsibility, they will strengthen the credit of the Government and, in my opinion, the Government bond market will take what bonds are really necessary for the meeting of this emergency. If, on the other hand, there is an evasion or failure to grapple with the problem earnestly and courageously, or light-hearted adoption of a borrowing program without consideration of this point, the Government will speedily find its securities sinking in the market and the market wholly unreceptive to new issues except at very high rates. The credit of the Government is basic to every other credit, and we must protect it unflinchingly.

Apropos of that, Mr. Chairman, here is my answer to the question which Senator Couzens was raising as to how far the Government can go in borrowing. It can go a good deal farther if it cuts expenditures and increases revenues than it can if it does not. To say more than that is difficult. The market will tell you by its own behavior as you proceed. If you overdo it you will have to pay higher rates of interest and you will find the markets increasingly reluctant to take new issues even at higher rates of interest.

Government borrowing is necessary for emergency credit relief, and for loans to the States, to give direct unemployment relief. I recognize and would emphasize the responsibility of the whole country for the suffering millions who, through no fault of their own, are victims of this great depression.

But we must not overstrain the finances of the Government and we must not jeopardize the credit of the government by proposals of a great government borrowing program for new public works on the theory that this will start a business revival. The Government's credit can not stand a great deal of that in addition to its necessary borrowing.

Further, we do not need government borrowing for new public works to start a business revival. If we move promptly to restore our export market for farm products and raw materials, we shall get a business revival quickly, and such government borrowing will be unnecessary. If, on the other hand, we use government borrowing as a substitute for the restoration of the export market, in the hope that we can force a revival of business merely by spending borrowed money, in a country whose industries are badly unbalanced, the borrowing and the spending will be ineffective.

## INFLATION BY FORCED EXPANSION OF BANK CREDIT

I should avoid further artificial efforts to force an expansion of bank credit. It was forced expansion of bank credit from 1922 into 1928 which was responsible for a great part of the present trouble. The renewal of government security purchases by the Federal reserve banks following the break in 1929 and especially in early 1930 was responsible for the false stock market boom in early 1930, and the renewal of excessive security issues which complicated very much the difficulties in the period that followed.

I strongly sympathized with the Glass-Steagall bill, and with the Government security purchases by the Federal reserve banks in the panic of the spring of 1932, especially when the foreign run on our gold was on, as a means of preventing further forced liquidation. But heavy excess reserves, in the absence of confidence, will not force bank expansion. On the other hand, in times when confidence is normal and when borrowers (especially speculators) are ready to borrow at low rates, and when banks trust the security offered, excess reserves of from fifty to one hundred millions mean cheap money and rapid bank expansion. Excess reserves of five hundred or six hundred million dollars, in a period of reviving confidence, would be exceedingly dangerous.

The volume of bank credit in the country does not depend alone on the volume of bank reserves. It depends also on the temper of the business community, which is governed by the prospects of business, and on the movements of goods and on the prices at which goods move. Given the restoration of the export trade and revival of agricultural and raw material prices, credit will expand rapidly. There is no use trying further to force it from the other end by an artificial increase in bank reserves.

Nor is there any use in trying to increase the volume of currency in circulation by paying out more paper money. If the paper money is redeemable and confidence in the gold standard is not shaken by this, it will not stay in circulation but will merely pile up in banks. If the paper money is issued in such amount as to shake confidence in the gold standard, the effect would be forced liquidation and tightened credit.

### STATE AND MUNICIPAL TAXES AND EXPENDITURE

The Federal Government, even though reducing expenses sharply, will still have to have increased taxes in view of the present low returns from taxes and in view of the necessity of providing for interest for additional borrowing. The States and local governments, on the other hand, in many cases can reduce taxes, and this is particularly true of rural local governments, where the tax burden has grown so enormously in recent years, and where the farmer pays the bulk of his taxes. I am told of one farm in an upstate New York county where taxes in the last year have been reduced from $380 to $200, due to vigorous action by the county commissioners, who have cut salaries and sharply reduced the county expenses.

Our local government has been a haphazard growth rather than a businesslike adaptation of government to needs. Areas in many cases are altogether too small. They were set in horse and buggy days. There are many places where groups of small counties could be combined into one county, with the elimination of several sets of officers. There are many unnecessary road districts and school districts, each with independent sets of officers. There are immense possibilities of curtailed expenses in the cities. Even with the additional burden of direct unemployment relief which is thrown so heavily upon local government by this great depression, I am satisfied that the possibilities of saving are so enormous in the general field of local government that the total of the taxes can be radically cut. Much is being done in many States looking toward this development, and the Federal Government might very well use some of its existing instrumentalities for the study of what is going on, giving publicity to it, and acting as a clearing house for information regarding it.

I understand that the Ways and Means Committee of the House has just done that. I did not know that when I wrote that. That they are making a study of the whole tax situation.

Senator SHORTRIDGE. That is to say, consolidating counties, doing away with many individual counties and individual sets of officers?

Mr. ALDRICH. Well, that is the theory of this. But what the committee of the House is doing is studying the taxes as between the States, the municipalities and so forth, and the Federal Government.

The CHAIRMAN. And most of the States have got all the taxes they can pay now.

Mr. ALDRICH. Yes; that is true.

### INTERNATIONAL GOOD WILL

We should move as rapidly as possible and contribute as much as we can toward bringing about peaceful relations throughout the world, so that nations will be willing to go in for a thorough going lightening of the burden of armament. I do not think that we shall contribute to this by peremptory demands, that other nations disarm, because such demands may even intensify the fears that have led to the excessive armament. In general, it is far more fear than lust for dominion that accounts for excessive armament.

TYING TOGETHER VARIOUS REMEDIES

In connection with the programme which I have outlined above, the desirable thing seems to me to be to accomplish all of them as rapidly as possible. When it comes to doing one conditioned upon some country doing another, I would be thoroughly opportunistic, bringing them together if it facilitates the transaction, and separating them if the effort to tie them together creates difficulties.

In connection with tariff revision, I think that there is a great advantage in tying our reductions and reductions of other countries together by reciprocal tariff agreements. I believe that public opinion on both sides of the water will be much readier to move in this way.

I think it might be difficult to tie together the settlement of interallied debts with a disarmament programme, and that disarmament will be much easier to achieve when business recovery is already under way and when nations with a new economic hope are forgetting their fears and hatreds. It is noteworthy, for example, that, as between France and Germany, the era of good feeling was also the era of business prosperity, from 1924–25 down toward the end of 1928.

When it comes to international negotiations, it must be remembered that public opinion in every country is sensitive, that there are many points of national pride involved, that no country will accept dictation from any other country, and that public opinion in every country needs to be educated to make the necessary concessions to national pride in other countries.

The CHAIRMAN. Is there anything else you wanted to say, Mr. Aldrich?

Mr. ALDRICH. No, sir.

The CHAIRMAN. We thank you very much.

Mr. ALEXANDER LEGGE.

## STATEMENT OF ALEXANDER LEGGE, PRESIDENT INTERNATIONAL HARVESTER CO., CHICAGO, ILL.

Mr. LEGGE. Senator, I haven't any prepared statement; merely a few little notes on things that I thought you might be interested in. And if you desire to have a record of what is said you will have to depend on the reporter to get it.

The CHAIRMAN. He will get it all right.

Mr. LEGGE. I would first add to the many statements that have been made to this committee on the desirability of balancing of the Budget, based on the thought that what is wrong with us to-day is not so much a lack of money as a lack of confidence, and that as long as there are question marks passing around both at home and abroad with reference to the Government financing it has a very depressing effect on public confidence as a whole.

Following that, just one suggestion on the possibility of how to do it. I am not reaching this on quite the same basis as others. I do not think that the fact that the Government may be running behind a little in times like this is a matter that should cause alarm, if it does not last too long. Pretty much everybody else is running behind when they analyze their own business at the present time. But looking to the future it is my notion that we are facing a period of lower prices and lower earnings, and that perhaps too much of our Federal income is depending on one source—that is, the income tax. The incomes are constantly shrinking, many of them entirely vanished, and of course if there is not any income the tax does not avail us anything.

Now it has been my experience to transact business in a great many countries who are depending to a large extent on what has been so frequently discussed here, and so far always turned down, and that is the sales tax. They do not always call it the sales tax. It goes by various names in various places. But it is a large source of revenue in many countries of Europe, Germany, France, Italy, Belgium, in our neighboring country of Canada, and in most of the Latin-American countries, as we call them, to the south.

Senator WATSON. Have they a universal sales tax, as we understand that term, Mr. Legge?

Mr. LEGGE. No. It varies a great deal. In France it is practically a universal sales tax.

Senator WALSH of Massachusetts. That means a turnover tax, does it not?

Mr. LEGGE. Yes; turnover tax.

The difficulty with it, gentlemen, is where they pyramid it, and if such a thing would be considered to be adopted I would put in a plea to try to find some place where you collect at the same time for all, either at the source of production or at the place of final distribution.

Senator WATSON. Like an excise tax?

Mr. LEGGE. Yes. Because when we pyramid it, it results in all sorts of schemes to evade it, by setting up coopertaives, and buyers' associations wherein the manufacturer theoretically sells direct at retail, in order to avoid the jobbers' or intermediate turnover tax, and it is quite a trade-disturbing factor when that practice is followed out. Therefore, whether you go to an excise tax or manufacturers' tax or retailers' tax as is practiced in the State of Mississippi at the moment—either one extreme or the other appeals to me as being the soundest basis to apply.

Senator WALSH of Massachusetts. Do you not think, Mr. Legge, that regardless of our opinions on that question, that it is useless to spend any time proposing it as a remedial measure in view of the attitude of the President elect on that subject?

Mr. LEGGE. Of course I have not any close contact with the gentleman.

Senator WALSH of Massachusetts. You have read it in the press.

Mr. LEGGE. I have read his statements, but they can not all be true, Senator, because they are conflicting, a good many of them that we read, and so some of them must be a mistake.

Senator SHORTRIDGE. Are they authoritative, Senator?

Senator WALSH of Massachusetts. I thought he had made it rather clear that he was against the manufacturers' excise tax.

The CHAIRMAN. First he was for it and then after that he made a statement that he was not.

Senator WALSH of Massachusetts. However, that does not prevent your urging it and discussing it, but I mean, after all, we all have sense enough to know that no program of reform is going to go through here unless it has the support of the man who comes to the presidency with a new mandate from the people.

Mr. LEGGE. Certainly. The most frequent objection that I hear is the question of spreading it on to the lower earning group. That would be true if it were the sole tax. It is not. And I think that all taxes could be well considered together. In the income tax if we only had a normal, universal income tax that would also be true, but when you pyramid it some twenty-three times, as the income goes up, why you take care of the disparity between the lower earner and one of more liberal income.

Senator WALSH of Massachusetts. All the bills that have been before the Congress, Mr. Legge, with which you are undoubtedly familiar, in this session, or that were before the Congress in the last session, went to extremes in eliminating any burdens upon the mass of the people, on those of small incomes, from paying this tax. Of course the real objective in a manufacturers' sales tax is to tax luxuries, extravagances, and spendings.

Mr. LEGGE. That is correct. And yet perhaps the greatest source of revenue that is yet relatively untouched is the ability of many people to pay their little.

The CHAIRMAN. In 1925 I had the Senate vote upon the sales tax, a manufacturers' tax, and then a retail sales tax, and in that law we eliminated all farm products from any kind of a tax. And last year we eliminated a number of items. Of course at that time I only received a few votes for that bill in the Senate.

Senator WALSH of Massachusetts. In the proposal we had last year we eliminated all food, all clothing, farming tools, and supplies, in fact every single thing was eliminated that the small-income receiver provides himself with, except one item—furniture. And it seemed to be impossible to distinguish between a cheap piece of furniture and a mahogany table, and to eliminate that was allowing those who spend hundreds of thousands of dollars in elaborate furniture to go untaxed. We discovered that the average family in America refurnished their house about once in 20 years. And that the item allotted from his wages for furniture is a very small percentage.

The CHAIRMAN. Yes.

Senator GORE. Mr. Legge, Germany has a turnover tax.

Mr. LEGGE. Yes.

Senator GORE. It is an elaborate system. It is almost universal except as to luxuries. Germany does not tax luxuries under her system of taxing, on the theory that luxuries are voluntary con sumption and that a tax on voluntary consumption would diminish consumption, cut down manufacturing, turn labor out of employment. That is their theory.

Mr. LEGGE. France, on the contrary, Senator, reverses it. Their normal tax is from 2 to 4 per cent on most articles, but it runs up as high as 20 per cent on luxuries. They are exactly the reverse of the German.

Senator SHORTRIDGE. What do they define luxuries to be?

Mr. LEGGE. Well, silks and perfumery, and even your meals if they go above a certain price in the hotel are subject to a luxury tax.

The CHAIRMAN. And jewelry above a certain price.

Mr. LEGGE. If you have a room at a hotel that you pay more than a certain amount of money for there is a luxury tax on that. It is supposed to be a de luxe room.

Senator WALSH of Massachusetts. I can not see any objection to putting a heavy tax on luxuries.

The CHAIRMAN. We will come to it sooner or later.

Mr. LEGGE. Well, just passing that subject. I think you should give serious consideration to putting a very small rate on a large number of things. If you will try that. My judgment is that that is working better around the world than when they have a very high rate on just a few things. Our Canadian friends have changed theirs, as you probably know, very frequently. They exempt something this year and put it back on the tax list next year and exempt something else. They have been doing that constantly.

Senator WALSH of Massachusetts. What would you exempt? Would you exempt any great class or group of purchasable or usable things?

Mr. LEGGE. I would not. I would put a low tax on everything right straight along the line.

The CHAIRMAN. In 1929 I made an inquiry as to what kind of goods, if taxed at the rate of 1 per cent the tax would fall on the ultimate sale. There was at least one-third of goods on which it would never make a particle of difference to the consumer. For instance, just to mention one case. Patent medicines, with a 1 per cent tax, if the price of that medicine is 50 cents a bottle the consumer never would pay 50½ cents. It would be 50 cents. And there is a long list of them.

Senator WATSON. In other words, it would be absorbed by the manufacturer or the man who sells, and not passed on to the consumer.

The CHAIRMAN. Yes.

Senator WALSH of Massachusetts. There is $1,000,000,000 of money that is received in income by tax-exempt security holders constituting the rich and luxury-living portion of our population, and the only way you can ever reach it is to tax it when they spend it. Tax them heavily when they spend it for luxuries.

The CHAIRMAN. Yes.

Senator SHORTRIDGE. But under existing law they are exempt.

Senator WALSH of Massachusetts. Absolutely exempt.

Senator SHORTRIDGE. The bill you referred to provided for exemption of many things.

The CHAIRMAN. I said that. All the farm products.

Senator WALSH of Massachusetts. I feel we are unfair to you, Mr. Legge, by digressing so much.

Mr. LEGGE. Not at all. If it develops the subject, that is what we are all here for.

My next subject is that of banking, and I wish to appeal to the press over there not to make any black headlines of this particular statement. I want to talk frankly about it, but at the same time not pessimistically.

Senator GORE. Well, you are a good advertiser, Mr. Legge.

The CHAIRMAN. You have got it now.

Mr. LEGGE. That has not been my experience here. Don't try to fight with them.

Senator WALSH of Massachusetts. These boys have heard so much of troubles the last few weeks that they are getting tired of it.

Mr. LEGGE. The press have always treated me well. Don't put a loud speaker on some of the comments that I am going to make.

I think that next to the balancing of the Budget, and perhaps at the moment even more urgent than the balancing of the Budget, is to give us a better banking system, or a banking system. Perhaps up until two years ago we might have been justified in the belief that with the broadening of the Federal reserve and improvements we were making, that we would stand the test. I do not believe that anybody is justified in holding that opinion today. What has happened is chaos, and orderly liquidation, which is taking place in other countries, quite as severe as our own, as far as that is concerned, is intensified by the enormous amount of money that has been tied up in failing banks, plus the enormous amount of money that is being hoarded, and I fear that that is increasing today more rapidly than any time since the trouble started. To my way of thinking, our banking system has not stood up in the face of the conditions that we are now going through. And I think it is one of the most urgent things, and, fortunately, it is one of the things that is within the power of Congress to remedy.

Senator WALSH of Massachusetts. What is the remedy?

Mr. LEGGE. Well, there may be several, Senator. My own idea would be much along the recommendation of the Secretary of the Treasury—branch banking by natural trade areas.

Senator WALSH of Massachusetts. Pardon me, Mr. Legge. You are proceeding upon a course of remedies that should be worked out over a period of time. I would like you to direct our attention first, or some time in your testimony, to what immediate step to-day or to-morrow we can take to prevent the dangers that seem imminent in the banking world.

Mr. LEGGE. I can think of nothing, Senator, but a general moratorium such as has been put into effect in Nebraska and Iowa in the last two weeks, and I presume in Michigan to-day. That is what they were expecting. I have not seen whether that has occurred there or not.

Senator WALSH of Massachusetts. Thank you. Now proceed with the general development of the theory.

Mr. LEGGE. The theory of branch banking by States does not appeal to me, because trade areas do not follow State lines. For instance, a State like Missouri has two large cities, banking centers, one of them on each border. Much of their business is outside the State. Limiting it to State lines they could not properly care for it. I think a natural trade area is the best definition. Next to that the present Federal reserve district would be much better than State lines.

The situation is so serious that I would go further than anybody has gone yet.

Senator WALSH of Massachusetts. I appreciate, Mr. Legge, the arguments in favor of branch banking. But this has troubled me. In my humble opinion one of the chief causes of our present conditions in America can be summed up in one word—bigness.

Mr. LEGGE. Bigness?

Senator WALSH of Massachusetts. Bigness; yes. The expansion of corporate control, the consolidation, the reconsolidation of industries and businesses and banks and all our financial institutions, which has resulted in terrific overcapitalization and led to a great deal of the speculation that we have had. A good deal of the speculation has been merely through consolidations. Now, it seems to me, that that is a very serious problem, whether we have not gone altogether too far in creating these big units. And I am suspicious and distrustful of them. Yet the proposition that comes to us from the banking world is "Give use"; "Create bigness for us"; "Give us control of all the moneys of the people through a few powerful banks." I would like to get your reaction to that suggestion.

Mr. LEGGE. As far as my contact with the banks goes, Senator, they do not want it. The two classes—the small banker, who is more or less in distress and does not want to disclose his position perhaps, is opposed to it; the large banker, who feels that he is strong enough to weather the storm on his present basis, for selfish reasons does not want it. At least the majority of them do not want it.

I do not believe that regional, natural trade-area banking would result in institutions as large as many that you have at the present time, Senator. I think it would have a tendency to decentralize rather than further centralizing.

Senator WALSH of Massachusetts. But it would remove ruthless competition, you think, and would give the control of limited fields to banks that could be put upon pretty sound and secure bases, is that your theory?

Mr. LEGGE. Yes. They would have to be member banks, whether State or national, of the Federal reserve system, under Federal supervision.

And then I am prepared—since the last six months—to go still further: Having assumed the authority, that we follow it with at least a partial responsibility. In other words, a partial guarantee of deposits.

Senator WATSON. What do you mean by "partial," Mr. Legge?

Mr. LEGGE. Well, I go to three-fourths of the deposits. I would not like to take away from the depositor and from the initiative of the banker any incentive for improved methods or better service, or any reason on the part of the depositor to say that it did not make any difference where he put his money, that the deposits were all guaranteed so he might as well put it with Smith as with Jones. But I want to do away with a situation that ties up the depositors, as we have them tied up in our town to-day, having closed nearly 200 banks in the last three years. Thrifty people who have been accumulating savings for a lifetime, hoping to take care of themselves in their old days are out on the street, on charity, and their money is gone because the bank is gone. That is a disgrace to any civilization or any nation. And unfortunately we have had an awful lot of it, and we are still having more.

Senator WATSON. Do you know how you can word a law to guarantee three-fourths of the bank deposits and let the other one-fourth go unguaranteed?

Mr. LEGGE. Guarantee each depositor up to 75 per cent of the amount of his deposits.

Senator WATSON. That is as to the individual depositor and not the deposits as a whole?

Mr. LEGGE. Yes.

Senator GORE. You might guarantee in full the smaller deposits, say less than $1,000. It is those little depositors who put actual money in the bank that get frightened and start these troubles.

Mr. LEGGE. I was going to add, Senator, that in the case of the savings depositors, which comprise that class largely, I would go the whole distance on the small savings depositor and guarantee all of it. They tell us it has been tried out in three or four States and had failed. But it was doomed to failure. The people who had to pay the loss had nothing to say about granting the charter, they had nothing to say about the supervision; they were never called into action until the inquest after the bank had failed, and then it was too late.

Senator GORE. But State units would be too small, even if the principle were sound.

Mr. LEGGE. Yes; I think that is true. But I think that the smallest fraction of 1 per cent conceivable for a charge or tax on deposits would protect the Government against all loss under a properly supervised banking system.

Senator WALSH of Massachusetts. Of course there would have to be first the original organization, and the supervision would have to be very thorough and very rigid in order to compel all the taxpayers of the country to guarantee 75 per cent of the deposits.

Mr. LEGGE. Yes, sir; it should be.

Senator WALSH of Massachusetts. You would have to begin at the very beginning of the organization of these structures.

Senator WATSON. In other words, to keep our irresponsible men and fly-by-night operators who want to get into the business.

Mr. LEGGE. All these banking systems trace back to the old Scottish banking system, where the banking fraternity plus government officials comprised the banking board. Every application for a charter was passed upon by this board, of which other bankers were members. They had to show that there was an opportunity and a need for a bank, a sort of convenience and necessity certificate. They had to show that they had sufficient capital and management before a charter was granted. Then this same board handled the supervision.

Senator SHORTRIDGE. A continuing supervision.

Mr. LEGGE. A continuing supervision; and, believe me, the oldest inhabitant never heard of a bank failure in that country.

Senator WALSH, of Massachusetts. You would have to limit this guaranty to Federal banks, would you not?

Mr. LEGGE. That is a debatable question, Senator, as to whether State banks which may be members and subject to all the regulations of the Federal reserve and control, might not be admitted.

Senator WALSH, of Massachusetts. The trouble with the State banks, as I have observed it since I have been in public office in my own State, is that there exists in every State in the Union a group of political lawyers who make it a business, through influence, to get State bank charters, and a great many of these banks that are now in trouble are what you might call political banks, and there would be no way for the Federal Government to control that situation, would there?

Mr. LEGGE. No; except that they need not admit them to the Federal reserve system. Those that do not measure up to the standards need not be admitted, and would not come under the guaranty unless they were.

Senator GORE. A political bank is almost bound to fail.

Mr. LEGGE. We have them even worse than that.

Senator GORE. That was the trouble in Oklahoma. It was a political bank. An ex-State banking commissioner got in and got hold of the new bank, and the treasurer made the State deposit with it, and it broke down. The thing that puzzles me is some system under which you can place honest and competent bankers on a different footing from dishonest and incompetent bankers. That has defied every theory I have tried to work out. There is a difference there, and if you ignore it, you are doing an injustice.

Senator WALSH, of Massachusetts. You have been trying to get a civil service test in the ethics of individuals.

Senator GORE. Yes.

Senator WALSH, of Massachusetts. You can not do that.

Mr. LEGGE. In the average State bank to-day, you know, a man does not have to pass any examination of any kind, but just simply be a good fellow, and he gets his charter by asking for it. He has to pass an examination to drive a taxicab, but he can go and invest a few dollars in a roll-top desk and start a bank.

Senator GORE. He can start a bank and then get elected to Congress, without any preliminaries.

Senator WALSH of Massachusetts. My friend Senator Townsend suggests that the guaranteeing of deposits by the Federal Government would ultimately mean the elimination of all State banks.

Mr. LEGGE. If that is necessary in order to have a sound banking system, let us eliminate them. I do not know that it is, but if it is necessary in order to have an improved banking system, we had better take it.

Senator TOWNSEND. Would not that naturally follow, Mr. Legge, as a natural consequence?

Mr. LEGGE. Yes, unless State banks were admitted to the Federal reserve, and also the guaranty. Some of them might be if they qualified.

Senator WALSH of Massachusetts. The control of the currency is such an important Federal function that you think they would be justified in taking such action as might lead to the elimination of individual State banks from having the confidence of the public.

Mr. LEGGE. Yes. The trouble with us is not lack of money. It is lack of confidence to-day. We do our business in normal times on credit. Credit is not only shaken; it is broken.

Senator WALSH of Massachusetts. Proceed.

Mr. LEGGE. The next subject that occurs to me that you gentlemen were gathering information is this one of international debts. I do not think it is anywhere near as important as it is generally supposed to be, myself—nowhere near as important as putting our own house in order at home. If we get things right within our own boundaries, we might well pass over some of these things.

Senator WALSH of Massachusetts. I share that opinion.

Mr. LEGGE. I think at the time that these obligations were determined under the theory of capacity to pay, they were probably put too high, and some adjustment will eventually be necessary. But if you reduce them to-day on that same theory of capacity to pay, you would not get a cent, because they can all make a showing that they have no capacity to pay anything. In other words, I think any revision in the immediate future is apt to be far too low, as compared with a reasonable basis, just as they are now too high.

The CHAIRMAN. They were not too high when the settlement was made.

Mr. LEGGE. How is that?

The CHAIRMAN. Do you think they were too high when the settlement was made?

Mr. LEGGE. In view of subsequent events, I do not think they were based upon conditions that then prevailed, and what was ahead of us.

The CHAIRMAN. Everybody thought we were too liberal.

Senator WALSH of Massachusetts. The time to collect a debt, or to readjust it with one of your debtors, is not when the debtor is down and out.

Mr. LEGGE. No, sir.

Senator WALSH of Massachusetts. But it is better to postpone the question of readjustment and the question of settlement until he is in a financial position where it will be more profitable for you to understand his capacity to pay.

Mr. LEGGE. Absolutely. If it were my responsibility, I would decline to discuss it for a period, say, of five years. I would declare a definite moratorium and forget it, and when things quieted down and we got on a more normal basis, I would take up the subject and discuss it.

Senator WATSON. That means cancellation.

Senator SHORTRIDGE. You used the phrase "capacity to pay."

Mr. LEGGE. That was the basis of the adjustment, was it not, Senator? Theoretically?

Senator SHORTRIDGE. Yes; but these several nations agreed that, as of a certain time, they owed us so much money for supplies and so much for money advanced in cash. We took into consideration the capacity to pay when we gave them 62 years in which to pay, at a low rate of interest.

Mr. LEGGE. And reduced the amount somewhat.

Senator SHORTRIDGE. Certainly.

The CHAIRMAN. Somewhat? We got it down to 17 per cent.

Senator SHORTRIDGE. We took into consideration then this much-talked-of capacity to pay.

Mr. LEGGE. Yes. It was taken into account then.

Senator SHORTRIDGE. And we were more than generous. We were just extravagantly generous toward them.

Senator WALSH or Massachusetts. We think so. They do not.

Senator SHORTRIDGE. I am tired of hearing about this "capacity to pay." I want them to pay, and I think they could if they were disposed to do so.

Mr. LEGGE. If they were to cut down their military budgets about 6 per cent, they could meet their obligations without difficulty.

Senator GORE. France defaulted on the payment to us in December of about $19,000,000.

Mr. LEGGE. It would make a very slight reduction in the military machine in the case of most of them.

Senator TOWNSEND. Did you say 6 per cent?

Mr. LEGGE. I have seen that figure. I can not verify it, Senator. It is not large.

Senator WATSON. There is no question that the figure is not large.

Senator SHORTRIDGE. I hope our incoming President will harken to the wise suggestions of Senator Lewis, of Illinois, on this subject of international debts, and not commit himself and embarrass himself and embarrass the Democratic Senate in the days to come.

Mr. LEGGE. The next topic I have marked down is that of tariffs. By all the rules of the game I ought to be a free-trader. For forty-odd years I have been in business where we had no tariff protection within this country ourselves. Everything we make is on the free list, or has been, and yet we are up against tariff barriers every place we try to export our goods, or at least most of them, so my training has not been that of an advocate of extremely high tariffs.

The CHAIRMAN. So, free trade did not help the importation of foreign goods, did it?

Mr. LEGGE. No. Aside from all that, it is my judgment that the tariffs cut but little figure in the present debacle that we are going through. Somebody has to have an alibi, and they are a very convenient one. I have been dealing in foreign business for many long years, and I can not remember the time when you could not find somebody complaining about the American tariffs and what they were doing to his particular business somewhere else.

The real trouble is economic trouble, financial trouble. As Mr. Aldrich told you this morning, prior to the war they were creditor nations. They had an interest balance coming from us, with which they could very conveniently pay for raw materials and foodstuffs.

At the close of the war, they sat around the tables in Paris—I happened to be in the Government service at the time, and listened to much of this—discussing the question of how they were going to maintain the value of their currencies in view of the fact that they had not only to buy raw materials and food from abroad, but also send abroad interest. They started out from that day to try to become more self-contained, and they have done a very good job of it. They did not protect themselves from going off the gold standard, but they have become very largely self-contained. Two of the greatest importing countries of those days, France and Germany, are self-contained, or were self-contained in 1932. They did not have to import any grain.

The CHAIRMAN. A great deal of it is produced from American money, American investments.

Mr. LEGGE. Lots of it has been by American money. But, however it has been done, much of it is by substitution. They make them eat potatoes and rye, and Manchurian beans, and any old thing, by making the price of flour so high that the poor fellow can not buy it. It is a very simple process, but it has been going on constantly.

I differ with my friend Mr. Aldrich here as to the possibilities of getting back this foreign trade in farm commodities, aside from cotton and tobacco. Those, I think, we will get back. I think we can raise cotton in this country as cheaply as it is raised anywhere in the world, and when we have it raised, it is right close to the seaboard. In the case of wheat, of course, the situation is reversed. It is all raised far from seaboard, with a heavy carrying charge to get it on the dock and there are plenty of places where it can be raised on a standard of living that I hope the American producer will never have to face.

I happen to be quite familiar with what those standards are, because I have mingled with them and lived among them at various times. I do not believe we are going to get back that large export business we used to have, except on a few commodities, agriculturally.

Senator GORE. It is being raised in some countries where the standard of living is high, for example, in Canada and Australia, and yet they compete successfully with our farmers and put them out of business. We have high land, high taxes, and high labor. They have cheap land, lower taxes, but their labor is as high as ours.

Mr. LEGGE. Canada has cheap land, but their labor is not much different from ours.

Senator GORE. That is the point I make. Their labor is as high as ours, but the land and taxes are cheaper.

Mr. LEGGE. Their financial situation on that export is very serious, and they have not the way out that is open to us. They have only 10,000,000 people to feed, and they are producing half as much wheat as we do.

Senator GORE. They have less choice to diversify.

Mr. LEGGE. They have less choice to diversify.

Senator WATSON. What has been the effect of the Ottawa Conference in that respect, Mr. Legge?

Mr. LEGGE. They are giving a small preferential, Senator, but they have always had a preferential. Manitoba hard wheat, in itself, carries a preferential. It is the preferred grain on the part of the millers of the world. On top of that, they have now a little tariff preferential on what they ship to Great Britain—not very large.

Senator WATSON. Has it really added to the volume of commerce of the Dominion?

Mr. LEGGE. I think it has improved it somewhat. They have increased it somewhat.

Senator WALSH of Massachusetts. But you cannot measure, under present conditions, what that volume would be under better conditions.

Senator WATSON. That is quite true. I was speaking only of the present.

Mr. LEGGE. I think that is neough on that subject. I may be all wrong about it, but what bothers us worse than any tariff is this fluctuating currency. You do not know when you start a shipment what kind of money you are going to get for it when it arrives. In some places, you do not know whether you will be permitted to remit it, even if you do get it. In other words, there are exchange controls in practically every country in South America at the present time. You are not allowed to remit the money at any rate of exchange, except as a control board may feed you out a little percentage now and then, and it has been only now and then that we have been getting anything.

The CHAIRMAN. It is virtually an embargo.

Mr. LEGGE. It is virtually an embargo.

Senator GORE. In that connection, is it a fixed policy of your company, or even an incidental policy—you do not have to answer this if you do not want to— to sell your farm machinery cheaper in foreign markets than you do in the United States?

Mr. LEGGE. Senator, it never has been done. That is the greatest mystery in the way of a theory. To me, it is totally inexplainable. That has been investigated by this Congress at least twice, and by the Department of Commerce on the part of the Federal Government, and each and every time they found no foundation in fact for the statement, but the theory goes on.

Senator GORE. Regardless of their investigation, what do you say about it?

Mr. LEGGE. We never have done it, but if this money proposition continues, the disparity as between our value of money and those other countries, we will either have to produce the stuff somewhere else—we can not make it in this country and sell it anywhere else cheaper. That is impossible.

Senator GORE. I can appreciate the difficulties.

Mr. LEGGE. But we might be able to make it somewhere else rather than give up the trade, and supply it at that cheaper source of production.

Senator WALSH of Massachusetts. It is always possible for the retailer abroad to refuse to command as much profit as the retailer in this country.

Mr. LEGGE. That is not generally true, Senator. There is some liquidation, somebody goes broke, or something once in a while, but that happens anywhere around home.

Senator GORE. One thing that inspired my question was the fact that I remember reading an article in one of the Indianapolis papers which undertook to give figures about the selling of farm machinery manufactured in Indiana—I think Newcastle, Indiana—in Australia. They said the stuff was sold in Australia at about one-half of what it was sold for in Indiana. They not only alleged that as a fact, but justified it as a policy, and I remember the article wound up by saying that this policy "keeps the home fires burning." That is the way it was burned into my memory.

Mr. LEGGE. They could hardly have picked a worse illustration, because Australia proverbially, for the last 25 years at least, has been one of the highest-priced countries in the world. The tariffs were the highest of any nation I have known of.

Senator GORE. That might make it more possible, or easier to sell your stuff there and get rid of it.

Senator WATSON. I suppose if products are sold abroad, they must be sold in competition with the prices of the same products in the world, and in the country purchased. We could not send our machinery over there and sell it for twice as much as the same kind of machinery made in that country. It must meet competing prices.

Mr. LEGGE. The answer is that so far we have never had to make a price lower than the American farmer paid for his stuff.

Senator WATSON. You have not had to do that anywhere with the International Harvester Co.?

Mr. LEGGE. Absolutely nowhere, up to the present time.

Senator WALSH of Massachusetts. Has it not been possible, where they have set up factories abroad for assembling parts of machinery—I remember some years ago the sewing machine being used as an illustration, where they established branch factories and shipped parts, and they were able to put the sewing machines together and sell them cheaper abroad than in this country.

Mr. LEGGE. With that class of stuff, they manufacture it abroad mostly. In some of our plants abroad, Senator, we do make certain small tools, not similar to what are used in this country, that are sold at what would seem like very low prices. They are of simple, inexpensive construction. In our standard equipment, we have never had to sell it abroad at less money than here. The only foundation in fact for a thing like that is a case like that when England went off the gold standard. We had sold goods in pound sterling in perfect good faith on the basis of what the same thing was worth when the contract was made, but when we got the money home, it had shrunk 33 per cent. Theoretically, we sold that stuff cheaper. The returns were less, wholly because of the fluctuation of the exchange value in the country in which the goods were sold.

The CHAIRMAN. But since the depreciation of the currency in England, how are you selling the goods now?

Mr. LEGGE. We have to get our return on goods shipped from here on a gold basis. We have to do that to live.

Senator GORE. You are selling on the dollar basis now, instead of the pound basis?

Mr. LEGGE. We have to do that on everything made in this country, Senator, because we are strictly on a gold basis here.

Senator WALSH of Massachusetts. What is your suggestion about meeting this difficulty that you say exists by reason of the depreciated currencies?

Mr. LEGGE. I am hopeful that out of all these conferences and discussions, there will be some international agreement worked out, Senator. Short of that, an adjustible tariff schedule based upon the money value of the goods is the only way I can see out of it.

Senator WALSH of Massachusetts. You would tax all our imports and tariff rates based upon our gold standard?

Mr. LEGGE. Yes; but unfortunately in our particular case we have not any tariff rates, because everything we make is on the free list, and there is no adjustment for either the collector of customs or the Tariff Commission to work on. It is entirely an open season, and there is no possibility of any adjudication that would help us, because the goods are all on the free list.

Senator SHORTRIDGE. All that you import?

Mr. LEGGE. All that we make; everything that we manufacture here——

Senator SHORTRIDGE. Is on the free list?

Mr. LEGGE. On the free list; yes, sir.

Senator WATSON. But not in other countries?

Mr. LEGGE. No. We pay tariffs into those other countries.

Senator GORE. You have no serious competition from abroad in this country, have you?

Mr. LEGGE. Only on a few items. I would not call it serious. It might become so if this disparity in cost of production continues. Today, we could make goods abroad and ship them to this country cheaper than we can make them here. We are not doing it.

Senator GORE. Is there a tendency on the part of the American manufacturers to go abroad to do that sort of things?

Mr. LEGGE. I think there are very few American manufacturers that have produced anything abroad for importation to this country.

The CHAIRMAN. The shoe industry.

Mr. LEGGE. Perhaps in the shoe industry. There is nothing in our line of business.

Senator GORE. Henry Ford did it with tractors.

The CHAIRMAN. He is doing that now. He is making no tractors here at all now. They are all made in Ireland.

Mr. LEGGE. He is doing it to a little extent.

Senator WALSH of Massachusetts. Any number of American industries have branch factories abroad, and sell abroad.

Mr. LEGGE. We have several of those ourselves.

Senator SHORTRIDGE. Is there any free trade country that you know of to-day?

Mr. LEGGE. I think England was the last of any consequence that was strictly on a free-trade basis. They have departed from it now.

Senator SHORTRIDGE. Entirely.

Mr. LEGGE. Pretty much. It was largely a free trade country until quite recently.

Senator SHORTRIDGE. These several foreign industrial countries have not become protective tariff countries since the passage of our Act of 1930, have they?

Mr. LEGGE. Hardly.

Senator SHORTRIDGE. They have been protective tariff countries for years.

Mr. LEGGE. Thirty-odd years, to my knowledge.

Senator GORE. But this recent drift, Mr. Legge, began just after the war, when Germany was called upon to make so many reparations payments. She had to do that with increased exports, and every country in the world, nearly, took fright at this increased threat of German exports, and began to raise tariffs. That is when this modern movement started.

Mr. LEGGE. Yes; but that was accentuated by the matter I have just mentioned, the effort to become self-contained, and protect the value of her own currency.

Senator GORE. There is no doubt about that; and there are seven new countries created in Europe, with 12,400 miles of international boundary, each trying to become self-sustaining, adding productive capacity to a world supply that was over-produced.

Senator WATSON. And the world is living in compartments now.

Senator GORE. Yes.

The CHAIRMAN. Charge it up to the tariff.

Senator GORE. It had a lot to do with it, because a millman running a mill in one of these new countries gets his lumber where he has to pay a tariff now, whereas he formerly did not have to pay it.

Mr. LEGGE. You had a long discussion this morning on inflation. Are you able to stand any more?

The CHAIRMAN. I would like to have you give us your idea.

Senator WALSH of Massachusetts. His ideas are so concisely presented, it is helpful and refreshing to get them.

Mr. LEGGE. My idea is that if we restored confidence, we would discover that we had plenty of money, and would not need to inflate, in a nutshell.

The CHAIRMAN. That is absolutely true.

Mr. LEGGE. I would go further and say that any attempt to control currency with the present banking system we have in this country would be disastrous. It does not necessarily follow that it could not be done. I think it could be done. It is being done successfully in Great Britain to-day, but they have not had a bank failure since the depression started, or many years before. To have a controlled currency, you must have better control of the mediums through which the currency flows than we have in this country at the present time. I think it would be a terrific hazard.

I have been reading a lot of your discussions here. There was one element left out, and that is that the cause that led up to this depression was the switching of the Far East from a silver to a gold basis, which, in my judgment, was one of the important factors in what is happening. That was done just prior to the time these troubles started. Half of the world's population, or more, were depending upon white money as their money, and it did upset things pretty badly, at least for a time.

The CHAIRMAN. That began immediately after the action was taken in India.

Mr. LEGGE. Yes. My recommendation would be to find some way of planning that budget, to find some way of giving us a sounder banking system, and, having done that, you will not find it necessary to go further in that particular line, but if you did have to go further you could do it far more safely than we can as we are set up to-day,

Senator SHORTRIDGE. You say we have to get a safer or better banking system. What concrete specific law have you in mind, or can you suggest, which would bring that about?

Senator WALSH of Massachusetts. He suggested branch banking.

Mr. LEGGE. Branch banking by trade areas, under far more rigid supervision than has prevailed in the past.

Senator GORE. One of these banks, I think, or groups in Michigan, involves one hundred and forty-odd banks, and a little over a year ago, in Senator Shortridge's State, a very large instutition out there found itself in very heavy weather, and had to have a good deal of help. It has 300 branches.

Senator SHORTRIDGE. Approximately. Are you referring to the Bank of America?

Senator GORE. I was.

Senator SHORTRIDGE. The head of which is Mr. Gianini.

Senator GORE. That has caused an earthquake to run through the Nation, through our whole financial fabric, from Boston to Los Angeles. Everywhere the earth quaked and rocked beneath their feet. That is why we hurried up to pass this Reconstruction Finance Corporation law. The outside world did not know it at the time. That was the cause. When a bank like that does down, with 400 branches, it is pretty serious. The last bank that failed in Canada, 10 years ago, brought down 400 branches with it. They say there has been but one bank failure in Canada. That is true, but it brought down three or four hundred branches with it, which are left out of the calculation when you state the number of failures.

Mr. LEGGE. I have not touched, Senator, on the agricultural problem at all. I do not care to, particularly, unless you folks want me to.

The CHAIRMAN. Perhaps, you being so closely connected, for years, with the farming industry, you had better touch upon that subject.

Mr. LEGGE. My judgment is that the American farmer is to-day in a receptive frame of mind to do the necessary thing. Perhaps that is for the first time. I remember three short years ago when I first suggested the regulation of production was inevitable before we could get a solid foundation, I came nearly being chased out of the State. It aroused a terrible storm of indignation. It was heresy to talk about it. To-day the farm organizations are themselves seriously considering it. But there is one fundamental trouble.

In all these leading commodities, we have perhaps 2,000,000 producers of each—wheat, cotton, and various kinds of livestock. We have 2,000,000 people or more raising the same commodities. It is a very difficult thing to bring about any collective action with such a diversified base of operation. We have the spectacle to-day of many industries where there are not over a dozen large manufacturers, selling goods at a loss, indicating that they do not know where to stop when they have to stop. So, when you expect it from this widely diversified group, I think you are expecting too much. My thought is that that might successfully be put across to-day—I think it would be favorably received by the farmer—by the leasing, buying, and putting out of commission, the submarginal stuff, with funds to be provided by an excise or normal tax on the commodity itself, not making any drain on the Public Treasury, but letting the commodity itself be in some form taxed sufficiently to pay for the acreage retired.

I think the burley tobacco situation is the best illustration I know of. There was a very successful cooperative. I have talked to its members, hundreds of them. They admitted that during the period of its operation, they had received for their product nearly double what they had been getting prior to the organization. They also admitted that they were now getting considerably less than the average that they obtained under their organization activities, yet they suspended operations. Why? Because the fellow who did not contribute had the same benefit as the man who did, and personal feeling ran so strong that they said, "We would rather take a loss for what we raise than to help raise the other fellow's price at our expense."

All of which I think could be gotten away from on this theory of renting the surplus acreage, in other words, paying the man who did reduce, and letting the balance of the commodity produced contribute the money to pay the rental.

The CHAIRMAN. You mean the Government will pay the rental on the land upon which he does not produce?

Mr. LEGGE. Yes; and tax the commodity.

The CHAIRMAN. Have you had any estimate made as to what that would cost annually?

Mr. LEGGE. Yes; $50,000,000 would cure the wheat problem. There would be a very small tax on wheat—a processer's tax would raise $50,000,000. The proposal that was before you gentlemen here called for the raising of $200,000,000. The amount of the tariff would amount to over $200,000,000; 25 per cent of that amount would put out of production all the surplus producing acreage in wheat, and still the farmer would be happy with the rental he would get. It is a good deal more than he is getting now.

Senator GORE. Would you rent all the farmer's land if he would rent it, or would you fix the percentage?

Mr. LEGGE. I would fix the percentage somewhat higher than the average, so that the fellow who did not rent any would get the average amount—say 25 per cent, or 33⅓ per cent from those who wished to lease.

The CHAIRMAN. Would such a farmer produce any kind of crops on it?

Mr. LEGGE. None whatever. It would be out of commission. It might be thrown back into grass, or summer fallowed to preserve the fertility of the soil.

Senator GORE. You would not carry that same principle to manufacturers who were producing surpluses?

Mr. LEGGE. I only wish I could, but it does not work out so well when you try to do it. I wish it might be done.

Senator GORE. Do you think you could start with one class, and stop with another?

Mr. LEGGE. I do not think we are entirely without precedent in that, gentlemen.

Senator WALSH of Massachusetts. I was impressed with what you and others have said about handling the wheat problem in that direction, but my mind went back to the potato growers of Aroostook County, Me. They would be asking for the same principle, and so would the apple orchard people of New England, and so, I assume, would the lemon and orange growers of southern California, and the growers of other citrus fruits, as well as nuts, I suppose. I am sure they would be, if the Senator from California was still a Member of the Senate. The difficulty is, where shall we stop?

Mr. LEGGE. It is startling. I can see no serious difficulty on any annual crop. When you come to your citrus trees and apple trees, which involves leaving a tree stand idle, or tearing it out, you have a different proposition.

Senator SHORTRIDGE. It is ruined unless it is cared for, pruned, and properly cultivated.

Mr. LEGGE. I respectfully submit, Senator, that if we could cure the rest of the trouble, as far as the annual crops are concerned, it would make a far better market for the citrus grower and the apple grower than he has to-day. He would indirectly benefit by it.

Senator SHORTRIDGE. The result of that plan would mean an increase of——

Mr. LEGGE. Consumption.

Senator SHORTRIDGE. An increase in price to the consumer.

Mr. LEGGE. Absolutely.

Senator SHORTRIDGE. On the given article—wheat, for example.

Mr. LEGGE. Yes, sir.

Senator WALSH of Massachusetts. And he, in turn, would have more purchasing money.

Mr. LEGGE. I had a peculiar experience along that line last April. A group of banker friends were taking lunch with me in Paris, and they were commenting on the Tardieu government going too far in the tariff on wheat. I said, "What is the trouble?" Well, it was raising the cost to the consumer. They were smuggling bread across the Belgian boundary. It was rather ineffectual smuggling, as far as that is concerned. They could make only a few centimes. I said, "What does it all result in? What is the price of it?" We sent out and got a fair price circular issued by their Department of Commerce twice a month, and the price of a pound loaf of bread on that day was the same in Paris and Chicago—5 cents of our money. The average price of their wheat had been $1.73 for the preceding 12 months.

Senator GORE. In France?

Mr. LEGGE. In France; but the pound loaf of bread sold for the same nickel that you paid for it here, when you reduce it to a gold basis, on the same day, most of which is in distributing expense. We wrap it up in cellophane or wax paper and put it on the breakfast table——

The CHAIRMAN. Or slice it.

Mr. LEGGE. Or slice it. Over there, the maid goes down to the corner bakery and carries it home in an open basket, or under her arm, and there is not even a string attached to it. There is no expense to it whatever.

Senator GORE. That leads you to the conclusion that you could raise the price of wheat here to $1.70 without a material increase in the price of bread?

Mr. LEGGE. I would not go quite that far. I would say you could raise it to $1.40, and guarantee that there would be less than half a cent difference in the price of a loaf of bread.

Senator GORE. Bread handled in the bakeries.

Mr. LEGGE. Yes.

Senator SHORTRIDGE. In regard to leasing the land and retiring it from cultivation, is it assumed that the Federal Government has the constitutional power to do that thing?

Mr. LEGGE. I am not a lawyer, Senator, but why shouldn't it have? The Federal Government had the power to grant hundreds of millions of acres of that land to the railroads, who developed agricultural departments to sell it, under alluring terms, for settlement, without any regard to whether there was any income in sight for the man who bought it. They have opened it to homesteads, and encouraged them to homestead it all over the country, and created a situation, through their own cooperation or influence and sympathetic support, similar to an overbuilt factory. When we overbuild a factory, we have to dispose of some of it, because it is always a burden.

Senator SHORTRIDGE. The land referred to was then public domain.

Mr. LEGGE. Public domain.

Senator SHORTRIDGE. It is now in private ownership.

Mr. LEGGE. You might have to set up an organization for that purpose. I believe it could be done.

The CHAIRMAN. Thank you, Mr. Legge.

Mr. LEGGE. If you have no further questions, I will not take more of your time.

Senator GORE. One more question, Mr. Legge. Let me ask you this: In the farming implements you turn out now, are some of them the same, in detail, as they were in 1913, for instance?

Mr. LEGGE. No; I do not think we have anything that is the same in detail as it was in 1913.

Senator GORE. What I wanted to get at was this: You have heard and I have heard a great many statements about the price of farm implements going up as products went down; that they have not gone down since 1913, corresponding to other products. I always think the facts are the best things we can have in an investigation. I was going to ask if you could submit a schedule of farm implements, with their prices in 1913, and a corresponding list of implements now, with their current prices. One trouble is that the things have been altered, and you do not get a real comparison. Is that not the trouble?

Mr. LEGGE. That has been gone into by a bunch of college men from some of the large agricultural colleges quite recently and quite exhaustively, and I think they have filed, or are about to file, a report with the Department of Agriculture on that subject. I would recommend that as being disinterested, inasmuch as we did not make it. It was not an implement manufacturer that prepared it. But, broadly speaking, Senator, here are the facts: All automotive machinery, tractors, trucks, and that class of stuff, is selling to-day at far less than pre-war prices. With respect to horse-drawn tools, and especially small tools, they are not. They are substantially above pre-war prices. There has been some increase in the cost of design and cost of production, but that is not the big factor. The big factor is that the country is now consuming about 10 per cent, in quantity, of that class of stuff, compared with what it consumed in the pre-war days, and on that small turnover you simply can not get the cost you could with a large volume.

Senator GORE. If the farmer's purchasing power were increased through increased prices, he would undoubtedly be a customer for a large output, would he not?

Mr. LEGGE. We hope so. We certainly hope he will be.

## STATEMENT OF JOHN A. SIMPSON, PRESIDENT, NATIONAL FARMERS UNION, WASHINGTON, D. C.

Mr. SIMPSON. Mr. Chairman and gentlemen of the committee, it is my understanding——

Senator GORE. Do you hold any position in connection with any farm organization in the country?

Mr. SIMPSON. Yes. I am president of the National Farmers Union. I have given the reporter a copy of what I am saying, and it is headed that way.

Senator GORE. Have you a copy for each member of the committee?

Mr. SIMPSON. The newspaper men have got them all away from us.

Senator WALSH of Massachusetts. Tell us briefly what that statement is, of your own activities, your own background.

Mr. SIMPSON. For 14 years I was president of the State Farmers Union of Oklahoma, and now I am in the third year as president of the National Farmers Union. That covers about 30 States.

The CHAIRMAN. With headquarters here?

Mr. SIMPSON. With headquarters here in Washington when Congressmen and Senators are here. Our national headquarters are at Kankakee, Ill., where our national secretary keeps the office.

It is my understanding that you desire from those whom you have called before this committee to diagnose conditions in this Nation and suggest remedies.

Before I begin that part of my statement, I call your attention to the fact that the farmers and laborers of this Nation compose 75 per cent of the total population. I also call your attention to the fact that from this 75 per cent you have only asked four for their advice and counsel and we four received belated invitations. I do not know how many you have invited altogether, but the newspaper reports have given such statements as indicate that we four are not 5 per cent of the number invited, although we represent 75 per cent of the population.

Senator SHORTRIDGE. The chairman undoubtedly felt that you four were quite competent to represent the 75 per cent.

Senator WALSH of Massachusetts. The chairman is not a member of the committee. I think the difficulty was that the subcommittee was composed of men who have other interests than farming interests.

The CHAIRMAN. I want to say to the gentlemen here that I have sent the letters at the request of members of the committee. I have made no list up whatever, and I do not want you to think, Mr. Simpson, because you opposed me in the last campaign, that I had any objections to your coming here.

Mr. SIMPSON. I just wanted it to be known that farmers and laborers are rather looked upon as not counting so much.

Senator SHORTRIDGE. That is not so.

The CHAIRMAN. That is not true.

Mr. SIMPSON. Oh, yes.

Senator SHORTRIDGE. Oh, no, it is not, Brother Simpson.

The CHAIRMAN. If you will get that out of your head—the same kind of a statement was made in the campaign—it will be better for the farmers. I want to say that much to you now. I am just as much a friend of the farmer as you are.

Mr. SIMPSON. Listen; I want to say this——

The CHAIRMAN. I do not have so much to say about it.

Mr. SIMPSON. Senator, I want to say this, that farmers everywhere are treated as inferiors.

The CHAIRMAN. Not at all.

Mr. SIMPSON. Absolutely.

The CHAIRMAN. Every time they have come before the Finance Committee, they have received what they have asked for.

Mr. SIMPSON. Listen. The United States Chamber of Commerce over here has a committee on agriculture, as well as every little chamber of commerce in the United States. It is an insult to the intelligence of the farmers, as though they did not have sense enough to run their own business. We Farmers Union folks might just as well have a committee on banking.

Senator SHORTRIDGE. In all good nature, I think you are all wrong.

Mr. SIMPSON. I am good natured about it, but I am just telling how a farmer feels.

Senator SHORTRIDGE. I was born between two rows of corn, and I am a farmer.

Senator WALSH, of Massachusetts. Under the Democratic administration, things are going to be different for the farmers.

Mr. SIMPSON. That is what I think.

Senator SHORTRIDGE. Now we will listen.

Mr. SIMPSON. I also desire to call your attention to the fact that a great number of those invited are the ones responsible for present conditions. They are the ones who believe present policies are sound and are against any fundamental change in policies.

With no business of any kind in the last 18 years except contact work with the people of every State in this Nation, and especially the farm population, I offer the following as my brief diagnoses of the affairs, public and private, of the people of this Nation.

I mean for 18 years I have had no other business except working in contact with not only farmers, but other folks in every State in the Nation.

First. I find the general health of the people of the Nation is good. In fact, it never was better.

Second. I find the intelligence of the common people increasing to a considerable degree. This is not only in the matter of decreasing of illiteracy among the common people but also an increasing interest in public affairs that comes of an increase in intelligence. The common people of this country are thinking more and better than they have done in 50 years.

I can not say as much for the ultra-rich. I find that greed and avarice have almost completely destroyed their power to think clearly. Selfishness has made them as blind as Samson. They have no conception of the condition of the common people of this nation. They evidence no desire to inform themselves.

Senator SHORTRIDGE. I do not want to interrupt, because I am very much interested in what your are saying, but who are the common people in America?

Mr. SIMPSON. There are 125,000,000; and not more than 10,000 ultra-rich any more, because the ultra-rich are cannibals and they swallowed up about 10,000 of their own kind in the last 4 years.

Senator SHORTRIDGE. No one is poorer than I am, but who are the common people?

Mr. SIMPSON. Probably you and I, Senator.

Senator SHORTRIDGE. All right. I am much poorer than when I came here. I may be a little wiser.

Mr. SIMPSON. The only bad thing is when a common fellow thinks he belongs on the side of the ultra-rich. That is the worst feature of things.

Senator SHORTRIDGE. I know the disposition is to think that a man, if he be a millionaire, is necessarily wise. He is, in the accumulation of money, but he may not be in other matters.

Mr. SIMPSON. They can lose it, too, about as easily as the little fellow loses his.

They worship precedents and cling to false gods in a way that positively shows an alarming decreasing intelligence. They cling to error even unto self-destruction. A much higher per cent of the ultra-rich than common people are jumping out of windows.

Third. In the diagnoses I find business developed into a maze of complexities, intricacies, and duplicities that defies the understanding of even those who built them.

Mr. Charles Dawes and Mr. Owen D. Young, in recent statements, have admitted that the institutions with which they deal and help control are so complex that it is beyond their power to comprehend and understand their ramifications.

Mr. John P. Frey, secretary-treasurer of the metal trades department of the American Federation of Labor, testifying before a subcommittee of the Judiciary Committee of the Senate, Senator George Norris of Nebraska presiding, stated that a breakdown of the Chase National Bank showed directors of the Chase National holding directorships in subsidiary banks and directors on these subsidiary banks together with directors of the Chase National holding directorates in 12 insurance companies, 32 manufacturing corporations, 17 railroads, 19 public utilities and 21 miscellaneous corporations. In all the Chase National Bank has an interlocking connection with a total of 2,023 directorships in other banks, insurance companies, manufacturing concerns, transportation companies, and public utilities.

Senator GORE. Do you mean that many different concerns, or that many directors of the Chase Bank are on that many——

Mr. SIMPSON. They hold that many directorates. Some of them hold just one, and some two or three.

Senator GORE. That would mean 2,000 different entities?

Mr. SIMPSON. No. It would mean 2,023 directorships.

Senator GORE. Sometimes three or four on one?

Mr. SIMPSON. Yes.

The CHAIRMAN. Did you hear Mr. Aldrich testify to-day?

Mr. SIMPSON. Yes, sir.

The CHAIRMAN. Did you have any objections to his testimony on the farm question?

Mr. SIMPSON. Oh, yes. He looks at it from the big fellow's standpoint.

The CHAIRMAN. That does not amount to anything, in detail.

Mr. SIMPSON. Your thinking always comes from the approach you make. The basis you start to reason from determines what conclusions you come to. When people start from a different basis, they are not going to come to the same conclusions.

Mr. Frey also stated that a breakdown of the National City Bank shows they hold 7 directorships in aviation companies, 41 in other banks, 104 in miscellaneous companies, 44 in insurance companies, 102 in manufacturing corporations, 29 in transportation companies, 115 in public utility corporations. A breakdown of each of these 41 banks shows that the group under the National City Bank hold 4019 directorships in other banks, public utilities, insurance companies, transportation companies, manufacturing and miscellaneous corporations.

Senator SHORTRIDGE. And you think that is evil, of course, and brings about bad results?

Mr. SIMPSON. It developed the other day that through that maze of intricate and complicated systems, the Insull operations of some of those bankers out there amounted to stealing $50,000,000 from the people, when they knew that they were offering securities that were worthless.

Senator SHORTRIDGE. I gather that you think that is one of the evil results from these facts you have called to our attention.

Mr. SIMPSON. Yes, sir.

Somebody said a while ago that a thing can get too big.

Senator WALSH, of Massachusetts. I used the word "bigness" as being one of the evils of our day.

Mr. SIMPSON. Senator, you are absolutely correct. You can get a thing so big that it is not an economic or a safe or an honest unit. That is one of the things I am complaining of.

Mr. Frey said his investigation reveals these interlocking directorates, both in banking and industry, extend into foreign countries. It further reveals that it extends to every automobile concern with the exception of Ford. It shows it includes practically every railroad, ship company and avaiation company in the United States. It includes practically every public utility in the United States, hundreds of them, and also in foreign countries. It includes a majority of the insurance companies of the United States. It includes every line of manufacturing. It reveals there is scarcely such a thing as an independent concern in the United States. Just a few big bankers completely control commerce, industry and transportation.

Mr. Frey was putting this testimony on for the American Federation of Labor, to show why it was that labor could not sit down across the table now with their employers and deal, because their employers are slaves, and have to ask the big bankers what they can do. That is the purpose that he had in putting that testimony in the record.

Fourth. I find the morals of the country bad socially, politically, and commercially. Crime of all kinds, including murder and suicide, is continually increasing. Business, through control of a large per cent of the press of the country, has corrupted politics.

Senator WALSH of Massachusetts. Can we not put that on the prohibitionists, and not the bankers?

Mr. SIMPSON. I never like to speak about the dying, Senator.

Very little accurate information is available to the people of the country through the press.

It used to be said of honest men that their word was as good as their bond. In business to-day, I do not feel that I am exaggerating when I say my diagnosis shows that to a large extent neither the word nor bond of the average business man is dependable.

Senator SHORTRIDGE. Oh!

Mr. SIMPSON. I have had a hundred business men tell me that. They cancel their contracts when they would not think of doing such a thing formerly, if they found a place to buy cheaper, and so forth. Business is not what it used to be. Out in the west 50 years ago, a perfect stranger could ride up to a store and say, "I want a new saddle. I want a new blanket. I want a new suit of clothes." He would be asked, "Where do you work?" He would say, "I work at ranch so and so down here." The merchant would let him have them, and the storekeepers of those days will tell you that they seldom lost a penny. To-day you could not do that if you had the bond of the rancher.

Senator SHORTRIDGE. That is a mighty sad statement, that in spite of our churches, our schools and our preachments, we are becoming a dishonest people.

Mr. SIMPSON. Our word is not good, as it used to be.

Senator WALSH of Massachusetts. Our churches are diminishing. They are old-fashioned. Religion is going, like everything else.

Mr. SIMPSON. Fifth in a thorough examination covering the whole United States, I find the monetary system in use in this country has completely failed to furnish the people a medium of exchange. Positive proof of this statement is found in the fact that hundreds of municipalities and organizations of the people are issuing scrip because they have no medium of exchange with which to do the business required in their localities.

Senator WALSH of Massachusetts. Is that actually happening?

Mr. SIMPSON. Oh, yes. Right in Senator Smoot's town, Salt Lake City, I visited the Natural Development Association, that has over 40,000 members, and does business of every kind under the sun with scrip which they issue, to pay laborers, to pay farmers for their products, and so forth. They own their own coal mines, and a fleet of trucks that deliver the coal. They own 16 stores, four of them in Salt Lake City and others scattered out over Utah and other States. You can have anything you want with the scrip of the Natural Development Association in Salt Lake City. You can have an operation, from a shave at the barber's, to having your appendix taken out at a hospital, and it is putting men to work.

Senator WALSH of Massachusetts. How has that been kept out of the papers?

Mr. SIMPSON. How is that?

Senator WALSH of Massachusetts. Why has that information been kept out of the papers?

Mr. SIMPSON. Because these big bankers control the press, and they do not want those kind of storeis to get out. But you see little squibs of it. You see where towns are issuing scrip to start their people to work, and some of them are using it on a scrip basis.

Senator WALSH of Massachusetts. That is amazing to me. Did you know it before, Senator Gore?

Senator GORE. Yes. One hundred and forty-four towns are using money of their own.

Mr. SIMPSON. And every day it is growing in numbers.

Some of these organizations now have thousands of members and do millions of dollars of business with their own scrip as a medium of exchange. It has developed that wherever these organizations have sprung up or where municipalities have issued their own medium of exchange that it has resulted in putting hundreds of unemployed men to work.

I find that the present monetary system and policies of government are directly responsible for an army of unemployed numbering 12,000,000 and another army of 9,000,000 only partially employed. I find that our present monetary system and policies of government are directly responsible for 10 cents per bushel corn—that is the average price of corn over the United States to-day, to the farmer—5 cents per pound cotton, 30 cents per bushel wheat, 2½ cents per pound hogs, 8 cents per dozen eggs, 12 cents per pound butter fat and like ruinous prices for other farm products.

Senator SHORTRIDGE. Pausing right there, not to prolong the statement, you have called attention to the low prices of various farm products. You are attributing those prices to the lack of currency?

Mr. SIMPSON. The lack of medium of exchange. The people can not get along on barter, Senator. They have to have a medium of exchange, or else it ruins trade.

Sixth. I come to what I consider the most serious condition in this country and that is the thinking of the average public official and the men who conduct the large business institutions of the nation. It is the most serious for the reason that correction of all other ailments depends entirely upon our average public official and average business man approaching these subjects from an entirely different viewpoint than they have in the past.

You can not correct any of these things until, first, you get to thinking straight here in Washington.

Senator SHORTRIDGE. Truly.

Mr. SIMPSON. For 50 years we have been taught that it is honorable to accumulate great wealth. For 50 years the laws of this country have been such as to encourage the accumulation of great wealth.

Let me give a little personal experience. A stroke of lightning in 1878 widowed my mother. She was 28 years old. She had three little boys. I was the oldest, not quite 7. All through our childhood and young manhood, that good mother struggled to see that we got an education, and she taught us that she wanted us to get an education so that we could make more money and make it more easily. It is a false idea of what an education is for, and yet that is the prevailing education that has existed in this country during the last 50 years. It is all wrong. That is where the thinking is wrong.

There is not one thing in the laws of this Nation that prevents a man from accumulating and getting into his possession all the wealth of the Nation, leaving every other human absolutely propertyless. The accumulating process has gone on until to-day less than 4 per cent of the people own more than 80 per cent of the wealth of the Nation.

Our business men, our public officials, must change their position quickly on this question, or there will be revolution and overthrow of the Government. In 2,000 years, no nation ever reached the degree of concentration of wealth that we have in this country without revolution and overthrow of the government except that nation redistributed the wealth.

I made that statement a year ago in a hearing before the Ways and Means Committee, when they had the tax bill up, and when I had completed my statement Congressman Rainey, who was presiding, went into the detail of it, and he showed how, in each country from the days of Babylon down to Russia, that very thing had happened. I had not exaggerated.

Talking about taxation, there is only one fair basis for taxation and that is ability to pay. That is the only fair test, and the only fair test of ability to pay is net income at the end of the year. It is just as wrong as it could be, as Mr. Aldrich suggests in his statement, to tax the coffee that the poorest woman in the land drinks, or that the blind beggar who stands on the street corner to have you drop pennies in his tin cup, drinks. He goes to buy coffee to take to his hovel that he calls home, and he must pay the same tax that the richest man in the United States pays. There is no test of ability to pay at all. It is wrong. Through inheritance taxes, you gentlemen and the members of the House—the House must start it, of course—have a method by which you can correct the greed and avarice in a man piling up wealth when he passes out.

Senator WALSH of Massachusetts. It would also require stringent laws about gifts in anticipation.

Mr. SIMPSON. Gifts must be included.

Senator WALSH of Massachusetts. I think you agree, from what you have said, that some method should be devised for reaching the incomes that come from tax-exempt securities?

Mr. SIMPSON. Yes, Senator. I am going to say something now that perhaps you may not like. Most of these big moneyed interests that come in here asking for the repeal of the eighteenth amendment, and so forth, are not actuated because they care so much about the eighteenth amendment, but because they want to raise $125,000,000, or $150,000,000 off the poor people that drink beer, because it will relieve them of that much income tax.

Senator WALSH of Massachusetts. I have publicly stated that that motive, and the movement in this country against prohibition, began and developed largely out of the agitation over increased taxes a year ago.

Mr. SIMPSON. Accumulation of great wealth is based on greed and selfishness. Therefore, it should be considered dishonorable and the laws of the land should discourage it instead of encourage it.

You talk about the churches. I read an article to-day where a man said he was going to take his name off the church roll, because he still had an ambition to be rich, and he said, "I would rather go to Hell without my name on there, than to go there being a hypocrite."

Our public officials must realize that the present policies of government have developed because those motivated by greed and avarice have largely controlled legislation. I have plenty of Senator's speeches to justify that statement. You should get your thinking on straight and realize that the most of these big business men rob and steal by virtue of laws that they have promoted.

It is my impression, you should give very little weight to the advice of such men. You should get your thinking on straight and realize that a great many of the economists of this country are beneficiaries of Rockefeller and other foundations. Their advice should have very little weight in the matter of legislation.

An economist is just like an alienist. You can have a murder trial and have all the alienists you want on both sides. You may have a bill presented here, and you will have the highest class of economists in the United States on both sides.

With regard to remedies, The Farmers' Union recommends four bills that have been introduced in the House and Senate as remedies to the conditions prescribed.

First, the Frazier bill, S. 1197, I place this bill first, not as a permanent remedy, but as an emergency measure. Figuratively speaking, 40 per cent of the farmers of this Nation are financially sinking out in the middle of old River Mortgage.

I believe, Senator Gore, you said 15 per cent were distressed.

Senatore GORE. I think that, perhaps, meant 15 per cent of all the farms. Of course, 40 or 50 per cent of them are not mortgaged. There are various figures on the number that are mortgaged.

Mr. SIMPSON. Everyone of them has a mortgage to sink him. The condition of agriculture is such that if you were to give me the best 1,000 acres of land in Illinois and Iowa, the two greatest, richest producing lands of any State, clear of all encumbrance, and tell me, "You have to keep it 10 years, pay the taxes 10 years, and the prices of farm products are going to remain where they are," I would tell you, "I don't want it."

Senator GORE. Certainly.

Mr. SIMPSON. That is the condition. Land that was selling for $300 or $400 an acre, has no value at all to-day. It does not pay the taxes. So, anybody who has a mortgage is sinking because he can not even pay the taxes, and if he has interest to pay on top of that, he is hopeless.

Senator WALSH of Massachusetts. In other words, no farm property to-day under present conditions is worth paying the taxes.

Mr. SIMPSON. In the East, that would not be entirely true. The Eastern farmer did not know that there was a depression until 1929. We farmers out there in the mid-West knew it commenced in 1920. We have been going downhill ever since.

If we are to have small home-owning farms in this Nation in the future we must throw them, as a life-saver, the Frazier bill. This bill will get them to the bank.

It provides for the Government refinancing farm mortgages up to 80 per cent of the reasonable value of the farms on a basis of 1½ per cent interest and a payment each year on the principal of 1½ per cent. It is not immodest for the farmers of this Nation to ask for the passage of the Frazier bill, because this Government has made more favorable loans to other groups in the past.

By the way, the Frazier bill has the backing of farmers to a greater extent that any other bill for mortgage relief.

Senator WALSH of Massachusetts. What is the status of that bill?

Mr. SIMPSON. It has had its hearings, and the report of the committee has not yet been made known.

Senator WALSH of Massachusetts. You do not expect to get action between now and the 4th of March?

Mr. SIMPSON. No. This is just education now. We could not do much in this session.

Senator WALSH of Massachusetts. You are trying to get us to think straight?

Mr. SIMPSON. Yes. The State legislatures of the following States have memorialized Congress to pass this bill: Montana, Nevada, Wisconsin, Illinois, Minnesota, North Dakota, Nebraska, California, Oregon, Indiana, and Arizona, as well as Tennessee, Idaho, and South Dakota—14 States. There is a telegram Senator Frazier sent to a Congressman-elect out in North Dakota to-day, telling him about it.

Senator WALSH of Massachusetts. Do you want that in the record?

Mr. SIMPSON. Yes.

Hon. WILLIAM LEMKE,
*Bismarck, N. Dak.*

Montana, Nevada, Wisconsin, Illinois, Minnesota, North Dakota, Nebraska, Idaho, California, Oregon, Indiana, Arizona on record in Secretary of Senate's Office as having passed Frazier bill resolution. Tennessee, South Dakota passed but not reported to Secretary.

LYNN J. FRAZIER.

Senator WALSH of Massachusetts. Proceed.

Mr. SIMPSON. This Government has lent private steamship companies in recent years millions of dollars, much of it on 20 years time and some of it at less than 1 per cent interest. This Government settled with the European nations on the billions of dollars they borrowed during the war on a much more favorable basis than the Frazier bill provides for financing farmers.

That is the reason I say it is not immodest for us to ask for the Frazier bill. Surely farmers are of more importance to the perpetuity and the prosperity of this Nation than European countries and steamship companies.

Senator WALSH of Massachusetts. Before you leave that, can you tell us, in one sentence, what the Frazier bill provides?

Mr. SIMPSON. It provides for refinancing farm mortgages up to 80 per cent of the reasonable value.

Second. The McNary bill, S. 5027. This bill had the indorsement of the National Grange, the Farm Bureau and the Farmers' Union in the last session of Congress. It was reintroduced in this session.

It provides, first, that the Government shall take charge of the marketing of farm products on a basis of seeing that farmers get cost of production for that portion of their crops consumed in this country. Then the bill provides three ways that the Government may use, or any combination of those three ways, to get farmers cost of production for that part of their crops consumed in this country.

The Farmers' Union part of the bill will be found under title 3 and is headed, "The allotment plan."

The domestic allotment plan is a counterfeit of what ours was. The domestic allotment plan is an unsatisfactory substitute for the Farmers' Union allotment plan. The Farmers' Union allotment plan provides for cost of production for that portion of farm crops consumed in this country. The domestic allotment plan does not even pretend to secure cost of production to farmers. The Farmers' Union allotment plan deals only with the buyer of farm products. That is, the Government deals only with the buyer of farm products.

It provides for the Government licensing the buyers and regulating them on a basis of instructing the buyers what portion of each delivery of a farm crop purchased by them shall be settled for on the cost basis fixed by the Government. Of course, the portion of each delivery not needed for home consumption will be settled for by the buyer on the basis of the world price that day. The domestic allotment plan provides for regulating 30,000,000 men, women, and children on the farms, an impossible proposition, unsound in principle and already doomed to failure.

Senator Gore. Without any motive to police each other, they would wink at each other's violations?

Mr. Simpson. Let me tell you what happened with some of the cooperative commodity organizations. Take the cotton growers of Oklahoma—and it was a big one, and successful. They had a contract with the farmer that the farmer had to deliver all his crop. How did the farmer get out of doing that? The farmer quit farming all the place, and his wife farmed part of it, and it was not his crop—and if he was a pretty good-sized farmer, some of the boys farmed some of it.

Senator Walsh of Massachusetts. They need a little religion down in Oklahoma.

Senator Gore. Either that, or it will hurt the old bachelors. [Laughter.]

Senator Shortridge. Do they not have a community property principle down in Oklahoma?

Mr. Simpson. You would have to have 100,000 employees.

Senator Shortridge. I want to go on record as dissenting from your reflection upon the morals of the farmer. You seem to be appearing for the farmer, and yet you say he is essentially a dishonest man. I deny that.

Mr. Simpson. Senator, the farmer is a human being, like anybody else, and the only reason he is not as big a crook as the big fellow, is because he has not had the opportunity. I think there is a higher per cent of honest farmers than of any other class.

Senator SHORTRIDGE. That may be some palliative, or something in the nature of a defense.

Mr. SIMPSON. He has not had the opportunity, nor the experience.

Senator SHORTRIDGE. I deny it. I claim the farmer is, in general, an honest man.

Senator WALSH of Massachusetts. There are minorities everywhere who are uncontrollable.

Mr. SIMPSON. Certainly. But it would take an army of 100,000 to police the domestic allotment plan, Senator. I believe you will agree with me on that.

The Frazier bill, as I said before, is an emergency and life saver that gets the farmer to the bank. The McNary bill gives the farmer dry, warm clothes when he has reached the bank, and it is permanent legislation. The McNary bill is simply applying the interstate commerce law to agriculture. It has worked for 26 years for transportation. We see no reason why it will not work for agriculture.

Senator WALSH of Massachusetts. What is the status of that measure?

Mr. SIMPSON. That measure was up in the last session, and was sent to the floor of the Senate. It was discussed for three days, right at the last, and sent back to the committee for correction. Of course that meant the death of it. It has been reintroduced, just as a matter of keeping it alive, because we had to wait on these fellows with the domestic allotment plan, but in the special session we hope to get something that will give us cost of production.

Senator SHORTRIDGE. You favor both those bills, I take it?

Mr. SIMPSON. Yes.

Third, thinking men must admit that a monetary system under which, at least, 40,000,000 people are either entirely or partially objects of charity and under which farm products have dropped to less than one-third of cost of production, is not a sound system.

The Farmers' Union offers as a remedy for such a condition the Wheeler bill, S. 2487, which provides for the remonetization of silver at the ratio of 16 to 1.

The United States is the only major country trying to do business on the gold standard basis it had before the World War. All the major countries have either gone off the gold standard or changed their basis of gold standard since that time. All the major countries in the interest of the debtors have cheapened their money with the exception of the United States. Our Government has made our dollar grow in purchasing power until it is impossible for debtors to pay their obligations. Our Government has let our money go up in purchasing power until all other nations can sell their products in this country, but can not buy our products in return.

The Wheeler bill will do more to raise the price of products the whole world over than any other one piece of legislation Congress could pass. If the Wheeler bill were passed, it would mean every European country could pay what they owe us and thus a war menace would be removed.

If the Wheeler bill were passed, China's dollar would be enhanced to where Japan would be glad to cease hostilities. With China's dollar doubled in value, she could alone carry on a successful war against Japan. With China's present cheap dollar, there is great danger that eventually we will be drawn into that war. Here again, the Wheeler bill would avert another war menace. If the Wheeler bill were passed, it would mean three-fourths of the world that now use silver for money would immediately become purchasers of the products of this country.

Senator WALSH of Massachusetts. Before you leave the Wheeler bill, has that bill the support of the farmers' organizations generally?

Mr. SIMPSON. Not up to date. A good many years ago every farm organization and every labor organization in the United States indorsed the remonetization of silver, but at the present time, right up to date, the Farmers' Union is the only one of the farmers' organizations that is making that its specific measure. Some of the rest of them say, "Well, if we could get it, we would be in favor of it," but they think they could not get it, so they are recommending diminishing the number of grains in a gold dollar, and some other things.

Senator WALSH of Massachusetts. There appears to-day to be a movement prompted somewhat by the silver States—and I think that has given many people a prejudice against it, and prevents them from being open-minded in the consideration of it.

Mr. SIMPSON. This is what I find along that line, Senator: I find that the big banking interests, the big moneyed fellows of New York City, own the big silver mines, and they do not want free silver. They would like a little purchasing, but they do not want a bimetallic standard of money, because it makes it harder for them to control the basic money of the country, when there are two moneys, than when there is one.

Senator GORE. There is one point there, Mr. Simpson, that puzzles me. You say that if the price of silver were doubled, it would increase the purchasing power of the silver-using countries like China. That was your statement of it.

Mr. SIMPSON. It increases the cost of production in those countries. Of course, it increases Chinese purchasing power with us, and with any country that has a higher priced money.

Senator GORE. Here is the point that has always puzzled me, and always agitates me about silver: They say that to double the value of silver would increase Chinese purchasing power. The value of gold in the United States has doubled—just what we want to do with reference to silver in China. That has increased the purchasing power of the people who have the gold, but it has wrecked our country, in a way.

Mr. SIMPSON. It has increased our purchasing power. We can buy of China. It has decreased the purchasing power of those that do not have the gold. They cannot buy our products.

Senator GORE. If you double the value of silver in China, the Chinaman who has silver in his pocket would undoubtedly profit by it, but prices would go down as silver went up. That is just what we do not want to do here. Our money is too dear and our prices are too low. We want to cut down the value of money in this country in order to raise prices, and yet we are arguing that we ought to increase the value of money in China, which is what has happened here, in order to help the Chinese and increase their purchasing power, when here the very fact that our gold has doubled in value, we assign as one of the reasons for our troubles. I have thought about that a good deal, and I just can not reconcile the two viewpoints.

Mr. SIMPSON. Senator, there are always two things to keep in mind when you are studying that question. A lot of people get mixed on it.

Senator GORE. I confess I do.

Mr. SIMPSON. I was in France a little over a year ago, and just the other day a Congressman on the Ways and Means Committee said that France, by making the franc worth one-fifth its former value, had not increased prices in France. He said, "I was in France a year ago. I was there 20 years ago." He said, "I could get just as good a dinner for 40 cents in France when I was there this time, as I could 20 years ago." I said, "Congressman, 20 years ago, to get that 40-cent dinner, it took just 2 francs. When you got it a year ago, it took 10 francs. Measured in number of francs, the price of that dinner was five times what it was before. Measured in our money, it was the same, and the difference to the fellow serving that dinner would be only if he was in debt. Then that dinner would pay off five times as much debt as if they had kept the franc on the basis of 20 cents."

Senator GORE. There is no doubt that the deflation of the franc cut down the debts.

Mr. SIMPSON. It practically eliminated domestic debts.

Senator SHORTRIDGE. You believe in bi-metallism, under the Wheeler bill, at 16 to 1?

Mr. SIMPSON. Yes, sir.

Fourth, the Rankin bill, H. R. 13012, provides a medium of exchange with which the people of this Nation can carry on trade. It provides for an issue of paper money by the Government to be known as "Liberty notes." These notes are to be put out by the Government to the extent of bringing the general commodity index price up to the standard of 100. In putting out these Liberty notes, should the general commodity index price rise above 103, then the Government shall retire such Liberty notes until the price index goes back to 100. In retiring the Liberty notes, should the index price fall to 97, then the Treasury shall again put in circulation Liberty notes.

The bill would stabilize the general purchasing power of the dollar at the normal index of 100. It would give both debtor and creditor an honest dollar with which to deal with each other. It would mean that a farmer could pay his debt when due with the same number of bushels of wheat or pounds of cotton as it would have taken when he made the debt.

A dollar that takes a much greater number of bushels of wheat, pounds of cotton, or any other commodity to pay when due than when made, is a dishonest dollar. A dollar that takes a much less number of bushels of wheat, pounds of cotton, or any other commodity to pay when due than when made, is a dishonest dollar.

In one way it is a dishonest dollar to the debtor, and in the other way it is a dishonest dollar to the creditor.

In conclusion, let me say that the Democratic Party the 8th of last November entered into a solemn contract with the farmers of this Nation. In that contract they agreed to do three things:

First, to refinance farmers at lower rates of interest and long-time payment on the principal. It is in the platform. I presented it to the platform committee, and they put it in.

Second, to do everything possible to see that farmers get cost of production for their products. I was there and presented it. I was a delegate to the convention, too.

Third, they promised us a sound currency. We have been told by the party's leaders that the currency we have has too great a purchasing power, that the purchasing power must be reduced. In other words, we must have a cheaper dollar.

That is another contract we farmers had with the leaders at that time, right there at the convention.

The Farmers' Union expects the Democratic Party to completely fulfill each of these three provisions in the contract they made with us in the last election. We consider it a part of the remedy that the contract be carried out to the letter.

I would like to introduce in the record, Mr. Chairman, a letter which illustrates the discrimination practiced against the farmers.

Senator SHORTRIDGE. What is it you want to introduce?

Mr. SIMPSON. A letter from the Reconstruction Finance Corporation agricultural corporation set-up. It is amazing to think that this is all the credit a farmer has.

Senator GORE. What is the point?

Mr. SIMPSON. Let me read it. It is just a short letter. (Reading:)

HELENA BRANCH,
REGIONAL AGRICULTURAL CREDIT CORPORATION,
OF SPOKANE, WASH.,
*Helena, Mont., January 20, 1933.*

Mr. EMORY J. LAROCHE,
*Madoc, Mont.*

DEAR SIR: Please be advised that your application for a loan has had the careful consideration of our loan committee, and that it has seemed inadvisable to allow the loan in the amount for which you applied. However, they have approved a loan to you of $800, to be secured by a first mortgage on your 6 cattle, 2 horses, 7 tons of hay, 4,370 bushels of wheat in bin, your 1933 crops, and all machinery and equipment as listed by the inspector.

It will also be necessary that you give us a first mortgage on your real estate. We will require that your wife join you in signing the note and mortgage.

It will also be necessary that your cattle be branded with your recorded brand.

Trusting this meets with your satisfaction, and upon receipt of such information, the necessary papers will be prepared and forwarded to you for execution.

Yours truly,

P. B. MCCLINTOCK,
*Assistant Manager.*

(Whereupon, at 4.30 o'clock, p. m., the subcommittee adjourned to meet to-morrow, Thursday, February 23, 1933, at 10 o'clock, a. m.)

# INVESTIGATION OF ECONOMIC PROBLEMS

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**THURSDAY, FEBRUARY 23, 1933**

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
*Washington, D. C.*

The committee met at 11 o'clock a. m. pursuant to adjournment on Wednesday, February 22, 1933, in room 335 Senate Office Building, Senator Reed Smoot presiding.

Present: Senators Smoot (chairman), Watson, Shortridge, Thomas of Idaho, Metcalf, Harrison, Barkley, and Gore.

Senator WATSON (presiding). The committee will be in order. We will first hear Mr. Garvan.

## STATEMENT OF FRANCIS P. GARVAN, PRESIDENT CHEMICAL FOUNDATION, NEW YORK CITY

Senator WATSON (presiding). State your name.

Mr. GARVAN. Francis P. Garvan.

Senator WATSON. Where do you live, Mr. Garvan?

Mr. GARVAN. New York City.

Senator WATSON. What is your business?

Mr. GARVAN. I am a lawyer.

Senator HARRISON. Mr. Garvan is the head of the Chemical Foundation.

Senator WATSON. Yes; I know that. I just wanted to ask what your present relations are with the Chemical Foundation?

Mr. GARVAN. I am still president.

Senator WATSON. Now you may proceed and make any statement you have in mind.

Mr. GARVAN. I know your time is very precious, and I am only going to take up just as little time as I can.

You have asked what I think is the main trouble today. I would say lack of arithmetic and lack of morality. And on those two propositions I have come prepared to speak.

I am convinced that one of the great causes of the panic in its inception, and the main cause of the long continuance and depth of our depression, is the fact that our credit system, the life-blood of the country, is in the hands of a few private individuals without restraint or regulation by the Government, and the further fact that these private individuals have now become controlled in their policies by foreign partners and foreign influences.

The first of these facts was elucidated and proven in the report of the Pujo committee in 1912, and perhaps even better than the report, the significance of the facts developed there was set forth by Mr. Justice Brandeis in a little book entitled "Other People's Money," which was published in 1914. That these facts are as true today as they were then is proven by the fact that Mr. Brandeis has just consented to a new edition of that book without the change of one word. That after his twenty years of rich experience he is willing to reiterate without change his findings in his early book.



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These findings were neglected by Congress. The war may have been the excuse, but it is only an alibi. That book showed clearly a cancer in our affairs, and called for a surgical operation. Since that time palliatives and alleviatives may have been applied, but the knife was not used. I believe that the cancer has grown.

These private individuals first and immediately thereafter fed upon frightful war profits. These same individuals became the greatest profiteers of the war—one of the firms, it is said, to the extent of over $700,000,000. Their hold upon American business, American funds, American education, art, music, and ideas has grown steadily. And I believe it is now our duty to free our banking from private control. That it is a government function.

The gold dollar and our credit system—you can use them interchangeably—are our first and most important public utilities. There are two functions of deposit. One, it is the money of the depositor which he should have the right to repossess himself of at any time. Two, each deposit constitutes a part of the well of credit or the savings of the American people. The caring and policing of that well to see that it is not poisoned, to see that it is not run off into waste places, and to see that it is not used in hostility to the best interests of the people, to see that it is available to all those who properly need it, is the business of government, and without such supervision we will have hereafter an increasing and more intensified succession of troubles such as we suffer from to-day.

It is my recommendation, without making any reflection except the highest praise upon all the investigating committees of the Senate and the House and the Congress, which have been doing such splendid work, that we ask Mr. Justice Brandeis, in connection with this committee, and in connection with the new Attorney General, to form a committee which will bring the Pujo Committee's findings up to date. You can not investigate by a committee which can sit only a few hours a day with men like yourselves who are overcrowded and overwhelmed with the business of your Senatorial position, and yet that committee needs your ripe experience and your guidance. That the ripest and best mind to-day I believe is Mr. Justice Brandeis.

If the reports in the papers are true and your Senator Walsh is to be the Attorney General, the Attorney General office has all the facilities without further expense to make a complete investigation, only having public hearings when the facts have been collated and properly examined into and tested. So that we may, as I say, bring the Pujo Committee hearing up to date.

This becomes all the more important when we recognize the fact that the control of credit is not alone a domestic proposition, the control of domestic credit, but we have now got to take control of our international balances. These international balances are to-day in the hands of bankers who are English-American, French-American, German-American. The members of the American firms in many cases are members of the English firms. So that our international balances are something unknown, something secret; the transfers and the strains which are used before you as arguments for either cancellation of debt or other legislation, are an unknown quantity.

I do not want to be thought for a moment or to be considered as criticising or to reflect upon any of the investigating committees. Of course we all agree that they are doing splendid work. No committee did better work than Senator Johnson's committee on the foreign loans. But it stopped at the short-term loans. The cry was raised that that would affect business, if you went into the short-term loans. The result is your findings are only a piece of it. The next thing you know $800,000,000 is still halted in Germany. You do not know how much is anywhere else.

I picked up the report of the American Acceptance Council the other day, dated January 20, 1933, and I find an item there of short-term loans in these days of stress based on goods stored in or shipped between foreign countries, goods that we have no possible interest in whatever—$227,000,000 to-day.

In the first place the difficulty seems to be that the Government has no proper set of books. No balanced ledger has ever been made up. In 1922 the Department of Commerce started to make up a current account for the year, and that has been kept up, and of course is very useful. But no effort has been made to establish how we stood in 1922, and of course it is full of holes due to the private control of the sources of information.

As I say, your short-term loans are absolutely incomplete, and I attempted in coming before this committee to obtain the information as to how much of our money was being loaned abroad to-day.

Senator WATSON. When you speak of short-term loans, Mr. Garvan, do you speak of international loans?

Mr. GARVAN. International loans.

Senator WATSON. Not domestic?

Mr. GARVAN. Not domestic.

Senator WATSON. International?

Mr. GARVAN. Yes; international.

I was answered back that there was a statement made to the head of the Federal reserve bank, but that that was a secret statement. That it did not belong to the public. And therefore I can not judge of its completeness or incompleteness.

Senator WATSON. Of course you do not speak of national loans. You speak of individual loans?

Mr. GARVAN. I am talking about the banking loans.

Senator WATSON. Yes; loans to corporations.

Mr. GARVAN. Yes.

Senator GORE. And you classify as short-term, loans of less than a year?

Mr. GARVAN. Yes.

I have done my best to bring together into a balance sheet the current accounts of the past 10 years. And I have made up a copy for each of the Senators. I will explain it, Senator Gore, as I go along with the items.

Senator Harrison. This will be put in the record.

Senator WATSON (presiding). Yes.

(Condensed statement of the International account of the United States with the World, setting forth our net balance on current accounts, i. e., the balance to be settled by capital, long-term or short-term movements; or gold, for the 10-year period January 1, 1922, to December 31, 1931; and statement of excess of exports of goods and services over imports of goods and services, and comparison of net favorable balances with new foreign loans made and net export of capital through foreign long-term investments, United States with world, are here printed in the record, as follows:)

*Condensed statement of the international account of the United States with the world, setting forth our net balance on current account; i. e., the balance to be settled by capital long-term or short-term movements; or gold, for the 10-year period January 1, 1922, to December 31, 1931*

| | 1922 | 1923 | 1924 | 1925 | 1926 | 1927 | 1928 | 1929 | 1930 | 1931 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Credits (which would be settled by an influx of gold to United States arising from the excess of our exports (of goods and services) over our imports (of goods and services) | $669,000,000 | $180,000,000 | $886,000,000 | $623,000,000 | $257,000,000 | $591,000,000 | $857,000,000 | $607,000,000 | $757,000,000 | $354,000,000 | $5,781,000,000 |
| Debits (which would be settled by an outflow of gold from United States)[1]: | | | | | | | | | | | |
| Tourist expenditures abroad | 305,000,000 | 280,000,000 | 373,000,000 | 410,000,000 | 406,000,000 | 444,000,000 | 617,000,000 | 638,000,000 | 605,000,000 | 458,000,000 | 4,536,000,000 |
| Immigrants remittances | 255,000,000 | 229,000,000 | 229,000,000 | 235,000,000 | 218,000,000 | 206,000,000 | 218,000,000 | 216,000,000 | 163,000,000 | 163,000,000 | 2,132,000,000 |
| Contributions by charitable, educational and other organizations | 75,000,000 | 70,000,000 | 55,000,000 | 50,000,000 | 46,000,000 | 49,000,000 | 51,000,000 | 49,000,000 | 49,000,000 | 39,000,000 | 533,000,000 |
| Payments abroad by United States Government, naval expenditures, etc | 46,000,000 | 66,000,000 | 53,000,000 | 61,000,000 | 49,000,000 | 29,000,000 | 57,000,000 | 92,000,000 | 81,000,000 | 98,000,000 | 632,000,000 |
| Interest and dividend payments on foreign-owned American securities | 144,000,000 | 180,000,000 | 192,000,000 | 229,000,000 | 268,000,000 | 281,000,000 | 359,000,000 | 414,000,000 | 300,000,000 | 126,000,000 | 2,493,000,000 |
| Total debits | 825,000,000 | 825,000,000 | 902,000,000 | 985,000,000 | 987,000,000 | 1,009,000,000 | 1,302,000,000 | 1,409,000,000 | 1,198,000,000 | 884,000,000 | 10,326,000,000 |
| Balance on current account, before considering payments to us of interest on our foreign investments and United States Government receipts on war debt: | | | | | | | | | | | |
| Credit, balances in our favor | | | | | | | | | | | |
| Debits, balances against us | *156,000,000* | *645,000,000* | *16,000,000* | *362,000,000* | *730,000,000* | *418,000,000* | *445,000,000* | *802,000,000* | *441,000,000* | *530,000,000* | *4,545,000,000* |
| Credits. | | | | | | | | | | | |
| Arising through installment payments of interest and principal on war debt to United States Government | 158,000,000 | 259,000,000 | 183,000,000 | 186,000,000 | 195,000,000 | 206,000,000 | 210,000,000 | 212,000,000 | 241,000,000 | 113,000,000 | 1,963,000,000 |
| Interest and dividends on our foreign investments | 555,000,000 | 594,000,000 | 635,000,000 | 689,000,000 | 740,000,000 | 800,000,000 | 896,000,000 | 979,000,000 | 916,000,000 | 674,000,000 | 7,478,000,000 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Credit balance on current account which was settled by long-term investments, short-term capital movements, and import of gold | 557,000,000 | 208,000,000 | 802,000,000 | 513,000,000 | 205,000,000 | 588,000,000 | 661,000,000 | 389,000,000 | 716,000,000 | 257,000,000 | 4,896,000,000 |
| Long-term investments abroad (net after deducting commissions and bond discounts) and after repatriation by foreigners of their own securities | 756,000,000 | 210,000,000 | 744,000,000 | 753,000,000 | 687,000,000 | 853,000,000 | 1,195,000,000 | 765,000,000 | 345,000,000 | *166,000,000* | 6,143,000,000 |

*Settlement of net balance on current account international balance of payments, United States with the world for the 10-year period January 1, 1922, to December 31, 1931*

| | 1922 | 1923 | 1924 | 1925 | 1926 | 1927 | 1928 | 1929 | 1930 | 1931 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Credit balance on current account (balance in our favor) | $557,000,000 | $208,000,000 | $802,000,000 | $513,000,000 | $205,000,000 | $588,000,000 | $661,000,000 | $389,000,000 | $716,000,000 | $257,000,000 | $4,896,000,000 |
| Deduct: Long-term investments abroad; net after deducting commissions, bond discounts, and repatriation of foreign securities by foreigners | 756,000,000 | 210,000,000 | 744,000,000 | 753,000,000 | 687,000,000 | 853,000,000 | 1,195,000,000 | 765,000,000 | 345,000,000 | *165,000,000* | 6,143,000,000 |
| Balance remaining in our favor after loans or excess of loans over credit balance on current account | *199,000,000* | *2,000,000* | 58,000,000 | *240,000,000* | *482,000,000* | *265,000,000* | *434,000,000* | *376,000,000* | 371,000,000 | 422,000,000 | *1,247,000,000* |
| These balances were settled as follows: | | | | | | | | | | | |
| By purchases by foreigners of American securities, in our markets | 3,000,000 | 240,000,000 | 11,000,000 | 193,000,000 | 147,000,000 | 158,000,000 | 477,000,000 | 446,000,000 | 50,000,000 | 53,000,000 | 1,778,000,000 |
| By net increase or decrease of short-term funds placed here by foreigners over short-term funds placed abroad by Americans | 375,000,000 | 3,000,000 | 216,000,000 | *61,000,000* | 359,000,000 | (1) | *226,000,000* | 13,000,000 | *485,000,000* | *765,000,000* | *571,000,000* |
| By miscellaneous international transactions not identified by the U. S. Department of Commerce | 15,000,000 | 4,000,000 | *49,000,000* | 36,000,000 | 48,000,000 | *47,000,000* | 11,000,000 | 37,000,000 | 320,000,000 | 124,000,000 | 499,000,000 |
| Net balance settled by gold shipments: To us or by us | 194,000,000 | 245,000,000 | 236,000,000 | *72,000,000* | 72,000,000 | *154,000,000* | *272,000,000* | 120,000,000 | 256,000,000 | *166,000,000* | 459,000,000 |

[1] Due to errors in compilation, the Department of Commerce did not publish this figure for this year. Omission, however, is adjusted through amount of short-term movements published for year 1928.

In other words, Germany's export trade to-day with her resources and only sixty millions of people approximate ours—she, the borrower—we, the lender.

*Excess of exports of goods and services over imports of goods and services and comparison of net favorable balances with new foreign loans made and net export of capital through foreign long-term investments—United States with world*

| | Credits | | Debits | | | New foreign loans and investments | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Merchandise exports | Motion-picture royalties, insurance, and other services | Merchandise imports | Freight paid | Net credit, excess of exports of goods and services over imports of goods and services | New securities publicly offered (net after refundings) | Direct investments abroad | Total new foreign loans and investments | Net export of capital through foreign long-term investment (net after repatriation bond, discounts, and commissions) |
| 1922 | $4,121,000,000 | $46,000,000 | $3,419,000,000 | $79,000,000 | $669,000,000 | $737,000,000 | (1) | $737,000,000 | $756,000,000 |
| 1923 | 4,368,000,000 | 57,000,000 | 4,162,000,000 | 83,000,000 | 180,000,000 | 394,000,000 | (1) | 394,000,000 | 210,000,000 |
| 1924 | 4,834,000,000 | 68,000,000 | 3,952,000,000 | 64,000,000 | 886,000,000 | 878,000,000 | (1) | 878,000,000 | 744,000,000 |
| 1925 | 5,177,000,000 | 74,000,000 | 4,544,000,000 | 84,000,000 | 623,000,000 | 1,031,000,000 | (1) | 1,031,000,000 | 753,000,000 |
| 1926 | 5,044,000,000 | 74,000,000 | 4,766,000,000 | 95,000,000 | 257,000,000 | 1,123,000,000 | $240,000,000 | 1,363,000,000 | 687,000,000 |
| 1927 | 5,091,000,000 | 74,000,000 | 4,508,000,000 | 66,000,000 | 591,000,000 | 1,302,000,000 | 257,000,000 | 1,559,000,000 | 853,000,000 |
| 1928 | 5,333,000,000 | 24,000,000 | 4,468,000,000 | 32,000,000 | 857,000,000 | 1,246,000,000 | 378,000,000 | 1,621,000,000 | 1,195,000,000 |
| 1929 | 5,447,000,000 | 25,000,000 | 4,799,000,000 | 66,000,000 | 607,000,000 | 661,000,000 | 335,000,000 | 996,000,000 | 765,000,000 |
| 1930 | 4,095,000,000 | 52,000,000 | 3,294,000,000 | 96,000,000 | 757,000,000 | 905,000,000 | 253,000,000 | 1,158,000,000 | 345,000,000 |
| 1931 | 2,623,000,000 | 57,000,000 | 2,254,000,000 | 72,000,000 | 354,000,000 | 224,000,000 | 196,000,000 | 420,000,000 | 165,000,000 |
| Total | 46,133,000,000 | 551,000,000 | 40,166,000,000 | 737,000,000 | 5,781,000,000 | 8,501,000,000 | 1,659,000,000 | 10,160,000,000 | 6,143,000,000 |

[1] Not known.

*Germany's exports and imports of merchandise and borrowings from the world, for years 1924 to 1931*

| | Exports | Imports | Net increased borrowings |
|---|---|---|---|
| 1924 | $1,880,000,000 | $2,308,000,000 | $690,000,000 |
| 1925 | 2,211,000,000 | 2,942,000,000 | 738,000,000 |
| 1926 | 2,479,000,000 | 2,380,000,000 | 143,000,000 |
| 1927 | 2,566,000,000 | 3,381,000,000 | 928,000,000 |
| 1928 | 2,929,000,000 | 3,341,000,000 | 1,023,000,000 |
| 1929 | 3,212,000,000 | 3,203,000,000 | 643,000,000 |
| 1930 | 2,867,000,000 | 2,476,000,000 | 166,000,000 |
| 1931 | 2,285,000,000 | 1,488,000,000 | (1) |
| Total | | | 1,331,000,000 |

1 Unknown.

Mr. GARVAN. I feel that this poor attempt will go a good ways to answering a good many of the problems which are bothering you.

The first line is composed of credit which would be settled by an influx of gold to the United States. Arising from the excess of our exports (of goods and services) over our imports (of goods and services). In other words, I have included freight, insurance, and so forth, both ways.

That shows you that in 1922 that excess was $669,000,000.

In 1923, $180,000,000.

In 1924, $886,000,000.

In 1925, $623,000,000.

In 1926, $257,000,000.

Senator GORE. Is that favorable or unfavorable, so to speak?

Mr. GARVAN. That is favorable. That is in the black.

Senator GORE. Including visible and invisible?

Mr. GARVAN. No. Including just goods and services.

Senator GORE. Yes.

Senator HARRISON. Is that what we commonly call balance of trade?

Mr. GARVAN. Well, it all depends upon your terminology.

Senator BARKLEY. The balance of trade does not include services necessarily. Services on the goods.

Mr. GARVAN. I am only talking about the freight, the insurance; and-motion picture royalties go in there to; they are small. I have broken it up in the second schedule.

Senator HARRISON. In speaking generally of the balance of trade it is the exports over the imports?

Mr. GARVAN. Exports over the imports. But in order to simplify the figures I included the insurance and freight both ways, because they really balance, and the goods.

In 1927, $591,000,000.

In 1928, $857,000,000.

In 1929, $607,000,000.

In 1930, $757,000,000.

In 1931, $354,000,000.

That makes a total of $5,781,000,000 in ten years.

Without any other item that would have to be settled by the import of gold or some other form of payment to that amount. But the debits which would be settled by an outflow of gold from the

United States include tourist expenditures abroad, which are as follows:

In 1922, $305,000,000.
In 1923, $280,000,000.
In 1924, $373,000,000.
In 1925, $410,000,000.
In 1926, $406,000,000.
In 1927, $444,000,000.
In 1928, $617,000,000.
In 1929, $638,000,000.
In 1930, $605,000,000.
In 1931, $458,000,000.

Senator WATSON. That is tourist expenditures?

Mr. GARVAN. That is tourist expenditures.

Senator WATSON. Alone?

Mr. GARVAN. Alone.

Senator HARRISON. That is what is taken out of the United States and spent abroad by the tourists?

Mr. GARVAN. Yes. Total, $4,536,000,000. As against our favorable trade balance above of $5,781,000,000.

Then the immigrants' remittances, which is clear gold gone out of the country:

In 1922, $255,000,000.
In 1923, $229,000,000.
In 1924, $229,000,000.
In 1925, $235,000,000.
In 1926, $218,000,000.
In 1927, $206,000,000.
In 1928, $218,000,000.
In 1929, $216,000,000.
In 1930, $163,000,000.
In 1931, $163,000,000.

Making a total of $2,132,000,000 in immigrants' remittances.

Contributions by charitable, educational, and other organizations. There is no use of reading the years there. They amount to a total of $533,000,000.

Payments abroad by the United States Government. That means our naval expenditures in all ports, and so forth.

Senator HARRISON. Well, it means Government employees and other agencies of the Government also?

Mr. GARVAN. Yes. Wherever money has gone for a government purpose. That amounts to $632,000,000 in the 10 years.

Interest and dividend payments on foreign-owned American securities. Now I think I will read the years there, because the run of the years is quite important:

1922, $144,000,000.
1923, $180,000,000.
1924, $192,000,000.
1925, $229,000,000.
1926, $268,000,000.
1927, $281,000,000.
1928, $359,000,000.
1929, $414,000,000.
1930, $300,000,000.
1931, $126,000,000.

Senator HARRISON. It reached its peak in 1929?

Mr. GARVAN. Yes. In other words, a total of $2,493,000,000.

That makes a total of $10,326,000,000 against our favorable trade balance of $5,781,000,000. So that you see in reality for every year for 10 years, other things not being considered, which I will come to later, we have been in the red every year as follows:

1922, $156,000,000.
1923, $645,000,000.
1924, $16,000,000.
1925, $362,000,000.
1926, $730,000,000
1927, $418,000,000.
1928, $445,000,000.
1929, $802,000,000.
1930, $441,000,000.
1931, $530,000,000.

So that for those 10 years we have been in the red $4,545,000,000.

Now how is that settled?

Senator GORE. But all that time, Mr. Garvan, we had on blind bridles and thought we had a favorable balance of trade?

Mr. GARVAN. That is what I made this out for.

Senator GORE. Yes.

Mr. GARVAN. And I will tell you that you may have confidence in the figures. I have taken this to the Department of Commerce and they checked all errors that they could find, so that it is a sincere attempt to give you the best that there is in the Government.

Now how did we pay that unfavorable balance? First was the payment on our war debts. Credits arising through installment payments of interest and principal on war debts to the United States Government are as follows:

1922, $158,000,000.
1923, $259,000,000.
1924, $183,000,000.
1925, $186,000,000.
1926, $195,000,000.
1927, $206,000,000.
1928, $210,000,000.
1929, $212,000,000.
1930, $241,000,000.
1931, $113,000,000.

Or a total of $1,963,000,000.

Senator WATSON. That is the total?

Mr. GARVAN. Yes; that is the total. Now the one thing you want to consider is where you will be without that money coming in on your unfavorable trade balance which undoubtedly will persist.

Interest and dividends on our foreign investments. That means the private investments, long-term bonds, and all kinds of interest on short terms, whatever interest is coming in.

Senator HARRISON. It means location of American plants in foreign countries too?

Mr. GARVAN. Yes. They are included, but I can not tell you that that is accurately included. That amount is assumed to be, by the best figures that we can gather, about seven and one-half billion dollars. But lots of it does not go through our Government figures.

You take, for instance, a company like General Motors here. They can establish a credit with Morgan here. Morgan can telegraph that credit to his London house, and his London house extend it to the General Motors over there, and there is no Government transfer at all. Where you have the international private bankers you are utterly at sea as to those figures, you see. But wherever the transaction of sending plant abroad incurred the transfer of money, Senator, we would find it is somewhere in here. So that I think we can say as a whole it is in here.

Interest and dividends are as follows:

1922, $555,000,000.
1923, $594,000,000.
1924, $635,000,000.
1925, $689,000,000.
1926, $740,000,000.
1927, $800,000,000.
1928, $896,000,000.
1929, $979,000,000.
1930, $916,000,000.
1931, $674,000,000.

Which is a total of $7,438,000,000.

Then the credit balance on current account. That left something to be settled which was settled by long-term investments, short-term capital movements, and the import of gold. And that amounts to $4,896,000,000.

Long-term investments abroad——

Senator WATSON. What do you mean there by short-term capital movements?

Mr. GARVAN. Short-term dollar movements. Transfer of bank balances, or anything of that kind.

Senator WATSON. That is what I supposed it meant.

Mr. GARVAN. Yes. Long-term investments abroad—net after after deducting commissions and bond discount—and after repatriation by foreigners of their own securities amounts to $6,143,000,000.

Balance remaining in our favor after out loans or excess of loans over credit balance on current account, that shows you again in the red in the amount of $1,247,000,000.

Now that red balance was settled by purchases by foreigners of American securities to the amount of $1,778,000,000.

Senator GORE. During the 10 years?

Mr. GARVAN. During the 10 years.

By net increase or decrease of short-term funds placed here by foreigners over short-term funds placed abroad by Americans: We placed abroad $571,000,000 more than they placed here.

By miscellaneous international transactions not identified by the United States Department of Commerce, $499,000,000. We do not know what those are.

Net balance—settled by gold shipment to us of only—$459,000,000 over the 10 years.

Senator GORE. That is the net result, is it, of your preceding statistics?

Mr. GARVAN. Yes. The shipment of gold, $459,000,000.

Senator GORE. Now does that check with the actual record of shipments of gold in and out?

Mr. GARVAN. Oh, yes, sir; that has been carefully checked.

Now what does that position find you in? You find that the foreigners have a balance here of at least one and one-half billion dollars of our securities.

Senator WATSON. In what form is that, Mr. Garvan?

Mr. GARVAN. Well, they are owners of American securities.

Senator WATSON. Are they deposited in the United States?

Mr. GARVAN. Well, they could be taken back or held here in depositaries.

Senator GORE. Government and corporate bonds both?

Mr. GARVAN. Yes.

Senator GORE. And stocks also, I suppose?

Mr. GARVAN. Yes.

Senator GORE. Now Mr. Garvan, I do not want to divert you, but but in 1931 when England went off the gold standard and there was such a break in stock prices here, was that not due largely to dumping of these securities here in our markets?

Mr. GARVAN. Yes. That is what I am going to say, that through our policy of foreign loans, and so forth, and through our ignorance of this balance sheet and what it shows we are constantly at the mercy of the foreigner who has this big balance of securities and can throw them on our market and withdraw his gold, whereas our foreign investments are mostly frozen, and largely depreciated.

Senator GORE. Last July when stocks turned up and advanced for several weeks, that was due to Europe's buying our stocks, was it not?

Mr. GARVAN. It was so reported.

Senator GORE. Buying back the stocks they had dumped?

Mr. GARVAN. It was so reported. I could not say.

Senator GORE. The stocks they had dumped in the fall before.

Mr. GARVAN. That is what they said; there was much foreign buying.

Now you take your tremendous item of $674,000,000 in interest and dividends on foreign investments in 1931. We know now that our foreign investments are at least 50 per cent sour. About 27 per cent have defaulted. But their values have gone down about 50 per cent. So that where you got $674,000,000 to balance your National Budget in 1931 you must expect a large diminution during 1932. It was impossible for me to get those figures. I may be able to get them later. If I do I will add them to the diagram.

So that again your balance becomes much more endangered.

You know the foreign-debt situation.

Senator WATSON. I do not know whether we do or not.

Mr. GARVAN. So that when you hear the Englishman talking, and the Frenchman talking, of the difficulty of exchange, it does not exist. It is a fake. You know it is a fake when you hear their first remark, that they do not want to pay. And when a debtor says he does not want to pay, you know every other representation after that has got to be looked into with great care, and its truthfulness tested.

Senator GORE. I had a letter from a friend in London not long since, saying, with regard to these intergovernmental debts, that they are something the American people talk about and the English people laugh about.

Mr. GARVAN. We will not laugh about them if they come off our balance sheet, because, you must understand that it is an easy deduction to make, that if they succeed in canceling the public debts, the war debts, so-called, the next step will be cancellation of a large part of the private debts.

Senator GORE. A large part of these so-called war debts were incurred after the armistice.

Mr. GARVAN. Certainly.

Senator GORE. The rest having been canceled.

Mr. GARVAN. Even if they were incurred in the war, they saved the lives and the liberties and the homes and the integrity of England and France.

Senator GORE. But that has been charged off already, and forgiven.

Mr. GARVAN. That depends on how you figure your interest.

Senator GORE. Except as to England. She still owes part of the war debt proper.

Senator WATSON. What are the total foreign and private debts?

Mr. GARVAN. The total foreign and private debts are supposed to be $15,000,000,000.

Senator WATSON. Are they not greater than that?

Mr. GARVAN. $15,000,000,000 or $16,000,000,000. I am not talking about the national debt.

Senator WATSON. I am talking about both.

Mr. GARVAN. The whole thing would be about $26,000,000,000. When you are talking about canceling war debts—that is what you are talking about, canceling—you will find that in their mind also, it is not the $270,000,000 a year all the countries would owe us on the war debts. That is not the issue.

Senator WATSON. Mr. Garvan, I would like to ask you this question: I quite agree with the general statement you make, but I am wondering why you think the cancellation of foreign debts means the cancellation of private debts as well?

Mr. GARVAN. Because it means the destruction of integrity. They can not give you an honest reason for canceling their war debts. What are you going to say to Chile, for instance, in the terribly disastrous condition that they are in? Are you going to say to them that they should pay if the two richest creditors in the world, England and France, can get away with it? You inspire every debtor throughout the world to do it, particularly if we consent to it and do not denounce it as an immoral proceeding.

Senator WATSON. You think, then, as far as that is concerned, the two rest practically on the same basis from the moral standpoint?

Mr. GARVAN. I certainly do, except that the war debts are much more sacred than any trade debts. A debt incurred by me to save the roof over my home, and the lives of my children, and the liberty of my descendants is much more holy than a debt I owe for cigarettes.

Senator GORE. You think when you destroy the sense of obligation as related to one debt, you do it as to others?

Mr. GARVAN. I do; and I do not think your destruction of morality will stop at your foreign debts. I think it will go right over into your own domestic debt structure, because if the Englishman and the Frenchman does not have to pay his debts, how can you expect a poor farmer to pay his? You know how the people are struggling to pay their debts to-day, drudging and sacrificing and selling. These people are not asked to make one sacrifice.

Senator GORE. If you forgive these debts, then you tax these fellows who are struggling so hard to pay their debts here.

Mr. GARVAN. When you are considering foreign trade, you should not fail to consider the fact that immorality has been introduced into foreign relations; into the relations of trade. We do not know how far the present depreciation in foreign trade is due to the fact that the whole contract system is at stake in the settlement of these government obligations.

Senator GORE. It is a sort of creeping moral paralysis?

Mr. GARVAN. Yes. I ask permission to append to my statement remarks made by me February 1, 1933.

Senator WATSON. Permission will be granted.

There are two basic facts which we must understand thoroughly if we would build intelligently: First, immigration is at an end. To-day we have more emigrants than immigrants and I believe it be the fixed policy of the American people that this state of affairs continue for a long time to come.

Therefore, all the problems known as the foreign-born problems are either worked out or working themselves out. We are rapidly becoming a homogeneous American people. Of our 120,000,000 but 13,000,000 are foreign born, and of these all but four or five million are citizens. We have only about 750,000 foreign born under the age of 21. Foreign-language newspapers are disappearing rapidly. Political appeals to foreign born are now known to be entirely ineffectual. Foreign influence among our people is principally confined to the sycophancy of our so-called social classes and to the selfishness of our international bankers and the newspapers they control either through financial influence or social flattery.

I repeat, we are fast becoming a nation of over 100,000,000 American people, proud of our history, of our traditions, and our liberties; with all the possibilities of self-containment and contentedness; without envy or fear of the outside world, but determined to play our part honestly and sincerely in contributing to the moral and spiritual progress of the world.

The other great fact we must not lose sight of is the increase of education in America. Take the span of my own life. In 1890, about the time I graduated from high school, there were 357,813 children in our secondary schools. In 1930 there were 4,779,868 To-day over 55 per cent of our children, of high-school age, are attending high school, and this percentage is constantly increasing. In 1890 there were 156,755 boys and girls in colleges, to-day there are 1,085,798. In but a few years secondary education will be practically universal, and it is estimated that about 25 per cent of our oncoming youth will soon be enjoying college education.

For a moment it might be interesting to compare these figures with those of France and Germany and the United Kingdom. The population of France, Germany, and the United Kingdom to-day amounts to about 150,000,000, as against our own population of 125,000,000. We have, roughly, 5,000,000 high-school students; they have but 1,500,000. The colleges of the United States to-day have a million students; France, Germany, and the United Kingdom, even with their greater population of 25,000,000, have only one-fifth as many, or 210,000.

Considering these two great facts—and they must be always considered together—we find facing this country to-day a homogeneous population and a homogeneous universally educated population. Don't bother for the moment about the quality of that education, it will constantly improve with the supply of graduates. I have seen our chemists grow in 14 years from about 15,000 to about 30,000, and I know the improvement in chemical education during that time. In the four years ending June, 1933, 1,000,000 graduates of colleges have come on the market for teachers and from now on the supply will constantly improve the quality of teaching in all lines.

Thus, I repeat, we face a country of a homogeneous population of universal education of an ever-improving quality, a country of universal resources; to-day we could close our doors and produce everything necessary for our existence, our comfort, and our development, with the exception of coffee, tea, and tin—a country of universal resources of power—water, coal, natural gas, oil, petroleum, etc.; of fertilizers—nitrates, potash, and phosphates; of all metals except tin; universal means of communication—roads, railroads, water communication, air routes, telegraph, telephone, radio, and so forth and so on. * * *

Mr. Garvan. I would like to read just one paragraph from an old and admired colleague of yours, Senator Morrow, in an article which he wrote in Foreign Affairs in January, 1927. He says:

> There is no international sheriff, but there still remains our reliance upon good faith, our reliance upon that law which is older than statute law, the acknowledged custom of mankind. The credit of governments is not easily built up. It may easily be shattered, and it must never be forgotten that there are rules of conduct accepted by the silent approval of civilized man, the breach of which hurts the one committing the breach much more than the one against whom it is committed. If good faith can not be relied upon, it is better that the loan be not made. The words with which Hugo Grotius closed his great book more than three hundred years ago are true:
>
> "Not onlv is each commonwealth kept together by good faith, but that greater society of which nations are the members. If faith be taken away, the intercourse of men is abolished."
>
> I thought that might be appropriate.

Senator Watson. Assuming that all that is true—and a large part of it we must assume to be true—what do you propose to do about it?

Mr. Garvan. I will tell you what I propose to do. In the debt-funding agreement which was made and ratified by your body, those gentlemen headed by Senator Smoot attempted to do one thing, or two things. They attempted to be merciful. They attempted to figure out the capacity of these governments to pay, not to pay the first year, but to pay each year over 62 years, so that each year became a question of the solvency of those governments during that year. Then they said another thing: "These debts were incurred by borrowing from my American people. You have got other government debts incurred by borrowing from your own people. We insist, in these agreements, that they be put on exactly the same basis, and therefore we insist upon putting into those agreements, the following statement."

In the prior paragraphs, they had settled the thing by the payment of bonds of the denomination of some $4,000,000,000 each, but they said, upon the request of the United States Treasury, that those $4,000,000,000 bonds must be reissued in any denomination which we ask, any amount of them that we ask, as fits the necessities of America. And in the case of France, France had a further stipulation that she agreed to see that they were put on the marts of France in exactly the same position as her own bonds. If that had been done—for instance, in England's case, the agreement was signed in 1926—if those bonds had been reissued in the form and style of the English Government bond, and a market for a few of them had been established during the boom years, you would sit here to-day possessed of $11,000,000,000 of bonds of these foreign countries in a form and shape marketable in the markets of the world. You could place them on the marts of London or Paris just in proportion as they refused to pay, and just in proportion as raids were made on our international position in gold.

If there is any string to that, it is not in the four corners of the agreement. I asked Mr. Crisp of Georgia if there was any secret agreement. He said aboslutely no. You Senators knew of no secret agreement, or you would not have ratified it without making it public.

I wrote to Secretary Mills during the campaign and asked him why that had not been done, and he wrote back to me and called me a German hater, something which had nothing to do with the proposition. The only satisfaction I got is that he said my premises and my conclusions were unsound. That is not an answer to an American citizen.

Senator GORE. He did not challenge your reasoning?

Mr. GARVAN. He did not challenge my reasoning. I can put into the record his correspondence.

Senator GORE. It would be interesting. Put it in.

Mr. GARVAN. I waited until after the campaign was over before I published it, because it was not a campaign issue.

Senator GORE. Attach it to your statement.

Mr. GARVAN. I will attach his letter.

Senator GORE. It has already been published, I believe you said?

Mr. GARVAN. Yes.

Senator GORE. Then there would not be any objection to it going into the record.

Mr. GARVAN. No; there could be no objection.

OCTOBER 18, 1932.

Hon. OGDEN L. MILLS,
*Secretary of the Treasury, Washington, D. C.:*

I am about to issue comment on President Hoover's Des Moines speech in which he said that at some time between July 1, 1931, and June, 1932, the Nation was within two weeks of chaos and the destruction of our democratic institutions. He also said that this catastrophe would have been caused by our inability to remain on the gold standard owing to the power of Europe during that year to draw on our gold supply to the amount of over $1,000,000,000.

In that speech President Hoover states that he personally brought about the moratorium and the standstill agreement.

On June 20, 1931, President Hoover issued a statement as follows:

"From a variety of causes arising out of the depression * * * there is an abnormal movement of gold into the United States which is lowering the credit stability of many countries. These and the other difficulties abroad diminish buying power for our exports and in a measure are the cause of our continued unemployment and continued lowered prices to our farmers. * * * The essence of this proposition is to give time to permit debtor governments to recover their national prosperity. I am suggesting to the American people that they be wise creditors in their own interest and be good neighbors."

I assume the same reasoning applied to the President's bringing about the standstill agreement.

In other words, by the moratorium and standstill agreement, President Hoover halted what was owed to us abroad, 250,000,000 on the foreign debt payments, 650,000,000 short-term loans representing goods sold by Americans abroad, or 900,000,000 of the 1,000,000,000 drawn out by Europe and claimed to have brought us to our knees.

The annual report of the Secretary of the Treasury for the fiscal year ending June 30, 1931, shows, page 543, that in the Government's box on that date were bonds of the foreign governments to the amount of over $11,000,000,000, consisting of four billions of bonds of Great Britain, three billion eight hundred million of bonds of France, two billions of bonds of Italy, and the rest scattered. The debt agreements signed from 1923 to 1926 by the governments issuing these bonds provided that upon notice to these governments they are compelled to issue for the purpose of sale to the public replacing bonds in any small denominations the United States may require. This power has no strings on it, certainly not as between this Government and any foreign government. If there are any domestic regulations limiting or restricting this power to throw on the public such amount of these bonds as serves our interest, Congress by a joint resolution, if applied to, could remove any such conjured restriction. I intend to argue from these facts that by the President's deliberate action our safe position as a creditor nation on June 20, 1931, fully able to amply protect the gold standard, was deliberately changed by President Hoover in an endeavor to aid Europe and that his acts reversed our situation and brought on any possible menance which he claims came upon us during the succeeding year.

I also intend to charge that after he deliberately brought about the drain of gold he could have stopped it at any time by giving notice to France, England, Italy, and others that they must reissue their bonds in our Treasury in smaller denominations for sale in the public marts. The bonds of England and France were then selling in the public marts in the amount of twenty billions and ten billions of dollars, respectively, at par, at the rate of three and a half and four and a quarter per cent, respectively. The withdrawal by Europe of our gold could have been exactly offset by the sale of sufficient number of their bonds.

I have conscientiously searched for any unfairness in these propositions and before I publish them I am asking for your comments. If I am wrong, I certainly will not make the charge. If I am right, the American people are entitled to know it. In my statement, if I make one, I will publish your answer or my telegram and the lack of an answer.

FRANCIS P. GARVAN.

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OCTOBER 19, 1932.

MY DEAR MR. GARVAN: I have your telegram of October 18 in which you inform me that you are about to issue a partisan attack on the President's policies, and ask me to comment on the character of the attack. This is a little unusual, but since you ask me I am only too pleased to state that your premises and conclusions are without justification.

May I add that you have probably been led to this faulty line of reasoning by the vindictive hatred which you have for Germany and everything German which impels you to resent the undoubted help rendered the distressed people of Germany and the world by the President's 1-year debt payment suspension proposal.

Sincerely yours,

OGDEN L. MILLS.

If there is any string that I know nothing about, which is covered by our own legislation, you gentlemen can cure it overnight; but that possession of those $11,000,000,000 of bonds in the United States Treasury's hands changes our position from the cringing one that it is to-day, into a position where you can dictate the policies of the world, if you want to, and where your gold standard is as safe as a church. It is the neglect of the Government to carry out the intent and purpose of those agreements, that is the whole answer to England's plea of inability to pay, because if those bonds were on the marts of the world, they would have the same value as the English bonds to her own citizens. The refunding commission intended that the American citizen should take the same lot in life as the British citizen who had loaned to his government. There are $10,000,000,000 of those English bonds to her own citizens out to-day, and they sell at par, at a modern refunded rate of less than 3 per cent, I think, or something very low. France has about $5,000,000,000 of her bonds to her own citizens, selling at par. I have forgotten the rate. I think it is figured at about 4 per cent. We have the bonds, and they are called worthless. So that, there should be no debt conference, or there should be no world economic conference until the representatives of America who sit in either hall, have in their pocket the full rights that they have under the sacred treaties which you have approved between France and America, and between England and America. It changes the face of the negotiations. They are not coming over here to discuss debt reduction. They are coming over here to discuss bond repudiation.

I just wanted to show you what a delicate thing that trade balance is. For instance, rubber can throw you right into the red, right away. Rubber is now selling at 3 cents. The import cost only $73,000,000 in the year 1931, but England has control of rubber when she gets together with Holland. In 1926, they had the Stephenson plan, and they sold us about the same tonnage, which cost us $505,-000,000. How do you know rubber is going to stay at 3 cents? If it goes back to what it was in 1925, it could throw $400,000,000 against your international balance sheet. The same thing is true of coffee.

The second recommendation I make is with respect to the stock exchange, for it is the capial account on the ledger, not only of our country, but of every individual or his job. I say that to allow it to be run as a private club, with no supervision, is a travesty on sound business. Make it an open and free market. Admit it is a gambling house. Gambling is not a sin, but enforce the fullest information and the strictest rules of play.

Senator GORE. It is just a mistake when you lose, is it not?

Mr. GARVAN. Yes. It is necessarily a gambling house, and those who conduct it are necessarily dealers. Eliminate marked cards, false faro decks, electric roulette wheels, and loaded dice. Make those who seek to invest on that mart or to gamble on the mart, gamble with their own money. Let us be honest, and call a spade a spade. Life is a gamble. All business is a gamble. Fluctuating values will always be gambled upon, but let us have the fullest sworn information on the cards that are being dealt there. Let the corporations be audited before admission, or continuing admission, and if we have no power in our Congress to set up such an exchange, I can guarantee the votes of two-thirds of the States in support of such an amendment to the Constitution.

Another suggestion I would make on this debt settlement, is this: You have my best attempt at a balance sheet here. I would like to see the balance sheets of France and England, and put them right alongside it. Then you can discuss intelligently as to whether they are in a financial position to pay.

One other suggestion I have, is to guard carefully your capital profits tax. It is said that $100,000,000,000 is the depreciation of our stocks and bonds.

Senator GORE. How much?

Mr. GARVAN. $100,000,000,000, they say. Of course that is not accurate, but, at any rate, figuring it on the loan value, I figure it at about $60,000,000,000—the difference between brokers loans in 1929 and brokers loans to-day, and figuring the percentage that they might be. Twelve per cent of the comeback will make your treasury position look much better.

A lot has been said about the Government in business. That is not the trouble. The trouble is banking in business and the trouble is not even so much banking in business as it is private bankers in business through the control of the banks. Government in business is not a dangerous thing. Government in banking is a necessary thing.

For 14 years, as you know, I have been connected with the chemical industry in America. We have always considered that we were a Government-controlled industry. We were founded by the Government, due to the emergencies of the war. We came to Congress and they gave us an embargo first and then high tariffs. You yourselves spent $100,000,000 developing nitrates. You spent $1,000,000 in discovering potash. We have always lived along, fighting our fights together, until to-day the chemical industry is the industry ministrant to all other industries. Can you think how you would be on that balance sheet if any foreign nation had a right to hold you up on salvarsan, or on nitrates, or on dyes, which in 1929 cost only $38,000,000 and governed $16,000,000,000 of American industry in their application?

Senator GORE. When you say $38,000,000, do you mean the output of the dye industry of America?

Mr. GARVAN. The sales were only $38,000,000. There may be a little variance between the output and the sales.

Senator GORE. What did you state was the aggregate into which dyes went?

Mr. GARVAN. $16,000,000,000.

We have always been open to you. You have heard of no wildcat stocks in the chemical industry. You yourselves, through the Tariff Commission, have had a yearly statement of what was going on in every company. We do not feel that it is irksome. We feel that we are partners with the Government, and that is an attitude which I do not think any other business could complain of. But certainly I insist that the banking belongs to you, as the greatest utility in America, for your 100 per cent control. I would not even be afraid of a national bank.

Senator GORE. There is a point I want to ask you about. In the beginning, you analyzed the credit situation and the credit disease, more or less, I think fairly well, as it struck me. As to your diagnosis, as I understood you, you thought the Government ought to control the use and extension of credits, and that the Government itself ought to make loans or control the making of loans.

Mr. GARVAN. No. It should control the banking system; whether by a national bank or by 100 per cent supervision and protection, I do not say. But it was my idea to get the ripe judgment of this committee, headed by Judge Brandies, after an examination of all the evils, and to get their recommendation as to the proper banking system under Government supervision. I am not banker enough.

Senator GORE. The point I am getting at is this, whether or not you would have the Government make or vise all loans. Here is what I have in mind: We do not want to put any more stress and strain on human nature than it will stand, any more than on a piece of steel. Alabama had a State bank from 1825 to 1835, or something like that. A member of the legislature in each county selected the bank official in that county who was to control loans. The election of members of the legislature turned on that point. A man to get elected would have to agree to see that these loans were made, and did, and finally the bank was involved so deeply in debt that it came down in a crash and ruined a great many people. My point is that you can not run a political bank, because John Doe can control his ward, and he comes to me and wants me to endorse him for a loan, or to see that the bank makes a loan. I have not any choice about it. I tell the bank to make this loan to John Doe, that he is a good fellow, and he can carry it.

Even under the transportation system during the war, I had this experience: I had a constituent that wanted to get some cars under the transportation administration. A Senator from an adjoining State and I were talking about it. I was rather criticizing Government ownership and the Goverment administration. He said, "I think it is a good thing, and, to prove it," he said, "I went down to the transporation bureau this morning. Some constituents of mine wanted some cars." It was out in a Western State. He said, "I went down this morning, and before I left there a telegram was sent out to the railroads to furnish my constituent these cars."

I said, "Senator, you think that is an argument in favor of the system. I think it is an argument against it. If an American citizen wants cars and needs them, he ought to be able to get them without having a United States Senator bring pressure to bear on anybody to furnish those cars."

That is what will happen. You have to keep that in mind all the time.

Mr. Garvan. But you can not let things go on as they are.

Senator Gore. No.

Mr. Garvan. There were just one or two other points I wanted to make.

Senator Gore. I thought you were through. I beg your pardon.

Mr. Garvan. A lot is being made about foreign loans increasing your exports. That, I claim, is an economic fallacy. Foreign loans are hostile to exports, and destructive of exports. In the first place, the people you loan to must pay twice. They have got to pay the interest on the loan, and the loan, and that generally amounts, in 20 years at 5 per cent, to double the amount of the loan.

Second. You build up your competitors.

Third. A certain percentage of them go bad.

Fourth. Your borrower borrows here, and buys in the cheapest market.

Fifth. It depletes your domestic market for credit. It raises the price on credit here.

I have here a schedule that I want to put in the record. I have sent the full book to your offices. This shows that in 1929, at the time of the boasted extension of credit, the credit to the consumer and the working man for everything he borrowed practically ran between 16 and 40 per cent. The rates of credit in Wall Street do not mean anything. It is the rate of credit to the consumer that the country ought to be interested in.

(Time, issue March 23, 1931, page 52)

Although conditions vary, the would-be small borrower faces this general situation:

| Agency | Annual rate under low cost | Annual rate under high cost |
|---|---|---|
| | *Per cent* | *Per cent* |
| Life insurance companies, policy loans | 6 | 6 |
| Share loans by building and loan societies | 6 | 12 |
| Chartered credit unions | 6 | 18 |
| Personal loan departments, commercial banks | 9 | 22 |
| Installment finance companies | 16 | 25 |
| Industrial banks | 17 | 34 |
| Remedial loan societies | 12 | 36 |
| Personal finance companies | 30 | 42 |
| Pawnbrokers | 12 | 120 |
| Salary buyers | 120 | 480 |

Sixth. Political complications.

Seventh. Endless new loans, because they demand further short-term loans to facilitate the marketing of their production.

Eighth. They buy them back in times of depression at depressed prices.

I want to put into the record a clipping showing that Germany has bought back $750,000,000 worth of her bonds this year for one-third of what she got for those bonds when she borrowed——

Senator WATSON. Of whom?

Mr. GARVAN. In the markets of Wall Street. She bought the bonds back for 33⅓ cents on the dollar. The article is from the New York Times.

(The heading of the article referred to by the witness is as follows:)

GERMANS SAVE 66 PER CENT BUYING BONDS BACK—REPATRIATION OF THEIR OWN DOLLAR ISSUES THIS YEAR IS PUT AT $750,000,000—ACTUAL COST $250,000,000—SOME BANKERS SAY STANDSTILL PLAN IS EVADED, OTHERS SEE SIGN OF RECOVERY IN GERMANY—PURCHASES HELP EXPORTS—REICHSBANK IS SAID TO MAKE CONCESSIONS REGARDING OPERATIONS IN ORDER TO LURE CAPITAL HOME

Exports are of less importance to us than any other country in the world.

Careful estimates made for the 3-year period 1927–1929 showed the following rough relationships between average annual exports and estimated national income:

| | Per cent | | Per cent |
|---|---|---|---|
| United States | 6 | Latin-American countries: | |
| Canada | 22 | Argentina | 34 |
| European countries: | | Brazil | 25 |
| Great Britain | 20 | Chile | 35 |
| Germany | 20 | Cuba | 65–70 |
| France | 22 | Mexico | 35 |
| Belgium | 55–60 | Japan | 20 |
| Italy | 15 | | |
| Czechoslovakia | 33 | | |
| Holland | 31 | | |

The shrinkage in values since this time has probably not seriously disturbed the relationships indicated, except that in those countries most dependent on foreign trade the shrinkage in national income, due to the drastic decline in the prices of international commodities, may have been somewhat greater than in other countries. It appears, therefore, that in those foreign countries which are most concerned about interallied debts and our American tariffs, export trade is usually many times as important relatively as in the United States. Conclusions regarding foreign trade which are valid for these countries may not be particularly applicable to the United States. Further, our crusaders for expanding foreign trade and lower tariffs seem to be unaware that almost half of the world's trade is normally carried on within the boundaries of the United States—the greatest free-trade area in the world.

### DOES TRADE FOLLOW THE LOAN?

Statement published by the Department of Commerce, in Bulletin The Balance of International Payments of the United States in the year 1929, on page 71:

"It is sometimes asserted as an axiom that trade follows the loan—that our new investments abroad, being dollar credits, can not be used by foreigners unless they buy American merchandise. Those who hold this statement to be an axiom virtually state as follows: 'Our purchases of foreign securities are an invisible import which exerts no detractive influence whatsoever upon any of the other imports (visible or invisible) and which promote our merchandise exports without promoting any of our other visible or invisible exports.' Thus stated, the axiom is seen to be faulty.

"Even the trade balance often fails to follow the loan. During the period when foreign countries were investing most heavily in the United States, say from 1876 to 1910, the United States had strongly favorable balances in trade. Again, our favorable balances of trade in 1923 and 1926 were, respectively, $375,000,000 and $378,000,000; whereas foreign securities publicly offered in the United States were $791,000,000 greater in 1926 than in 1923."

I have also placed in your offices a book by Doctor Hale, and I have taken the liberty of putting an elastic band around part of the book, which you need not waste your time in reading. The first part is too technical. Of course, you may read it if you want to, but it is about chemistry and it becomes a little technical. The last half of the book is on Chemistry and the Future of Agriculture and the Future of this Country. Doctor Hale was head of the National Research Council. He is a practical man. He is now at the head of the Dow Chemical Co. in Michigan; and the book is a beautiful sketch of what the chemist is going to do for the future in agriculture.

I just want to say one word about these general statements that are made about exports and imports. We have found that you have to take up each one and discuss each one separately. For instance, your cotton. Cotton is down low. A man told me last week that he saw in an English paper that the Lancaster mills were using 65 per cent as against 54 per cent, showing that the use of cotton is extended.

But I want to show to you how chemistry may solve the problem of the overproduction of cotton. In the first place, it has gone a long way toward it by making by-products from cottonseed; furthermore, to-day we have a trial plant in Savannah, Ga., showing how government can cooperate with business. It was paid for by a grant of $20,000 for five years by the Legislature of Georgia, $50,000 for equipment by the Chemical Foundation, the city of Savannah giving the building and the electric light company giving the power, and there we are working and demonstrating that we can produce for half the current cost newsprint out of the slash pine of the South.

It takes seven years to grow the same type of tree for wood for newsprint in Georgia that it takes 30 years to grow in Canada. There are a hundred million acres of waste land in the South. We have imported this year $100,000,000 worth of newsprint, as one of our largest importations. There in the South we have the sunshine and the waste land and the chemist and cooperation—decent cooperation between the Government and decent business, and that whole picture changes.

Senator HARRISON. What do you produce down there?

Mr. GARVAN. We are just making paper, now.

Senator HARRISON. How much are you making?

Mr. GARVAN. We are not making large amounts. We keep running test lots, testing the different pines——

Senator HARRISON. You are conducting a development proposition?

Mr. GARVAN. Yes.

Senator HARRISON. It is an experiment up to now?

Mr. GARVAN. Yes. In May all the paper makers of the country are going down there to see the finished results.

Senator HARRISON. It looks to be a certainty, does it?

Mr. GARVAN. The only problem we have left is the fact that the summer wood and spring wood are of different fiber, and we must adjust those two. But it is an absolutely certain success.

Senator WATSON. Are you just making newsprint?

Mr. GARVAN. Yes. We have not money enough to go on testing it for book paper and the other papers as yet.

Senator GORE. When you speak of the spring and summer wood, do you mean the spring and summer growth in the trees?

Mr. GARVAN. Yes.

Senator GORE. In the same trees?

Mr. GARVAN. Yes. It will be a different chemical composition, a practically different fiber.

Senator GORE. You can not keep those pines from growing down there.

Mr. GARVAN. No, sir. In 7 years we can grow what the northern European countries and what Canada will require 30 years to grow.

Senator WATSON. That you are sure of?

Mr. GARVAN. That we are sure of.

Senator WATSON. Is there anything else?

Mr. GARVAN. I do not think so.

Senator HARRISON. If you have any other ideas we would like to have them.

Senator WATSON. Oh, certainly; there is no desire to shut you off at all.

Mr. GARVAN. There is just one other thing that I would like to say about this fallacy that is thrown at you all the time. The bankers always said that you could not get payment on these debts except in goods and services. Well, they were not honest in that. When they produced their economists, the economists added weasel words, and the weasel words are "in the long run or as a last resort." England for 50 years has had a balance in her favor as compared with the rest of the world, and they have gradually taken securities backed by honest people throughout the world until they have to-day $20,000,000,000 of foreign securities which represent that payment and yet these economists now claim we can only be paid in goods and services.

This statement is only true when the debtor can not be trusted beyond the current year. Given wealth and integrity and the reestablishment of honesty in the world, the accumulation of a foreign balance would be a bulwark of national defense for it would support any adverse balance which might ensue in case of war and pay for necessary increased purchases abroad. What would you think of a domestic debtor who said he could only pay in goods, gold, or services and was not willing to sign a mortgage on his house or other productive property?

If we believe that England and France base their applications on a willingness and a wish to pay, we then could take their securities and market them any place in the world.

I just want to show you two or three ways that we can be paid. They have got $20,000,000,000 of foreign bonds. Why not assign to us some of those bonds? They are salable; there are good Argentine railroad bonds among them. There are many sound ones. They can be taken in by the English Government just as they did American securities in the World War. They called in all the American securities and issued their own scrip or their own notes for them, and shipped our securities over here.

Secondly, they can do it by giving us bonds of their own, public utilities, things not in competition with us. Also they hold two billions of our securities. They can sell those securities and pay us. The only thing is that they do not want to pay.

Senator WATSON. What is the effect of depreciated currency on the whole situation?

Mr. GARVAN. I think it has more effect on the quotation of lower prices against our domestic people. I do not think it is the amount of goods coming in. But being down there in Georgia I just saw a sample of it in the clays there that they make china out of, and paper.

Senator WATSON. Kaolin?

Mr. GARVAN. Yes. Their business has just been shot to pieces by the fact that the English representative or the foreign representative goes around and quotes a lower price, and then the American must come down to that lower price. I think, as far as England is concerned, she has gotten all the benefits she can get out of depreciated currency. I think that the idea of its being a great boon to us if she goes back on the gold standard is nonsense. She has either got to get back to the gold standard or go to the extent that the mark in Germany went to four or five years ago. Sooner or later and inevitably, the law of economics will work—going off the gold standard and depreciating their currency means inflation to their prices and suffering to their working people.

Senator GORE. It has to be a continuing process to get even a fallacious advantage, does it not?

Mr. GARVAN. Yes.

Senator GORE. Reverting back to this immediate payment: It seems that England, in the position of a creditor nation, has accumulated a good deal of experience and has exercised a good deal of prudence?

Mr. GARVAN. Yes, sir.

Senator GORE. I am inclined to think that our bankers or financiers in this country either have not acquired that experience or have not exercised prudence, one or the other or both.

Mr. GARVAN. I think that is true. I think it goes right back to the evil that I mentioned, that it is all in the hands of their partners——

Senator GORE. On that matter, can you put into the record, or can you state it now, some of the interrelations between foreign banks?

Mr. GARVAN. I can. I had it on a slip, but I did not bring it. I can send it to your secretary.

Senator GORE. I wish you would put it into the record. I would like to have it in the record.

Senator WATSON. Would it be too long for the record?

Mr. GARVAN. Oh, no; just two or three sheets.

Senator GORE. What was that bank that you mentioned? I can not pronounce the name of it.—Lazard——

Mr. GARVAN. Lazard Freres.

Senator GORE. Is that one of the banks you had in mind?

Mr. GARVAN. I am not quite sure of the constituency of that bank. It has not been so active.

Senator GORE. Could you check that?

Mr. GARVAN. Yes.

Senator GORE. I have been told that the Bank of England has a member on its board of directors who has a pretty high business connection in this company.

Mr. GARVAN. Don't be afraid of repudiation. In the first place, it will end foreign loans; second, it will once and for all prove the futility of the average propaganda. It will be a reassurance to the American people that the private banking firms of this country through their control of newspapers, magazines, and so forth, do not control the destinies and the thought of the American people——

Senator GORE. When they are in their sober moments.

Mr. GARVAN (continuing). It will discourage these countries before the world and hamper them in their world trade. They go out with a busted pound and a busted word of honor. It will be the greatest safeguard against war, for it will be a notification to them of the futility of expecting any support in a monetary way in any future war. It will restrict the outgo of our gold in travel, foreign freights and foreign insurance, and so forth. It will put our own destinies into our own hands and force us to clean house and have confidence in the enormous resources of our people and of our country.

We now have in our domestic trade about 50 per cent of the world's trade—domestic and foreign. With an honest dollar and an honest people, we can enjoy all our normal and proper share of foreign trade.

I have placed before each member of the committee, for your further information, the following books: Chemistry Triumphant, by William J. Hale; Other People's Money, by Louis D. Brandeis; Financing the Consumers, by Evans Clark; The Modern Corporation and Private Property, by A. A. Berle and G. C. Means.

(A letter subsequently received from Mr. Garvan is here printed in full as follows:)

FEBRUARY 24, 1933.

FINANCE COMMITTEE OF THE SENATE,
*Washington, D. C.*

GENTLEMEN: On yesterday I testified before your committee and showed that under the debt-refunding agreements, the United States was in possession of $11,000,000,000 of bonds of England, France, and other foreign countries, representing the compromise amount in the debt-refunding agreements. I showed that these bonds were in large denominations but that the agreement provided that upon notice by the Secretary of Treasury, these foreign countries bound themselves to reissue them in small denominations on the markets of the world as the exigencies of our Government demanded; that the purpose of these agreements was to place the bonds representing our foreign debt on the same basis as the outstanding Government bonds of each foreign nation held by its own nationals.

I further stated to you that it has been impossible to get any explanation from the Treasury of the failure to exercise this right of the American people, and I insisted that debt conversations or economic conferences should not be opened until these provisions of the agreements had been carried out and the United States was in full possession of its rights.

This morning's New York Times on page 6 states as follows:

"An opportunity to check the recent attempts to repudiate the debt lay in the refunding agreements made in 1926, he also told the committee, but the Secretary of the Treasury, he said, for some rason did not take advantage of it. This opportunity, he believed, was in the provision that the refunding bonds of large denominations should be reissued by the debtor country at the request of the United States in amounts that could be marketed to the public.

"Had that provision been invoked during boom years, said Mr. Garvan, it would have left this country holding $11,000,000,000 of marketable securities which would be sold in proportion to the refusal to pay or the refusal to prevent raids on United States gold. He had asked Secretary of the Treasury Mills why this was not done and had been told in reply that he was a 'German hater' which he did not consider an answer.

"TREASURY GIVES EXPLANATION

The British and French bonds issued under the refunding agreement were in denominations of $4,600,000 each in the case of Britain and in 62 units ranging from $1,370,000 to $116,928,195 in the case of France. It was said at the Treasury Department that this reissuance clause had never been exercised because the Victory Liberty loan act provided that securities of a foreign government sold by this country must be sold at par and the proceeds used to retire Liberty bonds. As foreign government securities could not have been sold at par at any time since the refunding agreements were made, it was said, this country was prevented by law from exercising its check up on repudiation."

This is the first explanation or even alibi that we have been able to obtain from the Treasury and in its fallacy it confirms my contention that some influence has caused the betrayal of the proper interests of our people.

The Liberty loan act in question was passed April 24, 1917. Sections 2 and 3 relate to the loans of foreign governments. The refunding agreements were approved as to England in 1923 and as to the other countries between 1923, concluding with France in 1929. They, therefore, repeal any provisions of the Liberty loan act inconsistent with their terms. This is such a well-known principle of statutory construction that it is needless to quote authority. This contention is confirmed by the fact that as Exhibit 114, page 312, official document of the United States entitled "Combined Annual Report of the World War Foreign Debt Commission" our refunding commission received in evidence the Liberty loan act in question and thus its final agreement must be held in law to repeal any part thereof which even our confirmed internationalists may deem contradictory.

It will be noted that the Treasury has acted on the basis that section 2 of the Liberty loan act was repealed by the refunding agreements, in so far as it is inconsistent therewith, but now claim that section 3 was not. Their contention is ridiculous. Why did not the Treasury call attention to this matter at the time the refunding agreements were before the Senate if it was honest? If their contention has any more consistency than a smoke screen, why did they not ask the Congress to modify the Liberty loan act in any of its provisions which prevented this country and the United States Treasury from turning $11,000,000,000 of bonds from a deadweight into living power and value? Even granted the full claim of the Treasury, it is no answer to the charge of neglect that the Secretary has not had the bonds reissued in proper form for public world-wide marketing, whether he believed he could have sold them for par or not. He should have placed us in a position of power to act, at any rate.

I repeat what I said in my testimony yesterday: That any limitation of this power to protect ourselves and collect our honest debts which rested in American legislation Congress would have gladly corrected overnight.

What is the influence that has caused the Treasury Department to so misuse the assets of this Government to the extent of $11,000,000,000? I beg to you of demand and search out the real reason behind this childish explanation. Was it that it would have been impossible to float the $15,000,000,000 of private loans by our German-American, French-American, and English-American private bankers if the Government was standing over the market with eleven billions of honest bonds which represented money contributed by our 120,000,000 people in the form of Liberty bonds? And is the main purpose of debt cancellation and repudiation now to get rid of this power in the United States Government to collect its debts, to protect its gold standard and foreign exchange, to protect us against Ottawa conferences, world-wide chemical cartels, European combinations, any any other foreign menace? To insist on peace and disarmament and true international cooperation?

I send with this letter copies of the Liberty loan act, copies of the English and French Agreements, and beg of you to insist upon further investigation.

Respectfully submitted.

Francis P. Garvan.

### Exhibit 8

### Agreement for the Funding of the Debt of Great Britain to the United States

#### PROPOSAL

Dated the 18th day of June, 1923, by His Britannic Majesty's Government (hereinafter called Great Britain) to the Government of the United States of America (hereinafter called the United States) regarding the funding of the debt of Great Britain to the United States.

Whereas Great Britain is indebted to the United States as of 15th December, 1922, upon demand obligations in the principal amount of $4,074,818,358.44, not including obligations in the principal amount of $61,000,000, representing advances deemed to have been made to cover purchases of silver under the act of Congress approved 23d April, 1918, of which $30,500,000 has been repaid in April and May, 1923, and the balance is to be repaid in 1924, pursuant to an agreement already made between the parties, and Great Britain is further indebted to the United States, as of 15th December, 1922 on account of interest accrued from 15th April and 15th May, 1919, on said $4,074,818,358.44, principal amount of demand obligations; and

Whereas Great Britain has power under the war loan act, 1919 (9 and 10 Geo. 5, cap 37) to issue securities in exchange for maturing securities issued under the war loan acts, 1914 to 1918 and

Whereas the demand obligations now held by the United States Treasury were so issued, and will become payable upon the request of the United States Treasury for their payment:

Now therefore Great Britain proposes, in the exercise of the powers above recited and in consideration and in faith of the statements, conditions, premises and mutual covenants herein contained, to issue to the United States, in exchange for the demand obligations now held by the United States Treasury, securities which shall be in their terms and conditions in accordance with the following provisions:

1. *Amount of indebtedness.*—The total amount of indebtedness to be funded is $4,600,000,000, which has been computed as follows:

| | | |
|---|---|---|
| Principal amount of demand obligations to be funded | | $4, 074, 818, 358. 44 |
| Interest accrued thereon from 15th April and 15th May, 1919, respectively, to 15th December, 1922, at the rate of 4¼ per cent per annum | $629, 836, 106. 99 | |
| Less payments made by Great Britain on 16th October and 15th November, 1922, on account of interest, with interest thereon at 4¼ per cent per annum from said dates, respectively, to 15th December, 1922 | 100, 526, 379. 69 | |
| | | 529, 309, 727. 30 |
| Total principal and interest, accrued and unpaid, as of 15th December, 1922 | | 4, 604, 128, 085. 74 |
| Paid in cash by Great Britain, 15th March, 1923 | | 4, 128, 085. 74 |
| Total indebtedness to be funded into bonds of Great Britain | | 4, 600, 000, 000. 00 |

2. *Issue of long-time obligations.*—The securities, which it is proposed to issue at par as promptly as possible, shall be obligations in the principal amount of $4,600,000,000, in the form of bonds to be dated 15th December, 1922, maturing 15th December, 1984, with interest payable semiannually on 15th June and 15th December in each year at the rate of 3 per cent per annum from 15th December, 1922, to 15th December, 1932, and thereafter at the rate of 3½ per cent per annum until the principal thereof shall have been repaid.

3. *Method of payment.*—The bonds shall be payable as to both principal and interest in United States gold coin of the present standard of weight and fineness, or its equivalent in gold bullion, or, at the option of Great Britain, upon not less than 30 days' advance notice indicating the minimum amount which it is contemplated to pay at next due date in gold, cash or available funds, in any bonds of the United States issued or to be issued after 6th April, 1917, to be taken at par and accrued interest to the date of payment hereunder: *Provided, however,* That Great Britain may at its option, upon not less than 90 days' advance notice, pay up to one-half of any interest accruing between 15th December, 1922, and 15th December, 1927, on any British bonds proposed to be issued hereunder, in bonds of Great Britain, maturing 15th December, 1984, dated and bearing interest from the respective dates when the interest to be paid thereby becomes due and substantially similar in other respects to the original bonds proposed to be issued hereunder.

All payments to be made by Great Britain on account of the principal or interest of any bonds proposed to be issued hereunder shall be made at the Treasury of the United States in Washington or, at the option of the Secretary of the Treasury of the United States, at the Federal Reserve Bank of New York and, if in cash, shall be made at the option of Great Britain in gold coin of the United States or in gold bullion or in immediately available funds (or, if in bonds of the United States, shall be in form acceptable to the Secretary of the Treasury of the United States). Appropriate notation of all payments on account of principal shall be made on the bonds proposed to be issued hereunder which may be held by the United States: *Provided, however,* That all payments in respect of any marketable obligations issued under paragraph 9 of this proposal shall be made at the office of the fiscal agents of the British Government in the city of New York.

4. *Exemption from taxation.*—The principal and interest of all bonds issued or to be issued hereunder shall be exempt from all British taxation, present or future, so long as they are in the beneficial ownership of the United States or of a person, firm, association, or corporation neither domiciled not ordinarily resident in the United Kingdom.

5. *Form of bonds.*—All bonds proposed to be issued hereunder to the United States shall be payable to the United States of America, or order, shall be issued, so far as possible, in denominations of $4,600,000 each, and shall be substantially in the form set forth in the exhibit annexed hereto, and marked "Exhibit A." The bonds shall be signed for Great Britain by the Councellor of His Britannic Majesty's Embassy at Washington.

6. *Repayment of principal.*—To provide for the repayment of the total principal of the debt before maturity of the $4,600,000,000 principal amount of bonds to be issued, it is proposed that the bonds shall contain provisions the effect of which shall be that Great Britain shall make to the United States payments, on account of the original principal amount of the bonds to be issued, in the amounts and on the dates named in the following table:

| Dec. 15: | | Dec. 15—Continued. | |
|---|---|---|---|
| 1923 | $23, 000, 000 | 1955 | $64, 000, 000 |
| 1924 | 23, 000, 000 | 1956 | 64, 000, 000 |
| 1925 | 24, 000, 000 | 1957 | 67, 000, 000 |
| 1926 | 25, 000, 000 | 1958 | 70, 000, 000 |
| 1927 | 25, 000, 000 | 1959 | 72, 000, 000 |
| 1928 | 27, 000, 000 | 1960 | 74, 000, 000 |
| 1929 | 27, 000, 000 | 1961 | 78, 000, 000 |
| 1930 | 28, 000, 000 | 1962 | 78, 000, 000 |
| 1931 | 28, 000, 000 | 1963 | 83, 000, 000 |
| 1932 | 30, 000, 000 | 1964 | 85, 000, 000 |
| 1933 | 32, 000, 000 | 1965 | 89, 000, 000 |
| 1934 | 32, 000, 000 | 1966 | 94, 000, 000 |
| 1935 | 32, 000, 000 | 1967 | 96, 000, 000 |
| 1936 | 32, 000, 000 | 1968 | 100, 000, 000 |
| 1937 | 37, 000, 000 | 1969 | 105, 000, 000 |
| 1938 | 37, 000, 000 | 1970 | 110, 000, 000 |
| 1939 | 37, 000, 000 | 1971 | 114, 000, 000 |
| 1940 | 42, 000, 000 | 1972 | 119, 000, 000 |
| 1941 | 42, 000, 000 | 1973 | 123, 000, 000 |
| 1942 | 42, 000, 000 | 1974 | 127, 000, 000 |
| 1943 | 42, 000, 000 | 1975 | 132, 000, 000 |
| 1944 | 46, 000, 000 | 1976 | 136, 000, 000 |
| 1945 | 46, 000, 000 | 1977 | 141, 000, 000 |
| 1946 | 46, 000, 000 | 1978 | 146, 000, 000 |
| 1947 | 51, 000, 000 | 1979 | 151, 000, 000 |
| 1948 | 51, 000, 000 | 1980 | 156, 000, 000 |
| 1949 | 51, 000, 000 | 1981 | 162, 000, 000 |
| 1950 | 53, 000, 000 | 1982 | 167, 000, 000 |
| 1951 | 55, 000, 000 | 1983 | 175, 000, 000 |
| 1952 | 57, 000, 000 | 1984 | 175, 000, 000 |
| 1953 | 60, 000, 000 | | |
| 1954 | 64, 000, 000 | Total | 4, 600, 000, 000 |

*Provided, however,* That Great Britain may, at its option, upon not less than 90 days' advance notice, postpone any payment of principal falling due as hereinabove provided to any subsequent 15th June or 15th December, not more than two years distant from its due date, but only on condition that, if Great Britain shall at any time exercise this option as to any payment of principal, the payment falling due in the next succeeding year can not be postponed to any date more than one year distant from the date when it becomes due, unless and until the payment previously postponed shall actually have been made, and the payment falling due in the second succeeding year can not be postponed at all unless and until payment of principal due two years previous thereto shall actually have been made.

In the event of Great Britain issuing bonds to the United States in payment of interest accruing between 15th December, 1922, and 15th December, 1927, as proposed in paragraph 3 above, the bonds so issued shall contain provision for the payment of their principal before maturity through annual installments on account of principal corresponding substantially to the schedule of payments on account of principal appearing in the table hereinabove set forth.

7. *Payments before maturity.*—Great Britain may, at its option, on any interest date or dates upon not less than 90 days' advance notice, make advance payments of principal, in addition to the payments required to be made by the provisions of the bonds in accordance with paragraph 6 of this proposal. Any such additional payments shall first be applied to the principal of any bonds which shall have been issued hereunder on account of interest accruing between 15th December, 1922, and 15th December, 1927, and then to the principal of any other bonds which shall have been issued hereunder. Any payments made to the United States under this provision shall be in amounts of $1,000,000 or multiples thereof.

8. *Calculation of interest.*—Notwithstanding anything herein contained, the interest payable from time to time on the bonds proposed to be issued shall be computed on the amount of the princpal outstanding on the previous interest date, with adjustments in respect of any payment on account of principal which may have been made since the previous interest date.

9. *Exchange for marketable obligations.*—Great Britain will issue to the United States at any time or from time to time, at the request of the Secretary of the Treasury of the United States, in exchange for any or all of the bonds proposed to be issued hereunder and held by the United States, definitive engraved bonds in form suitable for sale to the public, in such amounts and denominations as the Secretary of the Treasury of the United States may request, in bearer form, with provision for registration as to principal, and/or in fully registered form, and otherwise on the same terms and conditions, as to dates of issue and maturity, rate or rates of interest, exemption from taxation, payment in bonds of the United States issued or to be issued after 6th April, 1917, payment before maturity, and the like, as the bonds surrendered on such exchange, except that the bonds shall carry such provision for repayment of principal as shall be agreed upon: *Provided*, That if no agreement to the contrary is arrived at, any such bonds shall contain separate provision for payments before maturity, conforming substantially to the table of repayments of principal prescribed by paragraph 6 of this proposal and in form satisfactory to the Secretary of the Treasury of the United States, such payments to be computed on a basis to accomplish the retirement of any such bonds by 15th December, 1984, and to be made through annual drawings for redemption at par and accrued interest. Any payments of principal thus made before maturity on any such bonds shall be deducted from the payments required to be made by Great Britain to the United States in the corresponding years under the terms of the table of repayments of principal prescribed in paragraph 6 of this proposal.

Great Britain will deliver definitive engraved bonds to the United States in accordance herewith within six months of receiving notice of any such request from the Secretary of the Treasury of the United States, and pending the delivery of the definite engraved bonds will, at the request of the Secretary of the Treasury of the United States, deliver temporary bonds or interim receipts in a form to be agreed upon within three months of the receipt of such request. The United States before offering any such bonds or interim receipts for sale in Great Britain, will first offer them to Great Britain for purchase at par and accrued interest and Great Britain shall likewise have the option, in lieu of issuing to the United States any such bonds or interim receipts, to make advance redemption, at par and accrued interest, of a corresponding amount of bonds issued hereunder and held by the United States.

10. *Cancellation and surrender of demand obligations.*—Upon the delivery to the United States of the $4,600,000,000 principal amount of bonds proposed to be issued hereunder, the United States will cancel and surrender to Great Britain, through the British ambassador at Washington, or his representative, at the Treasury of the United States in Washington, the demand obligations of Great Britain in the principal amount of $4,074,818,358.44 described in the preamble to this proposal.

11. *Notices.*—Any notice, request or consent under the hand of the Secretary of the Treasury of the United States shall be deemed and taken as the notice, request, or consent of the United States, and shall be sufficient if delivered at the British Embassy at Washington or at the office of the permanent secretary of the British Treasury in London; and any notice, request, or election from or by Great Britain shall be sufficient if delivered to the American Embassy in London or to the Secretary of the Treasury of the United States at the Treasury of the United States in Washington. The United States in its discretion may waive any notice required hereunder, but any such waiver shall be in writing and shall not extend to or affect any subsequent notice or impair any right of the United States to require notice hereunder.

Signed on behalf of the Lords Commissioners of His Majesty's Treasury, this 18th day of June, 1923.

Washington.

A. GEDDES,
*His Britannic Majesty's Ambassador Extraordinary and Plenipotentiary.*

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EXHIBIT "A"

(Form of bond)

THE GOVERNMENT OF THE UNITED KINGDOM

Sixty-two year 3–3½ per cent gold bond

Dated 15th December, 1922. Maturing 15th December, 1984.

$ No.

The Government of the United Kingdom, hereinafter called Great Britain, for value received, promises to pay to the United States of America, hereinafter called the United States, or order, on the 15th day of December, 1984, the sum of Four Million Six Hundred Thousand Dollars ($4,600,000), less any amount which may have been paid upon the principal hereof as endorsed upon the back hereof, and to pay interest upon said principal sum semiannually on the fifteenth day of June and December in each year at the rate of three per cent per annum from 15th December, 1922, to 15th December, 1932, and at the rate of three and one-half per cent per annum thereafter until the principal hereof shall have been paid. All payments on account of principal and/or interest shall be made at the Treasury of the United States in Washington, or, at the option of the Secretary of the Treasury of the United States, at the Federal Reserve Bank of New York. This bond is payable as to both principal and interest in gold coin of the United States of America of the present standard of weight and fineness or in its equivalent in gold bullion, or, at the option of Great Britain, upon not less than thirty days' notice indicating the minimum amount which it is contemplated to pay at next due date in gold, cash or available funds, in any bonds of the United States issued or to be issued after 6th April, 1917, to be taken at par and accrued interest to the date of payment hereunder: *Provided, however,* That Great Britain may at its option, upon not less than ninety days' advance notice, pay up to one-half of any interest accruing hereon between 15th December, 1922, and 15th December, 1927, in bonds of Great Britain dated and bearing interest from the respective dates when the interest to be paid thereby becomes due, and substantially similar in maturity and other respects to this bond.

The principal and interest of this bond shall be exempt from all British taxation, present or future, so long as it is in the beneficial ownership of the United States, or of a person, firm, association or corporation neither domiciled nor ordinarily resident in the United Kingdom.

In order to provide for the repayment of the principal of this bond before maturity, Great Britain will make to the United States payments of principal in the amounts, and on the dates shown in the following table:

| Dec. 15: | | Dec. 15—Continued. | |
|---|---|---|---|
| 1923 | $23,000 | 1955 | $64,000 |
| 1924 | 23,000 | 1956 | 64,000 |
| 1925 | 24,000 | 1957 | 67,000 |
| 1926 | 25,000 | 1958 | 70,000 |
| 1927 | 25,000 | 1959 | 72,000 |
| 1928 | 27,000 | 1960 | 74,000 |
| 1929 | 27,000 | 1961 | 78,000 |
| 1930 | 28,000 | 1962 | 78,000 |
| 1931 | 28,000 | 1963 | 83,000 |
| 1932 | 30,000 | 1964 | 85,000 |
| 1933 | 32,000 | 1965 | 89,000 |
| 1934 | 32,000 | 1966 | 94,000 |
| 1935 | 32,000 | 1967 | 96,000 |
| 1936 | 32,000 | 1968 | 100,000 |
| 1937 | 37,000 | 1969 | 105,000 |
| 1938 | 37,000 | 1970 | 110,000 |
| 1939 | 37,000 | 1971 | 114,000 |
| 1940 | 42,000 | 1972 | 119,000 |
| 1941 | 42,000 | 1973 | 123,000 |
| 1942 | 42,000 | 1974 | 127,000 |
| 1943 | 42,000 | 1975 | 132,000 |
| 1944 | 46,000 | 1976 | 136,000 |
| 1945 | 46,000 | 1977 | 141,000 |
| 1946 | 46,000 | 1978 | 146,000 |
| 1947 | 51,000 | 1979 | 151,000 |
| 1948 | 51,000 | 1980 | 156,000 |
| 1949 | 51,000 | 1981 | 162,000 |
| 1950 | 53,000 | 1982 | 167,000 |
| 1951 | 55,000 | 1983 | 175,000 |
| 1952 | 57,000 | 1984 | 175,000 |
| 1953 | 60,000 | | |
| 1954 | 64,000 | Total | 4,600,000 |

*Provided, however,* That Great Britain may, at its option, upon not less than ninety days' advance notice, postpone any payment of principal falling due, as hereinabove provided, to any subsequent 15th June, or 15th December, not more than two years distant from its due date, but only on condition that if Great Britain shall at any time exercise this option as to any payment of principal, the payment falling due in the next succeeding year can not be postponed to any date more than one year distant from the date when it becomes due unless and until the payment previously postponed shall actually have been made, and the payment falling due in the second succeeding year can not be postponed at all unless and until the payment of principal due two years previous thereto shall actually have been made.

This bond may be paid on any interest date before maturity, in whole or in part, in amounts of $1,000,000, or multiples thereof, at the option of Great Britain, on not less than ninety days' advance notice.

This bond is issued by Great Britain pursuant to the proposal, dated the 18th day of June, 1923, and to the acceptance of proposal, dated the 19th day of June, 1923.

In witness whereof, Great Britain has caused this bond to be executed in its behalf by the counsellor of His Britannic Majesty's Embassy at Washington, thereunto duly authorized.

For the United Kingdom:

Dated 15th December, 1922.

(Back)

The following amounts have been paid upon the principal amount of this bond:

| Date. | Amount paid. |
|---|---|

ACCEPTANCE

JUNE 19, 1923.

The right honorable SIR AUCKLAND GEDDES, G. C. M. G., K. C. B.,
*Ambassador Extraordinary and Plenipotentiary,*
*The British Embassy, Washington, D. C.*

MY DEAR MR. AMBASSADOR: I have the honor to acknowledge the receipt of your note of June 18, 1923, transmitting the proposal dated the 18th day of June, 1923, by His Britannic Majesty's Government to the Government of the United States of America regarding the funding of the debt of Great Britain to the United States. This proposal is agreeable to the World War Foreign Debt Commission, and I am writing for the commission and by its authortiy to advise you that the proposal is hereby accepted on behalf of the United States of America, pursuant to the authority conferred by the act of Congress approved February 9, 1922, as amended by the act of Congress approved February 28, 1923. In accordance therewith I am writing to ask that the bonds as contemplated thereby may be delivered as soon as possible to the Secretary of the Treasury of the United States, in exchange for the demand obligations amounting to $4,074,818,358.44 now held by him which are otherwise now payable.

Very truly yours,

A. W. MELLON,
*Secretary of the Treasury, and Chairman of the World War Foreign Debt Commission.*

Approved.

WARREN G. HARDING,
*President.*

JUNE 19, 1923.

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EXHIBIT 9

LETTER FROM THE SECRETARY OF THE TREASURY, DATED JUNE 19, 1923, TO THE BRITISH AMBASSADOR, REGARDING ACCEPTANCE OF UNITED STATES NOTES AND CERTIFICATES ISSUED AFTER APRIL 6, 1917, IN PAYMENT OF PRINCIPAL OR INTEREST ON BONDS ISSUED BY GREAT BRITAIN UNDER THE TERMS OF THE DEBT SETTLEMENT

JUNE 19, 1923.

The right honorable SIR AUCKLAND GEDDES,
*Ambassador Extraordinary and Plenipotentiary,*
*The British Embassy, Washington, D. C.*

MY DEAR MR. AMBASSADOR: In connection with the proposal dated the 18th of June, 1923, by His Britannic Majesty's Government to the Government of the United States of America regarding the funding of the debt of Great Britain to the United States, the acceptance of which I am handing you simultaneously herewith, I am writing to say that the World War Foreign Debt Commission has been advised by the Attorney General of the United States that under the terms of the act of Congress approved February 9, 1922, as amended by the act of Congress approved February 28, 1923, notes and/or certificates of indebtedness of the United States issued after April 6, 1917, may be received upon the same terms and conditions as bonds of the United States issued after that date in payment of principal and/or interest on the bonds to be issued by Great Britain under the terms of the agreement for the settlement of the debt. This is likewise the view of the World War Foreign Debt Commission, expressed in a resolution duly adopted by the commission, and the Treasury will, therefore, be guided accordingly in acting under the agreement and will accept notes and/or certificates of indebtedness of the United States issued after April 6, 1917, on the same terms and conditions as bonds of the United States issued after that date will be accepted thereunder.

A. W. MELLON,
*Secretary of the Treasury, and Chairman of the World War Foreign Debt Commission.*

Approved:

WARREN G. HARDING,
*President.*

JUNE 19, 1923.

## Exhibit 93

### Agreement for the Funding of the Indebtedness of France to the United States

Agreement made the 29th day of April, 1926, at the city of Washington, District of Columbia, between the French Republic, hereinafter called France, party of the first part, and the United States of America, hereinafter called the United States, party of the second part

Whereas France is indebted to the United States as of June 15, 1925, upon obligations in the aggregate principal amount of $3,340,516,043.72, together with interest accrued and unpaid thereon; and

Whereas France desires to fund said indebtedness to the United States, both principal and interest, through the issue of bonds to the United States, and the United States is prepared to accept bonds from France upon the terms hereinafter set forth:

Now, therefore, in consideration of the premises and of the mutual covenants herein contained, it is agreed as follows:

1. *Amount of Indebtedness.*—The amount of indebtedness to be funded, after allowing for certain cash payments made or to be made by France is $4,025,000,000, which has been computed as follows:

| | | |
|---|---|---|
| Principal of obligations held for cash advanced under Liberty bond acts | $2, 933, 405, 070. 15 | |
| Accrued and unpaid interest at 4¼ per cent to Dec. 15, 1922 | 445, 066, 027. 49 | |
| | | $3, 378, 471, 097. 64 |
| Principal of obligations given for surplus war supplies purchased on credit | 407, 341, 145. 01 | |
| Interest at 4¼ per cent from the last interest-payment date prior to Dec. 15, 1922, to Dec. 15, 1922 | 6, 324, 940. 79 | |
| | | 413, 666, 085. 80 |
| Total indebtedness as of Dec. 15, 1922 | | 3, 792, 137, 183. 44 |
| Accrued and unpaid interest at 3 per cent per annum on this amount from Dec. 15, 1922, to June 15, 1925 | | 284, 410, 288. 75 |
| Total indebtedness as of June 15, 1925 | | 4, 076, 547, 472. 19 |
| Credits: | | |
| Payments received on account of interest between Dec. 15, 1922, and June 15, 1925 | $50, 917, 643. 13 | |
| Payments on account of principal since Dec. 15, 1922 | 230, 171. 44 | |
| Interest on principal payments at 3 per cent per annum from date of payment to June 15, 1925 | 12, 970. 73 | |
| | | 51, 160, 785. 30 |
| Net indebtedness as of June 15, 1925 | | 4, 025, 386, 686. 89 |
| To be paid in cash upon execution of agreement | | 386, 686. 89 |
| Total indebtedness to be funded into bonds | | 4, 025, 000, 000. 00 |

2. *Payment.*—In order to provide for the payment of the indebtedness thus to be funded, France will issue to the United States at par, bonds of France in the aggregate principal amount of $4,025,000,000, dated June 15, 1925, and maturing serially on the several dates and in the amounts fixed in the following schedule:

| June 15: | | June 15—Continued. | |
|---|---|---|---|
| 1926 | $30, 000, 000. 00 | 1934 | $36, 691, 906. 35 |
| 1927 | 30, 000, 000. 00 | 1935 | 42, 058, 825. 41 |
| 1928 | 32, 500, 000. 00 | 1936 | 52, 479, 413. 67 |
| 1929 | 32, 500, 000. 00 | 1937 | 63, 004, 207. 80 |
| 1930 | 35, 000, 000. 00 | 1938 | 68, 634, 249. 88 |
| 1931 | 1, 350, 000. 00 | 1939 | 74, 320, 592. 38 |
| 1932 | 11, 363, 500. 00 | 1940 | 80, 063, 798. 30 |
| 1933 | 21, 477, 135. 00 | 1941 | 51, 728, 872. 58 |

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| June 15—Continued. | |
|---|---|
| 1942 | $57, 763, 450. 02 |
| 1943 | 58, 918, 719. 03 |
| 1944 | 60, 097, 093. 41 |
| 1945 | 61, 299, 035. 28 |
| 1946 | 62, 525, 015. 98 |
| 1947 | 63, 775, 516. 30 |
| 1948 | 65, 051, 026. 63 |
| 1949 | 66, 352, 047. 16 |
| 1950 | 67, 679, 088. 10 |
| 1951 | 55, 040, 837. 33 |
| 1952 | 56, 416, 858. 27 |
| 1953 | 57, 827, 279. 71 |
| 1954 | 59, 272, 961. 71 |
| 1955 | 60, 754, 785. 76 |
| 1956 | 62, 273, 655. 40 |
| 1957 | 63, 830, 496. 79 |
| 1958 | 65, 426, 259. 21 |
| 1959 | 55, 474, 298. 82 |
| 1960 | 57, 138, 527. 79 |
| 1961 | 58, 852, 683. 62 |
| 1962 | 60, 618, 264. 13 |
| 1963 | 62, 436, 812. 05 |
| 1964 | 64, 309, 916. 42 |
| 1965 | 66, 239, 213. 91 |
| 1966 | $58, 764, 122. 05 |
| 1967 | 60, 820, 866. 32 |
| 1968 | 62, 949, 596. 64 |
| 1969 | 65, 152, 832. 52 |
| 1970 | 67, 433, 181. 66 |
| 1971 | 69, 793, 343. 02 |
| 1972 | 72, 236, 110. 02 |
| 1973 | 74, 764, 373. 88 |
| 1974 | 77, 381, 126. 96 |
| 1975 | 80, 089, 466. 40 |
| 1976 | 82, 892, 597. 73 |
| 1977 | 85, 793, 838. 65 |
| 1978 | 88, 796, 623. 00 |
| 1979 | 91, 904, 504. 81 |
| 1980 | 95, 121, 162. 48 |
| 1981 | 98, 450, 403. 16 |
| 1982 | 101, 896, 167. 27 |
| 1983 | 105, 462, 533. 13 |
| 1984 | 109, 153, 721. 79 |
| 1985 | 112, 974, 102. 05 |
| 1986 | 116, 928, 195. 62 |
| 1987 | 113, 694, 786. 64 |
| Total | 4, 025, 000, 000. 00 |

*Provided, however,* That France, at its option, upon not less than 90 days' advance notice to the United States, may postpone so much of any payment on account of principal and/or interest falling due in any one year as hereinabove provided after June 15, 1926, and prior to June 16, 1932, as shall be in excess of $20,000,000 in any one year, to any subsequent June 15 or December 15 not more than three years distant from its due date, and upon like notice France, at its option, may postpone any payment on account of principal falling due as hereinafter provided after June 15, 1932, to any subsequent June 15 or December 15 not more than three years distant from its due date, but any such postponement shall be only on conidtion that in case France shall at any time exercise this option as to any payment of principal and/or interest, the payment falling due in the third succeeding year can not be postponed at all unless and until the payment of principal and/or interest due three years, two years and one year previous thereto shall actually have been made. All such postponed payments shall bear interest at the rate of 4¼ per cent per annum payable semiannually.

3. *Form of bond.*—All bonds issued or to be issued hereunder to the United States shall be payable to the Government of the United States of America, or order, and shall be signed for France by its Ambassador at Washington, or by its other duly authorized representative. The bonds shall be substantially in the form set forth in the exhibit hereto annexed and marked "Exhibit A," and shall be issued in 62 pieces with maturities and in denominations as hereinabove set forth and shall bear no interest until June 15, 1930, and thereafter shall bear interest at the rate of 1 per cent per annum from June 15, 1930, to June 15, 1940; at the rate of 2 per cent per annum from June 15, 1940, to June 15, 1950; at the rate of 2½ per cent per annum from June 15, 1950, to June 15, 1958; at the rate of 3 per cent per annum from June 15, 1958, to June 15, 1965, and at the rate of 3½ per cent per annum after June 15, 1965, all payable semiannually on June 15 and December 15 of each year.

4. *Method of payment.*—All bonds issued or to be issued hereunder shall be payable, as to both principal and interest, in United States gold coin of the present standard of value, or, at the option of France, upon not less than thirty days' advance notice to the United States, in any obligations of the United States issued after April 6, 1917, to be taken at par and accrued interest to the date of payment hereunder.

All payments, whether in cash or in obligations of the United States, to be made by France on account of the principal of or interest on any bonds issued or to be issued hereunder and held by the United States shall be made at the Treasury of the United States in Washington, or, at the option of the Secretary of the Treasury of the United States, at the Federal Reserve Bank of New York, and if in cash shall be made in funds immediately available on the date of payment, or if in obligations of the United States shall be in form acceptable to the Secretary of the Treasury of the United States under the general regulations of the Treasury Department governing transactions in United States obligations.

5. *Exemption from taxation.*—The principal and interest of all bonds issued or to be issued hereunder shall be paid without deduction for, and shall be exempt from, any and all taxes or other public dues, present or future, imposed by or under authority of France, or any political or local taxing authority within France, whenever, so long as, and to the extent that beneficial ownership is in (*a*) the Government of the United States, (*b*) a person, firm, or association neither domiciled nor ordinarily resident in France, or (*c*) a corporation not organized under the laws of France.

6. *Payments before maturity.*—France, at its option, on June 15 or December 15 of any year, upon not less than ninety days' advance notice to the United States, may make advance payments in amounts of $1,000 or multiples thereof, on account of the principal of any bonds issued or to be issued hereunder and held by the United States. Any such advance payments shall be applied to the principal of such bonds as may be indidated by France at the time of the payment.

7. *Exchange for marketable obligations.*—France will issue to the United States at any time, or from time to time, at the request of the Secretary of the Treasury of the United States, in exchange for any or all of the bonds issued hereunder and held by the United States, definitive engraved bonds in form suitable for sale to the public, in such amounts and denominations as the Secretary of the Treasury of the United States may request, in bearer form, with provision for registration as to principal and/or in fully registered form, and otherwise on the same terms and conditions, as to dates of issue and maturity, rate or rates of interest, if any, exemption from taxation, payment in obligations of the United States issued after April 6, 1917, and the like, as the bonds surrendered on such exchange. France will deliver definitive engraved bonds to the United States in accordance herewith within six months of receiving notice of any such request from the Secretary of the Treasury of the United States, and pending the delivery of the delivery of the definitive engraved bonds will deliver, at the request of the Secretary of the Treasury of the United States, temporary bonds or interim receipts in form satisfactory to the Secretary of the Treasury of the United States within 30 days of the receipt of such request, all without expense to the United States. The United States, before offering any such bonds or interim receipts for sale in France, will first offer them to France for purchase at par and accrued interest if any, and France shall likewise have the option, in lieu of issuing any such bonds or interim receipts, to make advance redemption, at par and accrued interest, if any, of a corresponding principal amount of bonds issued hereunder and held by the United States. France agrees that the definitive engraved bonds called for by this paragraph shall contain all such provisions, and that it will cause to be promulgated all such rules, regulations, and orders as shall be deemed necessary or desirable by the Secretary of the Treasury of the United States in order to facilitate the sale of the bonds in the United States, in France or elsewhere, and that if requested by the Secretary of the Treasury of the United States, it will use its good offices to secure the listing of the bonds on such stock exchanges as the Secretary of the Treasury of the United States may specify.

8. *Cancellation and surrender of obligations.*—Upon the execution of this agreement, the delivery to the United States of the principal amount of bonds of France to be issued hereunder, together with satisfactory evidence of authority for the execution of this Agreement by the representative of France and for the execution of the bonds to be issued hereunder, the United States will cancel and surrender to France at the Treasury of the United States in Washington, the obligations of France held by the United States.

9. *Notices.*—Any notice, request, or consent under the hand of the Secretary of the Treasury of the United States, shall be deemed and taken as the notice, request, or consent of the United States, and shall be sufficient if delivered at the Embassy of France at Washington or at the office of the Ministry of Finance at Paris; and any notice, request, or election from or by France shall be sufficient if delivered to the American Embassy at Paris or to the Secretary of the Treasury at the Treasury of the United States in Washington. The United States in its discretion may waive any notice required hreunder, but any such waiver shall be in writing and shall not extend to or affect any subsequent notice or impair any right of the United States to require notice hreunder.

10. *Compliance with legal requirements.*—France represents and agrees that the execution and delivery of this agreement have in all respects been duly authorized and that all acts, conditions, and legal formalities which should have been com-

pleted prior to the making of this agreement have been completed as required by the laws of France and in conformity therewith.

11. *Counterparts.*—This agreement shall be executed in two counterparts, each of which shall have the force and effect of an original.

In witness whereof France has caused this agreement to be executed on its behalf by Hon. Henry Bérenger, its ambassador extraordinary and plenipotentiary at Washington, thereunto duly authorized, subject, however, to ratification in France, and the United States has likewise caused this agreement to be executed on its behalf by the Secretary of the Treasury as chairman of the World War Foreign Debt Commission, with the approval of the President, subject, however, to the approval of Congress, pursuant to the act of Congress approved February 9, 1922, as amended by the act of Congress approved February 28, 1923, and as further amended by the act of Congress approved January 21, 1925, all on the day and year first above written.

THE FRENCH REPUBLIC,
By HENRY BÉRENGER,
THE UNITED STATES OF AMERICA,

For the World War Foreign Debt Commission:

By ANDREW W. MELLON,
*Secretary of the Treasury and Chairman of the Commission.*

Approved:

CALVIN COOLIDGE, *President.*

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EXHIBIT A

[Form of Bond]

THE REPUBLIC OF FRANCE

$ No.

The Republic of France, hereinafter called France, for value received, promises to pay to the Government of the United States of America, hereinafter called the United States, or order, on June 15, 19 , the sum of Dollars ($ ), and to pay interest upon said principal sum after June 15, 1930, at the rate of 1 per cent per annum from June 15, 1930, to June 15, 1940, at the rate of 2 per cent per annum from June 15, 1940, to June 15, 1950, at the rate of 2½ per cent per annum from June 15, 1950, to June 15, 1958, at the rate of 3 per cent per annum from June 15, 1958, to June 15, 1965, and at the rate of 3½ per cent per annum after June 15, 1965, all payable semiannually on the 15th day of December and June in each year. This bond is payable as to both principal and interest in gold coin of the United States of America of the present standard of value, or, at the option of France, upon not less than thirty days' advance notice to the United States, in any obligations of the United States issued after April 6, 1917, to be taken at par and accrued interest to the date of payment hereunder.

This bond is payable as to both principal and interest without deduction for, and is exempt from, any and all taxes, and other public dues, present or future, imposed by or under authority of France or any political or local taxing authority within France, whenever, so long as, and to the extent that, beneficial ownership is in (*a*) the Government of the United States, (*b*) a person, firm, or association neither domiciled nor ordinarily resident in France, or (*c*) a corporation not organized under the laws of France. This bond is payable as to both principal and interest at the Treasury of the United States in Washington, D. C., or at the option of the Secretary of the Treasury of the United States at the Federal Reserve Bank of New York.

This bond is issued pursuant to the provisions of paragraph 2 of an agreement dated April 26, 1926, between France and the United States, to which agreement this bond is subject and to which reference is hereby made.

In witness whereof, France has caused this bond to be executed in its behalf by its Ambassador Extraordinary and Plenipotentiary at Washington, thereunto duly authorized, as of June 15, 1925.

THE FRENCH REPUBLIC,
By ——— ———,
*Ambassador Extraordinary and Plenipotentiary.*

## Exhibit 114

### Excerpts from the First Liberty Bond Act and the Act of July 9, 1918, and Acts of February 25, 1919, and March 30, 1920, which Contain Authority for Acquiring Obligations of Foreign Governments

First Liberty bond act, approved April 24, 1917:

#### LOANS TO FOREIGN GOVERNMENTS

Sec. 2. That for the purpose of more effectually providing for the national security and defense and prosecuting the war by establishing credits in the United States for foreign governments, the Secretary of the Treasury, with the approval of the President, is hereby authorized, on behalf of the United States, to purchase, at par, from such foreign governments then engaged in war with the enemies of the United States, their obligations hereafter issued, bearing the same rate of interest and containing in their essentials the same terms and conditions as those of the United States issued under authority of this act; to enter into such arrangements as may be necessary or desirable for establishing such credits and for purchasing such obligations of foreign governments and for the subsequent payment thereof before maturity, but such arrangements shall provide that if any of the bonds of the United States issued and used for the purchase of such foreign obligations shall thereafter be converted into other bonds of the United States bearing a higher rate of interest than three and one-half per centum per annum under the provisions of section five of this act, then and in that event the obligations of such foreign governments held by the United States shall be, by such foreign governments, converted in like manner and extent into obligations bearing the same rate of interest as the bonds of the United States issued under the provisions of section five of this act. For the purposes of this section there is appropriated, out of any money in the Treasury not otherwise appropriated, the sum of $3,000,000,000, or so much thereof as may be necessary:[1] *Provided*, That the authority granted by this section to the Secretary of the Treasury to purchase bonds from foreign governments, as aforesaid, shall cease upon the termination of the war between the United States and the Imperial German Government.

Sec. 3. That the Secretary of the Treasury, under such terms and conditions as he may prescribe, is hereby authorized to receive on or before maturity payment for any obligations of such foreign governments purchased on behalf of the United States, and to sell at not less than the purchase price any of such obligations and to apply the proceeds thereof and any payments made by foreign governments on account of their said obligations to the redemption or purchase at not more than par and accrued interest of any bonds of the United States issued under authority of this act; and if such bonds are not available for this purpose the Secretary of the Treasury shall redeem or purchase any other outstanding interest-bearing obligations of the United States which may at such time be subject to call or which may be purchased at not more than par and accrued interest.[2]

Senator Harrison. I am sure that this committee appreciates Mr. Garvan's statement.

Senator Watson. Very much, indeed.

Senator Harrison. This afternoon we have two or three witnesses who will be here at 2 o'clock.

Senator Watson. The committee will rise until 2 o'clock.

(Whereupon, at 12.12 o'clock p. m., a recess was taken until 2 o'clock p. m.)

#### AFTER RECESS

The Senate Finance Committee resumed the hearing at 2 o'clock p. m., Thursday, February 23, 1933, at the expiration of the noon recess.

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[1] Sec. 2 of the second Liberty bond act, a amended, made an appropriation of $7,000,000,000 for the purchase of such foreign obligations, and in addition the unexpended balance of the $,000,000,000 herein authorized. See also secs. 2 and 3 of second Liberty bond act and secs. 7 and 8 of victory Liberty loan act

[2] See secs. 2 and 3 of second Liberty bond act.

Senator HARRISON (presiding). The committee has received from Mr. W. P. Sterns, Ph. D., of 1833 Lamont Street NW., Washington, D. C., an article which appeared in the Journal of Political Economy for September, 1898, entitled "A New Standard and a New Currency," also copies of two statements prepared by him recently dealing with the question of currency, which he desires to have published in the hearings. If there is no objection they will be incorporated at this point.

(The article and statements are as follows:)

A NEW STANDARD AND A NEW CURRENCY

In 1896 the people refused to sanction a currency policy that, in their opinion, would have resulted in silver monometallism and would have involved injustice to the creditor. May it not be a mistake to assume that this refusal was equivalent to a positive declaration in favor of gold monometallism, or that they would not as decisively reject any currency policy that seems careless of the rights of the debtor? Is it not probable that the policy that receives their positive sanction

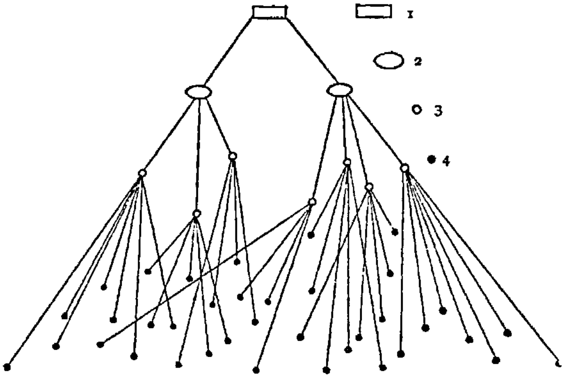


FIGURE I.—Illustrating the organization of demand-deposit banks in the United States

1. United States Issue Department, administered by the Comptroller of the Currency. 2. District clearing houses. 3. Associations. 4. Banks.

must not only provide every positive safeguard to the creditor, but must also afford the debtor every practicable facility for meeting his obligations? Such equal regard for the rights of both debtor and creditor is the purpose of the monetary system outlined in this article. An attempt will be made to set forth clearly and simply: (1) those measures intended to improve the media of exchange and facilitate the payment of debts in times of crisis; (2) those intended to provide for the stability of the standard and secure the rights of the creditor; (3) some general advantages to be gained by adopting the system.

1. The Government control of the proposed system will be through an issue department, of which the Comptroller of the Currency will be the administrative head. Bank checks constitute more than half of the media of exchange in the United States. It follows that there can be no effective regulation of the means of payment by the Government until all demand-deposit banks come under its control. To this end banks that organize under the new national system will be exempt from a tax on demand deposits that will be made high enough to cause all other banks to retire from business.

The deposits in the banks will then be converted into a means of payment, practically legal tender, but much more available than ordinary legal-tender money. This will be accomplished by requiring every bank to receive on deposit certified checks on, or checks on ascertained deposits in, any other bank in the system, even though such bank has suspended payments.[1] The clearing system that is to be introduced will quickly shift the burden of such payments from the individual banks to the banks as a whole.

But if the bankers are to suffer the losses arising from dishonest and inefficient banking, they should be given the power to prevent such banking. For this purpose a great part of the regulation of the banking business is entrusted to the banks. Every bank must belong to an association. The capital of the banks in each association must amount to at least $25,000,000. The central office of the association must be in some city of more than 50,000 inhabitants. Each association must be a member of some district clearing house. There will be six or seven of these district clearing houses, located by law in the most important business centers. Each bank will have one vote in its association; each associtaion one vote in its district clearing house. The association will regulate the business of banking among its banks, and its own administration subject to its district clearing house. The district clearing house will regulate matters common to all its associations and its own administration. The comptroller will have power to veto or revoke any regulation that grants special privileges to any bank or set of banks, and to decide controversies between district clearing houses and associations as to province of legislation.

Upon petition of three district clearing houses the President will appoint a special commission of inquiry as to regulations cited in the petition, which will have power to revoke such regulations if they are found to operate unjustly to the special advantage of any bank or set of banks. The organization of banks and their entrance into associations will be so regulated by law that every community that can support a bank will have one, and that monopoly in the business will be an impossibility. Figure I is intended to give a graphic representation of the organization of the banks. A glance will show that the banks in any association are not confined within territorial limits.[2]

The system of clearing will be regulated by law. Once every day each bank will send to its association all checks paid for other banks, and at the same time report the amounts of its reserve and deposits.[3] The association will credit each bank with checks received from it and charge it with its own checks received from other banks. At 12 m. each day the association will report to the banks their balances and any change in reserve requirements. In each association city there will be located a representative of all other associations, whose business it will be to receive checks paid for the banks of those associations and officially acknowledge the debit for their payment. This official acknowledgment will be made by attaching his signature to the report telegraphed by the local association at 12 m. each day to its district clearing house giving the amount of its payments for other associations. The association will also report the amounts of the reserves and deposits held by its banks. Each district clearing house will forward to the others the reports of payments made for their respective associations as fast as they are received. Such reported payments will be cleared and the balances reported to the associations at 1 p. m., together with any new requirements as to reserves. They will at the same time report to the issue department net payments made for other districts and amounts of deposits and reserves in their own district. The issue department will clear these payments and report balances and new reserve requirements to district clearing houses at 2 p. m. All balances, less required reserves, will be subject to check the same as deposits. Figure II illustrates the operation of such daily clearings among as few banks as could be organized under the proposed plan. The district clearing houses must keep on deposit in the issue department for the payment of balances at least 1 per cent of all deposits in their respective districts. This requirement can be increased at any time by the comptroller.

The long accepted principle of uniformity of the currency will be adopted. Metals will not be used unless for small change. The currency will be restricted to the United States demand notes of the issue department. These will be a legal tender for all debts, public and private. All money, including gold and silver, now legal tender will cease to be so. But United States coins and demand obligations of the United States will be redeemed by the issue department in United States demand notes, if presented before a designated date. These notes may also be obtained from the issue department in exchange for either gold or silver, without

[1] A bank will not be required to honor checks on such deposits to more than one-half the amount of its reserves till the deposited check has been cleared. The system of clearing to be introduced makes the time required for this purpose very short. Some officer of evey bank, even though suspended, will be required to certify to deposits on request.

[2] Banks may change their association if such change is acceptable to the Comptroller and to the association they wish to enter. An association can change its district clearing house under like conditions.

[3] It is expected that local clearings will be made before this report to the association.

restriction as to quantity. The prices that are paid for these metals will vary in accordance with legal regulations.

In order to afford the country districts of the South and West as great credit facilities as are practicable, and to do away with the losses occasioned by crises and panics, so far as possible, the issue department will deposit demand notes with banks under certain conditions. If a bank wishes a deposit of notes from the issue department, it must deposit acceptable short-time banking paper with its association. The association must then issue to the bank, association certificates up to 75 per cent of the collateral accepted. On receiving these certificates as collateral the issue department will deposit with the bank an equal amount of demand notes. While a bank's deposits bear a ratio to its capital less than 60 per cent of the average ratio of deposits to capital throughout the system, the bank will pay the issue department 2 per cent interest; while such ratio is between 60 and 80 per cent of the average ratio, the rate will be 4 per cent; while it is between 80 and 100 per cent the rate will be 6 per cent. So long as the issue department has notes on deposit with the bank it will prevent such ratio rising above 100 per cent by checking out the excess as fast as it appears. It is expected that these deposits will enable the small banks in the South and West, where the use of deposit currency is extremely limited, to afford their patrons nearly the same facilities for making payments that are enjoyed in the great financial centers of the North and East.

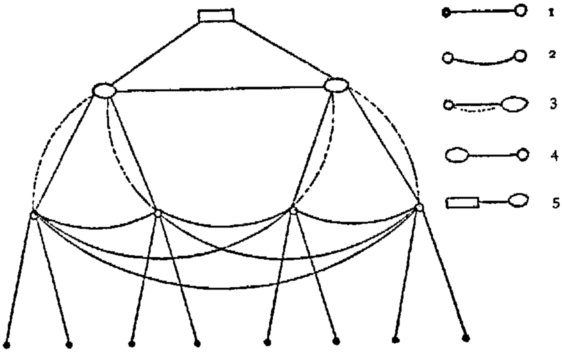


FIGURE II.—Illustrating the system of clearing

1. Routes of checks and reports between banks and associations. 2. Routes of checks returned by association representatives. 3. Route of double telegraphic report from association representatives and associations to district clearing house. 4. Route of report from district clearing house to associations. 5. Route of reports between district clearing houses and issue department.

The advantage of these deposits in a critical emergency may be illustrated by the following example. A bank holding a reserve of 25 per cent has deposits that bear a ratio to its capital equal to such ratio throughout the system. Some very remarkable crisis makes it necessary for it to redeem all of its deposit liabilities within a few days. If its loans and discounts have been judiciously made the bank will, through this accommodation from the issue department, be able to meet such a drain without making a collection beyond what may be necessary to make up a possible excess of its reserves over its capital.

It is believed that in giving the legal-tender currency a basis that is practically as broad as the combined stocks of gold and silver plus all the acceptable bank paper the country can furnish, this system offers to the debtor every protection against an appreciating standard that is now practicable; and that this, together with the extraordinary facility it affords for making payments in any section of the country, must satisfy the demands of every honorable advocate of debtors' rights.

2. It remains to be seen whether these provisions can be enforced without doing injustice to the creditor, with a probable gain to the general credit of the country, and without conferring dangerous powers on any man or set of men. The first step in this direction will be the complete separation of the issue department from the fiscal administration of the Government. The resources of the department and its power of issue will be as independent of control by Congress as those of any national bank at the present time. Through this department the comptroller will buy and sell gold, silver, and United States bonds, make such deposits in banks as have been indicated, and exercise supervision over the banking system.

The Treasury will at once turn over to the issue department all money and bullion in its possession and receive for the same United States demand notes. The comptroller will then go on the market and buy or sell at the best prices in United States demand notes, a sufficient quantity of silver to make the stocks of the two metals held by him equal in value. The stock of silver will be estimated at the price at which the last purchase or sale is made.

The gold will be stamped into ingots containing 2,322 grains of pure gold, or 2,580 grains of standard gold, the silver into ingots containing $25 worth of silver.[4] The size of the gold ingots will be permanent. The size of the silver ingots will not be changed till the end of a designated period of time, during which the abnormal effects of the initiation of the system, on the value of silver, will be expected to exhaust themselves. It will then be changed so that four ingots will contain $100 worth of silver at the department's selling price, and will remain unchanged thereafter. These gold and silver ingots will be sold in unlimited quantities to anyone offering demand notes for them. Until the change of silver ingots to their permanent size the selling price of the gold ingot will remain fixed at $100. The issue department will pay $99 in demand notes for the amount of gold in an ingot.[5] Whenever the stocks of metal are equal in value[6] the first

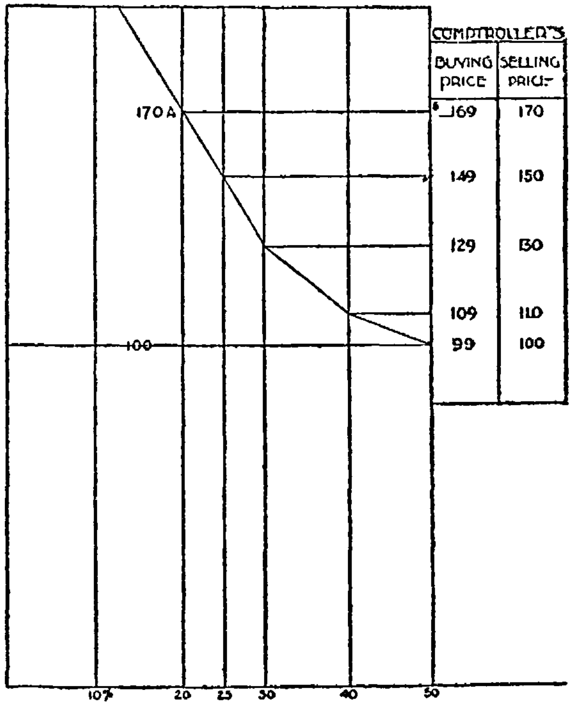


FIGURE III.—Showing the increase in the issue department's prices of silver when gold is held in excess of 50 per cent of the total stock

prices of silver will be the same as those of gold. During the first period, in which the size of the silver ingot is only temporarily fixed, if the stock of silver is decreased in value by purchases of gold or sales of silver, to 49 per cent of the whole stock, its purchase and sale prices will be raised to $100 and $101 respectively. A like increase in the prices will be made for each 1 per cent of decrease in the stock of silver until its value is but 40 per cent of that of the shole stock. Whenever the stock of silver increases the prices will fall, returning along the same road toward an equality with those of gold. Figure III shows that whenever 40 per cent of the

[4] The same price will be used here as in estimating the stock.

[5] This seigniorage charge of $1 is made on purchases of ingots as well as bullion. There is no particular reason for fixing it at $1.

[6] The value of each stock will always be estimated at the price at which it is being sold.

total stock is in silver, its purchase and sale prices will be $109 and $110, respectively. While the silver stock is between 30 and 40 per cent of the total stock, changes of a dollar in the prices will result from a change of one-half of 1 per cent in the stock. The figure shows that as a result of such changes when the value of the silver stock stands at 30 per cent ot the total the prices will be $129 and $130. Thereafter the change in prices will be made for every change of one-fourth of 1 per cent in the value of the stock of silver. The diagram shows that if silver appreciates in value 70 per cent (to A), 20 per cent of the issue department's stock will be in silver and 80 per cent in gold.

If, however, the purchases of silver are in excess of those of gold, similar changes in its prices will be made in the opposite direction. Figure IV shows that when the silver stock stands at 60 per cent of the total stock, its prices will be $89 and $90; that at 70 per cent its prices will be $69 and $70; and that if it depreciates in values on-half it will constitute three-fourths of the entire stock. After the silver ingots are changed to their permanent size, an excess in the stock of gold, instead of raising the price of silver, will cause a like decline in its own prices. Under these regulations the selling price of either metal can never exceed $100.

What would be the result of this unlimited purchase and sale of gold and silver by the issue department? It would be bimetallism, but not the old bimetallism. It would be bimetallism, but not the old bimetallism. We have here the same liberty to use both metals. We have also the same resort to the alternative

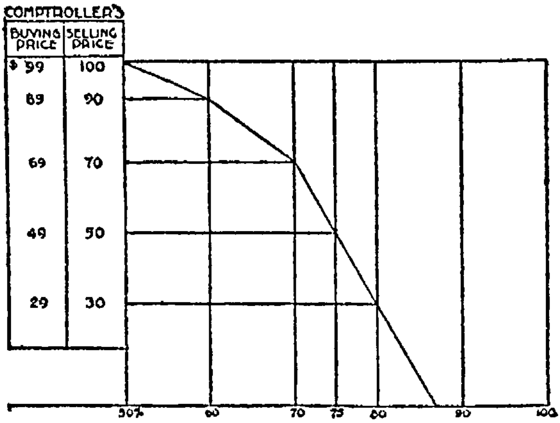


FIGURE IV.—Showing the decrease in the issue department's prices for either metal that is held in excess of 50 per cent of its whole stock

standard. Here the likeness ceases. In the old bimetallism the metal relatively depreciating in value always fixes the standard and its depreciation is retarded by the decreased use of the other metal. In the new bimetallism the metal relatively appreciating fixes the standard, and its appreciation is retarded by an increased use of the other metal. Under the old bimetallism the appreciation in the value of a metal often drives it entirely out of circulation. Under the new, every pound of gold and silver bullion in the country will always be available as money. The founders of our Government believed that the currency should be based on both metals; they also wished that the metals might be used at the market ratio. The new bimetallism gives the currency the bimetallic basis and provides for the use of the two metals at that ratio. Under the old bimetallism the change from one standard to the other occurred only at long intervals. Under the new, because of the use of the metals at the market ratio, the two standards may be in use on the same day. Under the old bimetallism the standard is sometimes lower than that of silver standard countries, and at all other times lower than that of gold standard countries. Under the new, the standard may at times be higher than that of some other countries, but never can be lower than that of any. Under the old bimetallism a given quantity of one of the metals determines the value of the dollar, and the whole demand for monetary metal centers upon the supply of that metal. Under the new, the constantly fluctuating metal equivalent of the dollar allows both metals to compete at all times in supplying the demand for monetary metal.

It is generally admitted that increased sources of supply decrease variations in value. The threatened adoption of the old bimetallism creates a panic in the commercial world. The adoption of the new would secure to the creditor payment in the best money in the world, whether that be gold or silver.

Theoretical benefits to the creditor, however, will count for nothing if there can be any question of the comptroller's ability to supply demands for either metal whenever made. Those provisions of the system intended to enable him to do this will next be considered

He will be required to maintain the same ratio between his stock of gold and silver and the demand notes in circulation as the banks maintain between their reserves and deposits. As the changes in the metal stock are not subject to his own control it follows that he must have the power to vary the amount of notes outstanding in accordance with such changes. He is enabled to do this through his control of the amount of their reserve which the district clearing houses are required to keep on deposit in the issue department, and by the purchase and sale of United States bonds. If the district clearing house reports show an increase in the bank reserves, while on the same day the issue department's transactions in gold and silver indicate, by decreasing the ratio of the gold and silver stock to the amount of notes outstanding, a depreciation in the value of the demand notes, this increase in the bank reserves will be assumed to be the result of contractions in loans and discounts by the more prudent bankers, and a like contraction through out the entire system will be enforced by requiring an increased deposit of reserves in the issue department. This increased requirement will express itself in a draft on the district clearing houses for an amount of demand notes sufficient to contract the circulation outstanding to the required ratio with the issue department's stock of metal Any depreciation in the value of demand notes, from whatever cause, expressing itself in a run on the issue department's metal stock,[7] will always be met by a similar contraction of the amount outstanding by increasing the reserve deposit. For instance, if the bank reserves stand at 25 per cent and the excess of the comptroller's sales over his purchases is $1,000,000 he will draw on the district clearing houses for three millions. If the reserve is standing at 20 per cent he will draw for four millions.[8] It will be seen at once that an unreasonably low reserve held by the banks will cause these drafts to become disagreeably large. If the reports show the comptroller's reserve to be excessive, the reserve deposit requirement will at once be reduced, and notes from that deposit will be returned to the district clearing houses in sufficient amounts to restore the equilibrium by expanding the circulation. But if the district clearing house deposit with the issue department is at the 1 per cent limit, the comptroller will go on the market and buy United States bonds to expand the circulation to the required amount.

If there are no United States bonds to be bought on the market or if the holders of such bonds charge a premium that indicates a market demand for United States bonds bearing interest at a rate more than one-half of 1 per cent lower than any at that time on the market, the Secretary of the Treasury will issue bonds bearing the indicated rate, and sell the conptroller a sufficient quantity to produce the required expansion of the currency. This expansion will not be so immediately operative as those through the return of the reserve deposit, or through buying bonds from the public, but it is not to be expected that there would be many resorts to it. If at any time that part of the bank's reserves held by the comptroller amounts to 10 per cent of their deposits, he shall thereafter draw on the district clearing houses for only one-half the required contraction, and shall obtain the other half by the sale of United States bonds. Whenever his own stock of bonds is exhausted, the Secretary of the Treasury shall issue new bonds to him in exchange for demand notes in any amount that he may need for maintaining the required ratio between the notes outstanding and his stock of gold and silver.

To get a clear idea of this system of issuing notes and keeping them at par with the standard let us look upon the issue department as an independent bank of issue. It can get its notes into circulation only by buying gold and silver and bonds of the United States on which it will receive no interest, and by making deposits in banks under certain conditions. The amount if its issues in excess of purchases of gold and silver is limited by the amount of the deposit liabilities of the banks in excess of their reserves. It follows that the issue of notes can not

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[7] This may sometimes be caused by the deposit of notes with the individual banks.

[8] It is hardly necessary to state that these drafts will be in proportion to the deposits held by the different districts.

become excessive except through an excess of bank loans and discounts. But if the banks raise general prices by unwarranted discounting, so that large imports and a demand for gold or silver for export are occasioned, they are at once reminded of their folly by the increased deposit of reserve required by the comptroller.[9] The justice of this increase in the requirement is evident, as it will never be made except as the result of their own indiscretion in expanding the deposit-currency. Since the banks alone can occasion an inroad upon the comptroller's stock of gold and silver, it is but right to place their assets, to the measure of their deposits, at his disposal for the purpose of stopping any such inroad.

The requirement that the United States Government shall place its entire resources at the comptroller's disposal for the same purpose can not be justified on quite the same grounds. It is true, however, that it is almost impossible to conceive of too great expansion of the note issue, except through the purchase of United States bonds, and the saving of interest to the United States that results from these purchases calls for some return. Moreover, the fact that the general interest of the country demands a confidence that can be established only by such absolute guarantee of the stability of its standard of value is sufficient reason for granting him this sure resource to which, in all probability, he will never be compelled to resort. Do not these provisions enable us to say to the creditor: "In no country in the world is the standard of deferred payments so securely guarded against depreciation as in the United States."

3. While making these provisions for the debtor and creditor, has anything been accomplished for the interests of the country as a whole? It is hoped that a monetary policy has been proposed that will meet the demands of the gold man, the silver man, and the Government-currency man. This will mean a stable monetary policy, which will bring with it advantages to every class and every individual in the Nation. The fiscal administration of the Government will no longer attempt to do a banking business, and any one can tell when bonds are issued to make good a deficit and when to redeem Government currency. It is believed that the specter of inflation will be laid once for all. Could an emergency arise that would tempt Congress to an abnormal issue of paper money when it knows that the country is constantly using its demand credit as freely as the wisdom of the bankers will allow them to use theirs, and when it will have been educated by seeing the circulation contracted from time to time because of its depreciation through overissue? Nevertheless, the country as a whole will reap what profit arises from the economy of substituting a paper currency for one of metal. The advantages that will be derived from the increased mobility of capital can not be confined to any class. The device that enables the comptroller to relieve a financial pressure, or stop a panic at some particular point, and if such operation unduly expands his issues, to contract them by a draft upon the whole banking system, may seem local in its benefits, but the business life of the Nation is so organic in its nature that to cure a local ailment is to strengthen the whole system. The security that it would afford to the millions who must intrust their money to the care of others does not seem a small thing to one who has watched the suffering caused by bank failures. But the benefits derived from this security is not confined to the depositors. The hoards of the distrustful will become active capital. The fact that the failure of a bank can not lock up a dollar of capital will alone be a great benefit.

To sum up, in conclusion, a few of the reasons for expecting such a policy to receive popular support: It gives the creditor a greater measure of security than he has ever yet known; it does even more for the debtor than for the creditor; it provides for the unlimited use of both gold and silver as monetary metals; it gives to the country all the profit that can be derived from substituting a paper currency for one of metal; it insures for bank depositors the immediate availability, under any emergency, of every cent of their deposits; it frees our banking system from the constant fear of regulations enacted by men entirely ignorant of the banking business, and will undoubtedly increase very much the amount of their deposits and the limit to which they can safely carry their loans and discounts; it provides means for securing a note circulation for those sections of the country that are not able to make use of a deposit currency; it brings without delay the great financial resources of the Nation to the support of any section that is suffering from a monetary stringency, and in doing this renders the whole system so sensitive to credit excesses that it is hoped the worst effects of great crises may be altogether avoided.

WORTHY P. STERNS.

UNIVERSITY OF CHICAGO.

[9] The seignorage charge of $1 will prevent any sales of metal for export by the issue department, except when the demand notes are depreciated.

COIN MONEY? REGULATE THE VALUE THEREOF [1]

Has Congress ever obeyed this simply worded Constitutional order?

It was 157 years ago next July that we decided to manage our governments—we had 13 of them—without outside help. Five years later we decided that we would have to work together in matters of common interest. We put in the machinery for doing so, and put it in charge of our hired men. Six years of this federated effort showed us that we were not putting enough power into this machinery. So, after two years of preparation we set up our present Federal Government. We set down in black and white what we wanted it to do. Our courts have been explaining our wishes to Congress ever since. We pay in the money it costs to run this Government. For several years, we have been paying, or promising to pay, around five billion dollars a year. We pay the money. Doe we get back what we have a right to expect, what we desperately need? If we do not, it is our own fault.

In the Preamble of the Constitution we say that the new Government is set up to promote the general welfare. Can this be done; can people in general prosper, if they neither have nor are able to obtain a satisfactory medium of exchange. And what is a satisfactory medium of exchange? It is a means of payment which enables one to trade at as good advantage as citizens of any other country, in any place open to ordinary methods of carrying freight.

Has any Congress given us a money meeting these specifications? Far be it from me to say they have not tried to do it. Indeed, I question whether it could be proven, that any Congress has failed to do as much to carry out this provision of the Constitution, as could be expected from any group of men of equal numbers, under the circumstances and during the years through which they served.

Some may say, at first thought, that the Constitution does not specifically require Congress to furnish such a means of payment, to every citizen in every corner of the Republic, so far as it may be feasible to do so; and that whenever such means of payment become defective in quantity of quality, Congress is expected to remedy such defects by any means reasonably available. But a little further thought, and some consideration of the actual circumstances in 1787, will persuade them, that this was exactly what those quite wonderful men who wrote the Constitution in that year, did mean.

Most of these men had spent their entire lives in the United States. They had known the 13 colonies, and now knew the wilds of the West as no other men knew them. This territory already acquired, together with some only claimed now stretched (or soon would) north to the Lake of the Woods on the Canadian border, and south to the lower reaches of the Mississippi And they knew that gold was the only means of payment that one could expect to have accepted throughout that territory. Indeed, in many wild regions, the only trade was barter.

Furthermore, probably more than one of them knew the history of European chartered banks, from that of Barcelona, started in 1401, down through the great career of the Italian banks at Venice, Genoa, Milan, and other cities, for the two centuries in which they dominated the western world. In like manner they knew how the banks of Amsterdam and that of Hamburg ruled the western world during the next century. Of course best of all, they knew the work of the bank of England, chartered about the beginning of the eighteenth century.

These men knew that power and that unlimited, was the only thing that could give a country the ability, to regulate the value of its money. This they gave to Congress.

Under the practically perfect system of banking our bankers have developed, they, under our supervision, can give us a practically perfect medium of exchange, a practically perfect credit system. Give them the chance to do it. Then see that they do it.

A MONETARY SYSTEM

"The Congress shall have power * * * To coin money, regulate the value thereof * * *." This is simply said, but we have never done it. We have tried—have done something toward it. But, discouraged, we have let others, in their own interest, destroy the results of our efforts to promote the general welfare. It is in the interest of the common weal therefore, that I make the following suggestions as to the Government taking upon itself alone, the task of

[1] See sec. 8, par. 2, of the Constitution, and the fifth specific grant of power under that paragraph. A grant of power is construed by our courts, to be a specific direction to use such power to whatever extent the general welfare may require.

controlling the supply and regulating the value of money; and its giving to that task the organized effort which is needed to carry it through to success.

In the monetary system here suggested, there would be but one legal tender in payment of debts in the United States—the currency of the issue department of the United States, marked "A legal tender in payment of debts amounting to ---------- dollars, within United States territory." All money now legal tender, including gold and silver, would be demonetized. Holders of such legal tender would receive currency for it if presented before a set date. Rights of both creditor and debtor would be protected.

The issue department would be independent of the fiscal administration. The Treasury would turn over all its gold and silver, receiving the new currency for it. The Comptroller of Currency, head of the new department, would proceed to buy and sell gold certificates as soon as a gold exchange had been organized; its demand certificates approved by Supreme Court standards commissioners; and its ability to supply any demand for such certificates established.

The issue department would also buy and sell demand certificates for any other goods whenever the same conditions had been brought about for them.

As a part of this monetary system, the issue department would buy all these demand certificates in any quantity, from any one offering them at less than the regular price on their exchange, and it would sell in any quantity, to any one offering more than the regularly established exchange price (the world market price).

Whenever the standards commissioners add a new demand certificate to those which the issue department must hold, because of the requirements upon it given in the preceding paragraph, they determine anew, what proportion of the entire value of the issue department's reserve, shall be held in the different certificates. They will also have power to change such proportions at any time, on their own motion, or on approved petition of interested parties.

Few realize the extent to which the necessary standardization of commodities has already gone. Practically our whole supply of money consists of certificates (United States notes and bank notes) exchangeable for the standard gold unit of value. All of the enormous business done on our produce exchange rests upon the absolute assurance that produce received in exchange for certificates, will conform to standard specifications established by the Federal Department of Agriculture or other comparable authority. The Bureau of Standards is working in the same direction in its lists of manufacturers ready to certify to purchasers that products supplied by them comply with nationally established standards. The Federal Specifications Board has already established many thousand standards preparing the way for satisfactory trading in certificates representing thousands of commodities. Federal expenditures in this field of standardization amount annually to millions of dollars. And why not? However, effective mobilization of the country's resources can not be expected until all the Government's activities in this field are brought into systematic and effective relation to each other in a Federal standard trading units bureau.

But—a satisfactory legal tender does not, by itself, constitute a satisfactory monetary system. To properly supplement such a currency, every bank doing a demand-deposit business in the United States, will be required to honor checks drawn on every other demand-deposit bank, whether such bank is solvent or insolvent. All insolvent banks will be required to file balances of all depositors. Solvent banks will furnish balance of any depositor on proper official request for same. It follows that anyone having a balance in any demand-deposit bank in the United States (solvent or insolvent) has at his command an equal amount of legal tender. Above communications will all be by telegraph, at the new bank system's expense.

It is at once evident, that no demand-deposit bank could do business in the United States unless it was reorganized under the bank act here suggested.

Government control, subject to the act itself, would be through the issue department. Daily telegraphic clearings throughout the system, passing up through local, district, and regional clearing houses, would center in the issue department. New requirements as to reserve would go from it only to the regional clearing houses, but would radiate from them to the smallest bank in the country.

The check in question would pass from one clearing house to another and finally be settled by the distribution of the loss over the entire system, by the comptroller. Regulatory powers sufficient to protect themselves from dishonest and inefficient banking would be given to the bankers. Unfair regulations would be vetoed by the comptroller.

If United States legal tender should be worth less than gold in the markets of the world, any one could buy gold certificates at the issue department with such legal tender at world prices, so long as such inducements existed. The issue department would have to sell other certificates as fast proportionally, as the gold certificates, and the all around demand for currency resulting from this bargain sale, would soon reduce the supply so greatly as to restore a correct price relation between United States legal tender and gold in the markets of the world.

It is held that this banking system would give the creditor greater security than he has ever had in the past; that it would give him no unfair advantage over the debtor; that it would give practically legal tender power, at prevailing market prices to any potential purchasing power whose standardization had been officially recognized by the standards commissioners of the Supreme Court; that it would make bank checks practically as good as, indeed, sometimes better than legal tender in the payment of debts; that it would give men who know the banking business practically complete control in its fair regulation; that it would provide United States currency for sections unable to use bank checks to advantage; [1] and, finally, that it would bring the financial resources of the whole country to the rescue of any section suffering from reduced present purchasing power.

Senator HARRISON (presiding). The committee has received the following from Mr. Donald R. Richberg:

CHICAGO, *February 21, 1933.*

Hon. REED SMOOT,
*Chairman Committee on Finance,*
*United States Senate, Washington, D. C.*

DEAR SENATOR SMOOT: Since I understand it will be impossible for the committee to give me an opportunity to appear in a public hearing this week and since my engagements following this week make it difficult for me to be sure that I could meet the convenience of the committee, I have prepared and printed a summary of the testimony which I desire to give, in response to your invitation. I am enclosing herewith a copy of this printed summary, which I presume you may desire to incorporate in the record. I will furnish additional copies for any members of the committee who would be interested to have my testimony in this form.

While I should have enjoyed an opportunity to present my views orally with the opportunity of questioning and further discussion, I wish to express my appreciation of the invitation extended and the opportunity given to present my views in writing.

Very truly yours,

DONALD R. RICHBERG.

Senator HARRISON. The statement prepared by Mr. Richberg will be placed in the record at this point.

(Mr. Donald R. Richberg's statement is as follows:)

## DEPRESSION CAUSES AND REMEDIES

The principal cause of the present depression is the greedy and ignorant misuse of money power.

The only effective legislative remedies will be found in measures wisely designed to compel the operation of essential industries as institutions of public service and to prevent greedy and ignorant men from gambling with the natural and human resources of the Nation, in their selfish pursuit of power and wealth. These legislative remedies need not destroy capitalism or create State socialism. They can follow the course of evolutionary ideas and reject revolutionary programs. But no sound legislative remedy of permanent value can be based on an effort to preserve unchanged our present economic system and to preserve unreformed the present forces in control of that system.

### TESTIMONY OF DISQUALIFIED ADVISERS

Representatives of the influences now dominant in our great industrial and financial enterprises have disqualified themselves as competent advisers to the Congress, by their failure to prevent or to stop the destructive course of this depression. Either they do not know what to do, or they are unwilling to do

[1] The method for doing so is not given in the text.

what is necessary to operate the industries of the Nation so as to protect and to advance the general welfare. The first necessity for an honest and useful consideration of the problem before this committee is to eliminate the influence of the transient prestige and authority of those whose ghastly failures to measure up to their responsibilities have stamped them as unworthy of further public confidence.

Since the present depression is world-wide, it must also be realized that testimony from abroad may be tainted with the same incompetence; because in bringing about and continuing a world-wide failure of our economic system the industrial and financial leaders of America have found effective collaborators in their equally greedy and ignorant colleagues in other lands. This committee has been listening with great patience to testimony presented largely by, or in behalf of, those leaders whose working philosophy has been proved unsound, and who have proved their inability to operate successfully the political, economic mechanisms which they recommend. Therefore, perhaps the committee may be willing to hear even more patiently views which have not yet been proved unsound and to consider programs for economic recovery which have not yet been proved unworkable.

You may be doubtful of the value of remedies proposed by untried physicians. But—can you afford to experiment further with the remedies of sick physicians who are saving their own lives only by transfusions of blood from their dying patients?

You have listened to bankers who have saved their banks only by Government grants of hundreds of millions of dollars that should have been devoted to saving millions of human lives.

You have listened to railroad presidents who have saved their jobs, but not their railroads, by borrowing millions of dollars that should have been devoted to saving from privation and starvation several hundred thousand railroad workers, who are worth more to the Nation and are more indispensable than all the locomotives, cars, tracks, and other railroad facilities—which are not irretrievably impaired by undermaintenance, and which do not die when they are undernourished.

You have listened to manufacturers, who with mob panic have cut wages and thrown millions of men out of work, and have supported foolish programs that would destroy mass purchasing power and insure the destruction of their businesses, and also have steadfastly opposed efforts to increase mass purchasing power that might save their enterprises from ruin.

You have listened to economic and financial "experts", who babble about sound money and demand that we maintain the "integrity" of a financial system under which when a man borrows or lends a dollar he can not possibly tell whether it will take 50 cents or $2 to pay the debt.

You have listened to financiers who demand that a system of corporate organization and control be continued under which power and responsibility are so divorced that investors, workers and consumers can be systematically betrayed and robbed by "trustees" with little risk that any big thief will be sent to jail.

In a word, you have been deluged with the advice of those who have helped to develop and who have profited hugely out of a political economic system so viciously unjust as to be self-destructive. They have attempted to explain to you that this inevitable process of self-destruction is only the temporary result of exterior forces or of minor weaknesses of interior management. It is just as necessary to deflate this evidence of those who have been tried and have been found wanting as it is to avoid inflating the evidence of those who have not been tried and who may or may not be found wanting.

Although the conspicuous money-makers who presume to advise you have proved their ability to make themselves wealthy, it is far more important for this committee to realize that they have also proved their ability to make millions of people very poor. When they are credited with paying large dividends occasionally, they should be debited with paying low wages regularly. If they are to be applauded for producing brief eras of spotty prosperity, they should be denounced for producing long periods of general depression. The architects of our monumental skyscrapers are also the builders of our slimy slums. The profits that are frozen in marble and bronze were squeezed out of human beings who labored and suffered and made forced sacrifices of health and comfort and happiness in order that wealth might be accumulated in a few hands.

The testimony of those who have become trustees of the national wealth, and trustees of the general welfare, by exercising their acquisitive powers, should be weighed, not by the evidence of their success in self-service, but, by the proof of their failure in a public trusteeship. This proof is found in the fact that in this land of plenty we have to-day 12,000,000 unemployed workers and the whole

Nation suffering in the fourth year of the worst and most inexcusable economic depression in the history of the world.

The excuses offered for this failure are both uninteresting and untrue. The power to operate industries and to utilize credit so as to bring about the production, distribution, and exchange of products, rests in the controllers of industry and finance under the present system. If they fail to exercise this power, denying a market to agricultural products and denying employment to industrial labor, they must admit, either that they are personally incompetent to operate the existing system of production and exchange, or that the system is wrong.

When the dominant men of industry argue that the system is all right, and that they know how to operate it, but that some exterior force is preventing them, they are plainly presenting a false alibi. Along with all our other troubles we have an overproduction of alibis; and the alibis of our deflated "big business" men have become nauseating to the American people. Either these gentlemen do not know what to do, or they won't do it. In either event they should be denied the power which they are unable or unworthy to control. That should be the object of any effective legislation.

I submit that every conspicuous leader of affairs who has appeared before this committee and who has attempted to justify the continuance of the present political economic system unchanged, with its present control unreformed, is either too ignorant of facts, too stupid in comprehension, or too viciously selfish in his short-sighted philosophy, to be worthy of any attention in this time of bitter need for honest, intelligent, and public-spirited planning for the rehabilitation of our crumbling civilization.

### QUALIFICATIONS FOR TESTIMONY CONCERNING PUBLIC INTEREST

Since I have criticized the competence of other witnesses who have appeared before this committee, the question may be raised as to the possible value of any suggestions I may offer. To avoid any effort to qualify myself improperly, I will at once disavow any claim to speak with any authority save that of a life long advocate of public interests, who has been a consistent and conspicuous opponent of the influences that brought about this depression, and who long ago, in the years of delusive prosperity, repeatedly pointed out the crumbling and sinking foundations on which our huge enterprises were being built. I am entitled to claim that, following a respectable education, practically my entire professional experience of over 28 years has been that of a lawyer representing public interests or mass interests. I have represented many public officials, cities, and States, usually in contests with privately owned public utilities

For 12 years, as special counsel for the city of Chicago, I fought the power of Samuel Insull, now recognized throughout the Nation as one of the most malevolent influences in the development of present conditions, but probably no more harmful an influence in public affairs than some of the men whom committees of Congress still honor with invitations for advice as to legislation. For over 10 years, as counsel for the standard railway labor organizations, I have been fighting to maintain and to advance the standard of living of the wage earners. For a similar period, as general counsel for the National Conference on Valuation, I have fought against the excessive valuation of public utilities, particularly the railroads, with its inevitable consequence of high rates and low wages.

### SIGNIFICANCE OF THE O'FALLON CASE

Let me recall the attention of Senators to the fact that in the year 1928 the United States Senate by a vote of 46 to 31 requested the Supreme Court to permit me to appear and argue in the O'Fallon case, in order that the political economic views which I represented might be considered by the Supreme Court in dealing with the momentous problem of railroad valuation. I recall this to your attention because of the significant fact that the intervening years have proved that the policy advocated in that case by the dominant financial and industrial leadership of the nation was utterly unsound. And the intervening years have proved that the policy advocated in that case by those whom I represented was absolutely right.

The cause of the present depression was made clear in the O'Fallon case, because the railroads of the country there advocated the theories of the dominant money power in this country which, translated into the control of business, have brought about this depression. My arguments in the O'Fallon case opposed this suicidal policy and I ventured there to point out the far-reaching effect of giving judicial sanction to a social-economic philosophy which would destroy our democracy and the security and freedon of our people. There I quoted from Taussig's Principles of Economics this significant sentence:

"It is not too much to say that the future of democracy will depend on its success in dealing with the problems of public ownership and regulation."

The O'Fallon case brought to a head the long accumulating protest of sound economists against the current business fallacy of inflating property "values" above investment and deflating wages below a fair share of the labor product. In that case and in a series of wage arbitrations we repeatedly demonstrated that railroad securities would be alternately inflated and deflated by the prevailing policy of their control, which would produce alternately billions of unearned profits for gamblers and billions of undeserved losses for investors. We argued that reasonable rates, reasonable wages, and adequate public service would always be impossible under such a policy; and that periodic receiverships and demands for Government aid would be inevitable.

In the last three years these contentions have all been proved to be sound. We pointed out that, if monopolies were permitted to thrive and charge monopoly prices, the capital burden upon the worker would soon become unbearable. We presented evidence that from 1850 to 1920 the average burden of paying interest to property owners had increased from about $70 to $360 per year for each wage earner. We pointed out the impossibility of maintaining property values based on imposing such an increasing burden on labor. We sought to demonstrate that the wages of labor must be increased and the claims of capital must be reduced or our entire political economic system must collapse. Our system has collapsed. Ten thousand banks have failed. Our basic industries are prostrate. More than one-third of our population is suffering privation. A multitude of laws are neither respected nor obeyed. The authority of the courts is subjected to constant challenge. Billions of public money are being expended either to relieve individual distress or to support private enterprises and property values that are collapsing, because they are dependent upon the effective operation of a political economic system that is not permanently workable.

### PRIMITIVE CAPITALISM WILL NOT SERVE MODERN NEEDS

It is on the basis of a long experience in challenging the false prophets and the false creeds of commerce, which are now proved to be false, that I venture now to sum up the causes of the depression. The political economic system which we may call "primitive capitalism" was probably well adapted to serve a transitional period during the development of man from the status of a producing, distributing machine to the status of a master of producing and distributing machinery. Capitalism, as a system under which the selfish individualist by ruthless competition might reap huge rewards of power and self-satisfaction, has undoubtedly encouraged the constant extension of individual control over natural resources and forces. Scientific investigation and the application of scientific discoveries to enrich life have been persistently stimulated by the desire to acquire wealth and individual power, which would be insured by the political protection of private property.

I am not one of those who believe that the great human motives, the individualistic ambitions which have been developing through uncounted generations, can be transformed rapidly by any new system, which might be either enforced by legislation or voluntarily undertaken by a frustrated and bewildered community. I do not believe that in a short period of time the prevailing individual objectives can be replaced by social objectives, or that an altruistic desire to advance the general welfare can be substituted for individual ambition, as the motive power of human activity. Therefore, I do not believe that the logical or probable successor of capitalism is Marxian socialism. But it should be apparent that we have reached a stage in the development of human affairs where it has become intolerable to have our primitive capitalistic system operated by selfish individualists engaged in ruthless competition.

Scientific knowledge has given us mass production. Mass production has brought monopoly. Machine production and distribution have brought labor specialization. Labor specialization has increased the interdependence of man upon man which all the developments of modern industry have promoted. We can no longer permit the great public services, upon which we all depend for the necessities and ordinary comforts of life, to be operated for the primary purpose of satisfying individual ambition or greed. We can not tolerate an uncontrolled competition in acquiring money or power, whereby the balance of production and consumption and the steady flow of currency and credit may be destroyed, so that food may rot in the fields, and factories may stand idle, while agricultural and industrial workers suffer privation because they can not exchange their products. On the other hand, we can not tolerate the control of all our lives by private monopolies of essential services, whereby a ruling class can subject the masses of the people to practical slavery and can dictate when and where they shall work and how they shall live.

THE FUNDAMENTAL NEED—A PLANNED CONTROL OF ESSENTIAL INDUSTRIES

The fundamental need, in order to give security and freedom to the multitude, is plain. No man with sufficient intelligence to be worthy of any attention can deny that a planned control of the great essential industries is absolutely essential; and this involves a planned control of mediums of exchange, an articulated production and distribution of currency and credit. The state socialist would seek this planned control through direct governmental operation of industries. The reactionary individualist would withdraw political prohibitions against monopoly and leave the primary planning and control to be carried on by the owners and privately selected managers of private properties, subject only to some limited regulation by government to compel a certain amount of publicity and reliable accounting and to prevent a too remorseless exploitation of the common people.

If this reactionary individualist had his way, he would undoubtedly lay the foundations of state socialism, which in its first phase would probably be fascism; that is, a political control of industry for the primary benefit of the property owning and managing class. In the long run this would probably result, as indicated by historical parallels, in the eventual confiscation of minority privileges by a revolutionary majority of the dispossessed. No ruling minority has yet appeared in history capable of resisting the temptation of oppressing the majority and sitting on the safety valve until the inevitable day of explosion.

PROGRAM OF A RECONSTRUCTED INDIVIDUALIST

There remains for consideration the program of the reconstructed individualist. I seek to represent him, as a man still living in the tradition of American liberty, still seeking to be let alone, to be free from governmental orders and restraints so far as possible, a man even willing to work for a living as a mere cog in a vast industrial machine, if unable to find independent, profitable labor, but insistent that his daily work shall produce sufficient leisure, security and freedom for himself and his dependents so that they may employ the unregulated hours of the day so as to realize all the self-satisfactions of which they are capable.

This reconstructed individualist knows that the production and distribution of the necessities and common comforts of life must be planned and regulated so that a certain minimum standard of living can be obtained by all. He has learned that gambling and profiteering in these commodities and services have become crimes against his fellow men; and that, if he seeks to make a living or to acquire wealth out of such operations, he is a public enemy who deserves the same restraint and punishment as that meted out to embezzlers, forgers, and counterfeiters. He has learned that the preferred racketeer, who makes a fortune out of manipulating huge corporations, upon whose services and products communities depend, is just as much an enemy of society as the common racketeer who organizes criminal gangs, or piratical labor organizations.

The reconstructed individualist may still aspire to serve as the well-paid officer of a large corporation. He may hope to get a salary of $100,000 a year or more, if the stockholders think he is worth it. The services of responsible heads and subheads of large organizations are undoubtedly worth so much money to investors and to the public that they can properly aim at moderate wealth as the reward of their labors. But no man, except a reactionary individualist (who, if not the brother of a racketeer, will be at least a first cousin), will claim the right to profit out of manipulating securities and properties over which he has been given control as a trustee for those who are dependent upon them. It is respectfully submitted that when such reactionary individualists testify before congressional committees their advice should receive exactly the same consideration as would be given to that of full-blooded racketeers and public enemies.

### THE PERMANENT REMEDY

The permanent remedy for this depression is to enact the laws necessary to reorganize our political economic system, so that our industries must be operated for the primary purpose of employing as many workers as possible at the highest possible wages, while paying the lowest possible compensation for the use of money and property that will induce all necessary investment.

We have been viewing industry upside down throughout the era of capitalism. The only object of primitive industry was to furnish a livelihood to the worker. That should be the primary object and obligation of all industries to-day. If the welfare of those employed were the supreme object of the management of every enterprise, the highest possible wages would be paid and the purchasing power of the masses, upon which all large enterprises depend, would be maintained. We should not have sudden collapses of purchasing power under such conditions. Markets would be maintained. Consumption and production would be naturally related. If we had a planned production, excessive production followed by excessive unemployment would not periodically wipe out capital accumulations. Therefore, money could be more safely invested; and investors, feeling more secure, would be satisfied with lower rates of interest and their purchasing power would be more constant.

### HOW CAN PRODUCTION BE CONTROLLED

Still we face the problem: How are we to regulate industrial production without either accepting private monopoly, or conferring governmental control? The answer might be a simple one; but one which would never occur to the ruthless individualists who have controlled our industries as the means of accumulating wealth beyond their capacity for intelligent enjoyment, and power beyond their capacity for wise exercise. Since, however, this simple answer, which I will first suggest, would probably be intolerable to the present masters of industry, the necessity for legislative action is made more clear and a method of exerting governmental coercion must be devised. But I present the suggestion in order to show what a ruling class could do to avoid political control if it possessed the necessary intelligence, free from the bias of insensate greed.

### THE SIMPLE ANSWER—SELF-GOVERNMENT IN INDUSTRY

If industrial workers were adequately organized, it would be entirely practical to create industrial councils composed of representatives of managers, investors and workers and then to create a national council composed of similar representatives of all essential industries. The council of a single industry would have in its worker delegates the representatives of a large consuming interest. This interest would act as a brake upon any effort of one industry to profit unduly at the expense of another. Ultimately, in the national council, all producing and consuming interests would be so represented that one group could hardly obtain sanction for a policy clearly contrary to the general welfare.

Of course, certain groups of interest under the present system must be eliminated from power in the proposed system, such as the gamblers, the profiteers, and the money-mad megalomaniacs who werck communities and nations of the present day in their pursuit of anti-social aims and insane ambitions. There would be no room in such a reformed system for commercial "Napoleons" who are willing to ruin nations to gratify their appetites and to inflate their vanity. But there would be room for great public servants entitled to wealth and power suited to their demonstrated capacity to serve their country. That should offer a reward sufficient for any decently ambitious man. The gamblers and profiteers should be relegated to the development of new enterprises and those not yet essential to the prevailing standard of living.

It must be evident that this elimination of the most undesirable, but, at present, dominant element in our industrial system could only be brought about by a legal limitation upon profit-making in the essential industries. That is one governmental regulation which would be a necessary factor in any reformation of our political economic system. Such a law would involve only a natural extension of the principle of public utility rate regulation; but improved methods of applying this principle should be devised.

### METHODS OF PROFIT LIMITATION

One method for the accomplishment of this purpose might be a corporation tax which would automatically absorb excessive earnings on investment. Appropriately designed rates for individual income taxes and progressive inheritance taxes would prevent excessive individual profits from being retained. Thus the main incentives for depressing wages and elevating prices would be curbed. Thereby the principal self-destructive influences in the present system would be eliminated. Eventually the widom of a constitutional amendment might become apparent in order to make universally effective the ancient and wise doctrine that usurious gains should be outlawed.

In the near future, however, it would be possible to go a long way in the reformation of the capitalistic system through Federal control of currency, credit, taxation, and interstate commerce. Little legislation would be needed if the present controllers of commerce and finance had the desire and the intelligence to organize and operate industries so as to promote the general welfare. Unfortunately, there is overwhelming evidence that both the desire and the intelligence are lacking. Not only has this evidence been piled up mountain high during the depression, but it was accumulating in great quantity during the previous years. No persons are better acquainted with this evidence than those who have been fighting the battles of organized labor.

### WHY LEGISLATION IS NECESSARY

It should be evident that the business of the production and distribution of services and commodities is essentially the business of organizing workers so so that they may labor and exchange labor products. But, effective labor organization has been, not only neglected, but opposed by large employers The masters of industry, being primarily interested in exploiting their workers and their customers, have persistently sought to keep the workers and consumers disorganized, voiceless and collectively impotent. Therefore, the necessary task of organizing the workers has been partly performed by labor leaders; and the task or organizing consumers has been partly performed by politicians. Since both groups of organizations are constant impediments to profit making, the rulers of commerce and finance have waged constant war on all labor organizations and all political organizations, which they could not control. Thus, the spokesmen and writers representing "big business" are perennially engaged in attacking and misrepresenting labor leaders who are loyal to the workers and public officials who are loyal to their constituents.

No one familiar with the increasing opposition, of those who control the money power of America, to any effective organization of either workers or consumers can indulge in any hope that the present masters of industry will undertake voluntarily their legitimate function of organizing the worker-consumers, so that through accurate registration of consumer needs, and constant adjustments of productive and consumptive power, industrial operations might be conducted for the greatest good of the greatest number. Therefore it is quite evident that through political action a new leadership must be placed in power which will owe its allegiance to the masses of the people; a leadership in which individual ambition and success will depend upon the good faith and ability with which the interests of the masses are promoted and the average standard of living is maintained and advanced.

It follows inevitably that we must undertake political action definitely designed to bring about this transfer of economic power, from those who are now responsible only to an organized money interest, to those who will be made responsible to an organized citizenship. We have universal suffrage. We do not need to resort to violence—unless the freedom of the people to speak, to assemble peaceably, and to organize for collective action is denied by those wrongfully exercising political or economic power. Of course, if those possessed of such power attempt to starve or otherwise compel wrongfully millions of men and women to submit to despotism they will reap the whirlwind they have sown. But when we seek legislative action, we at least can not be accused of advocating revolutionary violence.

### PRACTICAL LIMITATIONS UPON EARLY LEGISLATIVE ACTION

It should not be expected that the incoming Congress will respond fully to the needs of the present time. The organization of industrial and agricultural workers is as yet inadequate to place in both Houses of Congress a working majority of representatives of the worker-consumer interests. Neither the farmers, nor the industrial workers have been adequately organized. Indeed, one of the great tragedies of recent years has been the failure of many labor leaders to measure up to their opportunities.

### INADEQUATE LABOR ORGANIZATION

The labor leadership of America has developed many sound ideas and useful programs. It has accomplished a great deal in defense of labor interests. It has failed to develop a constructive program of attack. Therefore, let me quote a phrase of Brooks Adams which met the approval of Theodore Roosevelt: "The progress of civilization and centralization has depended largely upon the growing mastery of the attack over the defense." The progress of labor has been halted because of a declining mastery of the attack. This has been peculiarly evident since 1929. Organized labor, with an adequate program and a developed technique, would have seized its great opportunity to organize the unemployed, ignoring the hampering traditions of craft unionism and the theories of industrial unionism, organizing the unemployed as citizens, organizing the irresistible force of millions of voters. They would have been organized as men and women denied their inherent right to work. They would have been organized as citizens to demand that their Government destroy any legal barriers that bar willing workers from opportunities to earn a livelihood; to demand that their Government should no longer be controlled by rulers of commerce and finance who have utterly failed to meet their obligations to this Government and to its citizens from whom all their power is derived.

Such a great labor organization, if it existed to-day, would voice its demands in such terms as these:

> We, the people of the United States, are the Government. We support in power every captain of industry and finance. We permit the bankers to control billions of dollars. We permit the industrial managers to control billions of property values and to employ millions of men. We permit individuals to become multimillionaires. And, to our shame, we have permitted millions of our fellow men and women to suffer intolerable privation.
>
> All individual power and wealth rests finally on the permission, on the sanction, of the people—on the consent of millions of human beings. They have the inherent right to withdraw their consent. They have the undoubted power to tear down with their naked hands the supports they are maintaining, upon which all individual power or wealth now rests, because it all rests on the daily labor of those who do the world's work and produce the necessities of human existence.

If the organized labor movement had organized the unemployed millions and given them one mighty arm and voice, this committee would not now be asking the advice of those responsible for the calamity of this depression; nor would this committee be listening skeptically or impatiently to my argument. This entire Congress of the United States would be listening most attentively to the demands of the dispossessed people of the United States telling their Congress to take control of the resources of the Nation and to compel those who may be temporarily authorized to manage the enterprises of the Nation, either to provide a livelihood for every willing worker in the land, or to stand aside in favor of managers who would be zealous and competent to fulfill the obligations of those who are the trustees of the commonwealth and the guardians of the commonweal.

### PRACTICAL SUGGESTIONS CONCERNING LEGISLATIVE POLICE

Since, however, it appears that the workers of the United States are still too inadequately organized to compel adequate legislation to end this depression and to prevent its recurrence, I am constrained, as a practical-minded person, to submit only the following suggestions:

First. Let me warn those who desire to preserve the existing order, but intend to do nothing to reform it, that if this depression continues much longer the unemployed will be organized and action of a revolutionary character will be demanded and will be compelled.

Second. The fatuous argument that the depression will cure itself was answered by the blizzard which recently swept across the Nation. Did we leave the highways blocked with snow? Did we let stranded people die unaided on drifted roads and in isolated homes? Did we close the schools until spring? Did we leave trains stalled in their terminals while commerce halted and cities starved? Did we shut down public offices and suspend the mail service so as to reduce taxes and balance the Budget by matching zero in receipts with zero in expenditures? Did we follow any one of the insane, cowardly, defeatist programs that incompetent, discredited business leaders are now trying to force upon national and State legislatures? Why did we not? We knew that in the procession of the seasons, spring must come and snows would melt and that natural forces would eventually reopen the roads—so that commercial intercourse might be resumed by those who had managed to survive the winter storms. Why did we not let nature take its course?

The answer is obvious. We built the cities and the highways of concrete and steel. We established community living and the interdependence of town and town, of city and countryside. This is the system of modern life which we have constructed. We must keep it operating at any cost. A railroad in receivership must clear its tracks and run its trains. A city unable to pay its policemen, its firemen, and its teachers, must clear its streets.

Does not the same answer apply to our economic system? It is man made. We have constructed it. We must keep it operating at any cost. Even if we are going to rebuild it, or build another system, we must keep it going in the meantime. We can not tolerate further increasing, or even continuing, unemployment on a large scale. We can not carry indefinitely the load of supporting one-third of the workers and their dependents in idleness. We can not meet that steadily mounting cost. We can not wait for spring. We must fight the blizzard. We must clear the roads. We must stop wholesale starvation. We must put people back to work at any cost. We must increase substantially the mass purchasing power. We must use our resources of capital, income or credit to increase consumption, to reduce surplus supplies, by satisfying the needs of suffering millions, and thereby bring about a new cycle of productive activity and increasing employment.

The needs of this emergency demand a fundamental reversal of the hitherto prevailing policy of national legislation. Of course, many States with reduced sources of income and limited credit must reduce public expenditures. Taxes can not be levied to a normal amount on citizens with subnormal incomes. It is a good time to eliminate waste and extravagance in State or national government; because the people will support a sound program of economy. But this is the worst possible time for the Federal Government to reduce salaries, or to reduce employment in useful public work. This is the time when the Federal Government with its vast reservoir of credit should spend every dollar that is needed to bring about vast increases in employment of men and women either in public or private work, which will increase mass purchasing power and start an upward spiral of increasing production and consumption.

### PRACTICAL SUGGESTIONS OF LEGISLATIVE ACTION

National legislative action should proceed along three lines:

1. There should be adequate appropriations for direct relief to support and to supplement the work of State agencies. This relief should be on the basis, not of furnishing bare subsistence but of providing nourishing food, decent clothing and shelter, and the essential comforts for those who are now in want. A $500,000,000 appropriation (S. 5125) is all too little for this purpose.

2. There should be a courageous program to create an immediate mass purchasing power, to bring about a large increase in the demand for necessaries, with the resulting heavy increase of employment to satisfy this demand. Such a program may well provide for extensions of credit to unemployed heads of families (S. 4947) and credits to industrial enterprises to bring about the resumption of operations, which will employ large numbers of adult workers. Such a program, if articulated with a program for increasing the prices of agricultural commodities and reducing or absorbing present surplus production, should have the early effect of increasing the national income and lightening the burden of taxation.

3. There should be a civil mobilization of national resources, through the immediate creation of a national planning council, composed of representatives of major economic interests who recognize the necessity of a planned economy, who are intolerant of gambling in essential industries and who will firmly decline the advice of those who are opposed to coupling the power to serve the needs of the Nation with the obligation to serve those needs. Out of the early deliberations of this council should be developed emergency measures as the experimental steps in a program of permanent economic recovery. These should be made effective promptly by legislation. It would be of little value for anyone to prepare a blue print of such legislation in advance of the organization of the national planning council. But, under the direction of a competnnt, sincere membership, emergency measures could be developed and presented for action by the Congress long before the driving needs of another winter are upon us.

In conclusion, may I submit that there are no insuperable obstacles in the way of economic recovery. There is only the stubborn resistance of men entrenched in power, fearful of the loss of the securities, the privileges, and the satisfactions they have found in the existing system. Supporting this resistance is the inertia and timidity of the myriads who will always prefer to "bear those ills we have than fly to others that we know not of." Against this resistance and inertia and timidity can be mobilized to-day the support of millions who have lost so much that they have little fear of further losses; and the support of those men and women of vision and courage who have always risen in unexpected numbers in great crises to support a leadership that was intelligent, public spirited, and unafraid.

DONALD R. RICHBERG,
*333 North Michigan Avenue, Chicago, Ill.*

FEBRUARY 23, 1933.

Senator HARRISON. The committee has also received the following letter from Mr. James H. Rand, jr.:

REMINGTON RAND (INC.),
*New York City, February 17, 1933.*

Hon. REED SMOOT,
*Senate Office Building, Washington, D. C.*

MY DEAR SENATOR: I would like to submit a plan for concerted reemployment which time would not permit me to explain when I appeared before your committee on Tuesday. I would like to have this added to my remarks.

On this subject I would also like to say that one of the points which should have been emphasized is that American industrial employers must foot 70 per cent of the cost of relief through taxation, with nothing to show in return for the money; or a plan of this kind must be undertaken whereby we will get a big upward push in business activity, at the same time getting work done for the money paid out.

With kind regards, I am faithfully yours,

J. H. RAND, Jr.

(The reemployment plan presented by Mr. James H. Rand, jr., for the record, is here printed in full, as follows:)

REEMPLOYMENT CORPORATION

This corporation is to be organized with a nominal capital, to be subscribed by at least 100 leading business men.

The charter is to provide that any earnings in excess of 3 per cent per annum should be paid over to the Reconstruction Finance Corporation.

The corporation shall be so constituted as to be self-liquidating at the end of five years from the date of organization and such as to qualify for a loan from the Reconstruction Finance Corporation.

The corporation shall undertake only self-liquidating loans and shall devote itself exclusively to financing where the proceeds will result in the reemployment of additional workers through the normal channels of business.

The corporation shall negotiate a 5-year credit from the Reconstruction Finance Corporation in the amount of $500,000,000 at a nominal interest rate not exceeding one-half per cent the first year, 1 per cent the second year, 2 per cent the third year, and 3 per cent the fourth year; and the rate of interest to be charged by the Reemployment Corporation to borrowers shall not be more than one-half per cent in excess of the interest paid by the Reemployment Corporation to the Reconstruction Finance Corporation.

The Reemployment Corporation will loan funds to employers for two years with the privilege of an extension for two additional years at the prescribed rates of interest to any individual, firm, or corporation engaged in an established, going business, provided applicants for such loans fulfill the following requirements:

1. The applicant must have demonstrated the ability to manufacture and sell through continuous, solvent operation throughout the five yearss prior to date of application.

2. The average number of persons employed throughout this period must equal or exceed 20 employees.

3. Applicant must have demonstrated ability to operate at a profit during at least two years out of the last five years.

4. The maximum amount of any or all loans applied for by one applicant shall not exceed $10 per week to be paid out during a 13-week period for each additional employee which applicant agrees to employ, not exceeding the maximum number employed by applicant during any single 3-month period in the year 1930.

5. Applicant must furnish together with his application a sworn statement of assets and liabilities as of the close of the latest fiscal year, certified by any reputable firm of independent auditors, together with a sworn operating statement for five years, showing profit or loss for each year and the amount of Federal income tax paid during each of the five last years.

6. Applicant must furnish a statement of employment, showing average number, maximum and minimum number of workers employed and total pay rolls paid during each of the last five years, and also average number of male and female workers employed and total pay roll for the calendar month preceding date of application.

7. Applicants must agree to the deposit of loan proceeds in a special pay roll bank account, from which funds will be withdrawn only for the purpose of meeting pay rolls and no withdrawals to be made for any other purpose while the loan remains unpaid.

8. Applicants must agree to render to the local member bank (through which the loan has been procured) a monthly report showing the average number of workers employed during the month and total pay roll for the month.

Each Federal reserve member bank throughout the country will be appointed and constituted as an agency of the Reemployment Corporation, authorized to receive and pass upon applications for loans under this plan.

All approved applications will be forwarded to the Federal reserve headquarters in the district where final approval or disapproval will be given.

Proceeds of each approved loan will be forwarded from the nearest Federal reserve bank to the member bank to be deposited to the credit of the borrowing employer in a special pay roll account.

## A Reemployment Plan for Putting 3,000,000 People Back To Work

### THE NECESSITY OF A PLAN

There are 10,000,000 men out of employment to-day. During 1930 the average wage of these men was about $20 per week, or roughly $1,000 per year.

Thus unemployment has destroyed $10,000,000,000 worth of purchasing power annually.

We can only revive this purchasing power by reemploying these men in normal business channels.

The plan proposed below is a simple, practicable method of accomplishing this.

It has been edited and amended by many business and Government leaders.

It is a dramatic, almost war-time measure, with an emotional appeal which can go far toward leading this nation out of the slough of despair into which we have fallen.

Will you take 15 minutes to read and consider it carefully; then give it your indorsement?

The time for action is now, when we can plan to take advantage of the natural momentum of the coming spring season.

### THE PLAN

Explained by a message which in substance would be the introductory proclamation by the Chief Executive of the United States.

### THE SUGGESTED MESSAGE

In time of war it is customary for the initiative to be taken by the President of the United States. We have passed through three years of a great depression and a great emergency. We have battled with forces over which we have had no control. We have reached the place now where we feel that the turn in the affairs of business has arrived.

The business situation at this time is one in which the buying power of 10,000,000 workers has been completely cut off, thus reducing the purchasing power of the country by $10,000,000,000 per annum. Everyone knows that the backbone of the buying power of our industries is the buying by the very employees of industries themselves.

The total buying power has sunk so low that it can not be restored by waiting for business gradually to improve. It can only be restored through a collective, concerted drive for reemployment.

Every employer of labor in this land would be eager to increase the number of his employees immediately if only he could be assured of the restoration of the buying power of the present unemployed workers on June 1.

I am so thoroughly convinced of the truth of this statement that I propose to use all the powers of my office to that end, and I hereby call upon every employer of labor in the United States to volunteer to perform a definite part in a nation-wide program of concerted reemployment. I am asking every division of industry to show its courage and belief in the future of our country by volunteering to assume the responsibilities of employing (to the limit of its ability) starting June 1 all additional workers possible in a united nation-wide program to reestablish buying power and therefore in that way to revive business in all lines.

This program is to be made effective only providing a total of 3,000,000 men are pledged to be put back to work on June 1.

Upon that condition I call upon you to telegraph me your pledge, stating the number of additional workers you will agree to reemploy starting on or about June 1, and carrying through a period of 90 days thereafter, on condition that the entire plan shall be fully subscribed to with an aggregate of reemployment of 3,000,000 workers who are not now employed either full or part time. Furthermore, I ask that your pledge shall be to provide employment for the said employees for at least three days of each week throughout this 90-day period.

Upon receipt of pledges aggregating three million additional workers to be reemployed, I shall at once deliver a proclamation declaring this plan operative. Then, and then only, will the pledges of volunteer employers become binding.

By these pledges about $400,000,000 of buying power will be liberated through the increased pay rolls of the Nation during June, July, and August, and that in itself will guarantee adequate impulse to business activity so that prior to the expiration of the 90-day campaign the increased volume of business throughout the land should require not only the continuance of employment but, in my opinion, a further increase in the workers required—with $1,600,000,000 per year added to purchasing power.

I believe that to-day just this sort of stimulus is necessary to turn the economic trend.

I propose to ask for the approval of a reemployment corporation, self-liquidating and nonprofit making, to be organized by a group of 100 leading business men and so constituted as to qualify to borrow $500,000,000 from the R. F. C.

These funds will then be made available to industry through local banks for the specific and exclusive purpose of expanding pay rolls, the loans to be secured by warehouse receipts on goods manufactured and (or) pledges of accounts receivable when such goods are converted from merchandise into sales. In other words, instead of the R. F. C. advancing money to States, who cill spend it for relief and tax the citizens for payment thereof, under this plan the R. F. C. money would flow directly into the hands of employees, and in return for productive work.

A "back-to-work" committee will be established in each community, to see that any established qualified business enterprise is offered the credit necessary to join in this program.

I believe that the question of the welfare and self-respect of the people of this country demands the substitution of honorable employment for charity. By this program we will immediately relieve the separate communities of the necessity of providing charity for 3,000,000 families. This will greatly reduce the "charity" burden on taxpayers.

The newspapers of the country will give full publicity to the progress being made during the campaign for industrial volunteers by publishing the names of those who have volunteered, and by giving full information as to the employment progress from day to day, both local and national.

Our country is of such vast size and of such great resources that we can, by means of reemployment of 3,000,000 men, accomplish an upturn in widespread business activity, which should carry through the present economic cycle.

### HOW MEN WILL BE REEMPLOYED

A conservative estimate of possible reemployment under this plan, is shown below.

| Occupation | Employed, April, 1930 | Estimate of number now employed | Increase suggested | Increase number employees |
|---|---|---|---|---|
| | | | *Per cent* | |
| Mining | 984,000 | 300,000 | | |
| Manufacturing | 14,110,000 | 8,400,000 | 30 | 2,520,000 |
| Transportation | 3,480,000 | 2,500,000 | 10 | 250,000 |
| Wholesale and retail trade | 6,080,000 | 4,000,000 | 10 | 400,000 |
| Public service | 856,000 | 856,000 | | |
| Professional | 3,250,000 | 2,000,000 | | |
| Domestic and personal service | 4,950,000 | 3,000,000 | 5 | 150,000 |
| Clerical | 4,025,000 | 3,200,000 | 10 | 320,000 |
| Total | 37,735,000 | 24,256,000 | | 3,640,000 |

Employers now employing full force on the basis of less than three days a week would be asked to volunteer to increase the working hours to three full days per week, rather than to add additional men. Where work is now at the rate of a 3-day week or better, employers would be asked to add workers.

### TYPICAL COMMENTS OF EMPLOYERS ON THIS PLAN

1. Something must be done. Ten million unemployed can not be permitted to starve. They must be fed, either by charity or by wages. This plan provides a full return for money invested, with the major risk absorbed by the R. F. C. Since the job of feeding these people is a governmental responsibility, anyhow, this risk must be taken by government in some form or other. This plan insures a good possibility of full return for money invested as well as an immediate upturn in business conditions.

2. The economics of the plan are sound. Of all classes, manufacturers and merchants alone have the money available (or can get the money) to make immediate expenditures. Employees can not buy without pay roll money.

3. Manufacturers and merchants who put money into this plan will get their investment back, because working employees are their customers. The pay-roll money which they pay will return through increased purchases of finished goods.

4. Manufacturers and retailers have been reducing inventories for two and one-half years, so that 90 day production stepped up 15 per cent, can not possibly create an unwarranted surplus of finished goods. Earlier, the plan might have failed. To-day there is an actual shortage in many lines of finished goods.

5. The time of year is right—employment by retailers is showing a seasonal increase; figures from 162 cities show the upward curve has started in all employment; the holiday season is coming as a preliminary stimulus to consumer buying.

6. The plan forms one more link in the chain of reconstruction plans—a farm plan is in preparation; the construction industry is being stimulated; this plan would stimulate employment in general industry and in mercantile establishments.

7. The plan has a reasonable objective—it contemplates only a 3-day week—it aims to reemploy only one-third the people now out of work, yet enough to give a definite impetus to the upward trend.

8. The plan goes hand in hand with the community-chest drives, making it possible for employers to give jobs, while employees who are now employed, give money—for this winter's relief.

Finally, this represents the first definite plan to end the depression by a war-time mobilization of forces. It is a plan with emotional appeal and high publicity value. It has every chance of winning popular approval. It is simple, and can be understood by every unemployed man and every laborer in the United States.

### DETAILS OF THE PLAN

1. It is proposed that a national "back-to-work" committee be appointed immediately consisting of 100 industrial leaders, representatives of all lines of industry and strictly nonpartisan.

2. In addition to this national committee, it is proposed that regional committees of the same characteristics be appointed to carry on the work in each locality, under the supervision of the national committee.

3. The President would next send a telegram to 10,000 of the larger employers of the country, urging them to volunteer to put back to work a definite number of workers on June 1 on three days a week.

4. At the same time, the President would release to the press and over the radio a message to all employers in the United States somewhat as previously given in this paper, calling upon them to volunteer to reemploy workers—with the distinct understanding that each pledge becomes operative only when total pledges aggregate 3,000,000 reemployed workers.

5. The national and regional committees would then take up the work, calling on all employers of labor in every section of the United States and securing from each the number of additional workers or added working hours which each would pledge himself to put into effect.

6. These pledges would be given to local papers and wired daily to Washington, where they would be compiled and published as part of the daily national report. Each local committee would follow through to see that pledges were put into effect on June 1.

7. In order to avoid individual risk, it would be distinctly understood that all above commitments would become effective only when the total pledged employees reach 3,000,000 men. No employer pledging assistance would be obligated unless this goal were reached.

8. As an additional insurance of benefits to employers who volunteered, a "back-to-work" purchase order is suggested. The interchange of these orders between volunteers would stimulate purchasing from the firms who had pledged assistance, and as a result, tend to bring backward firms into the fold.

9. Similarly, posters and window stickers, buttons and emblems would be provided to identify volunteer employers.

10. To provide adequate financing the R. F. C. should make available to a reemployment corporation (self-liquidating and nonprofit making) $500,000,000 to be loaned for 5 years at one-half of 1 per cent. These funds to be made available in limited amounts at low interest rates to qualified employers who are unable to secure local accommodation, but only on condition that the proceeds are to be used to pay wages to additional employees and on condition that loans are secured by warehouse receipts or an assignment of accounts receivable.

Each Federal reserve member bank throughout the country will be appointed and constituted as an agency of the Reemployment Corporation, authorized to receive and pass upon applications for loans under this plan.

All approved applications will be forwarded to the Federal reserve headquarters in the district where final approval or disapproval will be given.

Proceeds of each approved loan will be forwarded from the nearest Federal eserve bank to the member bank to be deposited to the credit of the borrowing employer, in a payroll account.

11. Wholesale and retail outlets, who may not be in position to employ additional people, could become "volunteers" by increasing inventories at least 10 per cent during the 3-month period, any such pledge to become binding only when the reemployment plan is declared operative.

12. After the plan has been declared operative, beginning with the month of June each volunteer employer will be called upon to make a monthly report showing the average number employed during the month and the total dollar pay roll for the month.

## WHAT WE WANT YOU TO DO

This plan has been indorsed by several of the country's representative industrial leaders. However, to succeed it must be sponsored and pushed by an aggressive committee of business men.

You have been selected as a logical member for such a group. If you feel that this plan has a reasonable chance of success (on the condition that it is approved by President Roosevelt) will you help the movement by wiring me somewhat as follows:

> I am favorable to the plan you propose and will endeavor to attend a meeting in Washington within the next two weeks to inaugurate a campaign along these lines.

Obviously, such a reply does not represent a definite commitment on the part of you or your company—it merely expresses your own interest.

James H. Rand, Jr.,
*205 East Forty-second Street, New York City.*

December 7, 1932.

Senator HARRISON. We will hear Mr. Edward J. Grimes, of Minneapolis, Minn.

## STATEMENT OF EDWARD J. GRIMES, VICE PRESIDENT CARGILL ELEVATOR CO., MINNEAPOLIS, MINN.

Senator HARRISON. Mr. Grimes, give your address and business for the record, and then proceed.

Mr. GRIMES. My name is Edward J. Grimes. I am the vice president of the Cargill Elevator Co., Minneapolis, Minn., and also vice chairman of the grain committee on national affairs.

In analyzing the present economic situation we must first of all understand that what we are now experiencing is not a depression in the sense that we are all familiar with the word, but an extraordinary depression due, for the most part, to a radical change in price level from the inflated war-time levels to lower levels normally incidental to times of peace. In the deflationary process some factors in the economic structure have shown more resistance to decline than others. The deflation in grains and most other raw materials has been severe and it appears to be about completed. The conclusion is inescapable that further deflation is inevitable in other factors, particularly manufacturing and distributing costs, and the best interests of all require that the deflation of these factors be permitted to proceed to completion as rapidly as possible. It is my belief that not until this is accomplished can we have a return of employment and prosperity. By "prosperity" is meant a high standard of living, and a high standard of living is quite independent of price levels. Obviously, a high standard of living means that the entire Nation must be producing and high production and unemployment can not go together.

It is obvious that a large percentage of the world debts can not be paid with the present price level. It is also obvious that a determined effort will be made to effect reduction in debts by currency inflation. The unfairness of such a course is apparent and it is hoped that there is sufficient moral courage on the part of our legislators to resist pressure for inflation, although it is, in my opinion, far better to default openly through sheer inability to pay than to face the consequences of concealed default through inflation, for inflation takes the savings of the thrifty, which are urgently needed for rehabilitation, and uses them to retire the debts of others, thereby causing untold suffering without learning anything in the process except to show how easy it is to violate that fundamental principle of civilization, namely, the property right of the individual.

Had it not been for the world wide development of a political philosophy which called for an ever-increasing growth of political authority and control over economic functions, it is my belief that this decline would have been orderly and of nothing like the violence or depth of decline of price levels which we have actually experienced. I ascribe to these ill-advised political attempts most of the stagnation existing to-day in domestic trade, with the attendant circumstances of heavy, wide-spread unemployment and suffering and distress among our farm population; in fact, nearly all the maladjustments in the factors that constitute our economic structure.

Yielding to the insistent demands of special groups and factions, Government through legislation has progressively undertaken to prescribe formulæ for the conduct and direction of industry and commerce. In many fields legislative restriction and regulation have been the chief causes of tremendous shrinkage in the volume of trade.

In general, the effort of Government to control economic behavior has produced disastrous results. This legislation has injured those it intended to help. Economic ills can not be cured by formula, as it is quite impossible to throw a formula across a living flow; the flow goes on and the formula remains behind to hinder and impede. The futility of formula legislation can be observed in the failure of our tariff policies to provide anything but temporary relief.

A fair and impartial analysis of the causes of present conditions undoubtedly will show our tariff policy is partly responsible for the spread of nationalism throughout the world, a situation that has played havoc with international trade. Nationalism, intensified also by formula legislation, such as the agricultural marketing act, has prostrated a large part of our agriculture. Formula legislation has institutionalized our railroads, freezing their freight rate schedules high above levels needed to promote free interchange of goods. Legislation of this type spawned the agricultural marketing act. The paralyzing effect on our agriculture of that tragic experiment can now be observed on every farm. Indirectly, legislation has written unnecessary inflexibility into the wage schedules of many of our important industries. It is now proposed to apply restrictive legislation to agriculture by governmental control and limitation of acreage and production. Because of the enormous costs of administration and the inadequacy of the relief offered to agriculture, all of these plans and schemes are foredoomed to failure. Farmers, and other citizens as well, are demanding real relief by the drastic reduction of taxation, and taxes can not be reduced if governmental activities and expenses are increased.

Government has also heavily invaded the field of private business, spreading hesitancy and fear. The destruction in our business and social life created by formula legislation is only part of the picture. Coincident with the development of this theory of government, the expenditures of government have been so heavily increased that public and private credit has been seriously impaired and excessive taxation threatens property confiscation.

It appears plain that much of our present distress is traceable to political influence upon the economic order.

The possibilities for improvement in conditions are almost unbounded if political and economic factors can be brought into fair and proper equilibrium. The forces of recovery are forces of correction and adjustment. Taxes, freight rates, rents, labor, power, and finished goods must be brought into alignment with the levels of basic raw materials in order that free interchange of commodities and services may be facilitated. Employment will increase and goods will start moving as the exchangeability of goods and services is adjusted to an equitable and balanced basis.

This adjustment process is slowly moving forward and conditions will improve rapidly as soon as the adjustment is completed. Every artificial restraint imposed to aid any special group serves as a deterrent in accomplishing what must eventually take place in the course of time. This means adjustment in the unit cost of some classifications of labor, but labor as a group will immensely profit by the elimination of unemployment and the increased purchasing power of the wage scale of laboring men and the income of the farmer. Failure to adapt in any field to the changed order only fosters and promotes the growth of competitive enterprises in that field. Observe that this is now developing rapidly in the transportation field. The extensive growth and popularity of bartering societies is another indication of the trend in that direction.

As these adjustments are consummated, our industries will be able to compete in the world market on finished goods. Tariffs can then be safely lowered and should be reduced to restore international trade volume. It is not possible to suppose with the modern rapid means of communication that America can long pursue an isolationist policy, and the quicker we adapt ourselves to the world outlook the better for all concerned. Because of America's commercial supremacy, it is advisable for this country to assume leadership in removing the barriers that impede the flow of the world's commerce.

The alternative to this policy is American isolation and the extension of the spirit of intense nationalism, the devastating effects of which can now be observed throughout the world. Artificial barriers to international trade are responsible for much of the present world distress.

The irrational extension of the spirit of nationalism not only provides an excellent background for the breeding of international discord but it, necessarily, compels the adoption by every nation of policies of government that restrict and imperil the freedom of the individual. Dictatorships are already common in Europe. Americans are not ready to accept a theory of government that curtails freedom. A liberty-loving people, they have already grown restive under the yoke of too many regulatory laws and are demanding less interference by Government with their personal freedom.

The following measures are suggested to hasten business recovery:

First: Drastic economies in Federal, State, and local government expenditures, so that public and private credit may be restored.

Second: Drastic reduction in all taxes. The blight of heavy taxation today threatens property confiscation and has practically destroyed values.

Third. Reduction in railroad rates. This would provide a tremendous impetus to trade revival, and furnish conspicuous relief to agriculture. Railroad rates are approximately 50 per cent higher than 1916 levels, in terms of money and much higher in terms of the present value of deflated farm commodities. Railroads are the victims of inflexible wage schedules, heavy taxation, and are entangled in the complexities of regulation, but they can not be excused for failing to make reductions in their freight rate schedules. Since 1929 they have effected great economies by laying off men and reducing pay rolls, but their financial positions have grown steadily worse because patronage has declined in even greater ratio. It is obvious that tonnage can be attracted to the railroads only by reduction of the rate level, which is far out of line with the current price levels of the staple commodities transported. Railroad management, ownership, and labor, in their own interest and in the public interest, must combine and provide the country with a rate level adapted to the changed conditions of to-day. Then railroad employment will increase and local and sectional interchange of goods will be stimulated.

Fourth. Drastic curtailment of bureaucracy, which is a stifling competition and destroying the freedom of the individual.

Fifth. End enactment of class legislation. Activities of organized minorities should be discouraged and effectively suppressed.

Sixth. Repeal uneconomic legislation and remove restrictions that interfere with exchangeability of goods and reserves, so that markets both at home and abroad may be opened to farmers and laboring men.

As a business man engaged in handling the products of farmers, I thoroughly agree with the policies expressed by a hundred farmers near Wanamingo, Goodhue County, Minn., in the following petition recently signed and forwarded to the President, President elect, and Congressman A. H. Andresen:

> We, the undersigned dirt farmers, demand the immediate repeal of the marketing act, disposal of the Farm Board and liquidation of its affairs as quickly as possible, and cancellation of all activities now being considered for farm relief. We want only drastic reductions in our Government expenditures, so our taxes will be reduced 50 per cent, and lower interest rates on our present indebtedness and our just dues in tariff protection. And, last but not least, when this is accomplished, leave us alone.

Senator SHORTRIDGE. Mr. Grimes, you are engaged in just what line of enterprise?

Mr. GRIMES. I am in the grain-elevator business. We buy the grain from the farmer in the country, we also buy it in the terminal markets of the country, Minneapolis, Chicago, Milwaukee, Omaha, and we handle it and then ship it both into interstate commerce, that is throughout the eastern United States, and also abroad.

Senator SHORTRIDGE. In the course of your very thoughtful statement I was attracted by your views or as to what you said concerning tariffs, and, as you said, perhaps the development of the national spirit among the different peoples of the world. There are, of course, many nations, and each nation, of course, is striving to develop itself and benefit its own people.

Mr. GRIMES. Yes.

Senator SHORTRIDGE. You suggest that we might lead the world in striking down what you say are barriers—reducing the tariff duties upon the various articles of import into the United States?

Mr. GRIMES. Yes, sir. It is my belief that this nationalistic spirit abroad has been engendered and built up by retaliation against the United States for the very high tariffs that we have in this country against the imports from abroad. It has also been an outgrowth of the policies such as our agricultural marketing act where an attempt was made to force Europeans to come in and pay what might be called a much higher price for grain than would be justified probably by actual supply and demand conditions. In other words, they put on the tariff in order to stimulate the production of grain at home because they had no assurance that they would be able to buy grain from the United States on a basis that might be considered to be fair and equitable. In other words, I think that the spirit of nationalism throughout the world is due in great part to policies that have come from ourselves and from our Government.

Senator SHORTRIDGE. Well, may we not agree that practically all the nations of the earth had what may be called protective tariffs before we increased ours here recently? In other words, put it this way:

It is not a fact, is it, that the other nations have raised their tariff duties because of our increase in certain items?

Mr. GRIMES. That is my understanding, that we have been the leaders in tariff.

Senator SHORTRIDGE. All right. Of course you have in mind the purposes of the tariff?

Mr. GRIMES. Yes.

Senator SHORTRIDGE. First, it is to raise revenue. I merely want to get your view. The second bill that was passed here by our Government way back yonder, signed by Washington, was avowedly a protective tariff bill. And the purpose of the bill was set forth as being, first, to raise revenue. Second, in order to pay the national debt. For we commenced, you know, with a national debt. We have always had one save once in a little period when it is claimed we owed nothing. And, third, to encourage American industries. Well, you remember that England had laws preventing the Colonies from manufacturing. We had to buy from England. Therefore, to raise revenue in order to pay the expenses of government and pay the national debt and encourage American industries—those are the words in the act—that law, the second one ever passed, was enacted. Now are not those the purposes to-day of a wisely constructed tariff bill, to raise revenue and to encourage, let us say, American manufacture and business?

Mr. GRIMES. In my opinion they are probably wise purposes. But it is also my opinion, and carefully considered, too, that it has far exceeded the basis of revenue. It has become, in my opinion, merely a subterfuge for industries to come down to Washington and ask for a basis by which they may be able to purchase goods behind a high tariff wall. In my opinion that has brought about a good deal of this stagnation.

Senator SHORTRIDGE. Well, it may be. There is a constituent of mine, Mr. Hearst, who publishes many newspapers, who is urging in America to buy American produced goods. "Buy in America." What have you to say about that slogan?

Mr. GRIMES. I do not subscribe to it at all.

Senator SHORTRIDGE. You do not?

Mr. GRIMES. I do not.

Senator SHORTRIDGE. Take newspaper print paper. There is a mill up in the State of Washington manufacturing newspaper print paper. Do you think it is the better policy to close down that mill and buy all our newspaper print paper from Sweden, for example, or develop our home industry?

Mr. GRIMES. Well, in the first place let me say this, that since the days of Washington, and since the days even of a very recent period, we have changed from a debtor Nation to a creditor Nation, and of course the philosophy of tariff legislation is entirely different to-day than it was even 25 years ago. Now when it comes down to the protection of an industry such as the mill that you named, it seems to me that that is just incidental to what is best for the majority of the people in the country.

As I see it your tariff legislation has been a colossal failure, because notwithstanding that we have raised the tariff four or five times in the last 10 years, each time we found it was not sufficient, and that we have had to go ahead and a few years hence make another change. And to-day we find ourselves prostrate and it is not sufficient to-day.

Senator SHORTRIDGE. All right. I merely mentioned that one as illustrative of a doctrine. Take the poultry industry—and I have in mind the far-away Pacific coast. Take the poultry industry. Those engaged in that industry can not compete with China. Why? Because they can ship that product in here and sell it at such figures as would put out of business the poultry industry. You might say that is all right, but if that be a fact as to the paper manufacture and as to the poultry industry—and I am citing these two as illustrative of the doctrine—do you think it desirable for us to rely upon the foreigner for our products, or to manufacture them ourselves, giving employment to our own capital and to our own people?

Mr. GRIMES. My recommendation in there does not mention that the tariff that has been built up through all these years should be torn down completely and at once. I make the suggestion that reciprocal relations might be made with foreign countries whereby the interchangeability of goods and services between these countries could be helped along.

Now, as far as poultry or any of the agricultural products are concerned, it is my opinion, and in fact I think that any fair-minded person will agree, that the farmer in the United States has borne the brunt of the deflation. There is practically nothing that he raises that is not right down to almost an absolute bottom. And I would say this, that if you are going to make tariff restrictions, or tariff changes, they should be made on such articles where there is exaggerated protection given to industry. That is my point.

And I say this. I believe very thoroughly in this, that unless we do adopt a spirit, a philosophy of government, where there is going to be interchange between nations, that we have got to go into our shell, we have got to reconcile ourselves to a pattern of life where what a man may do will be prescribed by government. Now that is socialism. Nationalism is only another name for socialism. And I say that my own idea is that I believe that it is un-American; the curtailment of the freedom of the individual is something that does not go along with our ideas of life.

And I think this, regardless, Senator, whether we like it or not we are coming to a period when we are going to be forced into international trade in some form or other. For instance, we have ten or twelve million men out of employment in this country—men who probably are out because of the tariff—many other causes, perhaps, but the tariff is one of them unquestionably. Now what is going to happen? You are going to find that the laboring man who to-day is protected by a tariff wall—of course if his employer is protected by a tariff it just means that he is going to be held up by labor, which of course, is fair—it means this, that the people who are out of work to-day will do, just like they are doing now—you will find, as I say in my statement, that barter societies are springing up. We have one in Minneapolis where the people who are unemployed are getting together with the group system and they are exchanging goods for services. Now how long is it going to be before the ten or twelve million people in this country get together and start undermining the very job that the high wage man has to-day?

Now when we flatten out here to a world basis where the trade commences again, why, as I see it, reemployment is inescapable. And as I say—maybe there is some fault, maybe there is some flaw in what I said, but it seems to me not only inescapable but it also seems to me that it is the logical thing to do.

Senator SHORTRIDGE. Of course, you agree with some of us that these foreign nations should pay us what they owe us?

Mr. GRIMES. I listened this morning to a very scholarly statement on international debts, and I must say that I am not qualified to say how that ought to be settled. It is far beyond my power to say how it should be done.

Senator SHORTRIDGE. What does your corporation do with its debts?

Mr. GRIMES. We pay them, I know that.

Senator SHORTRIDGE. Why certainly. When you enter into a valid agreement to pay certain sums at a certain time you endeavor to observe and carry out the contract.

Mr. GRIMES. Yes.

Senator SHORTRIDGE. Well, now, Great Britain is a sovereign, independent kingdom. Italy is a sovereign, independent kingdom. So is Latvia, so is Esthonia, so is Czechoslovakia. And when they entered into a specific, plain, clear, understandable contract, voluntarily entering into it without coercion, without threats, without duress, I would be glad to have you tell me why those nations severally should not observe their contract even as two honorable business men or two corporations are expected to observe their contracts?

Mr. GRIMES. There is no question but what they should be made to pay everything that they can be made to pay. Of course, sometimes there arises a situation where sheer inability controls the situation.

Senator SHORTRIDGE. Well, of course, there is no international court into which a nation may go and plead insolvency. And I undertake to say, and I want to get your view, that if there were an international court into which a given nation could go and plead insolvency or bankruptcy, thereby to escape the payment of its obligations, I undertake to say there is not one nation in Europe that would dare to go into such a court and make such a plea.

Mr. GRIMES. That ought to be a fair test, it seems to me.

Senator SHORTRIDGE. I thank you for your views.

Senator HARRISON. Thank you very much.

Mr. GRIMES. I thank you for the opportunity of appearing.

Senator HARRISON. We will next hear Mr. Davis.

## STATEMENT OF GEORGE H. DAVIS, PRESIDENT, DAVIS-NOLAND-MERRILL GRAIN CO., KANSAS CITY, MO.

Senator HARRISON. Mr. Davis, will you give your name, your business, and your address for the record.

Mr. DAVIS. George H. Davis. President, Davis-Noland-Merrill Grain Co., Kansas City, Mo. We operate a 10,000,000 bushel grain elevator. We are grain merchants and grain exporters.

On the day that I received the request from this committee to appear there was an item in the Kansas City Star of 40 years ago. It is just a small item, and with your permission, I will read it:

> The much debated antioption bill, designed to close up all the grain exchanges in the country, passed the Senate 40 to 29, yesterday. It already had passed the

House. Its proponents are jubilant. When the bill finally becomes a law, in a few weeks, there will be no more grain speculation in this country, so they say.

Fortunately for the farmers of the country that bill was vetoed, and the grain exchanges were not closed up.

Senator HARRISON. Who vetoed that?

Mr. DAVIS. I think President Harrison. Cleveland was inducted into office in 1893. So it must have been President Harrison.

Senator SHORTRIDGE. Forty years ago?

Mr. DAVIS. Forty years ago.

Senator SHORTRIDGE. What was the purpose of that act, did you say? To do away with grain exchanges?

Mr. DAVIS. To do away with grain exchanges. That was in the panic of 1893 when we had low prices corresponding to present low prices. Whenever prices are low we naturally endeavor to do something about it. And the favorite attack has been on the method of handling grain in vogue at the time. I was in the grain business at that time, keeping books, and I remember that we figured we would be out of business. Now since that time wheat has sold as high as $3.65 a bushel, and it never sold as low as 40 cents until the past year.

Senator SHORTRIDGE. What is it to-day?

Mr. DAVIS. Around 48 cents basis Chicago. Using that as a basis.

Now there are barriers that have brought about our recent troubles. For years we got along in the grain business. We had our ups and downs. The farmer did not get as much as he wanted at times. At other times he was satisfied. Those conditions are like all other conditions—supply and demand ultimately reign. Beginning our barriers, we started out in our sister country up here to run a grain pool. They tried to hold up wheat to $2 a bushel, and their avowed purpose was to starve the foreigner unless he paid that. They met the usual fate of the artificial means of sustaining prices.

And then we came along with our Farm Board act—our agricultural marketing act. Wheat at that time, as you remember, was about $1.25 a bushel. For three years we have had nothing but uncertainty. We have driven the people who usually hold up prices out of business to a large extent. We have passed artificial rulings until a miller is afraid to have any quantity of wheat on hand—the small millers scattered over the country. The speculator who usually buys grain, when movement is very heavy, has been frightened into staying out of the market because he knew that the Government had accumulated a vast amount of grain that would be dumped some time. He did not want to be long in grain when it was dumped, so natuarlly he stayed out of the market.

Now the grain exchanges usually get the credit for any decline in prices. The grain exchanges have nothing to gain by low prices. In our own business as handlers of grain, if wheat is a dollar a bushel we do not have any trouble at all getting 1 or 2 cents profit. It is practically impossible at present prices to get a half a cent a bushel handling grain through an elevator. That means taking the carload of grain in and possibly cleaning it, and mixing it, and loading it out in the car again and giving the miller the exact kind of grain, special protein, and so forth, that he desires.

Senator HARRISON. So the better the price the more profit you make?

Mr. DAVIS. The better the price the more reason there is for more profit. So there is not any reason under heaven why the grain man desires the price to be low. I say that as a grain man. I am a farmer. I raise livestock and I grow grains of various kinds. And I know what the problems of the farmer are. And, of course, it is terrible. But it does not help him any to be constantly restricting the grain exchanges who handle this grain.

As an illustration, there are times in Kansas City when we get 2,000 cars of wheat in a day. That is practically 3,000,000 bushels of wheat. Now, as an elevator, we have bought as high as 500,000 and 600,000 bushels of that grain—my own firm. Now we can only buy it at what we can hedge it. That is our insurance just the same as any insurance.

Senator HARRISON. As soon as you buy you sell?

Mr. DAVIS. Yes; we sell. Now there must be some one to float that wheat along until it is needed. There is not a demand for 3,000,000 bushels of wheat in Kansas City on one day. And as long as the farmer is compelled in a good many instances to sell the bulk of his wheat in the first 60 days, why he must have a market for it. And we supply that market.

Now the speculator looks forward—he can not influence the price, but the speculator can look forward to the prospects of a short crop in our Northwest or in Canada, or a short crop in any part of the world, and he can see that later on there is going to be a good demand for wheat. So the speculator buys the future. We buy the cash wheat and put it in the elevator and sell it in the future. We do the financing; we do the insuring. And it is an economical method of handling grain. It is the best method that has been developed from the best brains in the grain business.

Now what has caused our trouble has been the restrictions that have been put on that speculator, as you call him. As was stated here this morning, you might call a spade a spade. Now our interest in the price of this grain if anything is to see it go up, because we can get a fair profit out of dollar wheat where we can not out of 40 cent wheat. But if you destroy our hedging facilities this wheat sinks to the bottom, because there is no water in the river to float it along.

Senator GORE. All the risks are shifted back on the farmer, is that the idea?

Mr. DAVIS. No, the farmer, Senator, has carried the risk up to the time that we buy his wheat. Then the speculator takes the farmer's risk.

Senator GORE. I understand. But now suppose that when you buy the spot wheat or the cash wheat you can not sell futures against it.

Mr. DAVIS. That is the point.

Senator GORE. Then you can not re-insure against the fluctuations of the market?

Mr. DAVIS. Then instead of handling wheat for one-half to 1 cent per bushel we would be compelled to get 5 or 10 cents a bushel to insure us against decline in the market.

Senator GORE. And who would pay that insurance?

Mr. DAVIS. The farmer would pay it.

Senator GORE. That is the point I was trying to make, that the risk of the added uncertainty would be shifted back to the farmer.

Mr. DAVIS. Absolutely.

Senator SHORTRIDGE. When you buy the wheat the wheat is yours is it not?

Mr. DAVIS. Yes, sir. We pay for it.

Senator SHORTRIDGE. You pay for it?

Mr. DAVIS. Yes.

Senator SHORTRIDGE. You either sell it or you hold it for future sale, do you not?

Mr. DAVIS. Yes. But in the meantime incidentally we sell a future contract against it called hedging, which protects us against loss coming down. Of course if the market goes up we get that much more for our wheat in our elevator.

Senator SHORTRIDGE. Who are they with whom you contract to sell it?

Mr. DAVIS. Those are speculators, or possibly a miller who has made a foreign sale abroad for deferred shipment. You can not sell grain abroad when you want to sell it. You must sell grain abroad when they want to buy it.

Senator GORE. Mr. Davis, as a grain man, when you buy cash wheat could you afford to buy cash wheat and hold it unless you could hedge against it?

Mr. DAVIS. Not unless we had 5 or 10 cents a bushel margin. We could not do it on the economical basis that we handle it now.

Senator GORE. When you sell your future contract against your cash wheat you do not know whether it is being bought by a speculator or whether it is being bought by a miller who wants to demand delivery on it in the future?

Mr. DAVIS. No. And we do not care.

Senator GORE. Suppose we passed a law here that when you want to sell a future contract to hedge your wheat you must look around and find somebody that wants to buy futures with a view of demanding delivery on it when the time comes, that would break down the system, would it?

Mr. DAVIS. It would destroy the market. Because you must have buyers and sellers, and you must have a continuous marker to be of any value.

Senator GORE. You have to sell now. When you buy you have got to sell.

Mr. DAVIS. Yes.

Senator GORE. You can not take the chance?

Mr. DAVIS. And we have to maybe buy back to-morrow if we sell that wheat to a miller.

Senator GORE. Then you cover your hedge?

Mr. DAVIS. We cover our hedge.

Senator THOMAS of Idaho. Your contention is that the legislation of the Farm Board had a tendency to destroy speculation?

Mr. DAVIS. It drove the speculators out of the market, because the Farm Board became the big speculator, and when a speculator tries to make water run uphill every one knows that he has just one end. That he will have to liquidate that wheat at a loss.

Senator THOMAS of Idaho. I understand. Now, Mr. Davis—and maybe I am disturbing your line of thought?

Mr. DAVIS. That is perfectly all right.

Senator THOMAS of Idaho. There is pending now before the Congress the farm allotment bill. I assume you know about that?

Mr. DAVIS. Yes.

Senator THOMAS of Idaho. I would like to have you comment on what you think of the advisability of enacting the allotment bill so far as wheat is concerned.

Senator GORE. Senator, might I ask him one question in connection with this other matter? It will avoid reverting back.

Senator THOMAS of Idaho. Yes, Senator, go right ahead.

Senator GORE. Mr. Davis, I have heard it stated that the laws passed by Congress and the regulations of the departments have driven some of the largest speculators out of the wheat market, and that that is one reason why we have had a sagging wheat market. That that is one of the contributing causes. Do you think that is true?

Mr. DAVIS. Yes; I don't think there is any question about it, Senator. It has not only driven large speculators but it has driven small speculators out.

Senator GORE. Mr. Cutten in his articles in the Saturday Evening Post said that he, himself, was out until the Government stopped too much regulation.

Mr. DAVIS. To get the price of wheat up—can I finish that, and then answer your question, Senator?

Senator THOMAS of Idaho. Certainly. Go ahead.

Mr. DAVIS. We have got to get the Government out of the grain business if we are ever going to get the price of wheat up.

Senator GORE. Another question on that point. Of course everybody knows that there are enough uncertainties in the wheat market as in every other market at best. Now is it your idea that the Farm Board added to those uncertainties?

Mr. DAVIS. Absolutely. Anything that is artificial immediately stops the natural flow of grain because it frightens the legitimate trader out of the market.

Senator GORE. You mean the grain merchant could not tell when the Farm Board might unload its wheat?

Mr. DAVIS. The grain merchant could not tell when the Farm Board might unload its wheat, or what they were going to do next. I will give you an illustration. You remember in 1930 the stabilization was supposed to be over. And the southwestern farms proceeded to buy wheat and put it down at the Gulf. We were doing a regular export business. We had bought several million bushels ourselves. We were selling that wheat abroad. The prices were in the 70's—somewhere between 70 and 80 cents, probably in the 70's, as I remember. Then without much warning you will remember in October or November, on account of the banking situation in Virginia and Kentucky—I am using the words that were quoted—they suddenly started to stabilize grain again. Immediately it killed off our export demand and stopped that flow of that surplus grain. If they had not done that we would probably never have had within fifty to seventy-five million bushels as much grain stored up as they finally landed with.

Senator HARRISON. How much have they got stored up now?

Mr. DAVIS. They have practically no cash grain.

Senator GORE. How much futures?

Mr. DAVIS. The last official report showed that they had about 36,000,000 bushels of futures. But the general opinion is that they have sold about half their future holdings. That is what keeps the market from going up. Every time it has started up recently they have started to sell some more of that wheat. And conditions are very bullish on wheat at present. The prospects out in the Senator's country (Oklahoma) and where I come from and west of Kansas City are the worst I have seen in years. And if we had a normal speculative market my judgment is that wheat would be 10 or 15 cents a bushel higher.

Senator HARRISON. What was the largest amount the Farm Board had on hand?

Mr. DAVIS. As I remember it, about 256,000,000 bushels.

Senator GORE. I have been told that every time wheat tried to rise, so-to-speak, the Farm Board would push it back in the water, either by dumping cash wheat when they had it, or by selling their futures.

Senator SHORTRIDGE. What was the reason for that? Have they assigned any economic reason for doing just what Senator Gore suggests they did do?

Mr. DAVIS. Why, it is fear. After you make one mistake you usually continue to make mistakes. When you start in on an artificial campaign you never know when to stop. It is just like when you start telling a lie, you have to keep on telling lies to make it good.

Senator HARRISON. That is merely because when it goes up 2 or 3 points they think they had better go out and sell, and that shoves it down.

Mr. DAVIS. Yes.

Senator HARRISON. And then they wait awhile and it goes up two or three points and they get out a little more.

Mr. DAVIS. Yes.

Senator GORE. And you people can not tell how much more they will unload. That is the point I was trying to make.

Senator THOMAS of Idaho. As a matter of fact, some time last year they had disposed of practically all of their cash wheat, had they not?

Mr. DAVIS. After the two Red Cross donations.

Senator THOMAS of Idaho. Yes; that is what I mean.

Mr. DAVIS. That fairly well cleaned them up.

Senator THOMAS of Idaho. But in the meantime they had accumulated futures.

Mr. DAVIS. Yes; they had.

Senator THOMAS of Idaho. Did they not make an announcement to the public as to the policy of their handling of those futures at that time?

Mr. DAVIS. Yes. They said they would not sell them until after the 1st of January. Now, normally we would believe that. But they also made the statement that there would be no more stabilization after July 1, 1931. And within six months they were at it stronger than ever. So the trade naturally said, "Well, we will stay out of the wheat market until they get through."

You can not put restrictions on indefinitely, keep one restriction after another on trade and expect the trade to go along and function under them.

Senator SHORTRIDGE. You are opposed to the Government going into the wheat business?

Mr. DAVIS. Absolutely.

Senator GORE. When they were pegging wheat in 1931 was not May wheat around 80 and 81 and July wheat around 60?

Mr. DAVIS. Yes.

Senator GORE. Due to this artificial pegging?

Mr. DAVIS. Yes. Now, if that had been a normal condition foreigners would have bought cash wheat. If the grain trader in this country had known the conditions were to be normal we would probably have sold a large volume of wheat for forward shipment and bought the July against it. But we did not know whether we would be permitted to export any wheat, so of course that business went by the board.

Senator SHORTRIDGE. What nations are our foreign purchases of wheat?

Mr. DAVIS. Well, that fluctuates from month to month practically. For instance, Germany as a sample: Germany raises a large volume of soft wheat. Germany has a tariff of $1.62 against our wheat. But Germany can permit them to export some of their soft wheat and buy our hard wheat without that duty. Export conditions change from time to time.

Senator SHORTRIDGE. Certainly. Does England buy wheat?

Mr. DAVIS. England buys wheat.

Senator SHORTRIDGE. Does Italy buy our wheat?

Mr. DAVIS. Yes.

Senator SHORTRIDGE. And France?

Mr. DAVIS. Italy buys what we call durum wheat, what we call macaroni wheat. And France is a soft-wheat country and buys soft wheat. But those conditions change from time to time.

Now, the reason that those barriers originally were put up was to encourage home production, because Canada announced they were going to charge them $2 a bushel—they started it, and then we came along with the Farm Board and announced that we were going to charge them $1.50 or $2.

Senator GORE. Canadian pools made that announcement about five or six years ago, did they not?

Mr. DAVIS. Yes.

Senator GORE. That they were going to raise the price of wheat to $2 and keep it there?

Mr. DAVIS. Yes.

Senator GORE. Was not there immediately following that both in the Argentine and Australia a large increase in the wheat acreage?

Mr. DAVIS. I can not give you the figures, but there was an increase.

Senator GORE. Naturally.

Mr. DAVIS. It was pretty substantial. Because it would be very profitable for them to raise wheat at any such price as that.

Senator GORE. They increased their acreage to get the benefit of those $2?

Mr. DAVIS. Yes. And they immediately increased their acreage in the countries that were to be starved out. So that was just one of the barriers.

Now getting back to answer your question, Senator Thomas.

Senator THOMAS of Idaho. Yes; I will be glad to have you answer that question.

Mr. DAVIS. I will start out in this way. Wheat has sold 30 cents a bushel lower than it ever would have sold, due first to the restrictions put on speculation by the Capper-Tincher "snooper" act, we call it.

Senator Harrison. What act?

Mr. Davis. The Capper-Tincher.

Senator HARRISON. What else did you call it?

Mr. DAVIS. "Snooper" act.

Senator SHORTRIDGE. Why do you use that word?

Mr. DAVIS. Because when you have agents in the different markets that have authority to go around and ask how much wheat you were long on my books, and whether it was a sale against future or whether it was speculation, or what it was, you must get down and explain to them. For instance, we are in the elevator business. We have on hand now about 9,900,000 bushels of wheat hedged. They do not pay any attention to us; they say that is perfectly all right. But that man can come in and look at our books at any time and see whether you happen to be long on wheat or William Allen White or some one else that happened to think that he could sell his crop of wheat. I have sold wheat on my farms frequently and bought futures because I was not satisfied with the price. Sometimes I wished I hadn't. But it certainly ought to be my privilege to do that. But you would not like to have it brought out that you were long 25,000,000 bushels of wheat, probably. So I call it a "snooper" act. It has certainly done no good, and it has done lots of harm.

Senator GORE. Have they not got a regulation or gentlemen's agreement that they shall not carry more than a certain number of bushels at any one time?

Mr. DAVIS. Well, there was an agreement made by the bureau with the Business Conduct Committee of the Chicago Board that the Business Conduct Committee would sit in judgment on a trader as to whether he should have more than 5,000,000 bushels of wheat long. Right now if some of them had 25,000,000 millions bushels it certainly would be a godsend, because cash wheat would likely go up; if we had these restrictions off and would allow it so that some one would carry the load until the time when the cash wheat demand would come for export.

Senator GORE. But if Cutten wanted to buy 25,000,000 bushels of wheat he could not do it under that arrangement?

Mr. DAVIS. No, he could not do it. Because he knows that they have authority to come around and under this "snooper" act expose his business relations to the public gaze, which, of course, probably would defeat his plans, because he probably bought that wheat considering that there would be a short crop next July or August or September. He does not expect it to go up at the moment.

Senator GORE. In that connection, Mr. Davis, will you explain the effect of the tax that we placed in the revenue bill last year on these transactions on the board of trade?

Mr. DAVIS. Well, we have the equivalent of a 5-cent per $100 sales tax on all future trades in grain. Naturally that decreases the volume of trade. In a time like this when we need every encouragement to hold prices up it decreases the volume of trade that is necessary to hold these prices up until we absorb this surplus that we have. Now if that volume were larger we would not have any trouble carrying this surplus, because with the present crop prospects in my judgment we will need all of this wheat inside of the next year, and we certainly could afford to pay 20 cents a bushel more than it is selling for to-day. That is the reason why the tax cuts down the volume. We need the volume to carry the hedges against this grain in our elevator, and others.

Senator GORE. In the last analysis who do you think bears that tax?

Mr. DAVIS. The farmer. We are down to a point where we are handling grain for practically nothing.

Senator GORE. One man told me that his tax in a day was $32. He said that on a good day he made a little profit, but then with two or three bad days it washed out.

Mr. DAVIS. And he is out of the market. And therefore you have the man who would help hold up this load, without being paid for it, eliminated from the market. You have eliminated him from the market. You have the tax, and the Capper-Tincher Act, and the agricultural marketing act all interfering with this trade. I have not forgotten your question, Senator Thomas. Now you are getting around and proposing that you put on some more artificial measures, see?

Senator THOMAS of Idaho. Another tax.

Mr. DAVIS. Another tax. Any way you want it. The position that we take is that any artificial restriction on the free and open movement of grain is bound to depress the price ultimately and therefore hurt the farmer.

Senator THOMAS of Idaho. Do you think this additional tax proposed by the allotment plan would have a tendency to retard the orderly marketing of the product?

Mr. DAVIS. It certainly would cut down, in my judgment, the consumption of flour about 25 per cent. Which would far offset anything that you could possibly move out of the country.

Senator GORE. Mr. Davis, the trouble with the farmer to-day is that there are not consumers enough in this country with purchasing power enough to absorb the large production of wheat—is that not true? Even at prevailing low prices?

Mr. DAVIS. I would not agree to that, Senator, for this reason. We had in Kansas the year before last 240,000,000 bushels of wheat. One State. Last year, 106,000,000 bushels of wheat. This year probably less than 75,000,000 bushels. In a country the size of this we should carry over, in my judgment, at least 200,000,000 bushels of wheat to be on the safe side.

Senator GORE. What is the carry-over now?

Mr. DAVIS. Well, no one knows. We talk about the enormous surplus there is in the Northwest. No one knows what it is, because there had been feeding that has not been officially estimated.

Senator GORE. Feeding wheat to livestock?

Mr. DAVIS. Feeding wheat to livestock. There has been the question of the mortgaged crop. The farmer takes the crop to market and he gets nothing out of it. It is absorbed by the mortgage. And under those conditions my judgment tells me that there is not the invisible supply that they talk about. And your visible supply is 57,000,000 bushels less than it was a year ago.

Senator GORE. Notwithstanding all that, if the consumers of this country, including the 12,000,000 unemployed and the others who are under-fed had more purchasing power would they not buy more flour to-day at the prevailing low prices?

Mr. DAVIS. Well, of course—you remember I am a grain man—I think they would.

Senator GORE. Now then, if you add 25 per cent to these low prices, will that increase consumption or decrease consumption?

Mr. DAVIS. Why, there is not any question but what it would show a marked decrease in the consumption of flour, because here is corn down to the lowest price ever known, and there are plenty of substitutes. No one is going to buy flour when you raise the price—that is, I say no one—I mean the people to whom a dollar a day makes a vast difference, they are not going to buy flour when they can buy substitutes.

Senator GORE. That has been my principle about this farm legislation; that if you can not absorb the wheat you have now, if you raise the price you will cut down consumption.

Senator SHORTRIDGE. What is the price of corn?

Mr. DAVIS. Corn is selling about 25 cents a bushel, in the Chicago market; around 10 cents a bushel to the farmers in the country.

Senator HARRISON. How does the price of American wheat compare with the world price of wheat?

Mr. DAVIS. Well, you get in, Senator, to various grades of wheat. Take, for instance, Argentine's wheat, and Australian wheat. Our wheat is probably at the moment cheaper than Australian wheat and a little higher than Argentine wheat. And compares favorably with Canadian prices. It depends on the ocean tonnage that you could get at a particular port. And of course it depends on the variety of wheat that you are talking about.

Senator HARRISON. I got the impression that generally speaking American wheat was being quoted at a higher price in the world markets than other wheat.

Mr. DAVIS. That changes, you know, with the market and with other markets. Two months ago the Chicago price of wheat was five cents a bushel over the Canadian price. The last quotation I saw Canada was a half a cent over the Chicago price. Now that fluctuates from day to day. I have seen them buy wheat at a higher price in this country on the same day. They need different varieties of wheat, you know. It takes different strengths of wheat abroad to make flour. They can maybe get some cheap wheat from one place and then they could get wheat from another to blend with it and make an average flour. But generally speaking we are not far from the world market.

Senator GORE. What is the price at Liverpool now?

Mr. DAVIS. I have not gotten that, Senator. I have been down South for a month, and I have not been checking up. Do you know the Liverpool price [addressing Mr. Grimes]?

Mr. GRIMES. No; I do not.

Senator SHORTRIDGE. What are the varieties of wheat? For my own information, what are the varieties of wheat?

Mr. DAVIS. Hard wheat. Are you from California, Senator?

Senator SHORTRIDGE. Yes.

Mr. DAVIS. Your wheat is soft wheat. And then red soft wheat in the Ohio Valley and Missouri, through there. In the plain States, of Senator Gore, and Kansas and Nebraska, hard winter wheat, which we think is the best in the world. And in the Northwest they have spring wheat that Mr. Grimes would tell you is the best in the world.

Senator SHORTRIDGE. So that there are 3 or 4 or 5 varieties of wheat?

Mr. DAVIS. Yes.

Senator GORE. And a great many grades of those.

Mr. DAVIS. And there are very many grades of those.

Senator SHORTRIDGE. Yes; of course.

Senator HARRISON. And it is only certain kinds of wheat that the Canadian wheat comes into competition with?

Mr. DAVIS. Yes. That is a spring wheat.

Senator HARRISON. Spring wheat, hard wheat?

Mr. DAVIS. Yes; such as our Northwest.

Senator HARRISON. It does not come in competition with the soft wheat?

Mr. DAVIS. No. But there is not a large amount of soft wheat exported. You have some garlicky wheat here in Maryland and in this eastern section that sometimes goes for export.

Senator HARRISON. You call that garlicky?

Mr. DAVIS. Garlicky.

Senator SHORTRIDGE. Why is that?

Mr. DAVIS. A little garlic mixed in with it. A little garlic comes along with it. It sells at a discount on that account.

Senator GORE. Mr. Davis, a good deal of the time in the last year or so our prices have been above Liverpool prices.

Mr. DAVIS. Yes.

Senator GORE. Was that on the same grade and character of wheat?

Mr. DAVIS. Well, Liverpool price means wheat that sometimes costs 2 to 4 cents a bushel to get around to a mill. And the Liverpool price means the price on the lowest grade of grain that can be delivered, whether it happens to come from India or Argentine or Australia or where. Frequently we have sold hard wheat at 6 and 7 cents a bushel higher than the Liverpool price.

Senator GORE. They do not have a fixed contract price like we have?

Mr. DAVIS. Well, their contract calls for delivery of the lowest grade of wheat. Now, hard wheat might be scarce and they might need some hard wheat to bring up some soft wheat that they got cheaply, from Germany on a change of soft for hard wheat. Under those circumstances you see they would pay a premium for this hard wheat out of the Gulf. Then frequently they will pay more for hard wheat at the Gulf than they will out of Montreal. It depends on what they happen to need that day, Senator.

Senator GORE. Yes. I have not been able to get a satisfactory explanation as to why it is their wheat has been selling so much lower than ours a good deal of the time.

Mr. DAVIS. Well, that is part of it; you can always figure two or three cents a bushel unless there is a very heavy surplus of hard wheat.

Senator GORE. The freight from Kansas City to Liverpool is how much?

Mr. DAVIS. Well, that varies on the ocean tonnage. It has gotten down as low as 6 cents from Galveston to Liverpool. Our freight from Kansas City down would average about 14 cents.

Senator GORE. So that would be about 20 cents?

Mr. DAVIS. About 20 cents.

Senator GORE. Here is the thing that puzzles me now: Why it is that a given grade of wheat of a certain quality at Kansas City ought not to be selling at 20 cents less than Liverpool if Liverpool is the world market?

Mr. DAVIS. Well, it does not always regulate the price. It only regulates the price when we have a surplus that we must send abroad. We have such a large percentage of our crop used at home that frequently we are off the export basis.

Senator GORE. Has this Ottawa agreement giving the Dominions a 6-cent differential reacted much on the market, and if so, how?

Mr. DAVIS. It has not been so noticeable as yet because we have not been exporting any wheat.

Senator GORE. Because the river has been frozen?

Mr. DAVIS. The river has been frozen. You see, there is no use talking about its effect when the Farm Board has the wheat tied up. That is the real trouble.

Senator GORE. And they have had trouble because they could not bring it through Buffalo and to New York?

Mr. DAVIS. Yes.

Senator GORE. And get the benefit of the reduced rate differential?

Mr. DAVIS. Yes.

In summing up the things that can be done to help the price of wheat. I see my time is going here. We should get the Government out of the grain business. By that I not only mean the Grain Stabilization Corporation, but stop loaning money at one-eighth of 1 per cent to so-called cooperatives when a regular dealer must pay 5 or 6 per cent for his money. Especially when you read articles such as these in the Kansas City Star of February 17:

> A wheat-pool receiver.
> Friendly suit in U. S. court against Kansas cooperative.
> Division of assets after sale to Farmers' National will be expedited.
>
> * * * * * * *
>
> The Kansas Cooperative Wheat Marketing Association was organized in 1924 by merging the Kansas Wheat Growers' Association and the Farmers' Union Wheat Pool.

That is only one of a large number of cooperatives that have gone by the board, and nobody knows how many hundreds of thousands of dollars they owe the Government.

Now the grain trade have no objection whatever to cooperatives who have some of their own money in their business. If they have a better system or a more economical system of handling grain than the regular grain trade, the regular grain trade should go out of business. But we feel that it is not fair to loan them money at one-eighth of 1 per cent when a regular dealer must pay anywhere from 4 to 6 per cent for his money. Especially in view of the fact that very few of those loans are ever collected.

Senator GORE. You do not mean to imply that the Government taxes your 6 per cent earnings in order to get the money to lend this money at one-eighth of 1 per cent, do you?

Mr. DAVIS. That is exactly what I mean, Senator.

Senator GORE. I had my suspicions.

Mr. DAVIS. That we are perfectly willing to run our business on an equal basis with any one else, whether it is a grain competitor or cooperative competitor, but——

Senator GORE. Now Mr. Davis, you may not have an opinion on this point, and you need not answer unless you like to. Do you think that the Farm Board's activities and the subsidies it has granted to these various cooperatives has helped or hurt the cooperatives, by and large?

Mr. DAVIS. I will answer that, Senator, by saying that if you had a boy and you raised him as a pet do you think he would ever amount to anything?

Senator GORE. I am afraid not.

Mr. DAVIS. I do not believe cooperatives raised as a pet will ever amount to anything. I think that the head of every business must sweat to make that a success, whether he is a cooperative or a regular business man, regardless of his line of business.

Senator SHORTRIDGE. So you think it has not helped the individual grower of wheat?

Mr. DAVIS. Absolutely not. I think that the well-organized country cooperative elevator has been as much of a success as general business, but when they have gotten out into Government money they have practically all proved a failure.

The repeal of the Capper-Tincher "snooper" act, as I call it, and the repeal of the sales tax, in addition to getting the Government out of business, will give the farmer a chance for a better price for his wheat.

Senator GORE. I figure, Mr. Davis, what the farmer needs worse than anything else is a wider and better market for his products.

Mr. DAVIS. An absolutely free and open market, where supply and demand will be the regulating factors.

Senator GORE. You do not think a subsidy is a substitute for a good market?

Mr. DAVIS. It has one end, just as they have all had.

Senator SHORTRIDGE. And what is that? You say it has one end.

Mr. DAVIS. One end; failure. They have had fifty wheat pools in this country, and they have all failed.

Senator SHORTRIDGE. May I sum up the matter by this question? Having regard, now, to the individual farmer, the sower and the reaper of wheat, having regard to your own individual business, and having regard to the various laws, some of which you had mentioned, what would you do if you had the absolute power, now?

Mr. DAVIS. I would wipe the slate clean of the restrictions on the grain trade.

Senator SHORTRIDGE. That would mean the repeal of these several laws you have mentioned.

Mr. DAVIS. Yes; and I do not think there is any doubt that the farmer would get a better price for his grain than he has in the last year. In other words, I think that wheat never would have been within 20 cents a bushel as low as it has gone, if it had not been for these restrictions on the grain trade. For instance, when there is grain legislation up here, they do not call in the men who have made a success of the grain business in handling grain economically. They call in the so-called leaders of the farmers, who, six or seven years ago, represented 4,000,000 farmers, but today- represent less than 400,000. They certainly have not made any progress under this system of restricting the economical handling of grain.

We feel that in case an economical system of handling grain that has been in vogue for 75 years or more is going to be changed, the people who have developed that system should be consulted, rather than untried men in that particular line of business. The farmer certainly is our best freind. He is our customer. Only as he prospers, can we prosper.

Senator GORE. You have no way of knowing their attitude towards this domestic allotment plan, have you?

Mr. DAVIS. The farmers?

Senator GORE. Yes, sir.

Mr. DAVIS. I can speak from personal experience, that eight out of ten of them are against any artificial action by the Government. What they want is to be let alone, and allow natural conditions to apply again, as they did prior to the start of these-agricultural regulations. You remember they got $1.25 for their wheat when it started.

Senator GORE. I was told that Mr. Shannon conducted hearings at Kansas City, and had the farmers before him in regard to governmental activities and relations, and that a good many actual farmers were asked what they wanted at the hands of the Government, and made answer that they wanted to be let alone. Do you have any means of knowing whether that is true, or not?

Mr. DAVIS. I could bring you farmers down here, representing thousands of acres of wheat land, that would tell you the same thing. Every one had a chance to appear before the Kansas City hearing of the Shannon committee, and when that statement was made, as was made down here the other day, that they did not have a fair hearing, Mr. Shannon held another hearing and invited them all in; and there was no change in that testimony.

Senator GORE. For 10 years Congress has been discussing, round and round—a weary round, more or less—the debenture plan, the equalization plan, and now the domestic allotment plan. Is it your point of view that that has kept a condition of agitation in the country that has disturbed rather than composed business?

Mr. DAVIS. And resulted in lower prices to the farmer every time there is an agitation started. There is no question about it.

Senator HARRISON. Mr. Davis, have you finished your statement?

Mr. DAVIS. Yes, sir.

Senator HARRISON. If there are no other questions, we thank you very much.

Senator GORE. Senator, may I ask Mr. Davis one more question?

Senator HARRISON. Yes.

Senator GORE. Mr. Davis, one of the chief complaints we hear about the future market is that future contracts many, many times as large as the total cash wheat crop, or the total spot cotton crop, take place on these exchanges, through these exchanges. Of course, that is true.

Mr. DAVIS. That is what makes a continuous market, just the same as the clearing house for your checks every day.

Senator GORE. Do these heavy transactions according to your experience and observation, take place on a larger scale when prices are high, or increasing, or when prices are low or decreasing?

Mr. DAVIS. Usually when prices are higher.

Senator GORE. Let me ask you this: Suppose I bought 10,000 bushels of May wheat, and you sold it. Could not that 10,000 bushels of wheat, going through various transactions, show up in the total as 100,000 bushels, with only 10,000 bushels actually involved?

Mr. DAVIS. It would show up——

Senator GORE. Suppose May came, and I did not want to close out, and I transferred it and took another position in July. It is the same transaction.

Mr. DAVIS. Yes; but it would be counted again in July, and again in September, and again in December, if you carried the wheat along.

Senator GORE. That is the point I make. While I had only one contract, I was just transferring it to future months to get a better position to close out finally. So that it would multiply, and might show 100,000 bushels, when only 10,000 bushels are involved.

Mr. DAVIS. Before you got through with the transaction.

Senator GORE. Yes.

Mr. DAVIS. Yes; that is correct.

(At this point the subcommittee went into executive session for the purpose of hearing another witness.

At the conclusion of the executive session, the subcommittee adjourned until to-morrow, Friday, February 24, 1933, at 10 o'clock, a. m.)

# INVESTIGATION OF ECONOMIC PROBLEMS

**Friday, February 24, 1933**

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
*Washington, D. C.*

The committee met at 10 o'clock a. m., pursuant to adjournment on Thursday, February 23, 1933, in room 335 Senate Office Building, Senator Reed Smoot presiding.

Present: Senators Smooth (chairman), Shortridge, La Follette, Thomas of Idaho, Metcalf, Harrison, King, Walsh of Massachusetts, Barkley, and Gore.

The CHAIRMAN. The committee will be in order. Mr. James F. Bell, of Minneapolis, Minn., advised the committee that he can not be here, but he has presented a brief, and I shall ask that this brief be made a part of the record.

(The brief presented by James F. Bell, of Minneapolis, Minn., is here printed in the record in full, as follows:)

While I hesitate to engage your time in discussion of the broader phases of the general situation, nevertheless, since they form a necessary prelude to any comprehensive discussion, I will make reference to them, but only in general terms.

The world to-day, including ourselves, stands the victim of two great and overwhelming wars, the one military, the other economic. One ended in November, 1918, the other began with that date. One brought destruction of men and property; this world economic warfare has erected vast involvements of restraint upon the normal conduct of business, with prohibitions, quotas, clearing agreements, exchange restrictions, and many others, which form a complete barrier to international trade and enterprise.

We must not permit the immediate effects of disablement to erect a permanent program unbecoming to our position as a great Nation or one which violates our historical traditions or which drives us into the abhorrent circumstances of isolation.

To accept the condition of an imposed isolation, to lessen our productivity, although this is in excess of our domestic demand, permanently is unthinkable. These surpluses require a place in international trade and our future course must direct itself toward a participation in that flow. This can be accomplished only, when, as, and if the processes of betterment which we entertain for ourselves are extended to others.

Proper consideration of any great problem should involve much more than a study of that particular segment of the problem that is close at hand or of personal concern. In the present instance our national problem is merely a segment of the world problem and therefore makes necessary the consideration of world conditions.

Debt rests heavy upon the world, as it does upon us. The present debt of the world is largely the result of three waves of inflation, in 1914–1918, 1919–20, and 1925–1929. We seek ways and means of alleviating this situation. By the same token and on the same principles, the help in this direction for ourselves must extend itself to others.

We have yet to adjust our economic thinking to the change from a debtor to a creditor Nation and to appreciate the responsibilities and obligations that this imposes upon us.

The question of economic disarmanent and the solution of international problems are therefore of major importance and should be engaged in a broad attitude of mediation, conciliation, and adjustment.

This does not mean that either domestic plans or progress must wait upon the complete solution of the world problem. Certainly we in the United States can proceed in the adjustment of our own affairs, always keeping in mind the thought that these processes must adjust themselves with conditions of world betterment.

The entire functioning of our social, political, and economic structure rests upon the foundation stone of confidence, and until this is revived and evidenced, no plan of human devising can be made effective.

The first prerequisite of any sound government is its credit. It must live within the limits of its income in whatever form this takes, and it must fulfill its obligations in whatever terms these are contracted. The expenses of government must be held within the limits of its income, and this income can not be conceived in terms that impose a destructive burden upon the creative and productive elements of the people.

We can not escape the fact that the average general property tax in the United States is now the sum of $32 per capita as compared with $9 in 1902, whereas the commodity price level is about as low as that of 1902 and individual income and earning prospects are reduced to a present-day minimum.

I do not know of any course of action that is so essential to bring public confidence as the balancing of the national Budget. Whether a nation be fortunate enough to be on the gold standard, as in our own case, is not so much a matter of concern provided the national expenditures are in conformity and in balance with the government income, in whatever terms it is devised.

The soundness of our currency is of paramount importance. Sound money is the basis of the confidence which permits the wheels of industry and enterprise to function, and is also the basis of our social reactions. Destroy belief in the soundness of our money and you strike terror into the hearts of all and bring panic and paralysis.

The methods of credit inflation which we already possess, and have already exercised to finance the Budget deficit, and the further potentiality they possess are even larger than those which could be conceived under any artificial plan; and so far as adequate money and its employment, which is more important, are concerned, once you have balanced the Budget and given assurance of sound currency, there will be unlocked a hoard of sound money that will exceed in quantity and in value anything that you could hope to obtain through artificial tinkering. So long as there is possibility of the latter, confidence will not exist.

## BANKING

The pitiful spectacle of bank failures, with their aftermath of ruin and disaster, wiping out lifetime savings and sacrifices and casting many of its victims into the lap of charity, is enough to strike terror into any nation. How can we hope for public confidence on which to build so long as we see a continuance of this condition? Ten thousand bank faiiures in a little more than 10 years is proof enough that something is wrong with the present system. Four thousand five hundred bank failures in the last three years is proof enough that the condition continues and grows worse, not better.

It is now three years that this disability has been before the Nation, with power to effect correction, and yet nothing has been done. Without attempting to defend, support, or advocate any system of banking, nevertheless the contrast of no bank failures in England and but one in Canada during the last 10 years is proof enough that adequate measures within ourselves can be found and utilized.

Bank legislation can not prove a panacea for all banking evils, neither can it make good bankers out of poor bankers; but it can create those conditions which will attract capital and sound management and make such capital and management available in districts where they are urgently needed.

The distressing experience of the past brought into existence the reserve banking system. Is it consistent to deny to individual banks the same elasticity of utility and operation that was conceived as the essential requirement to success in Federal reserve banks? To do so is to deny the soundness of the premise upon which the previous action was based. To enforce a rigidity of capital structure and reserves in the individual national banks is to defeat the very objectives through which correction is sought. The pressing requirement now, as in all sound banking, is for release of the surplus funds of one community to another where they may be needed and where they can be safely used, and extension of banking service to districts that have been deprived of such facilities.

So long as the public is denied the provilege of finding in its individual depositories that elasticity which will bring security to its commercial and savings deposits, so long shall we see a lack of that confidence on which trade and industrial activities are based.

AGRICULTURE

Measured in terms of purchasing power of industrial goods or with the income of industrial employees, either salaries or wage earners, agriculture rests under a heavy and continued disablement. This is in a large measure the result of an inconsequent and inconsistent national policy which, in closing the export doors, has at the same time pursued methods that have led to increased production and enforced export. No effort has been made to balance supply to the effective demand at home or abroad, despite the self-evident proofs of oversupply and lessened demand even before the particularly lessened demand of the depression. It has encouraged by numerous devices and incentives the increase of agricultural acreage and the intensity of production, heedless of the relation which these must have upon the supply in its relation to effective demand. The Government has pumped hundreds of millions of dollars of public treasure into selected commodities, not to market goods or to increase the markets for goods, but for the express purpose of withholding these from the markets on the theory that if held long enough it would force prices to advance.

The effect has been the exact opposite and prices have fallen to a basis where they can no longer sustain the burden of taxes and interest. Under this policy we merely converted short-time debts into long-time obligations and altered the relation between debtors and creditors from one of private to one of public character. The policy created both debt and surplus.

In the vain effort to avoid these adverse effects the Government threw into the normal processes of trade artificial restraints and disablements, driving out or limiting the effective action of those marketing agencies that for a long period of years had effectively sustained the normal movements and values of farm products. The same amount of money intelligently expended in an endeavor to bring a balance between production and effective demand would have contributed both income and an advance in the basic price.

We have had enough of legislative palliatives which have brought only an increasing measure of disaster. I do not lean to the defeatist policy that envisions complete deflation. I do not believe in the laissez faire attitude with respect to agriculture or any other problem. I think that we have it within ourselves to help ourselves. I am not adverse to legislation that tends to accelerate economic processes, but I am opposed to such palliatives as contravene established and proven experience.

However, in this respect, I think we labor under the delusions of both previous thinking and previous action. The theory that the recent high values and prices will soon be restored is erroneous and efforts based upon an erroneous theory are in themselves destructive. It is the height of folly to believe that the present condition is temporary and that the conditions of 1928 and 1929 can soon reappear. Yet all the artifices are based upon a belief that farm land values, commodity prices, and purchasing power in dollars will shortly be restored to that level. To adhere to this theory is to deny the self-evident truth.

We are in a new level of prices. Historical experiences denote its continuance for some years. The restoration of prosperity is not a matter of restoring the old levels of values but a readjustment to the present or nearby levels. What matters the price provided values are equalized? Instead of spending our time on artificial devices designed to tide over depression, let us address ourselves to restoring an equitable basis of exchange in the present. Prosperity is merely the widespread distribution of commodities, products, and services. It rests on continuous exchange between producers. It is necessary only that exchange be equitable to both, thereafter the dollars involved are not important.

We have had prosperity on levels lower than the present one, but with this essential difference—that the exchange of commodities, products, and services at that time were mutually profitable and mutually equitable. We can restore business or exchange activity on one basis as well as another provided the exchange is equitable. The price level is not particularly important but rather that the basis of exchange be equitable, whether price levels be high or low.

An equality can not be obtained if our production is in excess of effective demand in prosperity or in depression, for the equalities of value are dependent upon the relation of supply to effective demand.

We need not be afraid if by error in judgment or natural causes a shortage should develop. Even though we are obliged to go out and temporarily supplement the domestic supply with importation, that should not be a cause of concern. These circumstances connote a satisfactory domestic price and the full operation of the tariffs on agricultural products which have been devised for their benefit and which are now inoperative because of the surplus.

The public at large forgets that tariffs are negative forces that protest; they do not create and they are inoperative in the presence of a surplus. Reduce production to effective demand and you will give to your agricultural interests that measure of tariff benefit which is conceived in their behalf.

Regardless of what views we may entertain as to the merits or demerits of a policy of isolation, nevertheless we can not escape the fact that we are at least temporarily faced with such actual conditions, and so long as these maintain they impose disablements which we must move to meet.

We must not overlook the fact that the processes of economic nationalism were advancing rapidly prior to the war; they were not halted but modified by that catastrophe and have taken up their course again with increasing rapidily. Policies of national self-sufficiency are not necessarily the retaliatory expressions of nations or policies arising from the trade barriers we have erected, but are for the most part necessitous requirements in balancing international accounts. It is obvious that these adverse balances can be accommodated only through economies, reduction of imports, increase of exports, or all of these. That these restrictions have for the moment shut the door to a considerable portion of our surplus which previously found outlets in export is certain.

Our international merchandise account, which embraces imports and exports of merchandising, payments for and receipts from ocean freight services, and tourist expenditures, is and has been in fair balance for a considerable period of years. It is obvious under the present conditions that the necessary dollar exchange to conduct increased business does not exist. It does not now exist even for the payment of present private and governmental debts, and these can be discharged only at the expense of our merchandising volume or by payment in gold or goods. Gold we can not expect, nor is it desirable that we should demand it and thereby weaken the financial structures of our national debtors. Goods we apparently will not accept because of their adverse effect upon the commodities of which we already have an excess.

I do not hold to an isolation policy; it is abhorrent and un-American; but since there is temporary cessation in the free exchange of goods and services in open markets, until such time as the barriers are broken and trade released to take its normal course, while this lasts we are forced to some extent to its imposition. We must therefore conceive effective demand as that amount inherent in the volume of trade now existing in the export and domestic fields.

Under these circumstances price betterment can not be anticipated until production is related to the foreign situation. It may be argued that production is not too large but consumption too small. This is all too true in a depression. Restored confidence, expressed in greater consumption and utilization, may move to alleviate the necessities of decreased production and thus enlarge the effective demand, but this does not change the necessity of the relation, since "effective demand" conceives the accommodation of these factors.

With such a program it seems only fair that our producers should be given assurance of a full enjoyment of American markets on a basis of competitive parity with all goods of American origin. If you are unwilling to effect this adjustment through the exercise of ample tariffs, then production must be curtailed by a program that brings rewards to those who are thus deprived of their usual opportunities and markets. To what extent this can be safely accomplished at the public expense and without further drains upon public credit, is a matter of serious consideration.

We must bear in mind, however, that it takes very little surplus to cause a lowering of prices and, per contrary, a very small amount of shortage to bring an advance after the upturn of depression. It is possible that this balance can be obtained within reasonable limits of expenditure, but certainly it can not be obtained so long as public funds are voted for projects of reclamation and irrigation and for other activities that have as their sole aim and attainment a greater amount of productive land and greater production from existing lands.

I repeat my opposition to a permanent policy of isolation, but I say if necessity forces it upon us temporarily then let us be consistent and follow it through. To further it by trade barriers which reduce effective demand on the one hand and to encourage greater production on the other, is the height of folly and wastefulness.

I consider that the proposals made by Mr. Baruch to your committee to reward reduced production by rental and lease of present cultivated land for fallow are of a most constructive character, proposals in which both agricultural and industrial interests could meet.

If I could add anything to his valuable suggestions it would be that the program to accommodate a temporary situation by supplemented by one of permanent character through which we should consistently and persistently move to stabilize the volume and value of our agricultural lands, to contract and expand it according to the necessities of effective demand, to plan for the diversion of the present surplus lands into commodities which are now imported, and further to develop new utilization of existing lands and products. I believe that we should set up under a separate corporate structure a Federal Farm Reserve responsible for the contraction or expansion of both volume and values of the agricultural lands through open market transaction therein. I conceive in this an operation similar to that inherent in the Federal reserve system with respect to credit.

Artificial processes that aim to compensate producers for the difference between existing and equitable prices can be effective only through the use of public credit or through the transfer of the existing meager funds from one portion of our population to another. In one case it would impair our credit, in the other it would increase our fear of further drains upon our slender individual resources.

In the consideration of these processes and the finances necessary to conduct them much thought has centered in the use of excise taxes in the belief that the commodities themselves should bear the burden of paying for the benefit devised in their behalf. This is a very difficult and dangerous procedure.

We must not overlook the fact that the process of commodity exchange is a very delicate and sensitive piece of machinery and that the existing competitive parities are the outcome of long years of adjustment. They are very sensitive in response to all influences. Over a period of time they have formed adaptations to the change of natural conditions and work most effectively.

To change this natural order by the interjection of any artificial processes would bring inescapable disablements between commodities, substitutes, and replacements and in the course of time inevitably divert the direction of the tax from the consumer to the producer.

Competitive parity as between commodities before the consumer is the essential of price economics. It can not be maintained in the presence of an excise which can not be applied with fairness to all. It can not be applied to all. In many instances utilization, marketing, and distribution make it impossible, and in those circumstances some disparity is inevitable. Again, commodities differ among themselves vastly as to what proportion must bear the entire excise tax, and thus the tax tends to be multiplied to a point that destroys their place in the general order of commodity relationship.

### DEBT SITUATION

Much attention concentrates upon the agricultural debt situation. To be sure, to a portion of farm owners the absolute burden is heavy, but with respect to other forms of private debt its volume and involvement are comparatively low. It is more a matter of income, or exchange equality, than the debt itself.

The conscientious agricultural debtor is more interested in his ability to discharge his debt than in its refunding and realizes that were the exchange value of his products on an equitable basis he would possess the ability either to discharge the debt in time or to refund the debt himself if necessary. Again, the solution of the problem is to balance agricultural production with effective demand and thus bring about the enhancement of the price of agricultural products necessary to place their exchangeability on an equitable basis.

Serious consideration should be given to the plan which Mr. Baruch has advanced for redemption of farm mortgages on a discount basis through issue of low interest bearing sinking fund bonds with interest guaranteed by the Federal Government; but I see also the needs for alleviation in other fields.

### ANTITRUST LAWS

The restraints upon modern industry by reason of our archaic and antiquated laws are both unnecessary and destructive. They should be revised to conform with modern requirements and necessities. Any dangers of monopolistic control, if they exist, can be combated without retaining the destructive forces of overcompetition and unethical business practice which these present laws impose.

We have taken away from industry even the power of regulated discipline, which is the first and necessary accompaniment of every human effort. The continual pressure for existence under the forces of unrestrained overcompetition makes each individual the victim of every new device or nefarious practice on the part of his competitor.

The welfare of the worker, as social unit and consumer, is recognized as a necessary and vital contribution to the financial success of industry, and yet the processes now imposed by the existence of these laws make labor sustain burdens for the benefits that accrue to others. We do not wish to hamper progress or advancement under which costs and prices are reduced and distribution made more effective, but at the same time there are possible measures of industrial rationalization that can bring to the worker a larger measure of reward and elimination of the hazards to which he is exposed through the varying degrees of industrial activity.

My observations lead me to suggest concentration of legislative effort upon a limited program of fundamentals aimed to restore public confidence. They embody:

1. World economic disarmament, to the end that international trade may be restored, with the normal exchange of goods in the open markets of the world.
2. Balancing of the national budget and international account on a basis that is not destructive to enterprise and individual initiative.
3. The maintenance of a sound currency on the gold standard.
4. A sound banking system.
5. A comprehensive agricultural program to meet both temporary emergencies and permanent situations.
6. The removal of unwholesome restraints upon industry through adaptations of the Sherman-Clayton Act in conformity with existing needs and conditions, and rationalization of industry under proper safeguards, with relief to labor from the increasing burdens which the present laws impose.

We have arrived at a time in our great national needs when political affiliations, self-interest, and all other considerations must give way to the national interest. The new administration should ask for and receive without stint unrestricted support, cooperation, and services from members of all parties and from leaders of agriculture, labor, finance, and industry, and from all loyal citizens that may be called upon for service. To permit any interference from whatever cause that may arise to impede the progress of restoration is unthinkable. It is a question now of the nation, first and last.

The CHAIRMAN. Mr. J. D. Stern.

## STATEMENT OF J. DAVID STERN, EDITOR AND PUBLISHER PHILADELPHIA RECORD AND CAMDEN (N. J.) COURIER-POST

The CHAIRMAN. Give your full name and address for the record.

Mr. STERN. J. David Stern, Philadelphia Record, Philadelphia, Pa.

In appearing before your committee I think it is usual for a man to qualify as an expert. While I am a student of money I am not an expert. I want to explain to you that the views that I wish to express to this committee I have expressed in my newspapers published in the most conservative cities in the United States for the past year and a half, and I have not expressed them just on the editorial page but on the front page with as much emphasis as I could place on them.

The CHAIRMAN. What papers?

Mr. STERN. Philadelphia Record and Camden Courier and Camden Post. And I can tell you, gentlemen, that the reaction to these views has been most remarkable and surprising even to myself. After a year and a half I have found a very favorable reaction. As a newspaper man of 30 years I can talk with certainty of the reaction of the public to what appears in my paper continuously over a year or more. And not only among the general public, but among the business men of Philadelphia I have found a growing response to and understanding of these views, which leads me to believe that the general public are ahead of the bankers who have been dominating the fiscal policy of this country.

I believe the average business man of to-day has a clearer and more intelligent understanding of what is wrong with our monetary system than have the bankers or the so-called financial advisers of the Government. And I am just explaining to you that these views have been tried out on the public of Philadelphia and have not been found wanting over a year and a half.

My paper has advocated: Fight the depression as we fought the war.

That is what I have come to urge upon your committee, as I have advocated it in my newspapers for the past year and a half.

The present economic crisis is as dangerous as any war-time crisis. It is causing more human misery than did the World War. Therefore, our Government is justified in resorting to war-time measures.

I believe I am paraphrasing the first witness before this committee, the Hon. Bernard M. Baruch, but Mr. Baruch did not follow through. He talked of a war-time emergency and then offered weak peace-time remedies.

We did not talk of balancing the Budget during the World War. We spent $45,000,000,000 in three years and went in debt $26,000,000,000. We were prepared to spend double and treble that amount if needed to win.

This Nation must fight depression with the same spirit and high purpose that made it victorious in every war.

It is as wicked and silly for us to talk about balancing the Budget in such a crisis as for the head of a family to talk about budgeting his household expenses when his wife and children are in dire need of medical attention.

Balancing the Budget is a bookkeeper's phrase. This Nation can not afford to be ruled by bookkeepers.

The national Government is a parasite upon national business. It is in the position of a commission merchant who prospers as his principals prosper. A commission merchant can not make business better for himself by raising his commission rate when business is on the decline. No more can the Government make itself whole by raising its taxes or commission on business when the general business of the Nation is on the decline.

Any attempt to balance the Budget by raising taxes during a period of extreme deflation is the worst possible policy that the Nation can pursue to aggravate its misery. It is like giving whisky to a victim of sunstroke.

Overemphasis of the phrase "balancing the Budget" indicates that the fiscal policy of this great Nation has been dominated by bookkeepers rather than by statesmen.

I have had two great disillusionments in my life. The first when, as a little boy I took a girl to a baseball game—a very pretty little girl whom I admired and respected. I was shocked when she asked, "Why are the men running around the bases?" It had not occurred to me that anybody, let alone a very pretty girl, could be so ignorant of the rules of baseball.

The second great disillusionment was when I found that bankers, whom I had always looked up to as supermen of business, were as ignorant of the laws of money as the little girl of the rules of baseball.

I respect Mr. Baruch as an able and practical man of affairs, but he is typical of New York financiers in his disregard of scientific knowledge of the main thing he has been after—money.

In that disregard of the science of money by our leading New York bankers lies the key to the present depression. These bankers who made bad loans to Germany and worse loans to South America, who backed Insull and fell for Kreuger, and who, with colossal egotism have taken upon themselves the management of great mergers, gave the President bad technical advice, not from selfishness or malintent, because they have been sufferers in the depression, but from ignorance of the science of money.

We endow great universities and then fail to use the technical knowledge they have developed.

There is a famous passage by Walter Bagehot, English economist and publicist, where, after complaining that the directors of the Bank of England were not acquainted with right principles, he continues:

> They could not be expected themselves to discover such principles. The abstract thinking of the world is never to be expected from persons in high places; the administration of first-rate current transactions is a most engrossing business, and those charged with them are usually but little inclined to think on points of theory, even when such thinking most nearly concerns those transactions.

"Fight the depression as we fought the war," is more than a mere slogan or phrase. Specifically, we recommend that the President immediately declare a gold embargo and that in the enforcement thereof the Treasury Department temporarily suspend gold payment. Such action would follow the precedent of President Wilson, who, on September 8, 1917, pursuant to the power granted him by the act of June 15, 1917, declared a gold embargo. This action was taken the morning after the House of Representatives had unanimously voted a $11,000,000,000 war credit. President Wilson did not even wait for the Senate to concur, as it did on the following day.

If you turn to the newspaper files of September, 1917, you will be interested to note that the declaration of this gold embargo was news of secondary importance. Our people were occupied with the war. They gave scant attention to this technical ruling. I believe that the average man doesn't even know to-day that for four years, during and following the World War, we were practically, if not technically, off the gold standard. From 1917 to 1921 any one who demanded gold of his bank was referred to the United States Treasury. As far as I have been able to learn no one had the nerve to take any gold from the Treasury but "Ma" Bergdoll, the mother of the notorious Grover, who came down to Washington with a little black bag and browbeat the Treasury officials out of some.

Did this suspension of gold payment affect the credit of the Government? It did not. During the four years when you couldn't get gold for your money we floated twenty-five billion of Liberty and Victory bonds.

If you gentlemen want to interrupt me at any time do not hesitate to do so.

The CHAIRMAN. You may proceed.

Mr. STERN. I have advocated a gold embargo for a year and a half so that the Government should be free to issue major credits to arrest the ever-increasing momentum of a self-accelerating deflation. If this deflation be allowed to continue to its ultimate conclusion, it must inevitably result in the wiping out of all credit, so that nothing will be left as a medium of exchange but actual cash currency. This would mean that the dollar would be worth twenty times as much as it was in 1926; the nickel of 1933 would equal a normal dollar. Before you had arrived at that point, if you allow this deflation to continue, you would have destroyed every financial institution in the country, insurance companies and banks, wiped out every debt, mortgages on homes and railroad bonds. That will be the result of following Wall Street's advice to let deflation take its course.

The men who oppose fighting the depression as we fought the war indulge in the most damnable demagogy to hamstring this Nation.

They talk about starting the printing presses as though credit inflation means the printing of more paper currency. They must know that nothing is further from the truth. To-day our main medium of exchange is credit or bank deposits.

Economists and financiers who discuss quantity of currency as an essential price factor don't know the Civil War is over. There was a time in the history of this country when its only medium of exchange was cash currency. The interchange of bank deposits by check is a modern invention, not over 40 years old to any great extent, which has so far displaced actual currency that 90 per cent of our business transactions are through the exchange of credits. Currency has become merely a supplementary and relatively unimportant medium of exchange.

In normal times we have more than $55,000,000,000 of bank deposits and less than five billion of currency in circulation. What is more important, the velocity of these bank deposits or bank clearings reached the astounding total in 1929 of $720,000,000,000. It is this figure which regulates the value of the dollar—the velocity of bank deposits.

The amount of currency in circulation, or the amount of gold behind it, has little or no bearing on the value of the dollar.

Strange as it may seem, the more prosperous the country, the less currency in circulation, because more persons have bank accounts, use checks for trivial household transactions, and there is little or no hoarding.

Instead of gold regulating the value of the dollar, the quantity and velocity of credit regulates the value of gold. It is necessary to recognize these facts to appreciate that the present deflation is self-accelerating.

When a man borrows $1,000 from a bank, the bank puts $1,000 to his credit on its books, and thereby creates $1,000 of credit currency.

When the man pays off the note, $1,000 of credit currency is wiped out. Normally as people pay off their notes the bank creates new credit currency by making new loans to others.

But for the last few years the process has been one-sided. Old loans are being paid off, but very few, if any, new loans are being made, with the result that the quantity of bank deposits has dropped to $40,000,000,000, and the velocity of these credit dollars has dropped to less than $300,000,000,000 per annum.

The less credit dollars and the slower they move, the higher the value of the dollar. The higher the value of the dollar, the lower the dollar value of the collateral against which the bank has issued credit. As the dollar value of collateral goes down banks are compelled to reduce their loans against collateral and thereby further enhance the dollar, and further depress the collateral.

Thus deflation is a self-accelerating process which can have no other outcome than the complete destruction of our entire credit structure.

I hold no thesis for inflation, any more than Senator Carter Glass is for deflation. Every sensible citizen is for the stabilization of the value of the dollar. The one thing that is to be avoided is too great variation in our unit of value. Such great variations are bound to disrupt our whole economic structure, as a variation in the length of the standard foot would disrupt our deeds and boundaries of real estate.

The present administration has relied on the assumption that while the deflation is self-accelerating, it will reach a certain point at which it is self-arresting. I asked a high official of the present administration last spring, "What will arrest the deflation?" He said, "When the shelves of the stores become empty of 'soft' merchandise—merchandise that wears out, like clothing and shoes."

He was partially right, because last summer we did have an upturn in the textile and shoe industries, just as he had predicted. But this arresting force was not of sufficient strength to stem the main tide. The slight upturn last summer was soon offset and the inexorable mathematical law of deflation again asserted itself.

### DOUBLE PURPOSE OF A GOLD EMBARGO

I recommend an immediate gold embargo for a double purpose.

First, to place the Government in a position to issue such credit as is necessary to win the fight against the depression by distributing purchasing power among consumers.

Second, to reduce the swollen value of the dollar to its commodity index value of 1926, or the average for the years 1921 to 1929, inclusive.

Thus far we have attacked this great emergency in a weak and faltering way. If we used only one-tenth of the resources we did in the war, the back of the depression would have been broken long ago.

New credit should be issued to the consumer. All Government effort has been to stimulate production. We have been attacking the wrong side of the economic equation. Stimulate consumption by giving the people credit to spend, and producers will meet the demand.

There are a hundred ways in which credit can be distributed among consumers. I do not wish to enter into a discussion of their relative merits, but will simply name a few to give concrete illustrations of what I have in mind.

1. Advance by the Government of 50 per cent of the face value of certificates of deposits in closed banks on their assignment to the Government or its agent.

Senator HARRISON. Would you do that through the Reconstruction Finance Corporation?

Mr. STERN. No, I would not. I mean I would not suggest it being done that way.

Senator HARRISON. How would you?

Mr. STERN. Through the Federal reserve banks.

Secretary of the Treasury Mills recommended an advance of 35 per cent at a hearing before a congressional committee a year or more ago. I do not know whether it was before this committee or some other committee.

Senator HARRISON. No; it was not before this committee.

Mr. STERN. He recommended 35 per cent at that time.

2. Government construction and advance to municipalities for slum rehabilitation to the extent of $5,000,000,000.

3. Advance of 50 per cent on the nine billion dollars of farm mortgages.

4. Amending of the home loan bank bill so that the loans can be made directly and immediately, instead of surrounding the process with the red tape which now encumbers it.

5. Enlargement of unemployment relief.

I hold no special brief for these points of distributing credit among consumers. The only point is that the new credit should go to consumers rather than to industries, railroads, and banks.

Let us be frank. The situation is so acute that it demands immediate positive action.

The President still has the power to declare a gold embargo.

The CHAIRMAN. Before you leave the other. Have you in mind how we are going to raise this $13,000,000,000 which you have outlined in that last statement that you made?

Mr. STERN. Yes; by issuing notes or bonds directly, to be taken up by the Federal reserve banks.

The CHAIRMAN. How can we take them up? Do you mean to say that the Government is to issue that much paper money with nothing back of it?

Mr. STERN. No; not paper money, because it would be merely credit to the Government against which the Government would check.

The CHAIRMAN. Yes; but where would they get the money?

Mr. STERN. The Federal reserve would simply place on its books to the credit of the Government as much as the Government wanted.

The CHAIRMAN. But then where would the Federal reserve get this money?

Mr. STERN. Well, it does not need money. All it needs is credit. Because we do not use money in this country. For instance, Senator, I can explain that in a word if you want me to.

Senator KING. You would want credit based upon debts? That is what you mean?

Mr. STERN. On the notes of the Government.

Senator KING. That is the Government going into debt by issuing its bonds, and then those bonds would go into the Federal reserve banks and become the basis of credit?

Mr. STERN. Yes.

The CHAIRMAN. You have got to issue some kind of money in order to circulate that money to take care of these $13,000,000,000 that you speak of. You have not got the gold in the country to do it. There is only one way, and that is to issue paper money. And now what are you going to have back of it?

Mr. STERN. Well, Senator, the point I wish to make is that the actual currency would not be needed. And I can explain that to you in a moment if you wish me to.

Senator KING. Your theory, in brief, is this: The Government would issue its bonds, those bonds would be taken over by the Federal reserve, and supposing the Federal Reserve Bank in Philadelphia would buy $1,000,000 worth of bonds; on its books it would extend credit to the Government for a million dollars, and the Government could draw its drafts or its checks or obligations and pay its debts, or make loans through the Reconstructions Finance Corporation, or otherwise, and draw its draft upon the Federal Reserve Bank for that million dollars.

Mr. STERN. That is what you are doing to-day.

The CHAIRMAN. Why stop at $13,000,000,000? Let us have one hundred billion. Then there will not be any question about it at all, if that can be done.

Mr. STERN. Well, that is exactly what happens when an individual goes into a bank. He does not get a roll of bills. He gets a credit put on his account in the bank.

The CHAIRMAN. Yes; but the bank has to report that they have money enough on hand, under the law.

Mr. STERN. Yes.

The CHAIRMAN. And if it falls below that, then the bank is violating the law.

Mr. STERN. Well, it is possible, Senator, that a certain amount of new currency would be required, but it would not be over 5 per cent of the amount of credit issued.

Senator HARRISON. Mr. Stern, why is it, in your opinion, that not more of the banks have taken advantage of the so-called Glass-Steagall provision for issuing notes against Federal securities? At the time it was proposed they said that would be a large measure of inflation, where we could inflate upwards of more than a billion of dollars. I believe it was stated a billion and one-half. And there has been a very small per cent of banks taking advantage of that. Have you any reason to state why they have not?

Mr. STERN. My explanation is that the businesses that are entitled to credit do not want credit. As business goes down, we require less and less money in our business, because our accounts receivable and our inventories go down. So that the average business that has still got its neck above water requires less and less credit at the bank. The banks have nobody to lend to because nobody needs credit now, because the consumers make no demand upon them. The average business to-day which is still going has more money in its coffers than it usually has, or in its bank account—more credit in its bank account, I should say, to keep the distinction. So that the banks have no use for this extra credit. They keep the Government security on which they get a small return, even if it is only 1 per cent, rather than discount that in order to get new credit.

Senator HARRISON. It is not your view, then, that any influence from higher up, either the Federal Reserve Board or the officials of the Treasury, have discouraged banks from taking advantage of that provision?

Mr. STERN. No.

Senator HARRISON. You do not think that they have done that?

Mr. STERN. No. I do not believe there is any malintent on anybody's part. I think that there is stupid selfishness, and all the Government can expect from any of its citizens is enlightened selfishness. Now I believe that these bankers have been under such a strain that they can not see this thing clearly. And they are running around in a circle, and it is a descending spiral of deflation.

Do you want me to continue with this?

Senator HARRISON. Yes.

Mr. STERN. The President still has the power to declare a gold embargo. If he did so to-norrow, the Treasury would have the right to question anyone who demanded gold, and if the officials were in the least suspicious of the applicant's intent to export it, they would be justified in demanding a heavy bond and frequent inspections to be sure the gold had not been taken from the country.

Senator HARRISON. Of course, Mr. Stern, that is a very close question, as to whether or not the President has that right. Personally, I think he should have the right.

Mr. STERN. Well, it could be enacted.

Senator HARRISON. Well, it takes some time, when you discuss the proposition, to do the thing.

Mr. STERN. Such methods would discourage any demand for gold as effectively as it did during the war.

Let us take the specific instance of a man with coupons of a gold bond. Instead of pursuing the usual business procedure of depositing the coupons with his bank, to be collected and placed to the credit of his account, he demands gold coin from the company issuing the bond. The company obtains an order on the Treasury for the required amount of gold. The gold seeker goes to Washington to be questioned as to his intent. He is required to give bond for his hoarding of the so-called precious metal. It is inconceivable that, in such a case, the courts would entertain a suit against the company which had issued the gold bond because the Government took proper steps to enforce a presidential decree.

The war-time procedure of gold embargo and temporary suspension of gold payment is preferable to reducing the gold content of the dollar, as proposed in the Goldsborough bill and in other bills, because so many of our contracts provide for payment in gold dollars of the same weight and fineness as the present coinage of the United States.

The gold-embargo method has been tried and used without any friction during war time. The only possible objection that could be raised to the use of the same method at this time is that the Government is not justified in taking the same action in time of peace as in time of war. My recommendation rests on the contention that the present emergency is as great as that of war, and therefore justifies our fighting the depression as we fought the war.

The fear of going off the gold standard has paralyzed the present administration in fighting the depression. The more credit issued against a given gold reserve, the more tendency there is for the gold to be taken from the Federal reserve or the United States Treasury. And it is being taken now.

Europe is in a position to take $2,000,000,000 in gold from this country within a fortnight. Any issuance of major credit by the Government, financed by the Federal reserve banks, which would reduce the percentage of gold reserve to the 40 per cent limit, would be enough to start a gold run. The President was right when he said that we were at one time within two weeks of suspending gold payment. It is this fear more than anything else which has interfered with the proper meeting of the present situation.

A gold embargo and temporary suspension of gold payment is the one certain, immediate way of meeting the present emergency. It is equivalent to the Columbus method of making an egg stand on end, and should be the precursor to the discovery of a new era of prosperity and progress in the Western Hemisphere, if not in the world at large.

This is the zero hour. It demands action now. The alternative is complete destruction of our economic structure, if not of our civilization.

Senator La Follette. Mr. Stern, I noticed in the opening part of your statement that you took some exception to the advice that has been given to this committee by so many witnesses, that if we just balance the Budget everything would be all right. One thing that has interested me is this, and I would like to get your view about it: How can you balance the Budget while conditions are continually getting worse? Assume now that we agreed with these witnesses that have been before this committee that balancing the Budget was all we had to do to restore prosperity. As long as conditions are getting worse how can you balance the Budget?

Mr. Stern. My answer is: You can not. And if you could you should not. In fact the word "balancing" the Budget is merely a bookkeeper's phrase, and when you analyze it it has no application to a sovereign power. I am quoting from John Maynard Keynes, the greatest economist living to-day.

Senator Barkley. There might be some dispute about that last statement.

Mr. Stern. Of course that is only an opinion. But a good many men in this country, I think, agree with me. And a good many men in any country.

The Chairman. If you are through and have nothing more we will excuse you.

Senator King. Thank you very much.

The Chairman. Mr. W. Mont Ferry.

## STATEMENT OF W. MONT FERRY, VICE PRESIDENT AND MANAGING DIRECTOR OF THE SILVER KING COALITION MINES CO., SALT LAKE CITY, UTAH

The Chairman. Give your full name and address for the record.

Mr. Ferry. W. Mont Ferry, Salt Lake City.

The Chairman. You may proceed, Mr. Ferry.

Mr. Ferry. Mr. Chairman and members of the committee, I have been a resident of Utah since my early manhood, and have been associated with various private and public activities in the western Mountain States during my entire active life; chiefly with the mining industry. I am, and have been for more than 15 years, vice president and managing director of the Silver King Coalition Mines Co., of Utah, a large producer of ores containing gold, silver, copper, lead, and zinc. I am, and have been since its organization, president of the

American Silver Producers Association, the membership of which represents about two-fifths of the total world's mine production of silver. I am also associated with other mining, industrial, and financial enterprises, and have held electric and appointive positions within the State of Utah on several occasions within recent years. I am a director of the Intermountain Economic Conference, which includes within its membership the States of Utah, Arizona, New Mexico, Montana, Idaho, Nevada, Wyoming, and Colorado.

I am grateful for the opportunity which the Senate Finance Committee invitation affords me to express publicly the considered opinions of many thoughtful men of the intermountain area.

The region for which I speak is one which produces raw materials almost exclusively, and our industrial and financial fabric is closely knit to this fact. There is little accumulated wealth, substantially all of which is invested in enterprises directly founded upon the basic commodities which we produced. These commodities are metalliferous ores, coal, beet sugar, wool, livestock, forage crops, grain, and fruit. Our agricultural production is sold largely in local markets. A substantial part of the portion disposed of elsewhere finds its outlet through channels intimately connected with trans-Pacific trade.

Because we have little accumulated wealth, and because this area is in the development stage, we depend largely upon borrowed capital not only to initiate enterprises but to carry them to the point of production. The service on these debts, as well as the payment of the debts themselves are, of course, dependent upon the ability of the debtor to market his products at a profit. This brings us directly to a consideration of the commodity price level. It may be stated definitely that productive endeavor within the area of which I speak is not profitable.

I now direct your attention to the following figures which present an accurate and startling picture of the market conditions which confront producers of silver, copper, lead, and zinc.

The average price of silver for 1932 was 27.9 cents per ounce, which is 42.6 per cent of the average price of the white metal for the last 25 years.

The average price of copper for 1932 was 5.6 cents per pound, which is 35.9 per cent of the average price of copper for the past 25 years.

The average price of lead for 1932 was 3.2 cents per pound, which is 53.9 per cent of the average price of lead for the past 25 years.

The average price of zinc for 1932 was 2.9 cents per pound, which is 43.4 per cent of the average price of zinc for the past 25 years.

The composite average price for 1932 of the four metals named was only 43.95 per cent of the average price of those metals for the past 25 years.

I have called your attention to these particular commodity prices for the reason that I am directly associated with the metal-mining industry and am, therefore, especially familiar with the problems of that industry; and for the further reason that the condition of metal mining has special significance in the Western States. A competent survey recently made in the State of Utah discloses that 47 per cent of the State's population is directly dependent upon the metal-mining industry. The condition in Utah is typical of conditions in other States of the region, and the ratio given applies approximately to these other States. It should be borne in mind, moreover, that mining is a devastating industry. A continuation of unprofitable operation in this industry means extinction of the capital represented.

The disastrous effect of the low commodity price level has made itself manifest throughout our land. The discrepancy between the comparative value of the American dollar, on the one hand, and the value of things and human service, on the other, has brought stagnation to all forms of productive endeavor. Furthermore, it has paralyzed the initiative of producers and is destroying hope and confidence in the minds of men. The vast debt and credit structure which has been built up in this country, especially since the war period, is in grave danger of complete collapse. Debtors, of course, must meet their obligations by exchanging the things they produce for the dollars necessary to meet interest and principal. It is obvious that unless the growing discrepancy between dollars and things is corrected and stabilized at a point of reasonable equity between creditor and debtor, general bankruptcy and repudiation must result. This situation which now exists throughout our country, affects not only individual and corporate debtors and creditors, but also affects municipal, State, and National financial affairs. The unemployment, the dependence, and the despair affecting not less than 25 per cent of our population, present a condition which is of the utmost importance if our institutions are to stand. The immediate relief for acute distress which is being so generously and properly furnished from National, State, and other public sources is primarily extended from tax money. Now, sources of taxation are drying up, and it is becoming more and more difficult to meet the increasing demand for relief.

When we realize that these conditions are not confined to our own country, but are in varying degrees of intensity apparent throughout the world, we must look for a world cause and a world remedy. It is the considered opinion of competent authority that there has been a break-down in the money structure which has disarranged credits and exchange, and has destroyed confidence.

From time immemorial the world has used silver and gold for money; the eastern world preferring silver, and the western world gradually coming to the use of gold alone as a basis for money. The destruction within recent years of the comparative value of the money and hoardings of silver-using peoples who constitute more than one-half of the world's population, has had a serious effect not only upon these peoples in trading with so-called gold countries, but also upon the well-being of the peoples of the gold-using countries. It has resulted in cheap money, cheap labor, and cheap costs, forming a competitive set-up which tends to destroy the stability of the commodity price level in gold-standard countries where the low cost products inevitably find a market. Our own countrymen are now feeling the effects of this, and if the situation is not corrected and these peoples become thoroughly industrialized, a home market for our own people will be a remembrance and not a reality.

Senator KING. Is it not quite obvious, Mr. Ferry, that with the low price of silver in the Orient, which results in cheap labor and cheap production, that we will suffer more from the yellow peril industrially in the future than in the past, and that the Orient will produce commodities cheaper than the Occident, and therefore will be able to undersell not only the United States, but other occidental nations in manufactured commodities?

Mr. FERRY. You have stated an incontrovertible fact, Senator, which has ample authority to justify it. And there is every evidence to-day that that is going on. I observed yesterday that a very distinguished witness called attention to the fact that our trade with China held up better than with other countries. Those things are said sincerely, of course. But information is lacking to justify such a statement. An analysis of our trade with China indicates that tobacco and cotton have increased tremendously because gold has gone into China, is building cigarette factories and cotton mills, manufacturing those, and are shipping those to all high exchange countries.

Senator KING. That is particularly true in Shanghai where the textile mills are being erected and they are pouring out very large quantities of commodities.

Mr. FERRY. That is true.

Senator HARRISON. By what people are they being erected? Chinese?

Mr. FERRY. Some Chinese, and some Germans.

Senator HARRISON. Any American interests there?

Mr. FERRY. I think so. I am not advised about that, Senator Harrison.

The CHAIRMAN. The same thing applies to Japan.

Mr. FERRY. Yes.

Senator KING. Not to the extent that it does in China.

The CHAIRMAN. I think the importations are more, in proportion to the amount of trade in Japan than they are in China.

Senator KING. I am speaking of the investment, Senator.

Senator HARRISON. Then what they have done is to take the gold dollar, convert it into cheap silver, and buy their plant over there on the silver basis and then start the wheels going?

Mr. FERRY. Surely. Employ local labor, buy local supplies, and import nothing but machinery.

Senator KING. Of course it is to be expected with the war conditions in the Orient and China attempting to meet the assaults, as she contends, of Japan, there would be rather an increased market for our commodities during the past few months and possibly during the next few months.

Mr. FERRY. Undoubtedly.

Senator KING. And that might account for the increase in the purchase of foreign commodities by the Japanese as well as by the Chinese.

Mr. FERRY. Surely.

Senator KING. But generally speaking your thesis is, as I understand you, that with silver down so low and the silver standard there prevailing to the exclusion of the gold standard, prices are built upon the level of silver, and therefore with those cheap prices there will be cheap labor and cheap commodities, and that those commodities will find their way into the markets of the world and undersell the nations which rest upon the gold standard or upon the gold exchange standard?

Mr. FERRY. They not only will do it, but they are doing it now. Senator.

The CHAIRMAN. Take the statistics of the exportations from Japan. That is enough to show you what they are doing, not only to this country but to other countries of the world.

Mr. FERRY. Gold is too dear and things are too cheap. Our Department of Labor states that within the last five years, gold has appreciated about 60 per cent above par. Recognized authority has reported that the annual mine production of gold has reached its apex; that within two or three years the annual production will start to decline, and by 1945 the annual production from the gold mines of the world will have declined as much as 45 per cent. My authority for the foregoing statement is Lord Bradbourne, chairman of the South Africa Consolidated Gold Fields Co.; the 1931 report of the joint committee of the Federation of British Industries and the Empire Economic Union on Empire Monetary and Financial Policy; the report of the financial committee of the League of Nations under the chairmanship of Prof. Gustav Cassel of Stockholm University; the 1930 report of Mr. H. A. fursell, an eminent American mining engineer; and the report of Sir Robert Kotze, engineer for the South African Government. These reports and opinions are based upon the expressed belief that there is no probability of any new and large gold fields remaining in the world.

Senator HARRISON. There is nothing to this report that we get occasionally that they have struck another gold bonanza out in California?

Mr. FERRY. Undoubtedly, Senator, there are new mines coming in all the time.

Senator HARRISON. I notice my mail is filled with statements of that kind now. I wondered what there was to it. I don't know whether it is propaganda or not.

Mr. FERRY. It does not change the facts as found by these eminent economists and engineers who have gone so much into detail that they have figured the tonnage available, the average content of the ore, the average cost of producing those ores. Much of the stuff coming from California is due to the fact that there are many, many thousands of men otherwise out of employment who are panning for gold.

Senator KING. And they are working the old tailings and the old dumps.

Mr. FERRY. Getting anywhere from 50 cents to 75 cents a day.

Senator HARRISON. There are no new discoveries being made?

Mr. FERRY. None.

Senator HARRISON. Have you got there the figures representing the production of gold in the various countries?

Mr. FERRY. The production?

Senator HARRISON. Yes.

Mr. FERRY. They are available from government sources and I will file them with the committee if you wish.

Senator HARRISON. Yes.

Senator KING. South Africa produces about 70 per cent?

Mr. FERRIS. No, South Africa produces 54 per cent. Within the British confines 74 per cent of the gold of the world is produced.

Senator HARRISON. What per cent do we produce?

Mr. FERRY. We produce about 9 or 10 per cent.

Senator KING. And the South African mines will be exhausted, as Lord Bradbourne says, by 1945 or 1946. And they are now working at levels so deep that it is almost impossible for human beings to remain in that fetid and heated atmosphere. So that with the exhaustion of the mines in South Africa the greater part of the gold supply of the world will be cut off.

Mr. FERRY. 54 per cent.

Senator KING. Yes. One other observation, if I may interrupt you there, Mr. Ferry. Is it not a fact that the economists figure that the increase in population and the normal increase in commodities—say 2 or 3 per cent per annum—would require an accretion to the gold reserve of the world of about 2 per cent anuallly in order to maintain a sort of equilibrium if we are to have the gold standard?

Mr. FERRY. I am touching on that in my next paragraph. A part of it, at least, Senator.

Senator KING. Very well.

Senator BARKLEY. While we are discussing this, and before you go on. I do not want to interrupt you again. Is there an increased activity now in the attempt to discover gold and mine gold in mines that have been more or less sluggish?

Mr. FERRY. Yes.

Senator BARKLEY. What is the result?

Mr. FERRY. The result is a temporary sporadic increase of gold production due to low costs, you see. Compared with the value of gold. But it is an exhaustion of old and known ore bodies and not any new discoveries. The nearest to that I think is some recent discoveries in Canada, in the northern area of Canada, where it looks very well for some substantial gold production. But in a large way, as Professor Cassel has said in his report, there is no reasonable expectation—always the possibility—but no reasonable expectation that new and large gold fields remain undiscovered. And he adds that the greatest problem before statesmenship and finance is to increase the metallic base for money.

There are between eleven and twelve billion dollars of gold in the money scheme of the world. If gold is to remain the basis of the money and credit structure, and if this metallic base is not be to strengthened, supplemented, and stabilized by the use of silver, it seems inevitable that the discrepancy between the comparative values of gold and commodities is bound to increase. This means disaster.

Normally, money and credit requirements increase about 3½ per cent per year, which fact considered in connection with a decreasing gold supply for metallic base and international trade settlements points to the results indicated.

The Macmillan committee in its recent report to the British Parliament, after a learned discussion of economic conditions throughout the world, and especially throughout the British Empire, asserts that the use of silver as a primary money to supplement the gold standard, should receive immediate and favorable consideration.

In our own country much study has been given to this matter. Trade organizations on the Pacific coast have realized the disastrous effect upon their export trade with oriental countries that has been caused by the low price of silver. The executive committee of the American Federation of Labor and the three largest national agricultural organizations have studied and reported upon the disastrous effect to their membership and to the country of the high price of gold. The United States Chamber of Commerce, at its annual meeting in 1932 asserted the importance of the use of silver as money.

As you are aware, two committees of Congress, one from each of its branches, have recently studied the effect of low silver or high gold upon money, exchange, credit, and home and foreign trade.

You, Senators, have doubtless studied the testimony in the records of these committee hearings, and have been impressed not only with the character and testimony of the witnesses, but also with the intelligent discrimination of the committee's findings.

The best opinion of government and business in our own country is against inflation. Too often the word is misused and misunderstood. Fiat money, and the unrestrained activities of the printing press, are not indicated or suggested by what I say. Nor do I at this time ask you to consider the merits of bimetallism. I do most earnestly urge upon you to favorably consider the sound and simple plan of strengthening and stabilizing the gold standard by adding silver to the metallic base. Such a plan is not inflation. On the contrary, if properly worked out, it will insure the maintenance of an adequate metallic base for money and credit, and will stay the urge for unlimited credit money, which after all adds to the burden on gold. This suggestion is not unique or revolutionary. The London Financial Times through its special Canadian representatives, stated specifically that the Ottawa conference which was held last July expected to consider the use of silver as a basic money, and the Times published the exact program which it stated was a part of the agenda to be considered. For reasons which were sufficient to the authority controlling this conference, the subjects of silver, money, and exchange were not presented. It is, however, entirely safe to say that the use of silver as an additional metallic reserve is favorably reviewed by many British statesmen and financiers.

From the foregoing brief outline of this general idea to utilize silver to help the world, and from your knowledge that many far-sighted and intelligent representatives of business and finance favorably consider the idea, we may conclude that a sympathetic consideration of this question is probable. It appears to me that the real question for your committee to consider is whether or not the United States of America should promptly assert the leadership which its position among nations justifies, and enact the suggested legislation without awaiting the formalities, delays, and uncertainties of an international conference. The need and justification for such action are clear when it is realized how disastrous to our own people and to our home and foreign markets is the destructive competition of countries with depreciated currency and exchange.

The plan is not fantastic nor dangerous. It is simple and easily controlled. Its operation will strongly tend to stabilize exchange, to restore the dollar to parity, to elevate and stabilize the commodity price level at a point where productive industry can again become profitable. It will tend to make possible the repayment of borrowed money and of taxes without devastating liquidation. It will stimulate employment and will encourage our citizens to again engage in the production and exchange of goods.

The CHAIRMAN. That is a very good statement.

Senator KING. Yes. Mr. Ferry, if there should be international bimetallism that would be a desideratum which we all require.

Mr. FERRY. There is no question about that.

Senator KING. If England, the British Dominions and the principal commercial nations of the world should agree upon a bimetallic standard, double standard, fixing a ratio of 20 to 1, or 15 or 16 to 1, giving to silver the same validity, the same purchasing power as to gold at that ratio, then that would increase the metallic base upon which rest currencies and credit and tend to increase prices and remove the tremendous tension and pressure upon gold which the world is now experiencing?

Mr. FERRY. Undoubtedly.

Senator KING. So you would not object to—indeed you would favor an international agreement for the rehabilitation of silver?

Mr. FERRY. I would.

Senator BARKLEY. Do you think it can be brought about without an international agreement?

Mr. FERRY. Bimetallism?

Senator BARKLEY. Well, yes. The remonetization of silver, so called? Of course that is a misnomer. That term is not correct, because it is still money. But the process which is commonly described as remonetization of silver, can we do that by ourselves, or will it be necessary to have an international agreement?

Mr. FERRY. If I understand your question, Senator, my answer is that I gravely doubt it. If I understand your question to mean a free and unlimited coinage of silver at a certain fixed ratio by the United States alone.

Senator BARKLEY. Yes.

Mr. FERRY. I should say that it is doubtful if that can be done, in my judgment.

The CHAIRMAN. With safety.

Senator HARRISON. You do not advocate that?

Mr. FERRY. No.

Senator HARRISON. But you do advocate the purchase of silver?

Mr. FERRY. I advocate the use of silver, Senator, as an additional metallic base by accepting it and paying for it with silver certificates.

Senator HARRISON. How much would you buy?

Mr. FERRY. That I do not know. That is a matter for experts to determine.

Senator BARKLEY. Some witness the other day suggested $200,000,000 worth.

Senator KING. Yes.

The CHAIRMAN. $200,000,000.

Senator BARKLEY. $200,000,000 worth of silver. That the purchase of $200,000,000 worth of silver would raise the price of silver, and he suggested the sale of a certain amount of gold that is now used as the basis for money; that by the sale of gold and the purchase of silver on the part of the Government that the chasm between the two would be to some extent bridged. That they would be brought nearer to a parity. What do you think about that?

Mr. FERRY. I think there is some force in it. I confine myself, Senator, to what I deem to be a basic economic truth. While I have not any claims as an expert on economics or upon anything else—economics must be based upon common sense and the lessons that history teaches us. My thought is very definitely that the maldistribution, plus the demonstrated fact, in so far as it is physically possible to make a demonstration, that gold production had reached its apex and will start to decline very soon, plus the known or admitted fact that our ordinary business activities normally increase 3 or 3.5 per cent, while even at best gold increases 1.7 per cent, but has now started to decline, and plus the assumption that we are going to remain upon a metallic credit basis, it seems to me inevitable that we must find some additional metal to supplement the gold reserve. The scramble, of course, for gold is beyond words to describe, as you know much better than I do.

Senator BARKLEY. I know that my scramble for it is beyond words to describe.

Mr. FERRY. And as far as a particular plan or detailed plan, I am not prepared to recommend or suggest any. I am sure that the studies which are being made with the expert advice that is being employed to reach conclusions will bring the right detail out.

Senator KING. Mr. Ferry, your position is that silver should be made to help the world. You are more concerned in helping the world and raising prices to the proper level than you are to aid the silver producer? That is a secondary consideration?

Mr. FERRY. Yes, Senator. The producers of silver who are intelligent—and most of them are—have long since reached the conclusion that silver per se was of no importance. That as a means to an end it might be used very advantageously. And purely from a selfish standpoint a silver producer is not especially interested in an increased price of silver. That sounds strange, does it not?

Senator HARRISON. That is a very startling statement to me.

Senator SHORTRIDGE. I do not understand it.

Mr. FERRY. I will explain it to you very definitely. Eighty per cent of silver production in the world comes as a by-product. There is not more than 20 or 21 per cent which comes from purely silver mines. The rest of it comes as a by-product of copper and lead and zinc and the combinations of those ores. The price of silver governs its production less than does the price of any other thing. The silver mines depend for their prosperity more upon the commodity price level than they do upon the price of silver. So that if silver should be artificially and arbitrarily stimulated in price, and that should result, which it would, in a certain amount of increased production, it would also mean an increased production of lead, copper, and zinc, and upon an already unwilling market with the commodity price level so disastrously low as it now is, the prices of those metals would necessarily go down and our last condition would be worse than our first. That is from a very narrow and very selfish standpoint.

Senator HARRISON. What is the proportion of the content of silver in copper?

Mr. FERRY. Do you mean totally?

Senator HARRISON. No; I mean do you get a larger percentage of silver out of copper ore than you do out of lead?

Mr. FERRY. No.

Senator HARRISON. Or out of zinc? That is what I am trying to get at.

Mr. FERRY. No. The lead and the lead-zinc group furnish a larger proportion than do the copper ores. The copper ores, by reason of their quantity production produce in the total a very substantial amount of silver. But it is very, very low per ton.

The CHAIRMAN. What is the average amount of production of silver as compared with gold in the world?

Mr. FERRY. Fourteen and a half to one. There are about 1,100,000,000 ounces of gold that have been produced since any records have been kept. There are about 15,000,000,000 ounces of silver since records have been kept.

The CHAIRMAN. A little less than that, is it not? I thought it was between eleven and twelve billion ounces of silver.

Mr. FERRY. No. About 15,000,000,000. A little less, perhaps.

Senator BARKLEY. Of course a great deal of that is lost, Senator, so that the quantity of silver in the world to-day would be less.

The CHAIRMAN. I said production.

Mr. FERRY. Yes, you said production.

The CHAIRMAN. I think it is 11,000,000,000 ounces or so.

Senator BARKLEY. How much silver and how much gold is there at the present time that is available for any purpose? A considerable proportion of that which has been produced I guess has been lost and destroyed or something happened to it. How much is there in existence now?

Mr. FERRY. The best information—and there is much information on the subject—much of it is based on a Senate inquiry which took place in 1922 or 1923 inquiring into the production of gold and silver in the world. That is a very illuminating report, carefully gotten out, and a great deal of investigation made prior to its compilation. That and other admitted authorities indicate that 59 per cent of gold is used for money purposes and the balance for the arts and objects of art, and so on. That 75 per cent of silver is used for money even now, and 25 per cent in the arts. So that silver is still money. Was that your question, or did you mean the total?

Senator BARKLEY. I was speaking of the total.

Mr. FERRY. It is believed that after accounting for coinage losses, the sinking of treasure ships and so on, that there are still in hoarding in oriental countries about 7,000,000,000 ounces of silver. That is the accumulation of ages. That, of course, is the savings banks for the ordinary laborer and small farmer, as you well know. And the destruction of the silver price has been a crime against almost half of humanity by destroying the value of savings of generations, as well as the buying power of their real money.

But of course that is in no wise a factor in the silver market, as is well illustrated by what took place during the war period when, because of the necessity which arose for the use of silver coin in payment of work troops, Indian and Chinese work troops, and for the further purpose of settling with India and with Indian merchants, silver coin was needed. There was not any to be had anywhere in the world—silver bullion. And the price of silver went up over night almost. In San Francisco it once touched for a few days \$1.41½ an ounce. In London it touched \$1.72 an ounce. It did not seem possible to get it. And Lord Reading, as you men are well aware, came over here and negotiated with our Government so that England might use the only known reserve, the only reserve that could be handled, and it was so arranged, and in spite of the price we let the Allies have about 200,000,000 ounces of silver at a dollar an ounce.

Senator HARRISON. And the price at that time was what?

Mr. FERRY. In London, was \$1.72 and in our own country from \$1.38 to \$1.41½.

Senator HARRISON. We were quite generous.

Mr. FERRY. Very. Very generous. And the point of the thing is, there wasn't any came out. The higher the silver went the tighter it was held by those who through generations have had faith in silver. And, incidentally, it is a very serious question as to whether—well, there can not be any question—it is a very serious phase of the question, which is, after all, a gold question, that the destruction of faith in silver in these oriental people is going to turn their hoarding proclivities toward gold, and when that gold is hoarded, why of course it is out of circulation.

Senator BARKLEY. How are they going to get very much of it?

Mr. FERRY. They will have to sell some stuff to get it, of course.

Senator KING. By unloading upon the world their commodities at prices that are devastating. They are determined to get gold for hoarding purposes. So it is to our advantage to raise the price of silver through the use of silver as a basic money, thus preventing this hoarding of gold and denuding the Occident of what little gold they have, and increasing the basic structure upon which credit and currency rest.

Mr. FERRY. Exactly so.

Senator HARRISON. You said, though, that that had to be done through international cooperation, and the more nations you get in that cooperation the more effective will be the plan and the better it will work?

Mr. FERRY. I am glad you asked that question, Senator. In so far as the complete installation of the bi-metallic system, which I think is inevitable, if we are going to remain upon a metallic basis, yes. But in so far as a declaration asserting faith and confidence in the use of silver as a basic money I am of the opinion that the United States not only could, but should take that position.

Senator HARRISON. Separate and alone?

Mr. FERRY. Separate and alone. And there is no danger connected with it at all. No danger of any flood. There is no danger of any lack of control. And I really believe that it will tend strongly to avert whatever danger may exist of unrestricted printing-press inflation.

Senator HARRISON. But suppose this country would say: We are going to buy \$500,000,000 worth of silver, without any restriction as to where the silver shall come from, you have no doubt that it will pour in here to that amount?

Mr. FERRY. Without any restriction, yes. But I would make restriction, Senator.

Senator HARRISON. If we said we were going to stabilize it at a certain price, and this Government would pay, say 60 cents for it, is there anything then that would keep other countries from hammering down the price of it and making this country hold the bag?

Mr. FERRY. May I answer that question without being categorical in my reply?

Senator HARRISON. Yes. I just want the facts. I want your opinion about the thing.

Mr. FERRY. The maximum mine production reached 260,000,000 ounces per year. A curious thing about the silver market is that there is no substantial surplus of mine production ever. It is sold whatever the price is. It finds its way somewhere. There is an accumulation of silver for sale purposes, particularly in the Indian Treasury, of perhaps 250,000,000 or 300,000,000 ounces—nobody knows how much quite—which they have used to keep the market between 25 and 30 cents, it is believed, and with the gold reserve—the equalization fund in Great Britain for the so-called purpose of stabilizing the pound, silver in the East, gold in the West, the commodity price level of gold countries has been manipulated and kept low. That 250,000,000 or 300,000,000 ounces should be excluded from the market.

Senator HARRISON. You mean that that is in the equalization fund?

Mr. FERRY. No, in India.

Senator KING. The Indian mint.

Senator HARRISON. In India. I understood you to say about 250,000,000 ounces?

Mr. FERRY. Well, from 250,000,000 to 300,000,000. No one knows quite what it is.

Senator HARRISON. That is the only particular silver that you would exclude?

Mr. FERRY. I would exclude all silver coming from melted-up and debased currency.

Senator HARRISON. China has some?

Mr. FERRY. China has quite an accumulation of silver at Shanghai, but it is driven there from the interior for safe-keeping. And according to the evidence in the Pittman committee report, which still stands good, they had not enough silver to do their business back in the interior. It has come in to the important cities and been put in the banks and vaults, and so on. Mr. Brownell of the American Smelting & Refining Co., one of the largest handlers of silver in the world, is of the opinion that not more than 30,000,000 or 40,000,000 ounces are loose on the market anywhere. There probably would be some speculative silver. He estimates less than 100,000,000 ounces coming from China—oriental countries. So that I am perfectly willing to give as my judgment that not more than 200,000,00 ounces are available at the maximum.

Senator KING. The annual production of silver has been reduced materially so that now the production is substantially 150,000,000 ounces, is it not?

Mr. FERRY. Yes.

Senator HARRISON. You think then, if this country, either by itself or with France and England, should purchase $500,000,000 worth of silver, and the only exception in the matter of purchase would be India, that in itself would have a tendency to inflate prices?

Mr. FERRY. Undoubtedly. It would deflate the comparative value of the gold dollar, in my judgment, providing the money which was issued upon the matellic base so purchased were made legal tender, except as otherwise indicated in the contracts.

The CHAIRMAN. You would have to make it legal tender.

Mr. FERRY. I know. But I mean not merely as token money. As long as silver was used as basic money, I think that is precisely what would occur.

The CHAIRMAN. Is there anything else?

Senator SHORTRIDGE. I would like to ask one or two questions. Can you give us in a few words your definition of money? What is money? You see what I am leading up to?

Mr. FERRY. Yes. Money is a medium of exchange.

Senator KING. Really purchasing power.

Senator SHORTRIDGE. The base of our money structure is gold.

Mr. FERRY. Yes.

Senator SHORTRIDGE. Well, the metal, gold, in the ledge, in the mine, is not money, is it?

Mr. FERRY. No.

Senator SHORTRIDGE. As I understand it, then, it takes some act of government to make that metal money?

Mr. FERRY. That is my belief.

Senator SHORTRIDGE. If that be so, why could not the United States fix a ratio as between the two metals, contemplating the coinage or the issue of a token representing the money supported by the metal base—why could not the United States fix the ratio and proceed upon that theory?

Mr. FERRY. I have no strong conviction that it could not.

Senator SHORTRIDGE. Putting it in a sort of a leading form: Do you not think that if the United States now, a great creditor Nation, should do that, take the affirmative, take the leadership, that certain other great commercial nations would follow suit?

Mr. FERRY. I think they not only would, but I think they would be obliged to.

Senator SHORTRIDGE. That is my thought on the matter. Wherefore, is it your mature conclusion that we, the United States, should wait for these other nations to take action?

Mr. FERRY. It is not. I think we should assert the leadership which the position of our country justifies us in asserting. I am in doubt, as I indicated earlier in the hearing, that the United States alone and unaided could open its mints to the free and unlimited coinage of silver. Although there is strong reason to believe that if that were done, or if it were seriously contemplated, the immediate agreement could be had of one or two other leading nations. But there can be no doubt in the minds of thoughtful men, it seems to me, that the international consideration of these things—silver, as well as international debts and tariffs—are pawns in a game. They are trading points.

Senator SHORTRIDGE. Well now, quite apart from the question as a purely monetary question, would not some legislation looking toward the remonetizing—to use that word—of silver be of benefit to the United States in view of our economic condition? Meaning, would it not put men to work?

Mr. FERRY. It would unquestionably do that.

Senator SHORTRIDGE. I noted, of course, in what you said, that in a sense silver was a by-product in mining. Nevertheless if silver took on a greater value it would encourage the development of our silver mines, would it not, and give employment to our people?

Mr. FERRY. Oh, yes. But silver per se is of comparatively no importance even in the great picture. It has no more importance, it seems to me, than its relative position to other lines of industry.

Senator SHORTRIDGE. Now the final question. Certain nations owe us money. And they have agreed to pay us. And the agreement is evidenced in writing, clear, definite, nothing uncertain as to time, nothing uncertain as to principal or interest or time of payment. And those several agreements provide that these moneys shall be paid in gold as of the then standard value. These agreements are in force. They are valid agreements, legal agreements as between, for example, France and the United States, Italy and the United States, Czechoslovakia and the United States. Now if called upon to pay the contracts provide they shall pay in gold, as I said. Is there any reason why they should pay in gold at an exaggerated or an appreciated value now as compared to what it was when the contracts were entered into? You grasp my meaning?

Mr. FERRY. I do.

Senator SHORTRIDGE. What is your judgment, if you will have the goodness to give me your views?

Mr. FERRY. My judgment of the matter is that the commodity price level or the relationship between dollars and things must be stabilized at a point where there is more equity between debtor and creditor before the consideration of ability to pay can be properly made.

Senator SHORTRIDGE. If I understand you that would hold good as between two individuals?

Mr. FERRY. Absolutely.

Senator SHORTRIDGE. That is to say, if I owed you $1,000 to be paid a year hence is it your view that we shall sit down together and a year hence consider whether I was to pay you $1,000 or $980?

Mr. FERRY. No; not that strong. My position is illustrated by the position on farm mortgages, where it takes 2 or 3 bushels of wheat to buy the dollar to pay the mortgage now, when it took 1 or 2 bushels, perhaps, to buy it when the dollar was borrowed; but now four or five years afterwards when that mortgage becomes due the farmer can not buy the dollar at the price he bought the dollar he borrowed. Of course there would be fluctuations, but not fluctuations to the extent of 60 per cent as our Commerce Department indicates in its reports.

Senator SHORTRIDGE. Then there is no such thing as certainty in the matter of contracts to pay money in the future?

Mr. FERRY. Oh, yes. I am not suggesting any violation of contracts, sir. I am suggesting the broad principle of reasonable stabilization between commodity price level and money.

Senator SHORTRIDGE. Thank you very much.

The CHAIRMAN. Mr. M. S. Eccles.

## STATEMENT OF M. S. ECCLES, PRESIDENT FIRST SECURITY CORPORATION, OGDEN, UTAH

The CHAIRMAN. Mr. Eccles, give your name and your address for the record.

Mr. ECCLES. M. S. Eccles, Ogden, Utah.

The CHAIRMAN. You are interested in banking institutions in not only Utah, but Idaho?

Mr. ECCLES. Yes.

The CHAIRMAN. You may proceed, Mr. Eccles.

Mr. Eccles. Let me say at the outset that I am not appearing here as a representative of any one class or section. Nor am I suggesting measures designed to help my section of the country at the expense of any other section. The ideas I shall present have not been gained through contact with or interests in any one line of private or public occupation. I happen to be interested in the following businesses:

President of First Security Corporation, owning and operating 26 banks and 1 trust company in the principal points of Utah and southern Idaho, all in the trade territory of the Salt Lake Federal reserve branch. Total resources of approximately $50,000,000. None of these banks are borrowing money from the Reconstruction Finance Corporation. The organization has been through the effects of numerous, important bank failures in the same communities in which it operates.

Vice president and treasurer of the Amalgamated Sugar Co., one of the large beet sugar companies of the United States, producing the past year 2,000,000 bags of sugar.

President of Sego Milk Products Co., engaged in the production of evaporated milk, butter, cheese, and ice cream with plants in the States of Utah, Idaho, and California.

President of the Utah Construction Co., largely engaged in railroad, highway, and dam construction, and one of the six companies building Boulder Dam.

President of the Stoddard Lumber Co., a pine lumber manufacturing concern in eastern Oregon, normally producing 30,000,000 feet per year.

Director of 2 chain retail concerns—the Anderson Lumber Co., owning and operating 14 retail lumber yards in northern Utah and southern Idaho; the Mountain States Implement Co., owning and operating a wholesale house in Ogden and 10 retail stores in northern Utah and southern Idaho.

Member of governor's executive relief committee.

Director of Salt Lake branch of Reconstruction Finance Corporation. I mention these contacts merely to rebut any assumption that my views are founded upon theory alone. I am, however, without political experience, having never held a political office. Nor are my politics entirely free from blemish, as I am one of the many who last fall wandered from the Republican fold, although with some misgivings, because I felt that Republican leadership had failed to act with sufficient understanding and courage to remedy the ills from which we now suffer.

The measures proposed by me, while more far-reaching than have been used to date, are predicated upon sound Government finance. Nor do they involve any measure of inflation of the popular brand. I believe the adoption of any or all of them would not in any degree weaken our gold standard or cheapen the gold content of our dollar. Now, I am not so sure, since I prepared this paper a week ago, due to the developments of the last few days. They, of course, are changing the situation relative to our gold standard, I think very, very rapidly. I think there is a good deal of gold hoarding. And, of course, with the increased hoarding of currency it means 40 per cent of that amount must be set aside in gold and becomes worthless in so far as its value in our money system is concerned.

The CHAIRMAN. *I suppose you know that there has been gold hoarding from your own experience.*

*Mr. ECCLES. Yes. But mostly from hearsay.*

On the contrary, I am firmly convinced that these measures would protect and strengthen the sound money of this country and its gold standard. The propositions I offer are all intended to bring about, by Government action, an increase of purchasing power on the part of all the people, resulting in an immediate and increasing volume in all lines of business with consequent diminution of unemployment and distress and gradual restoration of our national income. When this is accomplished, and not before, can the Government hope to balance its Budget and our people regain the standard of living to which the material wealth of this country entitles them.

Before effective action can be taken to stop the devastating effects of the depression, it must be recognized that the breakdown of our present economic system is due to the failure of our political and financial leadership to intelligently deal with the money problem. In the real world there is no cause nor reason for the unemployment with its resultant destitution and suffering of fully one-third of our entire population. We have all and more of the material wealth which we had at the peak of our prosperity in the year 1929. Our people need and want everything which our abundant facilities and resources are able to provide for them. The problem of production has been solved, and we need no further capital accumulation for the present, which could only be utilized in further increasing our productive facilities or extending further foreign credits. We have a complete economic plant able to supply a superabundance of not only all of the necessities of our people, but the comforts and luxuries as well. Our problem, then, becomes one purely of distribution. This can only be brought about by providing purchasing power sufficiently adequate to enable the people to obtain the consumption goods which we, as a nation, are able to produce. The economic system can serve no other purpose and expect to survive.

If our problem is then the result of the failure of our money system to properly function, which to-day is generally recognized, we then must turn to the consideration of the necessary corrective measures to be brought about in that field; otherwise, we can only expect to sink deeper in our dilemma and distress, with possible revolution, with social disintegration, with the world in ruins, the network of its financial obligations in shreds, with the very basis of law and order shattered. Under such a condition nothing but a primitive society is possible. Difficult and slow would then be the process of rebuilding and it could only then be brought about on a basis of a new political, economic, and social system. Why risk such a catastrophe when it can be averted by aggressive measures in the right direction on the part of the Government?

Our leadership has delayed far too long in attempting to deal intelligently with our problems, which can be met only by the bold and courageous action of government, coupled with the unselfish, intelligent, and cooperative support of our business and financial leadership, the whole effort designed in the interest of our entire people. In the mad confusion and fear brought about by our present disordered economy, we need bold and courageous leadership more than at any other time in our history for the reason that our industrial evolution has made necessary a new economic philosophy, a new business point of view and fundamental changes in our social system. The nineteenth century economics will no longer serve our purpose—an economic age 150 years old has come to an end. The orthodox capitalistic system of uncontrolled individualism, with its free competition, will no longer serve our purpose. We must think in terms of the scientific, technological, interdependent machine age, which can only survive and function under a modified capitalistic system controlled and regulated from the top by government.

What I have said could no doubt be considered academic unless the discussion of it reveals some specific constructive propositions for solution of our immediate problems, which now call for first-aid measures due to the failure of those in authority to act sooner. Before offering and considering in detail what I will term a "five-point program," it is pertinent to consider the operation of our money world, how it has failed to be a servant in our real world and instead is our tyrant and master.

Money has no utility or economic value except to serve as a medium of exchange. Inflation and deflation are expressed in the increased and decreased purchasing power of money, which we speak of as a cheap dollar or a dear dollar according to what it will buy. At present our dollar is too valuable measured in terms of goods and services, or, conversely, goods and services are too cheap measured in dollars. Were it not for our debt structure the fluctuating and unstable dollar would not raise such havoc with our economic system. Our debt and credit structure is the very foundation of our capitalistic society and our unstable dollar results in a large measure from the uncontrolled operation of this system.

We could do business on the basis of any dollar value as long as we have a reasonable balance between the value of all goods and services if it were not for the debt structure. The debt structure has obtained its present astronomical proportions due to an unbalanced distribution of wealth production as measured in buying power during our years of prosperity. Too much of the product of labor was diverted into capital goods, and as a result what seemed to be our prosperity was maintained on a basis of abnormal credit both at home and abroad. The time came when we seemed to reach a point of saturation in the credit structure where, generally speaking, additional credit was no longer available, with the result that debtors were forced to curtail their consumption in an effort to create a margin to apply on the reduction of debts. This naturally reduced the demand for goods of all kinds, bringing about what appeared to be overproduction, but what in reality was underconsumption measured in terms of the real world and not the money world. This naturally brought about a falling in prices and unemployment. Unemployment further decreased the consumption of goods, which further increased unemployment, thus bringing about a continuing decline in prices. Earnings began to disappear, requiring economies of all kinds—decreases in wages, salaries, and time of those employed.

And thus the vicious cycle of deflation was continued until after nearly the four years we find one-third of our entire working population unemployed, with prices of everything greatly reduced, raw products of all kinds selling at an unprecedentedly low level; our national income reduced by 50 per cent with the aggregate debt burden greater than ever before, not in dollars but measured by present values which represents the ability to pay; fixed charges, such as taxes, railroad and utility rates, insurance and interest charges close to the 1929 level and requiring such a portion of the national income to meet them that the amount left for consumption goods is not sufficient to support the population.

Senator WALSH of Massachusetts. That is a good statement.

Mr. ECCLES. As a result of this pressure we hear demands for increased economies in every field, both public and private, which can only make for further distress and unemployment and less buying power. The debt structure, in spite of the great amount of liquidation during the past three years, is rapidly becoming unsupportable, with the result that foreclosures, receiverships and bankruptcies are increasing in every field; delinquent taxes are mounting and forcing the closing of schools, thus breaking down our educational system, and moratoriums of all kinds are being resorted to—all this resulting in a steady and gradual breaking down of our entire credit structure, which can only bring additional distress, fear, rebellion, and chaos. Individuals, corporations, cities, and States can not, of themselves, do anything except play according to the rules of the present money system and make their outgo balance their income, or ultimately "go broke." Most of them are unable, much as they may desire, to give consideration to helping the general situation except as they may influence the action of the Federal Government, which is in an entirely different category, it being able to make and change the rules of the game.

The Government controls the gold reserve, the power to issue money and credit, thus largely regulating the price structure. Through its power of taxation it can control the accumulation and distribution of wealth production. It can mobilize the resources of the Nation for the benefit of its people. As an example of Government control and operation of the economic system look to the period of the war, at which time, under Government direction, we were able to produce enough and support not only our entire civilian population on a standard of living far higher than at present, but an immense army of our most productive workers engaged in the business of war parasites on the economic system, consuming and destroying vast quantities produced by our civilian population; we also provided the allies with an endless stream of war materials and consumption goods of all kinds. It seemed as though we were enriched by the waste and destruction of war. Certainly we were not impoverished, because we did not consume and waste except that which we produced. As a matter of fact we consumed and wasted less than we produced as evidenced by the additions to our plant and facilities during the war and the goods which we furnished to our allies. The debt incurred by the Government during the war represents the profit which accrued to certain portions of our population through the operation of our economic system. No Government debt would have been necessary and no great price inflation would have resulted if we had drawn back into the Federal Treasury through taxation all of the profits and savings accumulated during the war.

Senator WALSH of Massachusetts. Another good statement.

Mr. ECCLES. No government debt would have been necessary and no great price inflation would have resulted if we had drawn back into the Federal Treasury through taxation all of the profits and savings accumulated during the war; in which case, it would not have been necessary to use Government credit for the purpose of supplying our allies with the endless stream of goods which we furnished them and we now would not be concerned with the vexations interallied debt problem.

Why was it that during the war when there was no depression we did not insist upon balancing the Budget by sufficient taxation of our surplus income instead of using Government credit to the extent of $27,000,000,000? Why was it that we heard nothing of the necessity of balancing the Federal Budget in order to maintain the Government credit when we had a deficit of $9,000,000,000 in 1918 and $13,000,000,000 in 1919? Why was it that there was no unemployment at that time and an insufficient amount of money as a medium of exchange? How was it that with one billion less gold then than we now have we were not concerned about our gold standard?

Senator WALSH of Massachusetts. Because we drafted human lives and not money.

Mr. ECCLES. That is right. How was it that during the period of prosperity after the war we were able in spite of what is termed our extravagance—which was not extravagance at all; we saved too much and consumed too little—how was it we were able to balance a $4,000,000,000 annual Budget, to pay off ten billion of the Government debt, to make four major reductions in our income tax rates (otherwise all of the Government debt would have been paid), to extend $10,000,000,000 credit to foreign countries represented by our surplus production which we shipped abroad, and add approximately $100,000,000,000 by capital accumulation to our national wealth, represented by plants, equipment, buildings, and construction of all kinds? In the light of this record, is it consistent for our political and financial leadership to demand at this time a balanced Budget by the inauguration of a general sales tax, further reducing the buying power of our people? Is it necessary to conserve Government credit to the point of providing a starvation existence for millions of our people in a land of superabundance? Is the universal demand for Government economy consistent at this time? Is the present lack of confidence due to an unbalanced Budget?

What the public and the business men of this country are interested in is a revival of employment and purchasing power. This would automatically restore confidence and increase profits to a point where the Budget would automatically be balanced in just the same manner as the individual, corporation, State, and city budget would be balanced.

Senator WALSH of Massachusetts. It would not be balanced immediately; it would be balanced in the future.

Mr. ECCLES. I am saying that when that is done it would automatically balance as with an individual or corporation, because you create the source of wealth by labor and employment, which is the only source of wealth.

Senator WALSH of Massachusetts. Would you increase the taxes or borrow the money necessary to cover the deficit now between the income and expenditures?

Mr. ECCLES. I answer that later.

Senator WALSH of Massachusetts. Thank you.

Mr. ECCLES. We must correct the causes of the depression rather than deal with the effects of it, if we expect recovery with its attendant confidence and budget balancing. This can only be accomplished by government action tending to raise the price level of raw products and increasing employment, thus bringing about an increased demand for consumers' goods.

Senator SHORTRIDGE. That is just the point that I would like you to get to.

Mr. ECCLES. I will get to that later.

Senator SHORTRIDGE. Very well.

Mr. ECCLES. Every effort has been used to bring this about by the Reconstruction Finance Corporation and the Federal reserve banks without result, demonstrating that extension of credit alone is not the solution. Credit is the secondary offensive when there is a basis of credit through the raising of the price level and an increase in the demand for goods requiring credit. Nor is the correction of our present difficulties to be found in a general scaling down of debts in an effort to bring them in relation to the present price levels. During the past three years there has been such tremendous liquidation and scaling down of debts that extraordinary measures have had to be taken to prevent a general collapse of the credit structure. If such a policy is continued what assurance is there that the influences radiating from a marking down of the claims of creditors will not result in a further decline of prices? In other words, after we have reduced all debts through a basis of scaling down 25 per cent to 50 per cent, what reason have we to expect that prices will not have a further decline by like amount? And then again, the practical difficulties of bringing about such an adjustment on a broad scale seem to be insurmountable.

The time element required would indefinitely prolong the depression; such a policy would necessitate the further liquidation of banks, insurance companies, and all credit institutions, for if the obligations of public bodies, corporations, and individuals were appreciably reduced the assets of such institutions would diminish correspondingly, forcing their liquidation on a large scale. Nothing would so hinder any possibility of recovery. Bank and insurance failures destroy confidence and spread disaster and fear throughout the economic world. The present volume of money would diminish with increased hoarding and decreased credit and velocity, making for further deflation and requiring increased Government support without beneficial results until we would be forced from the gold standard in spite of our 40 per cent of the world's gold, and, at that point, an undesirable and possibly an uncontrolled inflation with all its attendant evils would likely result, and thus the very action designed to preserve the gold standard and reestablish confidence would destroy both.

In my opinion, we can bring about and support a price level which will reestablish employment and credit on a sound money basis if action is not too long delayed on the part of our Government. The last 10 days have changed the thing. I am not as certain as I was a week or two ago whether we can do it on the gold basis or not.

Senator SHORTRIDGE. You say the action of Government. You will come to it, I suppose?

Mr. ECCLES. Yes. I have got the five points here.

Senator SHORTRIDGE. Of just what you would do?

Mr. ECCLES. Yes, sir.

Present low prices are not justified by the volume of our currency in circulation and bank deposits, the aggregate of the two making up our total volume of money. It is because of hoarding by both individuals and banks that there is an apparent shortage of money and consequently there is a great demand for the inflation of our currency, the remonetization of silver, or the reduction of the gold content of the dollar——

Senator WALSH of Massachusetts. Those are the two methods of deflation you suggest?

The CHAIRMAN. Yes; but he has reference to hoarding by the banks and individuals.

Mr. ECCLES. It is because of hoarding by both individuals and banks that there is an apparent shortage of money and consequently there is a great demand for the inflation of our currency, the remonetization of silver, or the reduction of the gold content of the dollar, with the idea that any one of the three methods would increase our volume of money and thus raise prices, relieving debtors and bringing about prosperity. None of these three, in my opinion, would accomplish the results desired unless a method would be provided for getting the increased supply of money to the ultimate consumer.

It does not make any difference what kind of inflation, if the inflation is adopted—you can print money, you can remonetize silver, you can reduce the gold content of the dollar and it is not going to raise your price level unless you start the purchasing power at the source with the consumer.

Senator WALSH of Massachusetts. Unless it is widely scattered and moves with rapidity.

Mr. ECCLES. Yes.

Why resort to inflation of the sort referred to when prices can be increased and business revived on the basis of our present money system? We have nearly one and a half billion currency more in circulation at the present time than we had at the peak of 1929, and under our present money system we are able to increase this by several billion more without resorting to any of the three inflationary measures popularly advocated. There is sufficient money available in our present system to adequately adjust our present price structure. Our price structure depends more upon the velocity of money than it does upon the volume. The velocity is measured by the annual turnover of bank deposits or what is termed "bank debits," representing checks issued. Ninety per cent of our business is done by the bank check; currency, augmented by silver, normally is largely used as pocket money and represents 10 per cent; gold is held in reserve banks to support our currency.

In 1929 the high level of prices was supported by a corresponding velocity of credit. The last Federal Reserve Bulletin gives an illuminating picture of this relationship as shown by figures of all member banks. From 1923 to 1925 the turnover of deposits fluctuated from 26 to 32 times per year. From the autumn of 1925 to 1929 the turnover rose to 45 times per year. In 1930, with deposits still increasing, the turnover declined at the year end to 26 times. During the last quarter of 1932 the turnover dropped to 16 times per year. Note that from the high price level of 1929 to the low level of the present this turnover has declined from 45 to 16, or 64 per cent. And, mind you, 90 per cent of all business is done on bank checks, so that that represents your velocity.

Senator WALSH of Massachusetts. And the figures, if we could get them, for January and February would show a further decline.

Mr. ECCLES. Yes; would show a much further decline.

Senator GORE. And in 1929 the turnover was 45 times?

Mr. ECCLES. Yes.

Senator GORE. But in New York City the turnover was over 150 times.

Mr. ECCLES. I am taking the country as a whole. It varies with different parts of the country.

Senator GORE. Yes.

Mr. ECCLES. While during the same period the volume of money represented by total bank deposits and currency has declined approximately 22 per cent. It is clear, therefore, that the velocity, rather than the quantity of money, supports the price structure and that our problem to-day is not one of increasing the volume of money but its velocity.

Senator WALSH of Massachusetts. But, as a matter of fact, we have increased the volume or currency.

Mr. ECCLES. Yes; currency, but the total of currency and bank deposits is 22 per cent less than in 1929.

Senator GORE. But currency alone is about 25 or 30 per cent more.

Mr. ECCLES. Yes; but it is not working. Some of it is in hoarding.

Senator WALSH of Massachusetts. What figure did you give, Senator?

Senator GORE. Twenty-five per cent.

Mr. ECCLES. No; currency is more than that to-day. Currency to-day is close to 30 per cent more.

The CHAIRMAN. Then the bank deposits must be less.

Mr. ECCLES. The bank deposits are possibly 30 per cent less, or between 25 and 30 per cent. The 22 per cent represents the combination of the volume of currency and bank deposits. The deposits are more than 22 per cent less.

The CHAIRMAN. That is what I said.

Mr. ECCLES. And currency is 30 per cent more. Making the average 22 per cent.

Several factors to-day stand in the way of increasing our money velocity.

I repeat there is plenty of money to-day to bring about a restoration of prices, but the chief trouble is that it is in the wrong place; it is concentrated in the larger financial centers of the country, the creditor sections, leaving a great portion of the back country, or the debtor sections, drained dry and making it appear that there is a great shortage of money and that it is, therefor, necessary for the Government to print more. This maldistribution of our money supply is the result of the relationship between debtor and creditor sections—just the same as the relation between this as a creditor nation and another nation as a debtor nation—and the development of our industries into vast systems concentrated in the larger centers. During the period of the depression the creditor sections have acted on our system like a great suction pump, drawing a large portion of the available income and deposits in payment of interest, debts, insurance and dividends as well as in the transfer of balances by the larger corporations normally carried throughout the country. This makes for a shortage of funds in the agricultural areas and an excess of funds in the cities.

During our period of prosperity funds were flowing from the creditor sections into the debtor sections in the extension of new credits and capital expansion as fast or faster than they were flowing out. There is no way of reviving the return flow through the operation of credit or investment until there is a basis for credit brought about through an increased price level and until there is an opportunity of profit through further investment of capital. The agricultural areas during the periods of prosperity did not share in their portion of the national income and this made for further concentration of money in the creditor sections, with too large a portion of our aggregate debts in the agricultural areas. This explains the reason for a greater financial collapse as shown by the bank failure record throughout the entire back country, represented largely in the agricultural areas.

The maladjustment referred to must be corrected before there can be the necessary velocity of money. I see no way of correcting this situation except through Government action.

It is estimated that one-third of our population is dependent upon agriculture in its varied forms and it is recognized that prosperity is impossible without a revival of the purchasing power of our agricultural population. To bring about the restoration of business to the average of the postwar period I have to suggest five points as first-aid measures designed to bring about recovery. Action with reference to these should be taken immediately. They are as follows:

First. Make available as gift to the States on a per capita basis $500,000,000 to be used during the balance of this year in assisting to adequately take care of the destitute and unemployed, pending a revival in business which should result from the following program.

Senator WALSH of Massachusetts. Is that a gift or a loan?

Mr. ECCLES. I am covering it here. I am first outlining them and then I cover each point individually in detail.

Senator GORE. We passed a law the other day in which among other things we gave the District of Columbia $600,000. Now they are asking for $200,000 more. I was talking to the head of the community chest of this city and he said that the representatives who distribute this fund came here to Congress and lobbied and got that $600,000 without ever asking him about it; without even getting an estimate from him. Yesterday two Senators advised the District Commissioners to turn in a request for $250,000 more. And they will do it, and they will get it. There is not any end to that business.

Senator SHORTRIDGE. Did you suggest a fund of $500,000,000?

Senator WALSH of Massachusetts. I wish you would read that first suggestion again.

Mr. ECCLES. First. Make available as gift to the States on a per capita basis $500,000,000 to be used during the balance of this year in assisting to adequately take care of the destitute and unemployed, pending a revival in business which should result from the following program.

Second. Increase the amount of Government funds——

Senator WALSH of Massachusetts. You are coming back to a discussion of that first point when you finish giving the five points you referred to?

Mr. Eccles. Yes.

Second. Increase the amount of Government funds to two and a half billion dollars, and more if necessary, for self-liquidating projects and loans to cities, counties, and States for public works on a liberal basis at a low rate of interest.

Senator Walsh of Massachusetts. How large is that amount?

Mr. Eccles. Two and one-half billion dollars.

Senator Gore. We passed a bill the other day doing away with the self-liquidating feature. You know as you start this you do not stop. It gets worse and worse.

Mr. Eccles. Third. The adoption of the domestic allotment plan, or a similar plan, designed to regulate production and raise prices.

Fourth. Refinancing farm mortgages on a long term basis at a low rate of interest.

Fifth. A permanent settlement of the interallied debts on a sound economic basis, cancellation being preferable.

Senator Shortridge. What! Cancel all those debts?

Mr. Eccles. I will get to that in just a minute.

Senator Shortridge. Well, go on.

Mr. Eccles. I will cover those points.

Point No. 1. Unemployment relief. Without going into any detail or figures, it is recognized by everyone that our most urgent and acute problem to-day is to immediately provide adequate relief to the millions of our people who are destitute and unemployed in every corner of our Nation. It is national disgrace that such suffering should be permitted in this, the wealthiest country in the world. The present condition is not the fault of the unemployed, but that of our business, financial, and political leadership. It is incomprehensible that the people of this country should very much longer stupidly continue to suffer the wastes, the bread lines, the suicides, and the despair, and be forced to die, steal, or accept a miserable pittance in the form of charity which they resent, and properly resent. We shall either adopt a plan which will meet this situation under capitalism, or a plan will be adopted for us which will operate without capitalism.

Private charity is almost entirely exhausted. It is impossible for most of our political subdivisions to provide additional funds through borrowing or taxation. Many of them are in default at the present time in the meeting of their obligations and are unable to provide funds necessary to pay the expense of their schools and local government. I am on the Governor's Executive Unemployment Relief Committee of my State and although I am sure the unemployed receive as much or more than in many sections of the country, available funds are entirely inadequate to meet the situation, which is daily becoming more difficult to control.

I advocate that the Government make available, as the most urgent of all emergency measures, at least $500,000,000 to be distributed to the States as required, as a gift and not as a loan, on a per capita basis in such amounts as will enable the relief organizations of each State to take care of the needs of the unemployed in a more adequate manner than has heretofore been possible. For this reason, that when it is made as a loan there is a resistance to borrowing. There is a cutting down to a point of starvation. When a State has to borrow the money that is the attitude of the public officials of the State as a result of the demands of business leaders and taxpayers generally for economy.

Senator WALSH of Massachusetts. When it is a gift the lid is off?

Senator GORE. Where does the Federal Government get this money to give to the States?

Mr. ECCLES. Where did it get $27,000,000,000 during the war to waste?

Senator GORE. A very different situation.

Senator WALSH of Massachusetts. Let him finish his two sentences under No. 1 and then we will ask him some questions.

Mr. ECCLES. To do less would be to fail in the first duty of government, the protection of the lives of its citizens. This support of the unemployed by Government should rapidly decrease as appropriate action is taken by the Government to restore the proper functioning of our economic system.

Senator WALSH of Massachusetts. Now may I ask you a few questions?

Mr. ECCLES. I am just wondering if it is all right to continue with my statement, Senator. Maybe the questions will be answered during the course of my statement.

Senator WALSH of Massachusetts. I would like to discuss this thing with you.

Mr. ECCLES. Yes.

Senator WALSH of Massachusetts. Is it a fact that the greatest distress in this country to-day is in the large centers of population?

Mr. ECCLES. Well, I am not in a position to say what the distress is in the larger cities.

Senator WALSH of Massachusetts. Are there not many more million people in need and distress in the large centers of population rather than in the farming districts?

Mr. ECCLES. I believe that is true.

Senator WALSH of Massachusetts. You are asking the Federal Government to give money to New York State in large volume, to Massachusetts in large volume, to Ohio in large volume, and to Illinois in large volume, on the theory that they, the richest States in the Union, from whom the Federal Government must get it money, can not support this situation. How can you justify that?

Mr. ECCLES. On this ground——

Senator WALSH of Massachusetts. How can you justify giving money out of the Federal Treasury to the State of New York, whose per capita indebtedness is insignificant compared to the Federal Government, who is the great treasure house for the Federal Government to go to for its money, on the theory that it is so bankrupt, it is so helpless that it can not take care of its poor and starving people? We might as well confess bankruptcy if we ever reach that situation.

Mr. ECCLES. Well, there is this difference. A State, of course, is in the same financial category as corporations and individuals in that they do not have the power of issuing money or credit. The Federal Government is entirely in a different category because it controls the money system. It is true that the State of New York and the State of Pennsylvania and these other States are creditor sections, not debtor States. In other words, the wealth of the State is less than the wealth of the people living in the State.

Senator WALSH of Massachusetts. I do not follow you. The State has the same power of taxation as the Federal Government.

Mr. ECCLES. That is true. But to-day you have not the basis of taxation, for the reason that the production of wealth has largely stopped through unemployment. Now the credit of the Federal Government is in relation to the national income. If the national income is cut in two, then it goes a long way to destroying the credit of the Federal Government on a gold basis.

Senator GORE. You do not think there is any way to destroy the credit of the Federal Government, do you?

Senator WALSH of Massachusetts. Senator Gore, may I finish my inquiry?

Senator GORE. Senator, he said it might destroy the credit of the Federal Government. I did not think that it was possible to destroy the credit of the Federal Government; that it was just inexhaustible and infinite. Pardon me for interrupting, Senator.

Mr. ECCLES. The more unemployment there is the less production of wealth there is and the less ability to pay taxes and support Federal credit unless inflation without regard to the gold standard is resorted to.

Senator GORE. Is Congress going to tax somebody that these States can not tax? What is the resource, what is the reservoir that the Federal Government can tap except the pocketbooks of the people in Utah and New York?

Mr. ECCLES. Wealth is not distributed and ability to pay is not distributed according to population.

Senator GORE. Not entirely.

Mr. ECCLES. No. There is a great difference. In other words, the income tax paid by certain States is a far greater percentage of the total national income tax collected than their population.

Senator GORE. Yes; there is about half a dozen or such a matter. And yet they are coming here asking the Federal Government to supply them funds to feed the hungry, notwithstanding that when that money is repaid they will have to pay a disproportionate share of it.

Senator WALSH of Massachusetts. Exactly. I can understand, young man, and I will vote for any amount of money that is necessary for any State that confesses its inability to borrow money to take care of its poor, Utah, or whatever State—all that it needs. But I can not vote to give money to the State of Massachusetts and the State of New York and the State of Pennsylvania and the State of Ohio, which are the chief sources of wealth in this country, from which the wealth must come, when they have a credit equally as good as the Federal Government.

Mr. ECCLES. Well, their credit can not be as good as that of the Federal Government, for this reason. In the first place, Government bonds are eligible for rediscount with the Federal reserve banks, and that in itself creates the ability with which to get credit.

Senator WALSH of Massachusetts. Very well. Let us issue Government bonds and have the State at the same rate give the Federal Treasury its bonds in return, so that the interest rate in these rich States will be reduced to what the Government will borrow. That is a proposition that might well be given consideration.

Mr. ECCLES. You provide the means with the Government bonds of credit. A State in order to get credit must, of course, be able to sell its securities; and the market for its securities is not the same market, not as good a market, by any means, as the market for Federal Government securities for the reason that, of course, the Federal Government has all the resources of the Nation from which to draw, and, secondly, that the Federal Government bonds are eligible for rediscount, eligible to secure Government postal savings and all public deposits, and they always have a ready and favorable market, which, of course, makes them more desirable.

Senator WALSH of Massachusetts. Do you know any governor in the United States of America who is willing to make a public statement that he is not providing sufficient relief for those in want and need in his State?

Mr. ECCLES. Well, I think a governor would hesitate to do that.

Senator WALSH of Massachusetts. But you are indicting the governor and the legislature of your State and in my State in saying they have failed to appropriate the necessary money. Why, they ought to close schools rather than let people suffer. They ought to shut down the schools and save that money and turn it in to feed starving people. But to come in here and say that the local governments have allowed starvation to go on without taking care of it and the legislatures have failed to meet this emergency, but that the Federal Government, having more heart, having more soul, having more agencies than the local people, being more interested in these local people, must give them the money and send agents in there to take care of this problem seems to me to be preposterous.

Mr. ECCLES. I do not think agents should be sent in.

Senator WALSH of Massachusetts. Are you going to give Tammany Hall $5,000,000 more to spend? How do you know it is going to the needy?

Mr. ECCLES. I do not think that actual starving has occurred. I mean there is a lot of suffering because the amount that these people get is entirely inadequate.

Senator WALSH of Massachusetts. And then after we give $500,000,000 it will be inadequate upon the standards of some people, so you will be coming on and on indefinitely. It seems to me, young man, that what we have got to adhere to is the local authority, the local agents who know these people, who live with them, whose sympathies are with them, whose hearts are with them; they have got to take care of them and distribute these charities; and if the State has not got enough money to take care of them, then it is a confession that it is not solvent. It is a confession that it becomes a dependent of the Federal Government, and the Federal Government has to take care of it.

Mr. ECCLES. There is no question about that. The State has no power to make money. It is not a sovereign power It can not call men to war and provide billions for that purpose. It can not end the depression all of which the Federal Government can do.

Senator WALSH of Massachusetts. Those States are to give up their statehood, and the Federal Government take over the management of their affairs, because once the State welfare is undertaken by the Federal Government for the feeding of its people the Federal Government should take over everything, schools, churches, and everything, in my judgment.

Mr. ECCLES. I think that is largely what you may have to do. Unless the Government soon recognizes its position as the only stabilizer of our economic system and acts accordingly, unemployment relief required is due to Government failure to act sooner.

Senator SHORTRIDGE. Let me ask you this, and then I will not interrupt you until you finish your statement. Take Utah. Its credit is good, is it not?

Mr. ECCLES. Well, I think so. I do not think that a State should be required to——

Senator SHORTRIDGE. That is not the question.

Mr. ECCLES. I think its credit is good, yes.

Senator SHORTRIDGE. If there be suffering in Salt Lake City or in any of the cities of that fine State the credit of Utah, you tell me, is good?

Mr. ECCLES. Yes.

Senator SHORTRIDGE. Utah, as a State then, could raise money, could it not?

Mr. ECCLES. Yes; a limited amount.

Senator SHORTRIDGE. And with that money it could, through its proper agencies, relieve any present suffering of the people, could it not?

Mr. ECCLES. I think so.

Senator WALSH of Massachusetts. Why does it not do it?

Senator SHORTRIDGE. That would be my final question.

Senator WALSH of Massachusetts. Why does it not do it? Feeding the hungry is primary to everything else. They ought to close up even the health department, they ought to close up the schools, they ought to abandon their police force rather than let people be hungry.

Mr. ECCLES. States must preserve their credit so that will not be necessary. That is why unemployment relief is the responsibility of the Government. I do not think people are hungry, except people that do not report. I do not think generally people are hungry, but I do think that people are not being taken care of in anywhere near the relation or the ability that this country and the resources of this country enables them to be taken care of.

Senator SHORTRIDGE. Well, if they have enough to eat and a fair suit of clothes and can read the newspapers they are happy, are they not? That is all they want nowadays.

Senator GORE. If Utah raised money for this purpose through borrowing and taxation there would be some little sense of economy in administering it, would there not? You think too much economy?

Mr. ECCLES. I think if they had to borrow the money there would be.

Senator GORE. Yes; there would be too much economy. But if Uncle Sam will give them the money, then there will not be too much economy, will there?

Mr. ECCLES. No, I would hope not, but I think they should be limited to certain disbursements, and I think even under those circumstances there would be reasonable economy.

Senator GORE. I think you made the point a while ago that where the money was loaned to the State there would be too much economy, and if it were given there would not be too much. That is the point.

Senator KING. I suggest that Mr. Eccles be permitted to complete his statement so that we will get the continuity of it, and then we can question him as we desire.

Mr. ECCLES. 2. Financing of self-liquidating projects and public works.

I quote from Dr. W. T. Foster:

> This much, in fairness, we must say for the Russian plan. If anywhere in Russia they had as many available trained carpenters and masons and bricklayers and engineers and architects and all the rest, and as much available steel and lumber and brick and all the other building materials as we have here, they would not sit around and stupidly hand out charity to the unemployed. They would use the surplus men and the surplus materials, and they would clean out these festering sores, and make decent dwelling placed for the people. Incidentally, there would be no unemployment. Now, what can be done under communism or socialism, can be done under capitalism in the United States, if we have sense enough to set up an adequate flow of currency and credit in the right channels.

Senator WALSH of Massachusetts. What public works are there in Utah that can be undertaken?

Mr. ECCLES. Ogden needs a new water system and a high school.

Senator WALSH of Massachusetts. Are there any more highways you need, considering now the conditions in this country, considering that there is no man to-day can predict they will be any better 10 years from now? It is all in the hands of the gods. Considering the conditions in this country, considering that the money borrowed has to be paid for in taxation, what more public works are needed in your State than are there now?

Mr. ECCLES. Of course, the way I look at this matter is that we have the power to produce, just as in the period of prosperity after the war demonstrated when we had a standard of living for a period from 1921 to 1929 which, of course, was far in excess of what it is now. Yet in spite of that standard of living we saved too much as I have previously tried to show.

Senator GORE. You have got Foster in the back of your head?

Mr. ECCLES. I only wish there were more who had. We saved too much in this regard, that we added too much to our capital equipment. Creating overproduction in one case and underconsumption in the other because of an uneconomic distribution of wealth production.

Senator WALSH of Massachusetts. We can go to extremes of waste in the matter of public works if we are not very careful.

Mr. ECCLES. Of course we are losing $2,000,000,000 per month in unemployment. I can conceive of no greater waste than the waste of reducing our national income about half of what it was. I can not conceive of any waste as great as that. Labor, after all, is our only source of wealth.

Senator WALSH of Massachusetts. Your suggestion is that we meet it by borrowing large sums of money in performing works. That the people have got to pay for it in taxation, and that in a time of distress like the present are not needed?

Mr. ECCLES. No; they would not pay for it now. There are times to borrow and there are times to pay. The Government borrowed during the war $27,000,000,000. They did not collect the profits that were made during the war to pay for the war. They could have done it, but they did not. They borrowed $27,000,000,000, and we got prosperity even though all they borrowed was wasted, every dollar of it. There could be no waste in post offices or in roads or in schools. You would have something to show for it. With war all you have left is the expense of taking care of maimed and crippled and sick veterans. That is what is left from war. And it is all wastage.

Senator GORE. You have touched the point. The real cause of the existing trouble was the war, with destruction of over 300 billion dollars of wealth in four years. We are paying the price now. The boys paid the price in blood on the field. We are paying the economic price to-day. And you may just as well pass a resolution to raise the dead that fell in France as to try to pass laws to avert the inevitable consequences of that war.

Mr. ECCLES. It is true we are suffering the consequences of the war, but there is no reason why we should be suffering from the consequences of the war if it had not been for the international or the interallied debt that resulted from it. We are suffering from a debt structure. We are not suffering from the waste, because after all, we know to-day that we have the power and the facilities to produce certainly all that the people of this country need and want.

Senator GORE. You think you can destroy $300,000,000,000 of wealth and its represented accumulation of centuries without disastrous economic consequences?

Mr. ECCLES. Senator Gore, in the United States we added $100,000,000,000 to our capital accumulations since the war.

Senator GORE. A great deal of it paper additions.

Mr. ECCLES. No; buildings and factories and roads and actual physical wealth. Wealth in the real world and not the money world.

Senator GORE. On borrowed money credit, largely.

Mr. ECCLES. Well, it was the product of labor.

Senator GORE. On borrowed money, and we strained our credit to the snapping point and had this crash.

Senator SHORTRIDGE. Are you dealing with the second point?

Mr. ECCLES. Yes. Let me finish this, if I may.

Senator GORE. Yes. Pardon me.

We now see, after nearly four years of depression, that private capital will not go into public works or self-liquidating projects except through government and that if we leave our "rugged individual" to follow his own interest under these conditions he does precisely the wrong thing. Each corporation for its own protection discharges men, reduces pay rolls, curtails its orders for raw materials, postpones construction of new plants and pays off bank loans, adding to the surplus of unusable funds. Every single thing it does to reduce the flow of money makes the situation worse for business as a whole. The production of wealth and the consumer's ability to buy starts with the pay roll and the individual producers of raw material, the agriculturalist. To-day we are losing close to two billions per month of national income due to unemployment, resulting in the inability of our people to purchase the goods necessary to sustain our production. Is there any program of economy and Budget balancing on the part of our Government as important as to stop this great loss and all the attendant human suffering, devastation, and destruction?

I believe that an essential part of the program to end the cycle of deflation is by the Government supplying the credit for self-liquidating

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projects and loans to the State for public works. I have the following program to propose:

Senator SHORTRIDGE. That is under your No. 2?

Mr. ECCLES. Yes.

That the Government make available $1,000,000,000 to be added to the $1,500,000,000 already made available through the Reconstruction Finance Corporation for self-liquidating projects, making a total of $2,500,000,000. A separate agency should be set up to take over this division from the Reconstruction Finance Corporation and administer these funds. Emergency speed, such as was resorted to during the time of war, is necessary for the success of this plan. The self-liquidating plan to date has been utterly ineffective due to the failure to get the funds out; this is largely due to limitations of the law and red tape of administration. And, I might say, the high interest rates.

Senator SHORTRIDGE. What is the rate?

Mr. ECCLES. It is 5½ and 6 per cent on self-liquidating projects. Those are the rates that I have been familiar with or heard.

In order to obtain speed, I would recommend the appointment of a civilian nonpolitical commission of not to exceed five representative leaders in each State, to serve without compensation, whose duty it would be to encourage development of public works and liquidating projects in their respective States as rapidly as possible. Loans should be made on a very liberal basis as to terms of payment and security. The interest rate should not exceed the amount which the Government is required to pay for its funds, as the purpose is not to discourage the use of these funds and make a profit for the Government.

The Federal Government, as well as the financial and business leadership of this country, should get back of this program with the same enthusiasm and patriotic zeal as was developed during the war. The entire public psychology must be changed through the propaganda of the press. Every city, county, and State in the Union should be urged, as a patriotic duty, to avail itself of the Government credit with which to construct such projects as they would normally require during the next five years, thus putting men to work instead of providing them with charity.

In order to speed up this program a limit of three months from the time of the appointment of the commission in each State should be given in which to file and complete applications; this period of time to be extended, if necessary, by the approval of the President of the United States.

This plan would have the advantage of securing for each State and community public and self-liquidating works which will be necessary in the immediate future at an unprecedentedly low interest rate and construction cost, while at the same time providing emergency employment and stimulating business generally at a time when such expenditures render the greatest service to our entire people.

This program can be financed in one of two ways—either through a Government bond issue, or through the issuance of currency by the Treasury which would be put into circulation through the Federal reserve banks in payment of the projects proposed. This currency should be retired as fast as the income of the Federal Treasury permits.

Senator KING. Would that currency rest on bonds?

Mr. ECCLES. It would be a promise to pay on the part of the Government. It would be a noninterest paying obligation.

The Treasury, of course, would hold in lieu of this currency the obligations of the various States, counties, cities, and private corporations using these funds. I do not believe this currency could be kept in circulation, for with the restoration of confidence the present outstanding currency would likely be reduced by at least one and one-half billion dollars, the estimated amount now in hoarding.

Senator WALSH of Massachusetts. When do you think prosperity will come back?

Mr. ECCLES. It depends entirely on what the Government does. It will not come back unless action is taken by the Federal Government, in my judgment.

Senator WALSH of Massachusetts. Do you think there is anything to the claim that this period now is more or less a period of nomalcy?

Mr. ECCLES. No; we can not stay at this level. If you can not raise the price structure you will go into a condition of collapse and you will get into a chaotic condition far worse than we are in to-day.

Senator WALSH of Massachusetts. We have been slipping for three and a half years. When is the slipping going to stop?

Mr. ECCLES. I have said when the Government takes the necessary action to stop it.

Senator WALSH of Massachusetts. In other words we have done nothing in the last three and a half years to stop this?

Mr. ECCLES. I think not.

Senator GORE. All our efforts have come to naught?

Mr. ECCLES. That is what I think. I think nothing has been done except to extend credit, and credit is the second line of defense and not a primary line of defense.

Senator GORE. Are you not relying upon that line of defense there pretty liberally, or do you distinguish Treasury notes from credit?

Mr. ECCLES. I am talking about private credit. If it is credit we need why do not say 200 of our great corporations controlling 40 per cent of our industrial output that are in such shape that they do not need credit—they have great amounts of surplus funds—if it is credit that is needed why do they not put men to work? Why do not those great institutions put men to work? For the very reason that there is not a demand for goods, that we have destroyed the ability to buy at the source through the operation of our capitalistic system, which has brought about such a maldistribution of wealth production that it has gravitated and gravitated into the hands of—well, comparatively few. Maybe several millions of people. We have still got the unemployment and have got no buying power as a result.

Senator GORE. The only thing not unemployed in the country, after all, is the printing press.

Senator SHORTRIDGE. You are still dealing with self-liquidating projects?

Senator KING. And governmental.

Senator WALSH of Massachusetts. We are interfering with the witness.

The CHAIRMAN. Yes; I think so too. Let us have the whole picture presented.

Mr. ECCLES. This new currency issue, plus the one and one-half billion dollars of hoarded currency, which is largely Federal reserve notes, would automatically find its way into the banks and from there into the Federal reserve banks where the Federal reserve currency unnecessary for circulation would be retired and the new, or Treasury, currency would be held until the Treasury Department is able to retire it out of the payments received from borrowers or from other sources.

Senator SHORTRIDGE. You mean these self-liquidating projects?

Mr. ECCLES. Yes; would pay themselves.

Senator SHORTRIDGE. Some of them, though, look forward 25 or 30 years before they willl ever be able to start to repay.

Mr. ECCLES. Then I would not support such a project if it looks forward such a length of time.

Senator SHORTRIDGE. What is the self-liquidating project? Is the big bridge we are building across the Golden Gate? We term that a self-liquidating project. The bringing of water from the Colorado River into our metropolitan districts the center of which is Los Angeles calls for a vast sum. We term it a self-liquidating project. But manifestly it will be many, many years before it will be able to begin to repay the money to the Government, assuming that the Government loans us the money.

The CHAIRMAN. Let us get the whole picture and then we will discuss the question.

Senator SHORTRIDGE. Yes.

Mr. ECCLES. It would likely be necessary to pay to the Federal reserve banks such portion of interest collected by the Treasury on the money loaned as would enable the Federal reserve banks to carry the noninterest bearing currency, otherwise it may result in an operating loss to the Federal reserve bank.

The latter plan would have the advantage of protecting the bond market from the pressure of new Government bond offerings at a time when it is desirable to preserve that market for the necessary Government financing required to meet its present operating deficit and provide for unemployment belief until the beneficial effects of the proposed emergency measures are realized.

As an alternate to the proposed self-liquidating public-works program that would more quickly meet the emergency, I offer for consideration, without recommendation, the suggestion of Mr. J. M. Daiger, appearing in the February issue of Harper's Magazine under the title of "Confidence, Credit and Cash." Quoting from his article, he says—

> We should be prepared to pay a political price for prompt action in order to restore cash, credit, and confidence in our banks. The suggestion is that we offer an inducement that banking politics could not successfully resist; namely, that the Federal Government pay the "trifling price" of all the bank failures, State and National, of this last 13-year epidemic—pay to the depositors of the chartered banks that failed the net amount of the deposits they last, and thus restore this money to active circulation. The total amount of deposits involved in the failures was approximately $5,000,000,000. The recovery by depositors has been, or will be, probably half this sum. Most of this they have already received, either through the receivers of the closed banks, or through advances from other banks, or, more recently, through the Reconstruction Finance Corporation. We should require, then, a bond issue of approximately two and a half billion dollars to cover the net losses.

This plan could be financed by an issue of currency as above suggested as an alternative to a bond issue, any loss to the Federal reserve banks while holding this currency to be made up by the Treasury Department.

The plan of Mr. Daiger referred to I would amend to cover only those losses covered by bank failures during the depression, that is, during the years 1930, 1931, and 1932 and the necessary part of 1933, until this legislation is effective, which would substantially reduce the cost to the government. If such a plan is adopted, the liquidation of all assets, including claims against officers, directors, and stockholders, of closed banks should be turned over to the Comptroller of the Currency for liquidation through a special department set up for this purpose.

The plan would have the merit of being politically popular. It would very quickly get a large sum of money out into circulation and into the hands of those people and communities which are, generally speaking, the greater sufferers from the effects of bank failures. It would completely establish confidence, bring money out of hoarding, tend to raise prices and thus start the necessary flow of credit. All this in turn would greatly increase the value of the assets taken over from the closed banks and facilitate their liquidation, thus reducing the loss in such a venture.

A bank deposit guaranty law would likely have to be incorporated in such a bill, and such a law would have to be made to cover all banks for the reason that if any were excluded because of inability to meet certain requirements they would have to close. The stronger banks of the country, which do not need the benefit of such a law but which get the benefit of the wealth production from the country as a whole, should be required to share their proportionate cost, thus tending to equalize the burden of loss due to bank failures over the entire financial structure. Each bank should be assessed a necessary percentage of its deposits to provide and maintain an adequate fund to meet losses to depositors. In order not to put a premium on bad banking practice, rules and regulations required for the continuation of the benefits of the fund should be gradually promulgated and enforced over the next few years as business recovers, so that in time a stronger banking structure would be developed as a bulwark in future depressions. If banks failed to meet the requirements of eligibility after six months notice they would be suspended, which would mean their liquidation and the fund being drawn on to prevent any loss to depositors. In this connection it is my opinion that the banking structure would be greatly strengthened with the passage of the Glass bill providing for branch banking, thus reducing the cost on the banking structure of maintaining the deposit guaranty fund.

An important advantage of the banking legislation proposed, besides preventing hoarding and the maldistribution of deposits with the larger banks, would be the elimination of the cost of surety bonds now required to secure various forms of public funds and the release of Government bonds, municipal securities, and land-bank bonds, which are now used to secure postal savings and Government funds. The release of these securities would be helpful to many banks; postal savings would disappear and these funds would return to the banks where they are most needed to support the financial requirements of the various communities. The Postal Savings have been increasing at an astonishing rate, this increase being largely in the sections of the country having the greatest banking difficulties, which in most cases are those sections least able to lose deposits to the Postal Savings System.

Senator KING. Does your bank plan guarantee all the bank deposits, which to-day are $45,000,000,000?

Mr. ECCLES. Under certain conditions only. If a bank guarantee of deposits, is used—and it may be that we will be forced to it whether we like it or not the way things have developed, in order to save the situation——

Senator SHORTRIDGE. That is, the Federal Government guaranteeing deposits?

Mr. ECCLES. Or sponsor a law that would create an agency for that purpose. However, there is always this danger about that class of thing. It encourages bad practices and bad management. It may put a premium on them, which of course we do not want to do, and if it is done there must be rules and regulations for the proper conduct of banks requiring eligibility, and if they fail to meet the eligibility they would be suspended after so much notice, and the fund would be drawn upon to take care of any loss.

Senator GORE. Do you think that any member bank could be excluded from a guaranty system?

Mr. ECCLES. No; I do not. I do not think any State or national bank should be excluded because if you exclude any you bring their collapse.

Senator GORE. You have made a point there, and the point that always puzzles me is how to distinguish and treat honest and competent bankers in one fashion and dishonest and incompetent bankers in another. It seems to me that any scheme to guarantee deposits ignores that difference, and that is a fundamental and vital error. You just can not get around it.

Senator SHORTRIDGE. Is it one of the functions of the Federal Government to do that thing?

The CHAIRMAN. I would like the witness to finish his statement. The witness should be permitted to give the whole picture so that we will have it before us, and that we then ask any questions we wish to ask him.

Mr. ECCLES. No. 3 is the allotment plan.

The allotment plan, at least for the present, should be confined to our three major crops—wheat, cotton, and hogs. Now, I would like to eliminate hogs. I am not clear in my mind of the practicability of it. I think it involves complications in carrying it out that may defeat the whole plan. So I would suggest the wheat and the cotton as being far more practicable. Its purpose would be to raise the prices of these products by the amount of the tariff, which at present is ineffective due to the exportable surplus, the domestic price being, therefore, determined by the world price. To accomplish this, Government control, regulation, and sponsorship is necessary. However, the operation of the plan should be decentralized as much as possible, working through the State farm organizations which in turn would work through the county farm organizations, thus placing the responsibility of the success of the plan as much as possible on the local units, which are better able to control the determined reduction in acreage and production. This plan in no way would put a financial burden on the Government except the comparatively small cost required for a proper central regulation and control. And I believe that there is already plenty being spent by the Government through its Department of Agriculture and other agencies to take care of the necessary supervision by some sort of a reorganization.

The increase in prices brought about by this plan would, of course, be paid for by the consumers, but in this respect it would be no different than the effect of the tariff on the prices of those manufactured and agricultural products where the tariff is now effective in maintaining a domestic price higher than the world price. In other words, the domestic allotment plan, in its operation, might be termed an inverted tariff. If the domestic price level is going to be maintained by a tariff on some of our agricultural products and most of our manufactured products, then the prices of our major agricultural products must be raised to a domestic level by making a tariff effective through an allotment or similar plan; otherwise, the balance and equilibrium necessary to the operation of our economic system and, I might say, the velocity of our money can not be maintained, and the whole price structure will be kept out of adjustment as a result.

Objection is raised to the allotment plan on the ground that it will increase the cost of those products covered by it to the consumer, whose purchasing power is already close to the vanishing point. It will not only do that, but it will tend to increase the price structure generally, if it accomplishes the results desired.

An increase in the price of cotton will cause some increase in the price of wool, silk and rayon; an increase in the price of hogs—and of course I am eliminating hogs here—will tend to increase the price of all other meat products; and likewise, an increase in the price of wheat will tend to increase the price of other grain products, as all competitive products are influenced by the price of the product which is the cheapest.

Senator GORE. Any increased purchasing power that you gave the farmer through this would be taken away in taxes, would it not?

Mr. ECCLES. No. Through velocity a billion dollars increase in the price of cotton and wheat at the source would amount to from ten to at least fifteen billion dollars in purchasing power.

Senator GORE. If it did.

Mr. ECCLES. Well it would, based upon the record of your turnover.

Senator GORE. But that is in different times than these.

Mr. ECCLES. Well, of course, but you put this money into the hands of the farmer through this increased purchasing power, and you are getting at the source of wealth production where buying power and where consumer demand starts. And with that consumer demand started you get your velocity, you raise your prices, you start the creating of income which will balance your Government Budget through creating of income on the part of corporations and individuals.

Senator GORE. It is estimated this domestic plan will take a billion dollars out of the pockets of the consumer and turn them over to the farmer. You have already proposed to give a half a billion dollars to the cities to buy that with. I can follow you if you raise the price of cotton cloth and food and then tax the people and give money to the people to buy it with; I can see how you can get things going that way.

Mr. ECCLES. That is right.

Senator SHORTRIDGE. Let me interrupt to ask a question, Mr. Chairman.

The CHAIRMAN. Yes.

Senator SHORTRIDGE. When you speak of the farmer, you seem to limit the word "farmer" to the raiser of two products—what and cotton?

Senator KING. No; only for the allotment plan, but not for the benefits to be derived from this increased productivity and the circulation of money, and purchasing power.

Mr. ECCLES. I cover that here.

The effect of raising agricultural prices generally will bring about an increased purchasing power to those engaged in agriculture, which would serve to increase the demand for all kinds of manufactured products, thus increasing employment, wages, and general income to a far greater degree than the increased cost of the agricultural products consumed. And I just explained the velocity. Dairy, and poultry products, fruits, rice, vegetables, and all other agricultural products, which it would be impractical to cover by the allotment plan, would increase in price with the increase in consumption brought about through the improved buying power of our entire agricultural, as well as our industrial population.

Senator SHORTRIDGE. I see the theory.

Mr. ECCLES. The cost of manufactured goods at present is slightly above the 4-year pre-war average, while the cost of all agricultural products is approximately one-half of the 4-year pre-war average. The domestic allotment plan would tend to bring these two important economic factors in balance. Which is absolutely necessary to have prosperity.

Senator SHORTRIDGE. No government on earth though, has ever undertaken any such a plan, has it? No recognized government from Pharoah's time?

Mr. ECCLES. The small countries of Europe, Denmark, Holland, I think Belgium—they operate on a similar plan.

Senator SHORTRIDGE. On an allotment plan?

Mr. ECCLES. Yes.

Senator SHORTRIDGE. All right, if you say so.

Mr. ECCLES. The allotment plan may be a long way from a perfect solution of the farm problem, but something must be tried. Our progress up to date in every field is the result of experimentation, trial, and error. The allotment plan may need to be changed or modified from time to time, but that can be done as experience determines. I believe that some form of the allotment plan is necessary as a permanent measure as long as a tariff policy is in effect in this country. The allotment plan is no more artificial than the tariff, the money system and all the regulatory operations of the Government. Our whole economic system, in the same sense, is artificial and must of nececessity continue so unless we revert to a primitive society.

### 4. REFINANCING FARM MORTGAGES

The allotment plan, to be effective, should be followed immediately by a refunding of farm mortgages on an immense scale and on a long-term basis at a low rate of interest. The seriousness of the farm-mortgage problem is evidenced by the farm strike in all parts of the country, the moratoriums being forcibly granted and the legislation designed to relieve debtors being proposed in every agricultural State. As a means of meeting this problem, I have the following to suggest:

Enlarge the scope and size of the Federal land banks so as to enable them to take over mortgages up to an amount of, say, $5,000,000,000; this amount can be increased if conditions warrant.

Senator SHORTRIDGE. Do you mean refinancing existing mortgages, or making new loans?

Mr. ECCLES. Existing mortgages only.

I understand that at present the total farm mortgage debt of the United States is somewhere between $8,000,000,000 and $9,000,000,000; of this amount approximately one and a half billion dollars is now held by the Federal land banks, one-half billion dollars by the joint stock land banks, one and three-fourths billion dollars by the insurance companies, and the balance by private mortgage companies, banks, and individuals.

The present mortgages held by the land banks should be refunded on an amortized basis over a period of 40 years. An annual payment of 5 per cent of the principal amount of the refunded mortgage would allow 3 per cent for interest, seven-tenths of 1 per cent for expenses and losses, and would retire the mortgage in 40 years. In order to accomplish this, existing Federal land bank bonds, which now bear an interest rate of from 4 to 5 per cent, should be refunded on a basis of a 3 per cent bond and, as a consideration of the reduced interest rate, these bonds should be guaranteed by the Federal Government and should be made eligible on a bills payable basis at the Federal reserve banks.

Mortgages held outside of the Federal land banks by other agencies should be taken over in exchange for Federal land bank bonds as above described. In taking over these mortgages, all delinquent interest should be waived up to and including the time when this proposed legislation could be made operative, which I would suggest be July 1, 1933. It would also be necessary for the present mortgage holders to write down the principal amount of their mortgages in those cases where the amount is excessive based upon a normal agricultural commodity price structure, or where it is on marginal land which can not be operated profitably. In the latter case the loan should not be taken over at all, but such property should be leased by some agency of the Federal Government and taken out of production.

Present prices of agricultural commodities should not be a basis for refunding farm mortgages because on such a basis the entire scheme would fail to give either the desired relief to the farmers or those holding the mortgages. The aggregate discount taken on existing mortgages must be limited, otherwise financial institutions now holding them could not absorb the loss without disaster and consequently would not make the exchange for Federal land bank bonds, in which case the agricultural borrowers would not receive the necessary relief and the entire plan would fail to accomplish the results desired.

In the proposed refunding operation by the Federal land bank, all delinquent taxes and delinquent principal payments should be included in the principal amount of the refunded mortgage, the first payment to be made in the fall of 1934. This is very necessary in order that the agricultural interests may have the benefits from the proceeds of their 1933 production with which to purchase the vast amount of consumers goods of all kinds which they so desperately need. With the increase in prices through the effects of the allotment plan, this buying power would be a tremendous factor in reviving every type of industry and would go a long way toward restoring business in general and increasing employment in every field.

Farm mortgages at present are possibly the most undesirable and frozen of all loans, and frozen loans are preventing, to some extent, the necessary expansion of credit. The plan I have proposed will very effectively and immediately make liquid billions of dollars of assets for which there is no market to-day, while at the same time it will bring about a reduction of at least one-third of the average annual payments on the farm debt now required to be made by farm mortgage debtors without requiring any financing or loss by the Federal Government, thus bringing about the necessary relief in the farm-mortgage field. This plan has the advantage, as a result of the Government guarantee of the Federal land bank bonds, of diverting surplus funds carried in the great creditor sections into the indirect financing of farm mortgages where it is impossible even at a high rate of interest, which farmers can not pay, to attract those funds directly.

The combination of the allotment plan and the farm mortgage refinancing plan will provide, in an effective manner, a sound farm relief program, thus saving our entire agricultural industry from what otherwise would likely be a general collapse, and at the same time greatly expanding the purchasing power of our entire agricultural population, thus helping to bring about a revival of industry.

### 5. INTERALLIE DEBTS

No program designed to bring this country out of the depression can be considered apart from the relations of this country to the rest of the world unless a policy of complete isolation is adopted and an embargo put on gold exports and our domestic economy adjusted to meet such a condition.

Our international problems are far more difficult and will be slower to work out because of our inability to control the action of other nations. These problems can be met only through international conferences over a period of time. The most important of these problems and the one which must be settled before any progress can be made in the meeting of our domestic or other foreign problems is the problem of interallied debts.

There is a great demand on the part of the public and most of the press of this country that these debts be paid. It seems to me that our political leaders have lacked the courage to face this problem in a realistic manner. This has greatly contributed to prolonging the depression. The public, generally speaking, is not fully informed as to the impossibility of our foreign debtors complying with these demands, which can only be complied with at the expense of our own people.

Senator SHORTRIDGE. Right there. I know of one country that defaulted in a certain payment and the very day, almost, that it defaulted it loaned an equal amount to another country.

Mr. ECCLES. That is true.

Senator KING. May I say right there, Senator, that the League of Nations urged that country to which you referred, France, and

Great Britain, and several other countries, in order to save the other country from bankruptcy and from chaos which would have spread to other countries, to extend credit to save not only the country in question, but really to aid Europe, and France patriotically and, I think, properly, joined in the consortium and made her part of the loan. We do not talk about the other nations that joined in making the loan.

Senator SHORTRIDGE. Well then I could cite another nation that defrauded and expended a sum far in excess of the amount due us as of a certain date—expended it unnecessarily on war preparations.

Senator KING. There will be a difference of opinion there, and it will do no good for us to discuss it now, at this point.

Mr. ECCLES. I cover it in the next point I am making.

Senator GORE. There was another country ready to pay and it was discouraged from paying, and the representatives that signified willingness to pay was recalled. They did not want it to pay because it set a bad precedent for these other countries.

Senator SHORTRIDGE. They did not want to pay.

Mr. ECCLES. It is elementary that debts between nations can ultimately be paid only in goods, gold, or services, or a combination of the three. We already have over 40 per cent of the gold supply of the world—that is not true; it is between 35 and 40 per cent—and as a result most of the former gold standard countries have been forced to leave that standard and currency inflation has been the result. This has greatly reduced the cost of producing foreign goods in terms of our dollar and has made it almost impossible for foreign countries to buy American goods because of the high price of our dollar measured in the depreciated value of their money. This naturally has resulted in debtors trying to meet their obligations by producing and selling more than they buy, thus enabling them to have a favorable balance of trade necessary to meet their obligations to us. If this country is to receive payment of foreign debts, it must buy and consume more than it produces, thus creating a trade balance favorable to our debtors.

In order to prevent this and reduce the pressure of foreign goods on the American market a high tariff wall has been built and we now hear demands on all sides for a further increase in this tariff due to the effects of depreciated currencies on our price structure. It is, therefore, evident that this pressure on our markets by goods from foreign countries would be greatly reduced if the burden of debt were lifted from our foreign debtors, thus allowing our prices, as well as their own, to rise.

We must either choose between accepting sufficient foreign goods to pay the foreign debts owing to this country, or cancel the debts. This is not a moral problem, but a mathematical one. Foreign debtors, no doubt, would be delighted to pay their debts to this country if we would make it possible for them to do so by reducing our tariff and accepting the goods which they have to offer.

No one would be as greatly benefited by the cancellation of these foreign debts owing to our Government as American agriculture and American labor. A comparatively small portion of our population would make up this loss to the Treasury through the payment of income and inheritance tax which would be made productive by the revival of business.

Cancellation, or a settlement of the debts on a basis which would practically amount to cancellation, in exchange for stabilization of the currency of the debtors, together with certain trade concessions and an agreement to reduce armaments would be a small price for this country to pay as compared with the great benefits which the entire world, including ourselves, would derive therefrom. Without a stabilization of foreign currencies it will be difficult, if not impossible, in my opinion, to substantially raise the price level in this country as long as we stay on a gold basis. Our debtors will default and we will likely be forced to abandon gold and depreciate our currency in relation to that of other countries in order to raise our price level in this country and to meet foreign competition unless we are instrumental in inducing foreign countries to stabilize their currencies on a gold basis, or gold and silver basis if action is taken internationally to remonetize silver. I am not in disagreement with Mr. Ferry there.

Senator SHORTRIDGE. Permit me to interrupt there. We have outstanding obligations, interest bearing obligations amounting to about how much now?

Senator KING. About $21,000,000,000.

Senator SHORTRIDGE. Do you know of any way in which we can cancel or get rid of paying what we owe?

Mr. ECCLES. Well, how are you going to collect what the foreign countries owe?

Senator SHORTRIDGE. Oh, I grant you that we have no police force.

Mr. ECCLES. They are willing to pay if we take goods.

Senator KING. And services.

Mr. ECCLES. Goods or services are the way you can get your debts paid.

Senator SHORTRIDGE. Then I take it you would have the tariffs reduced?

Mr. ECCLES. No. Debts canceled. Then I think with the prosperity that you would get in this country you can collect more than that in income and inheritance taxes when you stop this loss of $2,000,000,000 a month through unemployment. You start the process of wealth, and even a capitalist is far better off. I am a capitalist.

Senator SHORTRIDGE. Well, I am a capitalist. But I am on the gold basis.

Mr. ECCLES. We could, as an alternative, further raise our tariff wall, put an embargo on gold and live entirely within ourselves.

The program which I have proposed is largely of an emergency nature designed to bring rapid economic recovery. However, when recovery is restored, I believe that in order to avoid future disastrous depressions and sustain a balanced prosperity, it will be necessary during the next few years for the Government to assume a greater control and regulation of our entire economic system. There must be a more equitable distribution of wealth production in order to keep purchasing power in a more even balance with production.

If this is to be accomplished there should be a unification of our banking system under the supervision of the Federal reserve bank in order to more effectively control our entire money and credit system; a high income and inheritance tax is essential in order to control capital accumulations (this division of taxes should be left solely to the central government—the real property and sales tax left to the States); there should be national child labor, minimum wage, unemployment insurance and old age pension laws (such laws left up to the States only create confusion and can not meet the situation nationally unless similar and uniform laws are passed by all States at the same time, which is improbable); all new capital issues offered to the public and all foreign financing should receive the approval of an agency of the Federal Government; this control should also extend to all means of transportation and communication so as to insure their operation in the public interest. A national planning board, similar to the industries board during the war, is necessary to the proper coordination of public and private activities of the economic world.

Such measures as I have proposed may frighten those of our people who possess wealth. However, they should feel reassured in reflecting upon the following quotation from one of our leading economists:

> It is utterly impossible, as this country has demonstrated again and again, for the rich to save as much as they have been trying to save, and save anything that is worth saving. They can save idle factories and useless railroad coaches; they can save empty office buildings and closed banks; they can save paper evidences of foreign loans; but as a class they can not save anything that is worth saving, above and beyond the amount that is made profitable by the increase of consumer buying. It is for the interests of the well to do—to protect them from the results of their own folly—that we should take from them a sufficient amount of their surplus to enable consumers to consume and business to operate at a profit.

I am speaking of business during normal times.

Senator SHORTRIDGE. Who said that?

Mr. ECCLES. Stuart Chase, I think. He is an economist. Or Foster. I am not sure which.

> This is not "soaking the rich"; it is saving the rich. Incidentally, it is the only way to assure them the serenity and security which they do not have at the present moment.

Senator KING. That is a fine statement.

Senator SHORTRIDGE. I would like to ask one question, Mr. Chairman, for my own information, and that is in respect of the so-called allotment plan. Does that contemplate retiring all arable wheat land from cultivation?

Mr. ECCLES. The allotment plan, as I understand it, is to do two things: Control acreage which controls production and establish a price on the basis of a domestic level rather than on the basis of a foreign level.

Senator SHORTRIDGE. This allotment plan contemplates the retiring from cultivation of arable wheat land? That is so, is it not?

Mr. ECCLES. I do not think so. At least that is not what I had in mind here.

Senator SHORTRIDGE. The miners, the blacksmiths, the carpenters, the painters, the gas fitters, the skilled labor in a hundred branches have organized into unions and their purpose is altogether worthy. They seek to control their wages and the hours of labor. Query: Has there been any effort made among the wheat men of a given State to organize and to regulate, and, if it be so, retire arable wheat land from cultivation, reducing thereby the output with the end in view of preventing a surplus of wheat, and hence a better price for that which is raised and put into the market? I am wondering whether the wheat farmers or the cotton raisers themselves have not organized along the line, if you please, similarly?

The CHAIRMAN. It has been talked of for 50 years, and they have never been able to do it, so I do not know whether they can do it now or not.

Senator GORE. I read a poem not long ago written in the early seventies on that point.

Senator KING. Thank you very much for your statement.

Senator GORE. I want to ask you a question or two for the record, which illustrates my view and I think illustrates the tendency of your philosophy. You say that you think the domestic allotment plan ought to be limited to wheat and cotton?

Mr. ECCLES. Because of the difficulty of making it practically apply to vegetables, we will say, and fruits and the like.

Senator GORE. You would take account of practical difficulties?

Mr. ECCLES. Yes.

Senator GORE. Wheat and cotton are the pillars of our whole agricultural structure; that is the reason, is it not?

Mr. ECCLES. That is one of the reasons. Of course, livestock is a very important factor.

Senator GORE. As the bill was originally projected in the House it was limited to wheat and cotton, but when they came to consider it they needed votes. And other interests brought pressure to bear on the committee. They added, I believe, in the committee tobacco. They added in the committee butterfat, because the dairy industry in this country is strongly organized among the farmers. They had to yield to that whether it was practical to yield or not. They took the bill to the House and peanuts went in by 1 majority in the House. These peanut fellows want peanuts in that scheme. They do not want to be left out.

You say that our best efforts to relieve have been a failure, and I think you are right. But has it ever occurred to you that in view of these past failures and in line with that, that perhaps all these governmental schemes are narcotic and that the more you take the more you have got to take in the future to get the same reaction and the same results?

Mr. ECCLES. I feel that one of two things is inevitable: That either we have got to take a chance on meeting this unemployment problem and this low-price problem or we are going to get a collapse of our credit structure, which means a collapse of our capitalistic system, and we will then start over. And I therefore would like to see us attempt to regulate and operate our economy which to-day requires more action from the top due to our entire interdependency than it did in our earlier days. We have drifted in this country into a form of collectivism in many lines of business, when you consider our great corporations and farm organizations.

Senator GORE. Let me ask you this. I do not mean for you to dilate on it. But you say our credit structure is in danger. And I think it is. I think our mischief results largely from overstraining of credit. Your proposal seems to be that for the excessive use of credit we use more credit. Is that not true?

Mr. ECCLES. No; that is not true.

Senator GORE. It seems like every scheme you suggested was for the Government to advance money to somebody.

Mr. ECCLES. You have got to take care of the unemployed or you are going to have revolution in this country. Out in Salt Lake City the other day you had an illustration of what occurs.

Senator GORE. You noticed that out in Seattle the boys struck and they wanted gasoline. They need gasoline.

Mr. ECCLES. When you get enough unemployed they will control the Government and change our present political, social, and economic system.

Senator GORE. There is the trouble. And that is the danger here. They brought pressure to bear in the House to get tobacco, butter-fat, and goobers included in this domestic allotment. You get enough unemployed in this country organized and there are no brakes you can put on your scheme. That is the history of Rome. The dole destroyed Rome. It is going to destroy England and France and Germany and this country.

The CHAIRMAN. We thank you for your statement, Mr. Eccles.

The committee will stand in adjournment until 2 o'clock, when we will meet in executive session, after which we will have an open session.

(Thereupon, at 1.20 o'clock p. m., the committee adjourned to meet in open session at 3 o'clock p. m. the same day, Friday, February 24, 1933.)

AFTER RECESS

The subcommittee resumed the hearing of witnesses in public session at 3 o'clock p. m.

## STATEMENT OF LAWRENCE DENNIS, NEW YORK CITY

The CHAIRMAN. Will you give your name and address to the reporter?

Mr. DENNIS. Lawrence Dennis, 27 West Forty-fourth Street, New York.

The CHAIRMAN. What is your business?

Mr. DENNIS. I am an independent financial writer.

The CHAIRMAN. For any particular publication?

Mr. DENNIS. No; independent.

The CHAIRMAN. You may proceed. Have you a copy of your statement?

Mr. DENNIS. I have two articles which I intend to use as a basis for what I have to say.

The CHAIRMAN. You may proceed.

Mr. DENNIS. There are two theories about the present depression, and I think that practically everyone holds, in some form, one of those two theories.

The one is that this is another of a series of seven or eight cyclical depressions which have occurred in the history of the modern industrial-capitalist system; and the second theory is that this depression is or may be, very likely, a phase of transition from the existing system of private capitalism, to some form of economic organization which we can not definitely foretell at the present time.

Those two theories do not classify people into socialists or capitalists. A great many socialists and communists think the present system will survive many of these depressions before it ultimately is changed by revolution or otherwise.

On the other hand, a great many conservative capitalists, or people who are not, at least, socialists or communists, or even fascists, feel that there are many considerations in the present situation which indicate that this may not be an ordinary cyclical depression, but that it may be a phase which marks the nearing of the end of an organization, economic and political, which has existed for about a hundred and fifty years the world over.

I am inclined to take the view that it is extremely probable that this depression may be a phase of transition from the present system of private ownership, private initiative and a free market, to some form of economic organization which we can not foretell.

I think, at least, that that idea should be entertained in studying the present depression, and I want, in the course of my remarks, to develop a certain line of analysis of this situation which differs from that of those who assume that this is only a cyclical depression from which we will recover.

I shall try to talk in terms, largely, of the financial and economic behavior of the present factors.

The ordinary way out of depressions in the past has been through a revival of new investment. The cycles of depression and boom have followed each other from about the time of the Napoleonic wars up to the World War, in sequence. During periods of boom, there was excessive investment. Investment outran savings, and then there was inflation of credit. There were a great many unwise investments, and then there would be a crash, and a long period of falling prices and depression, and gradually, as prices and wages fell, investment would start up again. People to-day assume that that must repeat itself, and most of the people who advocate being quiet and waiting, assume that the financial processes will take us out of the depression in that way.

Here, for the purpose of brevity, I shall read somewhat from an article I have just written, for the purpose of condensing what I have to say.

The question is whether the banks or the financial institutions can generate enough investment to take us out of the depression. While our leaders prophesy the early and spontaneous generation of prosperity through finance and financiers, our banks hold half a billion dollars of surplus cash reserves and over a third of the world's monetary gold. It is about 37 per cent at present.

With a capacity for almost unlimited credit expansion, our financial institutions continue the contraction of credit. Current new investment is rapidly approaching zero. The financial fuel is piled up. The State and not the bankers must light the match. Motives of public welfare must lead us out of the present depression, as greed and war have led us out of past depressions, to be followed, of course, by other depressions.

The profits resulting from a rapid opening up of new continents by European immigrants and capital constituted a dynamic factor in past recoveries. Another factor was the then incompleted transition from feudal and agricultural economy to modern industrialism. To-day these dynamos are lacking. There is no more migration of capital or of peoples.

You will remember, of course, that for the first time in the history of this Republic, the tide of immigration is flowing against the United States. There has been a retardation in population growth from about 2 per cent per annum before the war, to 1 and a fraction per cent per annum since 1920. The consequence of that is that there are no more fields for large-scale profit-yielding investment. This assertion can best be verified by making a considerable investment in any new productive venture, and then waiting to see what happens to it. That is a very significant fact, that most of the people who believe in automatic or spontaneous recovery overlook. Their assumption is that investment will start up again, because it started up in the past—and it did—that is, from the Napoleonic wars, down to the present date; but, according to the analysis I am advancing, which is not an original one, naturally, there is no investment to-day because there are no fields inviting investment as there were in that time.

After the Napoleonic wars, there were railroads to be built. England first started building railroads. From about 1820 to 1845, France was building railroads with British capital. Then railroad building began in this country, and in Australia and in other parts of Europe, all between 1840 and 1870. After 1870, from 1870 down to 1890, railroad building was carried on at a very rapid rate in this country. So, during these depressions, when capital accumulated, reserves or savings accumulated in Europe, and there were not profitable fields found for their employment there, they flowed out to these new countries of Australia, the United States, and South America, to be invested profitably. It was the expectation of profit in those fields which induced Europeans to send their capital here; and, going along concurrently with that process of investment, was the constant migration of Europeans to those new countries. That migration is not in course now. It simply is not a factor.

And, at the same time that there was that migration and investment in progress, there was a rapid rise in the industrial populations of England and Germany—later in Germany. England started right after the Napoleonic wars, and Germany got in the game of industrialization after the Civil War. During that time, the industrial populations of those countries were increasing, creating a market for raw foodstuffs and raw materials. So, there developed a natural basis for investment in exchange. England sent rails and locomotives to the new countries, built railroads, built factories, developed plants and mines for producing copper, wheat, sugar, and all sorts of products, and their growing populations at home consumed those, and there developed a natural exchange between the old countries of industry and the new fields of producing raw materials. Investment was then justified, but if you look the world over to-day, you can not find any such reason for investment, because all the world is glutted with raw materials and the prices are such that there is no profit in increasing the production of raw materials anywhere. In fact, the raw material producing centers in South America, Australia, and in Asia are unable to operate at a profit in the present state of supply and demand.

To be sure, certain undeveloped countries, like Russia and China, remain unmodernized. Given radically different world conditions, they might provide inviting fields for new investment. But the lure of profit can not beckon capital or migration to lands rules by anarchy, the case of China, or communism, the case of Russia. There may be good reasons to give away American money to the Chinese and Russians, instead of hungry Americans, but there can be no sound reason for investing capital in lands ruled by principles avowedly opposed to capitalism and profits. If further creation of capital must be justified by the expectation of a fair return, an indefinite scrapping of productive plant and a steady fall in the standard of living of the people are indicated. What is more, they have been in course since 1929.

Now, I am coming to a vital point in the analysis I make. The assumption of spontaneous revival through new investment has always rested on the fallacious postulate that people and banks will not indefinitely hoard money. The postulate is historically and theoretically untrue. Rich princes and merchants in the East and Europe have for thousands of years done just what the classical economists have said could not go on indefinitely. They have hoarded gold, silver, and other forms of wealth, usually obtained from wars and looting. They did not seek the Calvinistic or kosher 6 per cent in investment, for the good reason that investments of this type were not to be found in considerable quantity in times of no industrial expansion. What has happened for centuries is happening to-day everywhere. We are getting back to a course of conduct, in respect of wealth, normal for thousands of years.

The question in finance is not how might the banks contribute to recovery, for that we know already, but why they should do it so long as new investment offers no profit? Since the creation of the Federal reserve system by the act of 1913, our banking system has met satisfactorily all demands including that of contracting credit to correspond to a practice of economy. Before 1913 we had occasional money panics, due to the inelasticity of our then available supply of paper currency. The Federal reserve act of 1913 gave us an elastic currency and banking system which has avoided a recurrence of the monetary panic of 1907 and which has conducted for us, according to sound financial theories, a war, a boom, and a depression—each the biggest in history. What more could be asked of a banking system?

Our banking system adapts itself to the conditions of our economic life, and it must do that. If we want a war our banks give us the money for it. If we want a speculative boom our banks create credit and money for that. If we decide further investment is not profitable our banks must conform to that decision.

Let the following figures of new capital issues tell the story how the American people for a time willed prosperity and then, in 1929, began willing depression, without of course, realizing in 1929 that a decision to curtail new investment for profit at a moment when money income and profits were highest amounted to a definite decision to have a depression. I just quote figures of new capital invested in new issues of corporate, foreign government, farm loan, State and municipal bonds, and stocks of all sorts. They are the figures of the Commercial and Financial Chronicle. In the year 1924, $5,593,000,000; 1925, $6,220,000,000; 1926, $6,344,000,000; 1927, $7,791,000,000; 1928, $8,114,000,000; 1929, $10,183,000,000;

1930, $7,023,000,000; 1931, $3,108,000,000; 1932, $1,190,000,000; and in January, 1933, $64,000,000, as compared with $184,000,000 in 1932.

That is one measure of the decrease in new investment. Briefly stated, it is a very adequate index, I think, of the decline in new investments, the amount put into new corporate and public bond issues.

Briefly stated, the American people, from 1924 through the middle of 1929, wanted to invest heavily in the expansion of their own and foreign countries. They were motivated by a desire for gain and not for public welfare. The banks facilitated such profit-seeking investment. About the middle of 1929, the American people decided that a further increase in the Nation's productive capital would not be profitable. The decision was probably correct. They, therefore, decided to curtail the building of new capital plant. This decision started the depression and brought new investment in America to the lowest point in this century by the end of 1932.

In other words, new investment started declining in June, 1929, roughly, and it was about that time that the total amount of wage payments started their decline. The decision to invest less in new profit-seeking properties was a logical and necessary one if profits had to be the only motive for new investment.

A dictator, fascist, communist or king by divine right, could have prevented in 1929 the start of the present decline in spending and investment. He could have continued investment without regard for profit, as in better homes for the poor, museums, churches, etc. He could have kept up spending or production and consumption with regard only for the willingness and capacity of the people to produce.

You know that in the thirteenth century in France, $1,000,000,000 were invested in 100 years in building churches and cathedrals. In medieval times the State created work for people and activity in the building of churches, convents, monasteries, palaces, art galleries, pyramids, and great irrigation systems, none of which were motivated by profits.

The decision of American capitalists in 1929 to decrease further building of capital plant was dictated by the prospect of declining profits, due to the inevitable working of the capitalist system. The decision of the American people to spend less was imposed by a reduction toward the middle of 1929 of total wage payments. These two decisions, the results of the inevitable play of the system, willed the depression and forced the banks to start a contraction of credit, amounting to some sixteen billions in the past four years. The decline in the circulation of what bank money there is has been no less than the shrinkage in its absolute quantity. The activity of banking accounts or the circulation of bank money is best indicated by figures of what are called debits to individual accounts. During 1925–1928 such debits averaged about $50,000,000,000 a month. In 1929 they rose to over $70,000,000,000 a month. At present they are running about $25,000,000,000 a month.

The people have about fifteen billions less money in the banks. though they have over a billion more in currency, due to hoarding. People are spending bank money, or drawing checks, about a third as fast as in 1928–29. Yet we have as much gold to support bank credit and deposits. There are as many people to spend. They have as many wants. There is a larger equipment of productive capital with which to supply things on which people might spend money.

Here it may be objected to my exculpation of the bankers that they might, in spite of present trends, increase investments and loans in order to help us out of the depression. The answer to this objection is that banks can not finance the building of more factories, radio cities, or renting properties when half of our productive plant is idle for want of consumption and a large percentage of housing properties are vacant for want of paying tenants. Banks can not give money away to relieve the depression. The State, however, can give away money, because the State, unlike the banks, has the power of taxation.

Were the bankers to go temporarily insane, as they not infrequently do, and if they were to start making large investments and loans on the basis of their idle reserves, contrary to the obvious indications of commercial supply and demand, it would happen that depositors would at once make a run on such banks and thus defeat these well-intentioned but unsound attempts to save the country from the depression.

The banks to-day have about $500,000,000 surplus reserves, but they can not use them for investment when such investment promises results as we see in Radio City. If this analysis is correct, the State must save what we have of a price and profit system, a credit system. Under a price system—and this goes for communism or socialism or any ism—as long as you have prices under the price system, the only escape from a depression must be increased spending. In the absence of profitable new fields for investment, in a world already glutted with unsalable products, the only way to increase spending is for the State to do it for nonprofit yielding public works, social service or war. Japan has chosen war, and that is certainly the worst way to do it. The State can maintain adequate consumption. To say that the State can not do it is to deny history, because they did it for thousands of years. This is really an exercise in government and taxation; and we must remember, gentlemen, that a government which fails to govern must fall. A people who will not allow a government adequate to their needs must come to grief. State expenditures would probably have to be financed, in the beginning, with fiat creations of credit and money. I think we ought to be perfectly honest about this part of the problem.

All money, bank money and paper currency, except gold and a negligible quantity of silver coinage, is fiat money. All money except coins is created by a turn of a printing press or a stroke of a banker's pen. It is fiat money because it can be created without any other limit than the fiat of State authorization. Bankers make 90 per cent of our money by setting up on their books deposit credit and borrower debt.

No one has a valid standard for determining the future value of currency, bank money, gold, or bonds. Sound money theorists define fiat money as any money issued in excess of what they consider enough. Sound money is merely their definition of money issued within their limit. And every believer in sound money has a different idea as to what is enough money at a given time.

In fact, sound or good money is merely money that maintains or increases its purchasing power. Unsound or bad money is money that declines in purchasing power. The degree of goodness or badness is the extent of appreciation or depreciation after issue. Sound money theorists believe they have quantitative formulas for determining the future value of money and credit, much as physicists have for calculating the impact of falling bodies.

Simple minded advocates of what they piously call sound money suppose at times that some money is better than other money because expressly issued against goods already produced or in course of production and marketing. Such money, they imagine, is different from fiat money. It is, however, merely money issued within their limit and subject to their approval. As a matter of fact, money issued against unsalable goods is no different from money issued against the ice at the North Pole. Twelve million bags of coffee were burned last year in Brazil. We may see the same disposition made of our wheat and cotton surpluses. Yet the banker who issues credit or money can rarely tell whether goods will be sold at a price to cover costs, or even sold at all. The only security of any issue of money is a certain right course of future events. Believers in sound money are deluded with the notion that they have ways of foretelling the future.

The dollar is now painfully sound. It is getting sounder every week as prices continue their fall and unemployment continues its rise of the past four years. If present trends continue, it will soon be so sound that all our banks will be closed and most of us will be starving or living by moneyless barter, which many people are already extolling.

A sound bond pays the expected return. An unsound bond does not; and we never know at the time we create bonds what they are going to do, because of changes in future economic conditions.

When I was a boy 20 years ago or a little more, most European Governments' bonds were sound. After the war they have been unsound. Twenty years ago the watered stock of the United States Steel Corporation was unsound. Since 1915 or 1916 the watered stock of the United States Steel Corporation has been very sound. Even the securities of Insull and Kreuger, and the 1929 investment trusts, and of the South American Governments, might all be sound to-day had another course of events ensued comparable to those which followed the California gold rush or which followed the period of about 1870 to 1900.

The fact is, then, that there is no rule for determining whether money is going to be sound or unsound. The soundness of money or of credit depends upon the total production and consumption and the state of trade that follows. You can not fix those conditions when you create money.

I am not advocating what I would call unsound money. I am merely trying to clear the field of these invalid objections to what is called unsound money. I am making the point that no one has a standard for pronouncing money sound. We issue money against the production of goods. That is not valid, at all, because the goods may have the value of wheat or coffee 10 or 2 years or 6 months hence. The soundness of money depends upon the state of the exchanges; and that you can not determine when you issue money.

Let us look at the facts to-day. We have in 1933 more wealth in the United States for use than we had in 1929, and probably half as much value in exchange. Much of that wealth for use to-day has no exchange value because it can not be used under our price system. The reason it is not being used is that potential users do not receive the money income to buy the products of idle factories and prostrate farms. The need is not for more money primarily, but for more spending; and the reason that there is no more spending—the reasons why are not simple; they are somewhat complex. But the need is, I repeat, more spending, more investment, more consumptive spending.

Our sound money friends are terrified lest the inflationists give the shivering and under-nourished millions of unemployed unsound money in return for productive labor, so that quantities of now unsalable goods and housing might be bought.

The sound money people say that credit to build factories, which are now idle, was sound a few years ago, but credit, for instance, to clear away slumps would not be sound, because not profit yielding.

What does this inflation case really come down to? It comes down very largely to this, that the people who cry inflation against those who advocate State generation of activity make the great error of associating with inflation many of the unhappy things that have gone with inflation in the past.

Here you can state somewhat dogmatically that by inflation is meant the increase in consumption such as accompanies war, or the payment of reparations, which is a consumption in replacement of what was consumed in war, or else the inflation corresponding to an expansion of new country.

In the three great periods in our history before the Revolutionary War, the Civil War, and the World War, the people who criticize inflation are really criticizing those wars. The criticisms that they apply to inflation apply to the war. No country ever said, "Let us inflate," and then decided to have a war so that they could inflate. Countries have been driven to the decision to make war by considerations that they thought sufficient, and when they made the decision to go to war they had to inflate as a means of carrying out that decision.

In other words, what is called inflation and expansion of credit and money and more spending has always been an accompanying means for the accomplishment of something that the people as a whole wanted very much to do, such as fighting a war or developing a new country.

It does not follow that the only use that inflation can be put to is war. We did inflate in America in the past century in the opening up of the West. They inflated in Australia; they inflated in South America. The people who denounce inflation do not denounce the development of this country, which was accomplished by the increase of credit and investment. They confine their criticisms of inflation to what took place in Germany, to what took place in this country and in Europe as a result of the war. The evil of inflation is not the increase in money or spending, but it is the things that go with war.

We have in America to-day a real struggle, not between the proletariat and the bourgeoisie, because we do not have classes that answer to those terms. We have a struggle between the people who really believe in what they call sound money and the people who believe in the right to eat and the right to work.

Sound money arguments are appealing to those who have money and feel sure of getting more while millions grow poorer. They are not valid for a Government employee thrown out of work to balance the Budget and keep the dollar sound. There can be no valid sound money argument for the man who is denied by the exigencies of sound money the right to earn a living. This is a talking matter for the embattled bondholders and the cold-blooded theorists. But it will become a killing matter for the moneyless and hungry. Security for the working or declining years must be found in steady production, fair distribution, and a responsible, humane state. There can be no security for the thrifty or the worker in a state that allows production to become paralyzed and millions of men to go without work. In such a state, a sound currency is a travesty on words. Even if we grant that a sound dollar comes ahead of welfare or that a sound dollar is the best way to assure welfare, there is no evidence that any one can tell us how to maintain a sound dollar or that the recommendations of the sound dollar devotees can be carried out.

As we have seen in the present depression, the sound-dollar people really wish to reduce costs, reduce expenses; and the savings of the people who have money will eventually be turned into new investment. But we have seen that the process is not going to happen.

Now, how can government meet this situation? The first condition to be recognized is the need for more spending. What is the amount of additional spending needed? I am not going to be restrained by considerations of conservatism or by the fear of not being taken seriously. I am going to speak logically, even if my statements seem extreme.

We have in this country to-day about 12,000,000 unemployed, let us say. It is necessary to create enough additional consumption to provide work for those people. Suppose it is necessary to create $15,000,000,000 of additional consumption to provide work for these people. You will remember that only about 70 per cent of the amount spent will be applied to wages alone. Thirty per cent will go in remuneration of property owners in interest and profits.

Suppose it is necessary to spend fifteen billions a year additional to employ those 12,000,000 people. How shall that money be spent?

The first consideration there is that the money must be spent consumptively; the money must not be invested with a view to netting a profit. There has to be a definite increase in consumption. Can the State do it, and how?

Let us assume that there is a will to increase consumption by $15,000,000,000 a year by the action of the State. What could be done? The President of the United States could, in a message, set forth the nature of the present situation and invite the governors of the States and the mayors of the largest cities which are able to direct large scale expenditures of money, to send representatives to a conference to study this problem. The first question would be determining the total amouut to be spent, which, we will say, might be fifteen billions in a year. Then the allocation of those expenditures. What would the money be spent on? Not on reproductive works. The money would be spent on works which would create a better standard of living and which would not be expected to yield a net profit return to the State.

I think the largest field for investment there is in housing—housing for the poor; slum clearance. You will say right away, "There are plenty of houses." That is true—there are plenty of houses and plenty of housing for people who have the price; but the housing scheme that the country needs is one which will not compete with existing houses, but a housing scheme which will clear large areas of houses now occupied and build in their place better houses which will accommodate fewer people, but give them better quarters and, at the same time, for prices which they are now paying; the cost of that to be borne by the State.

The result of that operation will be a transfer of the ownership of that property to the State and the reimbursement of the owners with very low interest rate bonds. A part of the cost of the better housing for the same rental rates will go on the National Budget or on the State budgets. The property rights of landlords will not be injured by that, because you will not compete with existing houses, but you will create a demand for additional houses.

There is naturally a great deal of work to be done on the improvement of the esthetic approaches to the cities. There are unlimited fields for expenditure—nonprofit yielding expenditure—and that expenditure can be kept up indefinitely. With a preliminary issue of credit by means of taxation, the result of the spending will be to generate new purchasing power, to employ factories that are now idle, to create values which are now nonexistent because of the inactivity of these productive plants.

The principle of all this is a recognition of the fact that investment for profit is not the solution, but that by State action we have to increase consumption and we have to finance that increased consumption subsequently by levies on our national income in the form of taxation.

I do not think that such a program—certainly not for a long time—would amount to anything approaching a complete state of socialism. It would allow the entire management of industry and production by private producers, and it would permit a levy which would have very important effects on the distribution of wealth and income, but it would not be confiscatory. On the contrary, the effect of putting 12,000,000 men to work producing better houses to be rented without profit would be to enhance the capital values of investment in our steel mills and our cement mills and in all forms of property.

The question arises, can that be kept up? I see no reason why it can not, just as it was kept up for centuries before the rise of industrial expansion. Taxation and government administration are the bases of doing it.

In closing I want to say a few words about the alternative suggestions of a small issue of credit and a small expenditure to stimulate what is called a revival. Most of those suggestions suppose that this depression is a sort of psychological affair which is due to a lack of confidence, and that if you start the ball rolling it will then go of its own weight and momentum, and that spending a few billion dollars, two or three billions one year, will start the thing off and it will go by itself.

I believe that if you make a thorough analysis of all the factors in this situation you will be forced to the conclusion that there is no reason to suppose that a few billion dollars spent this year in any form will generate of itself processes that will take care of adequate activities for the next 10 or 15 years.

If you had a big war and spent several billions and destroyed a lot of property, then you would take care of this for several years, because you would have a period of replacement, and that would take care of it. But if you are not going to choose the war way, which has been taken by Japan for just this reason, you have got to recognize the necessity for the State to supplement private initiative to whatever extent is necessary; and I fix no limits. The State must supplement private initiative to whatever extent may be necessary to maintain an adequate level of activities for the whole country.

When I say "adequate" I mean adequate to have only one or two millions or two or three millions unemployed; but I do not believe any one can say that there is adequate activity in the country with 12,000,000 unemployed; and if none of our bankers and none of our financial advisers can tell us how or why anybody with money should invest it, then surely they have no reason to say that the State must not spend so as to create activity for those people.

The CHAIRMAN. There are many States now that have borrowed to their limit under their constitutions. What would you suggest in cases of that kind?

Mr. DENNIS. That I was going to come to, but I will be glad to take it up at this particular moment.

In regard to the question of financing these increased expenditures, assuming that the President's conference of governors and mayors should decide that this increase in expenditure is necessary and that the States must do it, the first problem is one of financing—how are you going to finance it? Assuming that taxation afterwards will take care of replacement, you must create money of some kind, bank money or currency. I do not think that you can go in the market to-day and sell five or ten billion dollars of Government bonds without breaking the Government bond market and thereby creating a great dislocation of our financial institutions. You have got to create for the initial year of spending a sheer increase of bank money through appropriate measures in the reserve banks or by a mere issue of currency. I do not think that your cities and States can borrow the money on their credit. I think that has to be recognized. I think you must make the direct creation of the money——

The CHAIRMAN. You mean, that the Government will have to supply the money to the States?

Mr. DENNIS. Yes; that is right.

The next question you will probably ask me is this: "Well, won't we have inflation and a terrible rise of prices"? If you spend the money so created to create new production you will not have it. You will have some rise in prices, but no dangerous rise in prices, the evils that the inflationist predicts would occur if this happened.

If the Government furnished $15,000,000,000 of money and just spent that and at the same time made a law and enforced it prohibiting any factory from increasing its production and preventing anybody from renting a house that is now empty, then the result of throwing out $15,000,000,000 of Government money to buy that much more goods in addition to the normal demand, with no increase in supply, would give you a fantastic rise of prices; and it is inconceivable to suppose that if the Government ordered $15,000,000,000 worth of some goods and services the idle factories would not immediately start turning them out. If they raised their production proportionately to the increase in spending, you would not have any rise in price. What gave you a rise in price when inflation started during the war was this, that during the war you took out of industry a large number of men to fight. At the same time you built up your consumption by a fantastic amount. The Government then comes into the market and throws money in the market for more goods, but it can not increase production as much as it increases demand. The result is the fantastic rise in prices.

In Germany eventually what happened? The Allies demanded exorbitant reparations of Germany. The Germans were required to make deliveries in goods. They were required to have large quantities of currency. How did they get it? They had to buy it. So the Germans began printing money in impossible amounts—that is, impossible to obtain without inflicting tremendous sacrifice on the population. That caused a rise in prices.

In other words, the evils of inflation only begin when your increase of money outruns your possibilities of increased production.

You would not have any extensive inflation until you reached the point where you got everybody at work, every factory turning out its full output, every house rented, and then have speculators operating, and you would get a rise of prices. That raises the question, can you control them? I do not think any one can say that it can be wholly controlled. We can not control our children, our wives, our husbands, our employees, entirely. There is no such thing as perfect control. You have to have a sufficient amount of control to make life possible. You have to assume that after the State has increased consumption by a sufficient amount to absorb our necessary output—and when I say "necessary" I mean enough to keep most of our people employed—you have to assume, then, that the State will not increase its spending beyond the capacity of our productive plant to supply.

If that is done, there is no reason why prices should become excessive or why they should become very unstable. There will be some instability, of course; but there you have a problem of government. First, the problem of creating the money for the initial expenditure; second, the problem of getting the money back by taxation and spending it again; third, the problem of keeping your spending in relation to your capacity of production; and there you can have a fairly normal equilibrium which can be maintained indefinitely without going to the extremes of socialism or communism.

That is an adequate plan, and I do not think that the spending of a few millions here and a few millions there is the adequate or correct approach to the problem. You can not stabilize prices and you can not generate a force which will of itself restore prosperity.

The CHAIRMAN. You will have to excuse me. I have to go to a conference.

(Senator Smoot withdrew from the hearing room, and Senator Shortridge took the chair and presided during the remainder of the session.)

Mr. DENNIS. Another question that I would like to discuss in connection with some logical plan of Government spending, to supplement any deficiency of consumption, is the question of a fair return to the investor, a fair return to the capitalist. A great many people believe that they can conserve their capital rights and receive a fair return on bonds and interest-bearing obligations without regard for production. I think it is one of the main errors of the current economic thought in this depression. The return to the capitalist must be considered purely as a part, a percentage of what is produced. The investor can only receive in the long run a part of what is produced.

I do not need to give figures to this committee on production. Every one knows that production to-day is about half of normal. Take the index to production of the Federal reserve bank, or any of the indices of production and distribution, and you will find by any of those indices that production is about one-half of normal. The capitalist's return can not be maintained in view of the situation. Half of the credit rights of this country, half of the mortgages, half of the rights to money payment have got to be canceled sooner or later in this depression if production is kept at 50 per cent of what it was four or five years ago. There is no escape from the logic of that proposition, as I see it. You reduce production to half, and you have got to cut the capitalist's return in half. If you by State action increase production a hundred per cent or put it back approximately to where it was, even though that production is used to give poor people better homes or to build beautiful buildings or whatever you increase that production for, on that production the investors will receive or be able to receive a larger return—not a larger percentage of return, but a larger gross return.

In other words, my argument is that you can not maintain your credit right good in this country unless you bring your production back; but if you can not bring your production back by getting the rich to spend more money, you have got to bring it back by getting the State to spend more money.

Senator SHORTRIDGE. What do you include within the word "production?"

Mr. DENNIS. I include the sum total of goods and services which are sold. The housewife's services for her husband would not be included, but the servant's service for her master or a farmer's wage or a manufacturer's production would be included. That is production which is paid for in money. The farmers, of course, are producing a great deal nowadays which is not being paid for in money, for their own consumption; but we can not go back to a primitive economy in which everybody makes his own shoes and weaves his own cloth. We have got to continue on a price economy, which means that we must sell and buy; and there are 12,000,000 people who can sell and buy very little, because no one will buy their labor. They can not sell their labor, so they are practically living on charity or on their rapidly dwindling savings.

The bondholders and conservative people, it seems to me, in this crisis, are making a great mistake in denouncing what they call inflation, which is but another word for increased activity. I do not call myself an inflationist any more than I think George Washington would call himself an inflationist, or Woodrow Wilson or Abraham Lincoln would call themselves inflationists. The Revolutionary War was fought with inflation; the Civil War was fought with inflation, and the World War was fought with inflation; but none of the leaders of the people who were responsible for those wars were inflationists as such. What is called inflation is merely the means of meeting a situation; and it is my argument that unless production is increased by the action of the State, the credit values of the country will be worthless.

The thought that I want to leave in connection with this general thesis is that our credit values and our property rights are only worth as much as our production; and any person who argues against increased spending on the ground that he is protecting his property or his credit is really deceiving himself unless he can show how his course of action is going to lead to increased production.

The time has come when the burden of proof is on the banker, on the bondholder, on the conservative who says, "We will stand still and wait until investment starts up." The burden of proof is on the man that takes that position; and I find in my reading and in my going about and in my connections in the financial world that none of the people who hold that view have any constructive suggestion for starting up new production or additional production and additional consumption.

Senator LA FOLLETTE. Most of the gentlemen who have been before this committee have indicated that if we would just balance the Budget everything would be all right.

Mr. DENNIS. Senator La Follette, I believe in balancing the Budget; and however radical, however extravagant the program of public expenditures, I would also advocate that that be covered promptly thereafter by taxation. A balanced Budget alone in this crisis will not get us out of the depression. The Government can not balance the Budget because the people's incomes have been decreased.

Senator LA FOLLETTE. That is the point that I wanted to get your reaction upon. Most of these men who have been before the committee thus far have indicated that if we would just balance the Budget, confidence would return and we would begin to have increased production and would get out of the depression.

Mr. DENNIS. I anticipated that very point in my somewhat lengthy development of the idea that there is no field for new investment. The plea for measures which will increase confidence presuppose a state of world demand and supply in which it may be profitable to invest money if you have confidence. Mr. Rockefeller had confidence. He invested $225,000,000 in Radio City. But confidence would not make the investment profitable if there is not sufficient demand.

So I do not think that this is a crisis of confidence, although I think a lack of confidence may be directly responsible for a run on the bank. A lack of confidence usually has some foundation. While it is always desirable to encourage people to have confidence, you can never expect people to have confidence in an essentially false state of affairs; and it seems to me that the confidence preachers to-day are not asking people to be calm; they are really asking people to believe bedtime stories. They are asking people to believe that if they invest money they will be able to get a return on it. Anybody who has any common sense knows that if he builds a new factory or produces more minerals or more wheat he will not get more profits. There are a few minor exceptions, possibly.

Therefore, the balance the Budget argument is really to enable people to save more money. It is not to balance the Budget. They want to reduce Government expenditures and make economies for taxpayers, so the taxpayer will have more savings, and that presupposes that the taxpayer will go out and invest that money. But that is just what he will not do; he will hoard the money.

Senator SHORTRIDGE. But that would be a desirable thing, would it not, to so reduce the cost of Government and, if necessary, increase the revenues of the Government, as to pay expenses? Would not that be desirable and helpful in many, many directions?

Mr. DENNIS. If I understand your question, Senator Shortridge, it is whether it would be desirable for the Government to reduce expenditures?

Senator SHORTRIDGE. Yes; to the end that the cost of government could be borne and we could balance the books. Balancing the Budget merely means that the income of the Government shall be ample to pay the current expenses of the Government.

Mr. DENNIS. My answer to that would be this. The unbalanced state of the Budget in the last two years, which is almost 50 per cent of the ordinary Budget, has not been due to an increase in budgetary expenditures so much as to a decline in revenue.

Senator SHORTRIDGE. Certainly that is true.

Mr. DENNIS. That is the first point. The second point is this, that as the Government reduces its expenditures in order to bring them down to its income, its income will go on declining too. You will not stop the decline in revenue by stopping expenditures, because your revenue will shrink as fast from other factors, from other causes, as your expenditures. That is what is happening. You throw a man out of a Government job. Where does he get a job? You throw a man out of any job to-day, and where does he get a job? The Government might solve this problem—I don't think it can at the present time—by reducing employment in Government service; but it might reduce its expenditures by four hundred or five hundred millions a year by just abandoning certain types of public service, because, as you know, about 30 per cent of the Government Budget is fixed charges, and if you reduce public expenditures you reduce the incomes of people, and your income from revenue is being reduced by factors which are wholly outside of the power of budgetary economy to control. You can not increase people's revenues by reducing the Budget. You will also increase your indigent class which is getting support already. If you throw a man out of a Government job who was getting $1,200 a year, the community will incur a charge of $400 to $500 a year for his support, sooner or later.

I do not think solution is to be sought at all along the line of contraction or economy. To my mind we are facing a situation exactly like war. We have an enemy. It is the depression. It is inactivity, unemployment. When you set out to take an enemy you must employ all your resources to beat that enemy. You must not try to conserve your resources. You would not make war by trying to conserve men or money. You make war by trying to beat the enemy. In think government economies can not increase revenues and that you can not contract expenditures as fast as your revenues will contract in the present state of affairs.

Senator LA FOLLETTE. In other words, you can not balance the Budget while you are sliding down hill?

Mr. DENNIS. No; you can not do it. You can not reduce expenditures fast enough.

Senator SHORTRIDGE. You have used the word "production." We have heard a great deal about overproduction, as in the case of many of our agricultural products. There is overproduction to-day, is there not?

Mr. DENNIS. There is overproduction in the sense that many things can not be sold at a profitable price. Strangely enough, the farmers are selling their output better than anybody, though they are making less and are suffering more in a reduced standard of living. The total farm output of the country has declined less in physical volume than the output of any other major branch of industry.

There is a potential market for all our potential output. There is overproduction if you are to earn interest charges and a profitable return; but the assumption of my whole case is that you have got to create demand by the act of the state to supply the deficiency, because, as you say, there is overproduction, just as there is overproduction for profitable demand. There is more produced than people will buy at a price which yields a profit; but the conclusion that we draw from that fact is not that you must further cut production, but that you must increase consumption, because under a price system people can only consume if they produce. In order to increase consumption you must increase production to some extent, because 12,000,000 unemployed should not be given doles so as to increase consumption. They should be given an opportunity to add to the overproduction; but in so doing, to increase that consumption to such an extent that the whole output would be absorbed.

Senator LA FOLLETTE. At the peak of prosperity there were 20,000,000 people in this country living below the minimum standard set by the Labor Department as necessary to sustain life on an adequate basis. Therefore we can hardly say that even at the peak of prosperity, with that potential market, there was any actual overproduction; it was an inability to consume. And it is to-day?

Mr. DENNIS. Yes. Everything depends upon the point of view from which you view production. If it has to be production for a profitable price, then you are definitely limited. The State is the great consumer in any society; and I think the great lesson of this depression that is missed by most people is that historically the State has been the great consumer. It is only during the period from about the time of Adam Smith or the American Revolution down to the World War, or even a little before that, that society could rely on the profit motive in opening up new fields of investment to supply an adequate amount of consumption to take care of the output. In the medieval days they built cathedrals, monasteries, churches, and great public works to keep the people employed; and there is nothing radical or abnormal about that idea. It just so happens that some of our bankers have a notion that it is a historic and inherent law that the State must only spend enough to keep the peace, and that individuals can be relied upon in the play of the free market to do enough spending to absorb the necessary output.

The fact is historically that since the dawn of history the State has seen that the people have enough work and enough activity. I do not say that it has always been of a desirable quality; but you must take into account the results of invention to increase productivity in the last 120 years. The rise of the standard of living during the industrial revolution was due to increased technological efficiency. During that heyday of the recent industrialism the State did not need to do much but just keep the peace and act as policeman.

In the meantime the people who were in search of profit went to America and opened up new fields of production. But now we are at the end of that period, it seems to me, and I think history will bear me out in this. I can not assert this dogmatically, because my statement might be belied by some utterly unforeseeable combination of events, or, of course, by a great war, which is a consumption process.

But the thought that I want to stress again and again is that there is nothing radical, there is nothing revolutionary in the concept that the State has to provide activities. It just so happens to be a fixed notion of the bankers and so-called conservative people in this country that State consumption is a radical, unsound, unprecedented thing, just because it has so happened during the 150 years of expanding industrialism that society could rely on private profit seeking initiative to supply a market, and not on the State.

The last World War, which some people often refer to as the cause of our present depression, in my opinion really saved us from this depression—it postponed it. I think that it might very well have happened that the world would have sunk into a very deep depression, perhaps worse than this, more slowly, had the war not come. Indeed I will say that the tendency toward depression was one of the causes of the World War. That is seen in the competition and threat of competition between England and Germany. The war came between England and Germany primarily because of economic rivalry. Markets were becoming limited. I do not say that they just made that analysis of the situation and said, "Now, let us have a war." It did not happen that simply; but the war saved us from the continuation of the depression that followed the panic of 1907, by creating a great demand for consumers' goods. It is unfortunate to have to kill people in order to spend enough, and the extremity of spending excessively during a brief period and having a period of prosperity in replacing what may have been destroyed, most naturally, under a profit system, may rise to a severe depression when the credit expansion has become so great that it has to be deflated.

But the argument there is not against consumption; it is against the bad type of consumption which is constituted by war, and it is in favor of a type of social consumption which has not the disadvantages of war, because, as I have said, the great objection to inflation which the anti-inflationists always use is the objection to what has always gone with inflation, in the Revolutionary War, the Civil War, and the World War. We have used inflation in connection with the war, and the anti-inflationists always denounce the process of events which gave rise to inflation; and there they are quite right. We must use credit to promote human welfare.

Senator SHORTRIDGE. Do you not think that the great World War was a net loss to every nation engaged in it?

Mr. DENNIS. On the human factor side I would say, yes. On the economic factors I would say, no.

Senator GORE. Economists estimate that one hundred and eighty-six billions of actual wealth was destroyed during the war and one hundred and fifty-one billions of potential wealth and two hundred billions of indebtedness was written on the books of a crippled and blasted world. Are you able to figure out any economic consequences from the destruction of three hundred and thirty-seven billions of wealth and the loading of two hundred billions of indebtedness in as short a time as four years on as small a planet as this globe, and with as small a population as that, and expect anything but the most terrific economic consequences from it?

Mr. DENNIS. Senator Gore, I think if the nations of the world following the World War had had an attack of comon sense and applied their productive faculties to social programs, and had they extinguished their war debt by direct capital levies, within a few years, I think we could have entirely eliminated the consequences that we have in the present depression. I do not blame the World War for this depression, sir. I think that the World War really gave a boom, and that the misfortune of the world is that we were not able to keep up the boom.

But the war certainly did not prevent us from keeping up the boom. What prevented us from keeping up the boom was that we relied on the use of consumptive credit directly or indirectly to finance consumption; and you can not go on financing consumption by the use of credit. You must finance consumption by some means of distributing income as it is produced and consumed. It is the scheme of distributing national income which is responsible for the depression, and not the breakdown of our productive processes; because if you will stop to think, Senator, we have all the factories that we had in 1929. We have every productive factory to-day that we had in 1929, and we have a far bigger productive factory, about a hundred billion dollars more of productive capital now than we had in 1914. That is true of France; that is true of Germany. All the European countries have a greatly enlarged productive plant, and the South American countries and Australia all have a greatly enlarged productive plant.

Senator GORE. I think you are right; but during the war I think the world's productive capacity was developed to a point beyond the world's requirements The war created. seven new nations with 12,400 miles of additional international boundaries. Each of those little dinky States trying to become economically self sufficient was adding to their own productive capacity regardless of the fact that it was being added to a productive capacity of the world at large which was already excessive. Is not that true?

Mr. DENNIS. I would say, Senator, that the human race has a capacity for consumption; that the only limit to the production of a people should be their willingness to work and their natural resources, to some extent, and I believe we can use up all this production if we have the right system of distribution.

Senator GORE. I agree with you entirely about that. We have got to cut down production or cut down the days of the week or the hours in each day until everybody has got all they need, at least, and perhaps more than they want.

Mr. DENNIS. That is my view.

Senator GORE. I do not have any sympathy with this other plan at all; I think it is ruinous. But after the war was over we lent money to the peoples of Europe for rehabilitation purposes, and they used that money to buy our goods that were produced in this country.

Mr. DENNIS. I made an analysis of our capital exports from 1919 to 1931, taken from the reports of the international balance of payments, of the Department of Commerce, and in my analysis I found that the amounts we loaned to the European peoples, to foreigners, were almost exactly equal to what we received or were due to receive and did receive in interest and dividends. So I say that our loans were just about equal to our capital income from abroad. So we did not by our loans really increase their purchasing power for American goods.

Senator GORE. Do you think they could and would have bought as much in the United States if they had not borrowed as much from us?

Mr. DENNIS. The answer is that they would not have bought as much in the United States if they had not borrowed from us and if they had paid their interest. If they had not paid any interest to us, when they would have bought just the same amount.

Senator GORE. I saw a statement not long ago—I have forgotten the figures, but from 1922 to 1929 we loaned them eight billions.

Mr. DENNIS. I think that is about right.

Senator GORE. During that time our favorable balance of trade was eight billions or approximately so. There was a singular correspondence between our balance of trade and what we loaned them. The author may have been right or wrong.

Mr. DENNIS. He was right.

Senator GORE. He was drawing the inference that this money that we loaned them had been used to buy goods from us.

Mr. DENNIS. It so happens that the figure you refer to as the favorable balance of trade is the favorable balance of our commodity exports. The invisibles you see are just about equal to our capital exports. So you can see that the invisible imports of the United States are just about offset by the capital exports.

Senator GORE. In any event, whether they borrowed money from us or not, they bought enormously from us?

Mr. DENNIS. That is true.

Senator GORE. Which stimulated production in this country, did it not?

Mr. DENNIS. It was a contributory factor, about 7 per cent.

Senator GORE. It did contribute to mass production, did it not?

Mr. DENNIS. Somewhat; yes.

Senator GORE. When mass production began in this country, the increased output and the increased sales abroad began to show pretty good earnings for the factories, did they not?

Mr. DENNIS. Yes; only I would say, Senator, that the construction of new buildings in this country during that period was a far bigger factor in creating our prosperity than our foreign exports.

Senator GORE. There is no doubt about that, because during the war we suspended. The Government requested people not to put capital into buildings, and they obeyed the request. Not only that, but two or three million farmers came to town. They did not have any homes because the building had not kept pace with the ordinary demand. So when the war was over there was a demand for buildings in the cities to accommodate the newcomers, and for business purposes as well. That caused a sort of artificial stimulus to domestic industry, and everybody that was producing building materials or engaged in the building trades became prosperous. On the other hand, it stimulated our factories to mass production and started factories earning profits and profit taking advanced and prices increased and did not that help to start this wild stock speculation?

Mr. DENNIS. It was a contributory factor indeed. I think, however, that if the United States at the conference of Versailles, or shortly after, had canceled all the war debts, the foreign trade of the United States would have been about evenly balanced since the war, and our capital exports would not have figured since the war as a contributory factor towards our prosperity. As it was, I am inclined to think that they were not so important as a contributory facotr as was the construction of better homes and the rise of the standard of living and a great many technological advantages in industry which gave rise to a great deal of new investment, and all of that, connected with a spirit of enterprise, of profit seeking which had been greatly stimulated by the war, and the people had a little of the spirit of the 70's and 80's, the pioneer spirit. The war gave them a great spiritual impulse. Everybody thought, having made barrels of money in war orders, that they could go on doing that, and there was a great impulse, a spiritual, psychological impulse to investors.

Senator GORE. I want to come back to that, but I want to ask you two preliminary questions. In the war our bank deposits increased five and a half billion?

Mr. DENNIS. Yes.

Senator GORE. Loans and investments of the banks increased seven billions?

Mr. DENNIS. Yes, sir.

Senator GORE. From 1922 to 1929 bank deposits increased thirteen billions, twice as much. During the same period, 1922 to 1929, loans and investments increase fourteen and a half billions. The volume of money during those seven years declined. I agree with you so far as this credit inflation being responsible for this panic is concerned. I understood that to be your theory—I do not want to misstate your views.

Reverting to the proposition you spoke of a minute ago, there is no doubt, whether you call it spiritual or material, that there was a great buying campaign in this country; and is it not true that during that buying campaign a great many of our people spent all their earnings, all their income? Is not that true?

Mr. DENNIS. I think so; yes. Some of them spent more by instalment buying.

Senator GORE. Do you not think they invaded their savings to buy?

Mr. DENNIS. I think probably they did.

Senator GORE. Do you not think that some of them invaded their capital to buy?

Mr. DENNIS. Yes, sir; I think so.

Senator GORE. Do you not think that some of them resorted to their credit to buy?

Mr. DENNIS. Yes, sir.

Senator GORE. And, as you say, bought consumption goods?

Mr. DENNIS. On credit.

Senator GORE. Instalment buying?

Mr. DENNIS. Yes.

Senator GORE. I have the authority of an eminent economist to the effect that the people of this country were buying, when the panic came, at the rate of $15,000,000,000 worth more goods a year than the national income amounted to, and they made up the difference and acquired their purchasing power from the invasion of their savings, from capital, and credit. The people borrowed all they could borrow to buy, and the day came when they could not borrow any more to buy with. Mass production lost its market. The factories sensed the chill in the air that indicated that they might not be able to sell. Demand slackened. When people use up all their resources and credit and everything else, they quit buying. The factories slackened their output because of slackening demand, and they turned off employees, and that dininished the purchasing power, and that cut down production, and that put us into a vicious spiral. But the point I am getting at is this. Is it your view that this expansion of credit, the use or misuse of credit, is largely responsible for the crash?

Mr. DENNIS. I agree with you entirely that the use of credit for consumption is unsound and undesirable and should be avoided. I think that one of the greatest dangers in our economic structure is the use of credit. Fixed interest bearing credit is what I mean.

Senator GORE. We have had some eight or nine major depressions in our history. The combination of causes differs in each case. One set of causes produced one panic; one another. You might say one set of causes precipitated another. But in every panic we have had major or minor, there has been a credit crisis, has there not?

Mr. DENNIS. Yes.

Senator GORE. The people used their credit and strained it until it flew into flinders, so to speak, and then they came down to earth.

In 1927, you know, there was quite a controversy in this country about the rediscount rate, and it was made very low. One school said it was too low and another said it was not, and it was made in order to help England get on or stay on the gold standard. The rediscount rate for money was lower than the market rate. Of course that encouraged banks to rediscount with the Federal reserve, and loan it and get the difference. Is not that true?

Mr. DENNIS. I do not think it is quite as simple as that. My opinion would be that the rediscount rate of the Federal reserve bank was a negligible factor in the credit situation from 1927 to 1929. The rediscount rate might have become a factor had it been raised to 10 or 12 per cent; but inasmuch as that was not done, I do not think its influence——

Senator GORE. It therefore tended to arrest the business in the runaway, and they put it down 3½ per cent, if I remember correctly.

Mr. DENNIS. I do not think that was a factor, for this reason, that the banks did not make any considerable use of reserve bank credit during that period. Their use of reserve bank credit was not an important factor. The figures show that there was very little or comparatively little use made of it. I heard Mr. Mitchell testify the other day before another committee that his bank, which was the object of considerable criticism during that period for an excessive use of credit and the encouragement of speculation, had not borrowed, was not borrowing at all from the reserve bank.

Senator GORE. When was that?

Mr. DENNIS. In 1929. The City Bank was not in debt to the reserve bank at all; and the major New York bankers who were pouring great barrels of oil on the flames of speculation were not borrowing at all from the reserve banks. The banks that were borrowing or leaning most heavily on the Federal reserve system were in the agricultural districts where there was not very much speculation going on.

Senator GORE. But the point I was making was that the low interest rate encouraged borrowing and the use of credit.

Mr. DENNIS. It was not used very much in the fields of speculation.

Senator GORE. They were borrowing from the banks.

Mr. DENNIS. The banks were charging a pretty fat rate of interest. They were charging 6 per cent on any commercial loans at that period, and charging up to 15 per cent on call money loans at times in the New York market.

Senator GORE. Yes; and draining the whole country of money and credit both to concentrate in New York.

Mr. DENNIS. Yes; but they were not drawing on the reserve banks' credit.

Senator GORE. I was not making that point.

Mr. DENNIS. I think that credit was abused, but I think that the real evil is assuming an obligation to pay an interest rate which can not be earned; when people are optimistic and borrow large amounts of money to speculate, to invest, on the assumption of earning a high rate of interest, and when the state of supply and demand and exchanges does not make it possible to earn those interest rates, you have, sooner or later, got to have a readjustment. Credit is a necessary institution under any price system, but interest is not a necessary institution. You could have the ownership of property in the form of common stocks and real estate and property rights rather than fixed interest rights. It is all a question of what you mean by credit. The evils of to-day, I should say, are the evils of having promised to pay a rate of interest which can not be earned.

Senator SHORTRIDGE. Are we to understand from your statement that you think it would be economically wise for the United States to cancel the debts due us from foreign nations?

Mr. DENNIS. I had not referred specifically to that, sir, but I think, as a matter of fact, that the United States has either to cancel the debts due us from foreign nations or accept an import surplus; that is, lower our tariffs and take more foreign goods than we export.

Senator SHORTRIDGE. To put it simply, I wanted to get your conclusion rather than your reasons for it. There are certain written agreements, obligations of those European nations. We set up a commission here to adjust and settle the debts, a funding commission. These several nations, through authorized agents, came here to Washington and we took into consideration all the facts, their capacity to pay, and we gave to them severally some 62 years within which to pay at certain rates of interest. Those agreements were then ratified by the several governments and by ourselves, and those contracts are now valid and existing. The simple question is, if you can answer it just by yes or no, Shall we cancel them? Shall we give further time? Shall we waive interest, or, upon the other hand, shall we stand upon the agreements and insist that the agreements be performed by these several debtor nations?

Mr. DENNIS. I favor cancellation, sir.

Senator SHORTRIDGE. I merely wanted to know that.

Mr. DENNIS. I favor cancellation, and I add that if we do not want to cancel them, I would favor maintaining the debts and offering to accept in a quota the amount of goods at a tariff rate which would be competitive and permit their entry, to pay the amount of the interest.

Senator SHORTRIDGE. Take Italy, for example. Would you favor the reduction or the wiping out of any tariff duties on Italian imports into the United States, those imports coming necessarily into competition with like products of our own country?

Mr. DENNIS. That is a little difficult, Senator, to answer a question of that sort yes or no, without stating one's position. I believe in a closed economy. I believe it is inevitable at the present time.

Senator SHORTRIDGE. What to you mean by that?

Mr. DENNIS. I do not believe in lowering the tariff at the present time. I do not think it is possible. Although I am in favor of debt cancellation, I think it is eigher lower the tariff and demand debt payment, or cancel the debts and maintain the tariff.

Senator SHORTRIDGE. Putting a leading question to you, do you not think that France, for example, could have paid the installment due on December 15 if she had wanted to do it? Don't you think she had the money?

Mr. DENNIS. She could have shipped gold; yes.

Senator SHORTRIDGE. And could have paid it?

Mr. DENNIS. She could have shipped gold to pay it.

Senator SHORTRIDGE. Don't you think that little Latvia on the Baltic could have done likewise?

Mr. DENNIS. I would have some doubts about the ease with which it could do so; and I would say that the shipment of gold is one means of payment which we could insist on over a long period of time——

Senator SHORTRIDGE. They have the option of paying us by way of our bonds.

Mr. DENNIS. But they have to ship gold to buy our bonds.

Senator SHORTRIDGE. Do you have any figures showing what our outstanding bonds are held at abroad?

Mr. DENNIS. I have not, but our bonds have to be bought by foreign governments, and they probably could not be bought except with gold or at a price which would mean a premium in the moneys of the debtor countries.

Senator SHORTRIDGE. We all understand that these agreements provide that we shall be paid in gold of a standard weight and value or in United States bonds.

Mr. DENNIS. Yes, sir.

Senator SHORTRIDGE. So I was little curious to know, if the figures are available, what total amount of our outstanding bonds are held abroad by those nations.

Mr. DENNIS. I assume there are some good estimates on that. I doubt that there are adequate figures, because most Government bonds are usually passed on delivery, and a great many foreign-owned Government bonds are held in this country, and even held in street names and held in accounts of brokers, so that it would be a little difficult to get an accurate figure. I assume, however, that there is a considerable amount of United States Government bonds held by citizens of foreign countries and not by the Governments, and the Governments would probably have to pay for those bonds in gold. So that the problem of paying the debt to us would still be the problem of transmitting the gold to this country, unless gold exchange, the dollar exchange, could be bought in those countries without lowering the rate of exchange below the gold point.

Senator SHORTRIDGE. Are there any further quesions?

Senator LA FOLLETTE. I would like to ask one question of Mr. Dennis. Most of these witnesses that I have been able to hear, in boiling down their recommendations to a brief statement it is that the Government should batten down the hatches and take in sail and ride out the storm. What do you envision as the potentialities of taking that course?

Mr. DENNIS. A constant deepening of the depression, because we are in a spiral circle—contracting consumption, which distates curtailed investment, which results in less consumption which justifies curtailed investment, and so on. So that the end of the process would be balancing the Budget at zero and everybody being without work and money income, if it were carried to its logical extreme, assuming that nothing unexpected happens, such as the discovery of great quantities of gold, or some motive to go to Alaska or Mexico by the hundreds of thousands and invest millions and millions of dollars in some new field. I do not think we can expect to get out of this depression by waiting for new fields of investment to start up. We can not balance the Budget while revenues are declining, because expenditures can not be reduced as fast as the money income of the Nation is declining. If you read the figures of the Federal reserve member banks, the reporting member banks, each week, you will notice that practically every week there is a contraction of credit. The banks are calling commercial loans and buying few Government bonds. They call about \$3 of commercial loans and buy about \$1 of Government bonds. That is about the ratio for the past four years. Sixteen billion dollars contraction of commercial credit in the banks of the United States, and an increase of Government debt of about four and a half to five billion dollars which the reserve banks have taken about \$200,000,000 of, and the commercial banks and insurance companies have taken the rest.

Senator COSTIGAN. Without asking you to repeat any statement made in my absence, have you made concrete suggestions of activities that the Government might stimulate?

Mr. DENNIS. Yes, sir.

Senator SHORTRIDGE. If there are no further questions, we thank you very much, Mr. Dennis. The committee will stand in recess until to-morrow morning at 10 o'clock.

(Whereupon, at 5 o'clock p. m., a recess was taken until to-morrow, Saturday, February 25, 1933, at 10 o'clock a. m.)

# INVESTIGATION OF ECONOMIC PROBLEMS

**SATURDAY, FEBRUARY 25, 1933**

United States Senate,
Committee on Finance,
*Washington, D. C.*

The committee met at 10 o'clock a. m., pursuant to adjournment on Friday, February 24, 1933, in room 335, Senate Office Building, Senator Reed Smoot presiding.

Present: Senators Smoot (chairman), Watson, Metcalf, Harrison, King, Barkley, and Gore.

The Chairman. The committee will come to order. Mr. Atterbury.

## STATEMENT OF W. W. ATTERBURY, PRESIDENT OF THE PENNSYLVANIA RAILROAD, PHILADEPHPIA, PA.

The Chairman. Give your full name and address for the record.

General Atterbury. W. W. Atterbury. Broad Street Station, Philadelphia, Pa., president of the Pennsylvania Railroad.

The Chairman. Mr. Atterbury, we would be very pleased, indeed, to hear from you anything that you desire to say. And we may ask you a number of questions before you get through.

General Atterbury. My statement will be a very brief one, expecting probably that some questions will follow.

I am appearing before this committee at its request and would like to have it understood that my appearance is in a purely personal capacity, my observations and opinions being given as an individual citizen, entirely apart from my business-world connections.

First, in my judgment, one of the most important matters we have to consider is the reduction of governmental expenditures—National, State, and municipal—and the real balancing of their respective budgets. Taxation has become an overwhelming burden on everyone, corporation and individuals alike. The income tax on individuals and corporations should be materially reduced and an ultimate sales tax applied to everyone, graded proproportionately upon necessities, subnecessities, and luxuries. The capital-gains tax, which in my judgment contributed so largely to the pyramiding of speculative accounts in 1928 and 1929, should be wiped out, as should also the ruling which permits a percentage of capital losses to be applied as a deduction in the income-tax return. It prevented the digestion of securities in 1928 and 1929, and also forced the sale of stable securities in 1931, 1932, and 1933.

Budgets should be really balanced. The National Government and its component units should stop making capital expenditures of any kind except those which show a reasonable return on the investment. I can see no reason why Government should not conduct its business during these times in exactly the same way as the individual or corporation would do. There is no panacea for a resumption of prosperity except the slow, painful one of hitting the bottom, and then slowly building up with a sane and economical foundation on which to build.

Second, with respect to our international debts, I can see no reason why our country should not consider the treatment of a debtor country as would an individual treat his debtor; that is, sit down around the table and make the best possible settlement that can be arrived at, so as to get the debtor back on a sound financial basis and then resume business relations with him as a customer.

From my standpoint, disarmament has absolutely no place in such a discussion; nor should a settlment with one country affect settlement with other countries where conditions are essentially dissimilar.

The question of tariffs, however, is an important phase in such settlements. Our exportable surplusage enables us to benefit our own nationals as well as to manufacture and sell more economically in the world's markets. Further, the only practicable way in which our debtors can pay their debts is through importation of their manufactures and raw materials; consequently, I am of the feeling that adjustment of tariffs is essentially an element to be considered in the settlement of the international-debt question.

Third, the antitrust laws should be materially modified. Competition which for so long has been a fetish in this country, is now working industry's own destruction. The same rights extended to agriculture and to labor should be accorded to industry. Conspiracy in an unreasonable restraint of trade can be established and punished; but reasonable agreements should be permitted which would prevent the sale of commodities below their costs of production.

Our system of National and State regulation of transportation should be restored to its original purpose, which was to secure just and reasonable charges for transportation and to prevent special rates, rebates, and so forth, the primary object being to avoid unjust discriminations in the rendition of like service under similar circumstances and conditions.

The public interest should at all times be fully protected, but there ought to be a minimum of regulatory interference with the discretion of management.

The same form and measure of regulation should be applied to all other forms of transportation, not because of the railroad situation, but to protect the public. This having been done, the railroads will then be in a position to coordinate their services and by such coordination the public will be served by the form of transportation best suited to its convenience and necessity. If, under those conditions, the railroads can not survive, they will have to suffer as have all other obsolete methods in our advancing civilization.

My prophesy is that much branch line railroad mileage will be abandoned and that the truck and bus will find their useful places, as will also aviation, and that after that has been done the railroads will themselves be in a far healthier position and the public will be profiting by having at its command the best form of transportation service.

That, Mr. Chairman, is my statement.

Senator HARRISON. You think the railroads ought to be permitted to own the air lines and busses and trucks?

General ATTERBURY. Senator Harrison, my judgment is that trucks, busses, and aviation are all a part of our transportation system in this country. We on the Pennsylvania are using them to-day. We are interested in the Transcontinental and Western Air Express. We are interested in bus companies that control about 500 busses and in truck companies that control about 2,000 trucks.

The CHAIRMAN. Do you have your busses or trucks across the continent, or just locally?

General ATTERBURY. We are interested in the Greyhound Line, of which we own about 10 per cent of the stock. They control the Pennsylvania-Greyhound line which parallels our line all over our system, of which we own 50 per cent of the stock. That particular company, the Pennsylvania-Greyhound, has been a very successful company, and we use it to coordinate our service. We use it to tie in between local stations where it does not pay us to run local trains. And in another way it is really an integral part of our system.

Senator HARRISON. Are the rates about the same as the rates of the railroads?

General ATTERBURY. In most cases they are quite a little lower, but only low enough so as to induce travel that way as against a railroad service that might be more expensive for us. In other words if we can cut off railroad service by using a bus that can be more economically used than the railroad service, we do it.

The CHAIRMAN. Is there much through travel by bus?

General ATTERBURY. Yes; there is, Senator. There is quite a little through travel. I remember one day the Greyhound bus coming in from Chicago that had 18 through passengers on it.

Senator HARRISON. Has the Greyhound bus line shown a profit?

General ATTERBURY. The Pennsylvania-Greyhound has shown quite a comfortable profit. The Greyhound (Inc.), the holding company, however, which has a lot of attenuated lines that we are not interested in, has not shown as much profit.

The CHAIRMAN. The local company runs in the heavily populated districts?

General ATTERBURY. Yes.

Now, I might say in connection with the control of these other forms of transportation that the responsible truck and bus companies are as eager for the regulation of trucks and bus business as are the railroads. That is, they are suffering from irresponsible competition.

Senator HARRISON. Have you many competing lines in Pennsylvania, for instance, competing with the Greyhound line?

General ATTERBURY. We have got a line between New York and Washington. I think there are three other lines there. We have got a line from Philadelphia to Atlantic City. I think there are four other lines there. Those are all engaged in interstate traffic, and there is absolutely no control of those busses whatever.

Senator HARRISON. Do they charge the same rate?

General ATTERBURY. They are forced to. The result is that the rates from Philadelphia to Atlantic City are cut to a minimum, and the rates between Washington and New York are materially less than our railroad rates. And those lines, instead of being self-supporting, are becoming liabilities. That is why it is essential that there shall be interstate and State regulation of busses and trucks.

The CHAIRMAN. In regards to intrastate business, is there any regulation of it at all in any of the States?

General ATTERBURY. Many of the States that we run through require a certificate of convenience, and that is used as a measure of controlling that. The question of rates in some cases has been established by the State commissions, but not in all cases.

The CHAIRMAN. Was there anything else, that you desired to say, Mr. Atterbury?

General ATTERBURY. No; nothing.

Senator WATSON. That is a very good statement.

The CHAIRMAN. We thank you for your statement.

We will next hear Mr. Glenn Frank.

## STATEMENT OF GLENN FRANK, PRESIDENT OF THE UNIVERSITY OF WISCONSON, MADISON, WIS.

The CHAIRMAN. Give your full name, your address, and your position for the record, Mr. Frank.

Mr. FRANK. Glenn Frank, president of the University of Wisconsin, Madison, Wis.

The CHAIRMAN. You may proceed.

Mr. FRANK. Mr. Chairman and gentlemen of the Finance Committee, there are two sorts of counsellors the Nation can ill afford to follow in its search for the ways and means of national recovery. These are, I think: (1) the dogmatic business man and (2) the dogmatic economist. There are business men and there are economists to whom the Nation can well afford to listen, but the ranks of both are well stocked with representatives who have fallen victim to the sin of oversimplification.

The dogmatic business man has the narrowness of the "practical" man who has not related his daybook-and-ledger considerations to the innumerable social consideration which the forward leap of science and the machine and the fatal lag of economic policy have brought to harass the inarticulate millions.

The dogmatic economist has the narrowness of the "impractical" scholar who makes his diagnoses and compounds his remedies in a world of theory insulated from the swirl of practical affairs in which his remedies be put to clinical test.

Both are dangerous oversimplifiers.

The dogmatic business man, who has done so much to unbalance the Nation's life, thinks all we need do is to balance the Nation's Budget and the tides of enterprise will again run full of their own accord. Obviously a government can not, any more than an individual, find economic security and stability by aping the spendthrift and allowing itself to drift into bankruptcy. But to suggest that the economic impasse of the Nation can be broken by the single device of balancing the Federal Budget, regardless of what it does to the basic services of Government, is, in my judgment, the economics of infantilism.

The dogmatic economist thinks to resuscitate the Nation's prostrate enterprise by some single trick of artificial respiration, as witness the varied forms of monetary sleight-of-hand which are, for the moment, popular among dogmatic economists. Obviously the character and conduct of the Nation's credit and currency system are vitally related to the phases of health and disease that come to the Nation's economic enterprise. Realistic statesmanship will look upon the credit and currency system, not as an idol to be worshipped, but as a tool with which to get the Nation's work done, and will see to it that the Nation's credit and currency system is the servant of the Nation's enterprise instead of permitting the Nation's enterprise to become victim of the Nation's credit and currency system. But to suggest, as some economists have, that we can unlock the door to economic recovery with the single key of currency readjustment is, in my judgment, a delusive oversimplification.

I raise, at the outset, this warning against oversimplification because, to a degree I dislike to admit, we are a patent-medicine-minded people. When our minds are baffled by the complexities of a situation, such as now confronts us, we listen too readily to the man with a single remedy confidently advertised. The human hunger for miracles is strongest in times of dire difficulty. In times of prosperity men are willing to rest content with gradual progress, but in times of urgent need they want an apocalypse, some dramatic happening in which the old fades quickly away and a new heaven and a new earth appear, as if some conjurer had called them out, like rabbits from a hat. We are in such a time now. It is important to remember that the conjurer is a showman, not a statesman. And the United States needs just now statesmen, not showmen.

We shall find solution to our difficulties only through leadership in which theory and practice have come to fruitful union. We need the ministry of creative theory in determining long-time policies and a sturdy horse sense, at once cautious and courageous, in drafting emergency measures.

We are in very much the position of the woodsman obliged to journey by canoe down a river rendered dangerous by a succession of difficult rapids that must be shot before he can land in calmer water below. The economic river down which the Nation must now be piloted has many rapids in its course. And, in consequence, it presents two problems to the statesman-navigator, namely:

The first, the immediate, problem is to help the nation shoot these rapids successfully and to get as quickly as possible into calmer economic water.

The larger task, the task that will test our capacity for statesman ship and call for the best we can muster of mind and moral courage, is the task of removing the menace of the rapids from the course of the economic river for the future.

In shooting the rapids immediately before us, we may have to resort to not a little of emergency politics and emergency economics. The Nation has been passing through the valley of the shadow of economic death. We dare not neglect the patient perfection of long-time policies. We must not permit the fears and hysterias generated in this phase of profound depression to lead us now into political, social, and economic policies that may plague us for a generation to come. But we are in a phase of national emergency in which long time planning alone is not enough. We must evolve and execute emergency policies rooted in the twin soils of sanity and courage.

We must not be afraid of intelligently formulated emergency politics and emergency economics. And emergencies may justify measures for the moment that could not be justified as long-time policies. I doubt, for instance, the wisdom and workability of a Federal guaranty of bank deposits under anything approaching normal conditions. It would, I think, be the essence of folly to use the power of the National Government to underwrite and subsidize inadequate organization and incompetent management anywhere in the economic order, certainly in a banking system not under complete Federal control. But I can conceive an emergency critical enough to make the Federal guaranty of bank deposits throughout the Nation the essence of statesmanship.

It is of critical importance to keep the distinction clear between quack remedies and soundly conceived emergency measures.

I shall not, in the statement I am presenting, undertake any meticulous division of my suggestions into emergency measures and long-time policies because most of the policies and points of view I shall discuss are, as I see them, vital not only for ultimate reconstruction but for immediate recovery as well.

Broadly considered, national economic recovery seems to me to involve three intimately interlocked problems: (1) The financial problem of credit and currency, (2) the psychological problem of confidence, and (3) the economic problem of effective enterprise. I want now to consider in turn, the nature and interrelation of these three problems.

The financial problem of credit and currency. One of the cornerstones of a sound national life is a stable credit and currency system. The stability of a credit and currency system is not necessarily assured by the preservation of the gold standard and a standing pat on traditional credit policy. To be truly stable, a credit and currency system must be marked by three things: (1) It must be quantitatively adequate, (2) it must be technically sensitive, and (3) it must be socially responsible.

If, at any time, the volume of credit and currency is inadequate to finance the volume of business waiting to be done, the stability of the credit and currency system is threatened.

If, at any time, credit and currency lag in responding or fail to respond to the changing needs of the Nation's enterprise, the stability of the credit and currency system is threatened.

If, at any time, credit and currency are diverted into antisocial channels, as in the late orgy of speculation, the stability of the credit and currency system is threatened.

An economic system that is developing and expanding swiftly must be served by a credit and currency system capable of developing and expanding at a comparable rate. Otherwise the health of the economic system is undermined and its growth impeded. For some three hundred years the problem of keeping the expansion of credit and currency decently in step with the expansion of economic enterprise has been eased by the fact of periodic discoveries of new supplies of such monetary metals as gold and silver which provided the credit and currency system with the necessary margin for expansion. If, as some contend, although I think they contend wrongly, we are well toward the end of that rope, and if, in the future, the new needs of this new age of science and the machine necessitate any marked expansion of credit and currency, we shall have to find that expansion in what we think and do about our credit and currency system. The statesman's intelligence must take up the job where the miner's pick leaves it.

But whenever statesmanship sets out to deal with the credit and currency system it is obligated to play for three results: (1) quantitative adequacy, (2) technical sensitivity, and (3) social responsibility.

So much for the spirit and objectives in terms of which I think the problem of credit and currency should be approached. What about the present relation of credit and currency to the problem of economic relapse and recovery now confronting the United States?

Respecting the second and third essentials of a stable credit and currency system, I shall say only this: We could, in my judgment, greatly increase both the technical sensitivity and the social responsibility of our credit and currency system by placing all banking institutions in the United States under legal compulsion to join the Federal reserve system. In this, as in so many other matters, if we want to escape chaos, we must function responsibly as a Nation, not as an irresponsible congeries of communities.

Senator HARRISON. Do you suggest that as a permanent or as an emergency proposition?

Mr. FRANK. I suggest that as permanent. Frankly, I am not prepared to discuss in detail. From what little I know I would suspect that the development of a truly national banking system in that sense would involve changes and readjustment and alterations in the Federal reserve system as it exists, but I am making now only the observation that in my judgment we can do this by pooling our banking system together nationally.

It is with the first essential of a stable credit and currency system that I want to deal more directly, namely, its quantitative adequacy, for it is upon the assumption that we are now facing an inadequate supply of credit and currency that most of the current proposals for monetary reform are based.

Senator WATSON. Let me ask you this, Doctor Frank. On the question of all banks being compelled to join the Federal reserve system: Do you think there ought to be changes and alterations made in the Federal reserve system, or do you regard that during the present emergency it has functioned efficiently and needs no changes?

MR. FRANK. I doubt that I am equipped to discuss with you in detail in any authoritative way the detailed operations of the Federal reserve system.

Senator WATSON. That is all right.

Mr. FRANK. I am making this observation as a lay observer that in my judgment the elements of irresponsibility in the American banking system in a time like this can be overcome by greater national integration.

Senator WATSON. Very well.

Mr. FRANK. We are not, in my judgment, suffering from a shortage either of credit or of currency. By which I mean that, quantitatively considered, there is now in the United States plenty of credit and plenty of currency to finance and facilitate a sweeping economic revival if other factors, psychological and economic, made such revival feasible. It is not a shortage either of credit or of currency from which we are suffering but a shortage of borrowers willing to borrow and of lenders willing to lend under existing circumstances. If we could thaw out the frozen confidence alike of borrower and of lender, the flow of credit and currency would quickly fertilize the filed of national enterprise.

There is as much money, in fact more money, in the United States to-day as there was in 1929. The gold reserves, upon which currency issues and bank credit are based, are larger than in 1929. The provisions controlling the credit and currency issues of the Federal reserve banks have been enlarged within the last year and, under this liberalized authority, more than $1,110,000,000 of Government securities have been bought in the public market and paid for through the issuance of reserve credit. All this reserve credit went directly into the banks to which the day-to-day enterprise of the Nation must look for financing.

In less than a year the Reconstruction Finance Corporation has made loans of more than $1,600,000,000. Additional national bank notes to the total of $144,000,000 have been issued by authority of the Borah amendment to the national bank act. And more than $600,000,000 of gold has come into the country since June 15, last. All these acts have added to the available supply of credit and currency with which business may be done if business is being done.

I am quite aware that existing money is not effective money unless it is in circulation—that is, not effective in raising the level of prices. On December 31, 1931, there was $5,646,772,888 of money in circulation, $5,676,183,214 on December 31, 1932, and $5,602,000,000 on January 18, 1933.

Senator GORE. That is between December 31, 1931, and December 31, 1932, what was the situation? I did not get it. Is it more or less?

Mr. FRANK. There was about $30,000,000 more in circulation at the end of 1932 than at the end of 1931.

Senator HARRISON. There is not any marked difference, though?

Mr. FRANK. No marked difference; no.

Senator GORE. But it is substantial in amount above the circulation in October, 1929?

Mr. FRANK. Yes.

Currency in circulation is not, of course, as important a part of currently used means of payment as the tens of billions of active bank deposits upon which checks are daily drawn in the execution of business enterprises. The point I am making is that in any quantitative comparison with the money in circulation in economically more active times these figures certainly do not suggest an adequate supply of currency.

I am aware, of course, that all of the money that is technically in circulation is not actually in circulation, in the sense of being used in day-to-day business transactions, but may be hoarded, and thus sterilized as far as any effect on the price level is concerned.

Senator GORE. There is no way to put a speedometer on it and see how fast it is going, is there?

Mr. FRANK. No. The economists talk about velocity, but it is difficult to measure. I suggest that whatever part of the money technically in circulation has been sterilized by hoarding has been sterilized not because of any shortage of currency but because the hoarders have lacked that confidence in the economic situation that would normally thrust their money into actual circulation.

Competent analyists ascribe the drop of some $74,000,000 in money in circulation between the end of last December and the middle of January to the normal drop in trade from the abnormal trade of the holidays. This illustrates what seems to me an inescapable fact, namely, that the volume of money in active circulation is more dependent upon the volume of business than the volume of business is dependent upon the volume of money in technical circulation.

The CHAIRMAN. That is under conditions existing to-day?

Mr. FRANK. Any condition, in my judgment. Maybe not.

The CHAIRMAN. There is a question about that.

Mr. FRANK. I am quite willing to defer to the experts.

About the only ways in which fresh supplies of currency can be got into the hands of the unemployed or of those whose purchasing power has drastically declined are through doles, direct loans, and public works. I do not believe that the Federal Government has yet faced fully its responsibility for relief to the unemployed. I think there is room for a statesmanlike reconsideration of the leading program of the Federal Government that will point this lending program less in the direction of subsidizing obsolete organization and incompetent management and more in the direction of priming the pump of productive enterprise. And I am convinced that a wisely planned and properly financed program of public works has a very real rôle to play in national recovery. But, unless and until popular confidence in the economic future is restored, any currency forced out through even these valid channels of relief, Federal loans, and public works will take its one whirl of spending and then find its way into and freeze in the banks, in socks, and behind loose bricks in the chimney until a restoration of confidence sets it active again.

The CHAIRMAN. You could not make a more positive or better statement than that.

Senator WATSON. No doubt about it.

Mr. FRANK. All of which leads me to this position respecting the problem of credit and currency: I do not regard the credit and currency system as sacrosanct, as something statesmanship must approach with hushed voice and cushioned footstep. The credit and currency system is, as I suggested earlier, not an idol to be worshipped, but simply a tool with which to get the Nation's work done. If a quantitative inadequacy of credit and currency clearly existed, I should not shudder at the suggestion of currency readjustment and credit reform. Just because an inadequately planned and ineffectively controlled inflation has, here and there, left nations with a sick headache is no reason why realistic statesmanship can not, through sound planning and strong control, adjust the nature of its credit and currency system to the needs of its economic system. But I do not believe there is any inadequacy either of credit or of currency in the United States to-day. There is a vast amount of inactive credit and sterilized currency, but the thing that has paralyzed this credit and sterilized this currency is the epidemic of fear respecting economic future.

Senator WATSON. In other words, credit is based on confidence.

Mr. FRANK. Yes; that is the key to it.

Senator WATSON. Yes.

Mr. FRANK. The imperative first step toward national recovery is not, therefore, in my judgment, inflation of the currency but restoration of the national confidence. And this leads me to the second of the three major problems underlying national recovery.

The psychological problem of confidence. I have called the problem of confidence a psychological problem, but it is not a problem that can be solved by psychological treatment. Confidence in the economic future can not be restored by mere cheer-leading tactics on the part of presidents, congressmen, and captains of industry. Confidence has been lost because certain very real obstacles have been permitted to block the path to effective enterprise. Confidence will return when these obstacles to enterprise have been removed. And not until then. Which leads me to the third of the three major problems underlying national recovery.

The economic problem of effective enterprise. The task of restoring effective enterprise—which will automatically restore confidence, which will in turn restore to productive use the credit that is now inactive and the currency that is now sterilized—is a task that will take statesmen to every sector of the political, social, and economic fronts. Manifestly I could not, even if I were qualified, survey, within the time limits of this hearing, all these sectors. I choose, therefore, for summary discusson two fields in which, it seems to me, we may most seriously hinder or most successfully hasten national recovery—first, the field of foreign relations, and second, the field of domestic industry. Let me discuss, with such brevity and directness as I can command, these two fields in turn.

I turn first to the field of foreign relations. I am convinced that a realistic foreign policy is of crucial importance to the restoration of our domestic well-being. Regardless of the intelligence we bring to our domestic difficulties, our domestic program will, in my judgment, end in futility unless we bring a bold and realistic spirit to bear upon the present unrealistic foreign policy of the United States.

We went into depression under the aegis of three postwar policies which had, unless I am far afield in judgment, a direct causative relation to the near collapse to which our economic machine has come. These three policies were our tariff policy, our war debts policy, and our foreign policy. We can not, in my judgment, beat our way back to prosperity under the policies that were in force in these fields before the onset of depression.

One stubborn notion has stood in the background of our tariff, debt, and foreign policies, namely, the notion that the United States can, if necessary, operate a satisfactory economic life apart from the rest of the world. I challenge that notion. It is true that we have within our borders most, but by no means all, of the essentials of economic life, but this does not make us a self-contained nation, for the simple reason that, wisely or unwisely, on the foundations of our admittedly magnificient resources, we have so organized, so capitalized, and so set the production programs of most of our major industries that these industries can not produce successfully for our domestic market unless concurrently they can sell successfully in foreign markets such surplus as they are geared to produce.

It may be said that this can hardly be true when, from 1900 to our peak year of 1929, we never sold abroad more than about 10 per cent of our total production. Some put it around 6 per cent as an average. But unless we burrow under these production and export totals and break them down into their several elements, we do not get a true picture. It is true that for the last 30 years, through all the rise and fall of foreign trade, our exports have held about the same relation—6 to 10 per cent—to out total production. Now if it were true that every American product found 90 per cent of its market in the United States, we could build a wall around ourselves, let the rest of the world stew in its own juice, and build within our own borders a satisfactory and viable economic life. But this is not the case.

In 1929 more than 54 per cent of American cotton was sold abroad. More than 41 per cent of American leaf tobacco. Nearly 40 per cent of American kerosene. Over 40 per cent of American typewriters. About 36 per cent of American copper. Nearly 34 per cent of American lard. About 31 per cent of American lubricating oil. Over 29 per cent of American printing machinery. About 28 per cent of American sewing machines. And more than 23 per cent of American farm machinery was sold abroad. I need not extend this list which is familiar to you who have dealt at first hand with these facts during this phase of depression.

Senator HARRISON. Have you got the percentage of automobiles?

Mr. FRANK. No, I haven't in this list. But these do suggest, I submit, that a drop in our foreign trade is made up of many impacts that are far more serious than a 10 per cent aggregate of our total production would suggest.

The fact is that we are seriously dependent upon world markets, and, because of this fact, two courses are clearly open to us: First, we can play for a general reopening of world markets by sponsoring—in the fields of tariffs, war debts, and foreign relations generally—whatever policies may be necessary to stimulate a world-wide interchange of goods and services, or, second, we must, if we do not follow this first course, frankly dismantle such parts of our industrial and agricultural enterprise as produce surpluses in excess of domestic demand. We should, I suggest, think twice before we take the second course, for such dismantling—make no mistake—will mean far more than a simple mathematical reduction of the scale of American enterprise. It will mean drastic and radical readjustments in the organization, the capitalization, and the operation of our major industries and of our farms, and will inevitably involve a serious slump in the American standard of living.

The supreme test of our statesmanship, in the months immediately ahead, will be our capacity to relate American policy to world facts and world forces. And this test will be severest as we tackle war debts, tariffs, and the plight of the farmer. Let me speak briefly of the way in which, in these three problems, the question of foreign policy is intimately related to the question of domestic economic recovery.

I turn first to the issue of war debts. The issue of war debts is not primarily a question of the techinal or moral soundness of our claims upon Europe, nor should their collection be considered apart from its impact upon the economic life of Europe as well as upon the economic life of the United States. The problem is to find the war-debts policy that will best hasten the economic recovery of the world. All other considerations are secondary. For a recovered Europe would mean more to the United States in dollars and cents than all the war debts owed us.

The fear, the despair, the world-wide dislocation that have resulted from these war debts and related economic factors have caused the American taxpayers to lose far more through narrowing markets, shrinking business, collapsing capital values, and an epidemic of unemployment than the American taxpayers could possibly realize from their full payment. Quite apart from whether a wholesale cancellation of intergovernmental debts due to the war proves an imperative preliminary to world recovery—and I am not arguing that it will—there is, in my judgment, justification for thinking that the world at large ourselves, included, might very well gain in cold cash by a complete wiping out by all nations of these stale obligations that to-day tend further to chill and to chain the economic enterprise of the world.

It is regrettable that we must still be harassed by having these debts, like a body of economic death, bound to the body of the world's living enterprise. I think statesmanship might have saved the world much that it has gone through if greater wisdom had been used in this matter a dozen years ago. But, even at this late date, I am not sure but that a constructive initiative by the United States might lead the nations of the world into an intelligent reduction of armaments and a rational program of world tariffs as a corollary to the complete elimination of these obligations the world around. And the rationalization of world tariffs is in my judgment more important to the peace of the world than even reduction of armaments.

It is easy to stir popular emotion with the assertion that every dollar of war debts owned to the United States that is written down or written off the books will have to be paid out of the pockets of the already overburdened American taxpayers. Is this true? In a technical bookkeeping sense, yes. In the realistic sense of the ultimate effect on the economic well-being of the American taxpayers, the answer may be "No."

I do not suggest that we should, out of hand and without regard to European policies, cancel the debts due us. The war debts constitute a world problem that can finally be solved only by cooperative world action. I mean effectively. We shall get exactly nowhere by standing in the circle of nations and shouting "put up an shut up" across the diameter of the circle. We shall best serve our own interests—in my judgment we will—by standing ready to go any part or all of the way from the existing debt status to complete cancellation if, as a result of our going part way or all the way, there can be effected a rationalization of world economic relations that will, with some degree of certainty, hasten world recovery. For promptness of economic recovery is more important than the payment of reparations or the collection of war debts.

I am quite aware that this is not a politically popular position. But it is, in my judgment, the conclusion to which a realistic facing of the facts drives us. And, after all, it is the business of statesmanship to change rather than capitulate to a popular opinion that has been played upon by the jingoism and demagogy alike of press and of politics. One of the supreme tests of the statesmanship of the forthcoming Congress will be whether it brings a world-minded realism to this issue of war debts or permits crossroads thinking to tie it to the parish pump.

I turn second to the issue of tariffs. Here, again, we are challenged to relate American policy to world facts and world forces.

Senator GORE. Before you pass on, Doctor, I would like to throw in that some statesmen who have tried this education of public opinion have not fared very well.

Mr. FRANK. I have heard that.

Senator GORE. I took a vacation of 10 years putting myself in that splendid category.

Mr. FRANK. Well, much of the progress of the world, of course, has come because the soil has been fertilized by that sort of martyrdom, Senator Gore.

Senator GORE. You see what happened while I was out, too. Pardon me for interrupting.

Mr. FRANK. I turn second to the issue of tariffs. Here, again, we are challenged to relate American policy to world facts and world forces. Whether we are Republicans or Democrats, it must be obvious to most of us by now that the current orgy of high tariffs throughout the world, for which we are by no means guiltless, is one of the major factors now freezing the fountains of economic enterprise throughout the world. And I say this, gentlemen, not as a free-trade Democrat, but as a Republican who is convinced that free trade is wild, but that protective tariffs have run wild and are to-day out of all rational relation to the economic functioning of the modern world.

Senator GORE. Do you not think that protectiveness is almost committing suicide?

Mr. FRANK. I think unintelligently administered it is.

There is, I suggest, one test that every American tariff proposal should pass before being accepted, namely: Does it, along with related foreign policies, tend to build up the buying power of the rest of the world? It is a truism that it is to the selfish interest of the American manufacturer to establish wage, hour, and price policies that will build buying power among American workers who are industry's customers as well as its servants. In like manner, it is to the selfish interest of the United States as a whole to establish tariff policies that will tend to build rather than break the buying power of Europe and the rest of the world to the end that these nations shall be paying customers for the surplus output of American factories and American farms.

Tariff policy is one sort of problem for a debtor nation but quite another sort of problem for a creditor nation. When we were a debtor nation we used our tariffs to discourage imports. It was right for us, as a debtor nation, to play for an excess of exports over imports out of which to meet out obligations. Then, in the wake of the war, we found ourselves a creditor nation, money lender to the world, a rich nation with a world in debt to us. But from that day to this we have not readjusted our national policies to this change from debtor to creditor. We are still struggling to keep our imports as low as possible and to force our exports as high as possible. We still cling to tariffs that make it difficult if not impossible for the debtor nations to pay their debts to us in goods and services. The first law of the debtor-creditor relationship between nations is that the debtors must have exports in excess of imports and the creditors imports in excess of exports. This means far-reaching economic readjustments for us if we face it realistically, but it means chronic maladjustment for us if we ignore it.

Senator GORE. That is almost an iron law, is it not?

Mr. FRANK. I think so.

The forthcoming Congress can make one of its major bids for continued leadership and assure for itself a distinguished niche in national history by exercising a bold intelligence in the field of tariff policy. We have been all too guilty of making tariffs by the competing blackmail of special interests and the high-pressure tactics of local lobbies. Our own best interests demand that now we set seriously out, in concert with the rest of the world, to frame world tariff policies that shall be as low in rate, as nearly equal in impact, and as stable as the facts of divergent national economies will permit. In the forthcoming Congress fails to make progress in this direction, if it perpetuates and compounds the tariff blunders of the past, the whole world will be forced to follow to the bitter end the path of a world-wide tariff war.

And I say that for this reason: The United States, as the largest industrial nation in the world, holds the key to the rationalization of the tariff and trade relations of the world. If we take no steps towards readjusting our tariff policies to our new creditor status and to the changed circumstances of this changed time, and if we deliberately abstain from world counsel and world cooperation under the spell of the delusive dogma of isolation, I can see nothing ahead but a world-wide tariff war.

And if that takes place, every country, sooner or later, will decline to import anything it can possibly make at home. World trade will shrink to smaller and smaller dimensions. America will have to pull into her shell, abandon almost wholly her foreign investments, bid goodbye to her export trade, and go in for isolation in her trade as well as in her talk. It will no longer be possible, as heretofore, to talk about splendid isolation while clipping coupons on an economic relationship with the rest of the world that belies our talk. We shall have to be satisfied with a far lower level of living than we might otherwise achieve. The same developments will come the world around. England will move to higher and higher tariffs. And every nation in the world will suffer if England and the United States travel this suicide's road. The whole world will divide into competing tariff camps. And in these tariff camps the next world war will be born.

Further confirmation of the fact that far-sighted foreign policy has a direct bearing upon our domestic recovery is found when we examine the plight of the American farmer. With respect to agriculture, as with respect to our economic enterprise generally, I think we face two clear alternatives. We must either play for a reopening of world markets for American agricultural products or scale our whole system of farming down to a domestic basis. The latter, pushed to its logical conclusion, is, in my judgment, not statesmanship, but the counsel of despair. The experience of the next four years will, I confidently predict, make increasingly clear that far-sighted and world-minded foreign policy can mean more to the American farmer than all the specific farm legislation that can be conjured up to catch the votes of the hinterland.

Senator GORE. That is a world-wide market?

Mr. FRANK. Yes.

For more than 75 years we have been developing certain major branches of American agriculture for export as well as domestic trade. Last year in four such branches—cotton, wheat, tobacco, and pork products—the productive capacity in excess of domestic demand stood about as follows: Cotton, 50 per cent in excess of domestic demand; wheat, 20 per cent; tobacco, 35 per cent; and pork products, 10 per cent. These four branches of agriculture comprise about 85 per cent of our agricultural exports. We have suffered acutely in these four fields during the last three years as exports have dropped and surpluses piled up.

Senator BARKLEY. In that connection I might interject that there are some types of tobacco that depend on the foreign market for 85 per cent of their sales.

Mr. FRANK. Yes. Just as in pork products; lard runs up about 35 per cent dependence upon export markets. Prices in these fields are lower than prices in agricultural branches primarily domestic in outlet.

We shall not, in my judgment, find a satisfactory answer to this difficulty by schemes for the arbitrary reduction of acreage used in these branches of agriculture. To me it is incredible that, in a world of tragically unfilled human need, statesmanship must set out upon the quixotic attempt to increase wealth by destroying property or declining to create it. The domestic-allotment type of legislation, reduced to its essence, is an attempt to solve the agricultural problem by inducing a modified famine on the installment plan. Our ancestors have fought valiantly over the centuries to conquer famine. Are we now to say that the conquest has been too decisive? After the sweat of generations has brought us out of an economics of scarcity into an economics of plenty, are we to confess that we are incapable of managing plenty, and seek to relegislate scarcity? I think history will pass a bitter judgment upon us if, surrounded by a world of unfilled human need, we take this road in dealing with the difficulties now confronting our farms and our factories.

I am quite aware that human need is not effective economic demand unless it is equipped with purchasing power. But it is the first obligation of public leadership, under an economics of plenty, to refuse to consider reversion even to a modified scarcity, until it has exhausted its ingenuity in devising ways and means of translating existing human need into effective economic demand.

All of which means, I think, that we can not rescue the American farmer from his present plight by any specific farm legislation alone. What we do to effect a wider spread of buying power and what we do to clear the now clogged channels of world trade will be more important to the farmer than any direct farm legislation.

Senator GORE. I wish you could convince Congress of that, Doctor.

Mr. FRANK. Last year 205,000,000 acres were devoted to cotton, wheat, tobacco, and corn by American farmers. Suppose we venture upon legislation that would reduce this acreage by 20 per cent. This would throw some 40,000,000 acres out of their accustomed use. These 40,000,000 acres comprise an area larger than the State of Wisconsin, twice the area of Wisconsin farms, and four times the area in crops in Wisconsin. In other words, legislation reducing by 20 per cent the acreage used for cotton, wheat, tobacco, and corn would release from its accustomed use the equivalent of four States the size of Wisconsin.

Barring for the moment the doubtful wisdom of direct subsidy, what will the farmers do with these released acres? Taxes will still be levied upon them. They will not lie idle. They will, in the end, be put to uses that will compete with other acres now being used primarily for production for the domestic market. So that, while with one hand we shall be easing the problem of unsalable surpluses for foreign markets, with the other hand we shall further complicate the problem of production for the domestic market.

I am aware that such legislative proposals carry provision for Federal leasing for these withdrawn acres at a modest rental per acre. Such provision, in that it withdraws and sudsidizes good acres along with poor acres, is, in my judgment, not good planning. The selective leasing by the Government of marginal lands is a different and, I think, defensible matter. And as soon as the farmer is convinced he can put the withdrawn acres to an even slightly more profitable use than the Federal rental represents, pressure either to raise the rentals or renounce the plan will develop.

I can not avoid the conviction that the domestic allotment type of legislation, if enacted, will prove as great a folly of the Democratic Party as the stabilization operations of the Federal Farm Board were of the Republican Party.

The logic is, to me, inescapable. Any program of agricultural legislation that does not open world markets for American agricultural products is grossly inadequate. I am aware that there is no simple recipe for reopening world markets. But we should clear the decks promptly for a comprehensive attempt to effect reciprocal trade agreements wherever their feasibility is indicated. The time is ripe for such agreements with the countries of western Europe. If war debts concessions can hasten such trade agreements, we should muzzle our jingoes and go ahead and make such concessions as good judgment dictates.

I shall not enter into discussion of the varied proposals for farm relief that have been before you, save for one passing reference to the problem of the mortgage debts carried by the American farmers. The debt load generally, not among farmers alone, is straining the basic economic structure of the country. Much of the existing debt load was created on artificial values that never existed save on paper or in the minds of men hypnotized by the hastily improvised philosophy of the new era, which we now know was too old in character to be called new and too short in duration to be called an era. Much of the debt load was incurred on organizations and processes that are now obsolete. An extensive writing down of obligations is going on quietly and unofficially. We may find it necessary to do the job a bit more comprehensively. But we shall be well advised, I think, to move with the utmost care on proposals to scale down the obligations of any one class unless careful provision is made to anticipate and discount the ramifications of such scaling down in other sections of the economic order. I doubt that there is any justifiable halfway house between laissez-faire, supplemented by adequate mediation machinery to facilitate creditor-debtor negotiation, and a general scaling down of obligations for all classes and all enterprises.

Senator Gore. You would not include, though, public debts or obligations within your scaling-down operations?

Mr. Frank. I think not, no.

I turn now, in conclusion, to the second field of domestic industry. Any realistic analysis of the current depression must begin with the fact that it is the first general economic crisis that has befallen the whole western world since our machine economy has come to measurable maturity. It is not a matter of momentary maladjustment in any one section of the world. It is not a matter of momentary speculative mania having disrupted an otherwise statesmanlike and stable economic program. Momentary maladjustments, here and there and yonder, are in the picture. A mad speculation has done its deadly work. Many political and purely monetary factors are involved in the prevailing sickness of our society. Beneath and beyond all this, however, is the root fact that we have been so busy perfecting our technical processes for producing goods that we have neglected to perfect our economic policies for distributing wealth widely enough to create an adequate and assured outlet for the output of our machine economy with its ever-increasing rapidity and volume of production.

Tentative and insecure phases of recovery may be brought about by various devices of political stimulation and monetary legerdemain, but, until this basic problem of the relation of popular buying power to the rapidity and volume of production under a machine economy is seen and solved by politico-economic leadership generally, we must resign ourselves to an increasingly serious economic insecurity, unless we want to take the only alternative road, under our system of free capitalism and political liberty, to a balanced economy in a machine age and deliberately reduce the scale of our industrial and agricultural enterprise.

I do not want to join the oversimplifiers, and bring a false clarity to a situation that is admittedly complex. It is not a simple sickness that has fallen upon us, and it will not yield to any simple and single remedy. A lush variety of causes lies at the root of our economic crisis: Political unrest the world around; mounting armaments; speculative mania; abortive governmental attempts to stabilize certain commodity prices; the fall in the price of silver; provincialism of policy respecting foreign trade, tariffs, and the exploitation of the world's supply of natural resources; the direct impact of war-debt payments upon Europe and the indirect impact upon the United States; the gravitation of an undue amount of the world's gold supply into French and American hands; and so on to the end of a long list I need not rehearse. Even a casual diagnosis of this depression compels us to consider all of these factors in addition to the obvious issues of wages, hours, prices, profits, technology, and management, as well as the deeper issues of security, leisure, and self-respect for the toiling millions.

To all these issues, and more, we must bring a clear-headed and courageous statesmanship. I do not, let me repeat, want to join the oversimplifiers. But, in any situation, however complex, there may be one factor more fundamental than the rest, so fundamental, indeed, that the presence of all other factors can not compensate for its absence. Is there any single factor thus fundamental to economic recovery and stabilization? I think there is. And this is it: The leadership that has determined our policies for using goods and distributing wealth has proved inferior to the leadership that has developed our processes for making goods and producing wealth.

The production of goods has halted because the distribution of goods has halted. And the halt in the distribution of goods is due to a fault in the distribution of wealth. Our machine order is ready to produce goods. Our economic order is not ready to produce customers.

I am speaking here, let me make clear, not of any arbitrary and artificial redistribution of existing wealth. I am speaking, rather, of a functional distribution, through the normal processes of enterprise, of the national income as it is being currently created.

To-day events are proving that a wider distribution of the national income is essential to the solvency and success of capitalistic industrialism itself, on the simple grounds that it is obviously self-defeating for the industrial system to get itself in position to produce vast quantities of goods unless, at the same time, it sees to it that there are vast masses of potential customers ready with money with which to buy and leisure in which to enjoy the goods the high-powered industrial machine produces. Unless we can bring millions upon millions of men and women into position to buy the lavish output of our industrial system, even our existing investment in its marvelous productive facilities will become a permanently frozen asset.

A too great concentration of wealth means money in the hands of those who will invest it in producer goods. A wide distribution of wealth means money in the hands of those who will spend it for consumer goods. And it is the absence of an adequate and dependable market for consumer goods that is stalling our economic machine. This is not irresponsible soap-box doctrine. The plutocrat has an even greater stake than the proletarian in the widest feasible distribution of the national income as a result of a statesmanlike balancing of the factors of wages, hours, prices, profits, and so on, to the end that, in the very process of producing wealth, industry will be making its market while it is making its goods.

We have no right, gentlemen, to consider slowing down production until we have fully explored the possibilities of speeding up consumption. Until legitimate human need is served and saturated, a wholesale restriction of production is a confession that our capacity for economic statesmanship has gone bankrupt. What will be the judgment of the future upon our genius if, after elaborating a machine economy capable of putting an end to drudgery, poverty, and insecurity, we say, "Now that we have sharpened this tool, we must dull its edge; now that we have perfected this swift inefficiency, we must throw on the brakes."

There are two directions in which government might move on this basic problem.

First, a realistic statesmanship would, I think, reconsider and modernize our antitrust legislation in a manner that would make it possible for enterprise to operate on whatever scale is necessary to enable it to take full and effective advantage of the new philosophy of high wages, short hours, and low prices that power production has, for the first time in human history, made possible and profitable. It should not be impossible to set up the requisite social safeguards against the possibility of the abuse of power inherent in large-scale operation.

Second, I think we are nearing the point at which we may wisely consider the national determination of the hours of labor under our machine economy. I doubt that individual action will meet the issue promptly enough.

The technocrats may have indulged in cubistic prophecies of quick doom that were more fancy than fact, but the fact remains that the machine economy is enabling us to do more and more work with fewer and fewer workers. This fact makes unemployment inevitable only if we refuse to adjust our managerial policies to it. Technological advance is making a shorter and shorter working day and working week inevitable, unless we are willing to let technological unemployment work such havoc as it may in our economic order. And a shortening of the hours of labor is imperative in the achievement of that wider distribution of leisure which, alongside a wider distribution of the national income, is necessary if our industrial system is to assure itself an adequate and dependable market for its vast output.

I do not pretend that a sweeping adoption of the shorter hours policy throughout the industrial system would be easy of accomplishment. It may raise many issues of transitional credit with which government may have to deal. I insist only that the machine has not put an impossible problem to us. But, in meeting it, we shall have to blaze some new trails in the social control of work policies. I doubt, as I have said, that individual action will meet the issue promptly enough.

The national determination of the hours of labor may necessitate constitutional changes. I am not sure. There may be unexplored powers under the interstate commerce and welfare clauses as they now stand. It is worth while to see what we can do under the Constitution as it is. We go to it often enough to see what we can not do.

Senator GORE. Do you not think we ought to try to revise our system of distribution, so that urgent needs will be met, and even wants be supplied, before we resort to shortening of hours too much, or too radically?

Mr. FRANK. I do not think the two are consistent. I think the shortening of hours is one of the planks in the platform for relieving urgent human need.

Senator GORE. If there is permanent overproduction, that is true; but if there is not, I do not think it is true.

Mr. FRANK. I think there is not a permanent overproduction.

Senator GORE. I do not think so, either.

Mr. FRANK. I think there is a sluggish surplus, but there is no actual surplus.

As I see it, then, the two basic fields in which it seems to me most can be done to effect national recovery and to stabilize prosperity are: (1) The harnessing of a realistic foreign policy to the urgent need of our domestic industry and agriculture for export outlets. (2) The bringing of our economic policies, that is, respecting hours, wages, prices, and so forth, for the use of wealth abreast of our technical processes for the creation of wealth, in other words, the working out of the economic implications of the machine economy or power production.

It is a difficult situation that confronts us. There is no single remedy for it. We must declare a moratorium on all political bickerings and, regardless of normal party considerations, call to the colors, in this war on depression, the best brains and the best character the Nation affords. We can not waste time on stale catch-words and weather-beaten slogans. We must have realistic programs on which we can act. Maneuverings for personal or party advantage become, in a time like this, a kind of social treason.

Senator HARRISON. That is a very splendid statement, Doctor.

Senator GORE. So say we all.

The CHAIRMAN. We thank you, unless there is something further you wish to say.

## STATEMENT OF MATTHEW WOLL, VICE PRESIDENT AMERICAN FEDERATION OF LABOR

Mr. WOLL. Mr. Chairman and gentlemen, drastic economic changes are occurring with such rapidity that it is almost impossible to grasp their significance even after they have occurred. In fact, the laborer, the farmer, the banker, the business man are so bewildered that they know not how to act. Farmers can not purchase their normal amount of industrial commodities; honest laborers can not get work; home owners can not pay their taxes; and creditors can not collect interest and principal payments. Everyone is grouping about in the dark, trying to find a ray of hope in order that, in this swirl of economic turmoil, he may act promptly and wisely.

Before a remedy can be proposed, the case must be diagnosed and the cause of the difficulty determined. There are innumerable explanations of our present unfortunate state. Among these, some of the more commonly accepted explanations are unbalanced budgets, high wages, tariff, speculation, and overproduction. I shall discuss each of these subjects briefly and then present what I regard as a constructive program.

It is quite generally assumed by bankers, business men, and others that the unbalanced Federal Budget is the cause of the difficulty—that as soon as it is balanced our difficulties will be over. Although most of us, individually and collectively, normally balance our budgets, there are occasions when we find it impossible or inexpedient to limit expenditures to our receipts. It then becomes necessary to resort to borrowing to balance the budget—the only other alternative is bankruptcy.

At the present time, we are finding it impossible to keep the expenses of railroads, industrial corporations, governmental agencies and untold millions of individuals, within their incomes. It is, therefore, necessary that these individuals and institutions borrow if they are to balance their budgets. At the present time, railroads, corporations, local, county, municipal and State governmental agencies find it extremely difficult, if not impossible, to borrow funds. The banks and few investors who now have any funds, are quite chary of them. As a result, the Federal Government is the only agency that can borrow, and even it has found it expedient to confine its operations to short-term loans. It has been impossible for the railroads to reduce expenditures to receipts. As a result they have balanced their budgets by borrowing from the Reconstruction Finance Corporation. Many banks have met their difficulties in the same way.

Besides governmental units, railroads, and banks, there are at least ten to fifteen million unbalanced budgets of unemployed individuals. These budgets will, of course, always be balanced. We can not let them starve and we can not shoot them. Therefore, they are cared for either at public or private expense. Private charity, however, is not sufficient. The only method is public relief and the Federal Treasury will bear an ever-increasing share of this inescapable burden. We are going to continue to balance these budgets and we are going to balance them with credits obtained from the American people through Federal loans. In view of this, it is extremely unlikely that we can balance the Federal Budget. In fact, I would not recommend that an attempt be made to balance it at this time. Most of those who insist that we balance the Budget favor the present policy of extending public credit to public and private corporations. Efforts to defend this unusual paradox are prone to be ineffective.

During the last decade the American business man favored or acquiesced in the philosophy that advancing wages were an inevitable accompaniment to a rising standard of living, and were good for labor and good for business. Now he is not so certain that this is correct. Accordingly, many industries have reduced wages.

This policy of an ever-increasing standard of living and higher real wages was not based on a myth. It was a reality and it was based on a very fundamental principle. Since, over a long period of years, normal wages have always tended to rise relative to commodity prices, real wages have also risen. From 1840 to 1914, the purchasing power of wages rose at the compound rate of 1.71 per cent per year. From 1839 to 1914 the per capita output of the combined products of agriculture, forests, mines, and industry increased at the compound rate of 1.73 per cent per year. The long-time trend is for real wages to rise at the same rate as the increase in efficiency of labor—that is, the per capita output of physical goods. The theory of a rising wage structure was sound. Additional output per capita was continuous and advancing wages made it possible for labor to purchase its share of these goods.

Although over a long period of time, wages rise relative to commodity prices, fluctuating prices disturb this relationship, and rapidly falling prices produce chaos. If the pre-war trend of wages had continued until 1929 and if prices had remained at the prewar level, 100, wages in 1929 would have been 132 when 1910–1914 is 100. This would have been the normal growth in the purchasing power of wages during the period. In 1929 wholesale prices were 139 per cent of pre-war and to buy commodities at wholesale, wages should have been 183 when pre-war is 100 ($1.39 \times 1.32 = 1.83$). But laborers do not buy commodities at wholesale prices. They purchase goods at retail prices. At that time food was 174; and cost of living 172.

At an index of 172, wages of 227 per cent of pre-war would be necessary if laborers were to buy their normal amount of goods at retail prices ($1.72 \times 1.32 = 2.27$). In 1929 wages were not far from this level. Apparently this wage level was justified because men were employed and industry was prosperous. When prices collapse, as they did from 1929 to 1932, everything is thrown out of line. In 1932 wholesale prices were 95 when pre-war is 100. The cost of living averaged 138. If the buying power of wages increased at the pre-war rate wages in 1932 should have been 139. At wholesale prices of 95, the manufacturer might have expected wages to be 132 ($1.39 \times$

0.95 = 1.32). If debts were liquidated and wages were at this level, business would move forward. But for labor to buy the output of industry, they would have had to purchase these articles at a level of 138. This would have required that wages be 192 ($1.38 \times 1.39 = 1.92$), which indicates the chaos that occurs when prices collapse as they did from 1929 to 1932. The manufacturers contend that they can not proceed at this wage level and the laborer can not consume the product unless he receives those wages. The present maelstrom is not due to high wages. Wage rates at the present time, estimated at about 189 when pre-war is 100, are in line with the long-time trend in the purchasing power of wages and the cost of living.

At the present time, we have a highly sensitive machine closely meshed and if the machine is not properly lubricated, it ceases to operate. If this is the case, we must not blame the machine; the product of the machine; the laborer who operates the machine; or the consumer who buys the product of the machine. We must look at the lubricant—the monetary structure.

The laborer, like the farmer, is being crushed in this maelstrom of declining prices. The manufacturer contends that he hires the laborer at the wage that enables the laborer to buy the products of industry. The laborer's house shrinks in value, the equity vanishes; and a lifetime's savings melt away. Under normal conditions, the American laborer with an ever-increasing, but justly earned, rising standard of living, looks forward to promotion to a better job. With commodity price collapse, all promotions stop. The laborer's losses from these causes may be greater than any cut in wages that has occurred or is in prospect. The declining prices have meant economic retreat step by step; first 4 days; then 3 days; then 2 days; finally culminating in an honest, conscientious, upright, conservative human being converted into an unemployed, disgruntled, broken-hearted animal, now maintained at public expense.

The primary cause of the present situation is the collapse in commodity price. Falling prices weaken the creditor; reduce the purchasing power of labor and agriculture; contract the physical output of our industrial machine; result in bankruptcy, suicide, arson, and untold suffering.

The commonly accepted explanation of the collapse of commodity prices is overproduction. Our ever-rising standard of living and increasing population calls for more production. If our total production does not increase more rapidly than population, our standard of living stops advancing. A study of production of both that of agricultural and nonagricultural commodities indicates that there has been no great overproduction. From 1839 to 1914 the physical output per capita in the United States increased 1.73 per cent per year. During that period there was no excessive increase in output that might be cited as overproduction. From 1915 to 1929 the rate of increase in total physical output per capita fell to 0.64 per cent per year. From 1929 to 1932, production per capita in the United States declined 31 per cent. How can there be an overproduction with 12,000,000 unemployed and our per capita production reduced 31 per cent? I leave this riddle to the unemployed technocrats.

Price is a ratio between the things produced by farmers, laborers, and manufacturers and the volume of money of every form in circulation.

$$\frac{\text{Money}}{\text{Goods}} = \text{Price}$$

I can not convince myself that there has been an overproduction of goods; that is, that there is something wrong with the denominator. There is, therefore, only one other explanation for the collapse in commodity prices—something has happened to the numerator.

Up to this point I feel that I have been on safe ground. Changing the numerator—money—is a problem which it has not been possible for me to study carefully. It does seem, however, that the experience of the past three years indicates that our present monetary system gives us not assurance of a stable measure of value. An unstable price level has been the arbiter of our destiny. I think it is about time that we find some way to manage price level instead of permitting the price level to manage us.

Prices are the only criterion by which man acts. It makes no difference whether he be a manufacturer, farmer, or laborer; prices guide his production. Prices also guide consumption. The old widow with her mite, the unemployed laborer with his dole, the butcher, the doctor, and the captain of industry, all are dependent upon the price system. When prices are stable, the producer and consumer can act wisely; when prices collapse, there is chaos. It seems to me that our great problem is the establishment of a permanently stable measure of value.

There is also another important problem closely associated with the matter of stability; that is, the restoration of commodity prices. Although I have no plan for monetary change, I can visualize business proceeding at any price level provided debts, taxes, wages, salaries, telephone charges, freight rates, street-car fares, telegraph rates, lawyers' fees, doctors and dentists' charges and all other charges be brought into adjustment with that price level.

The primary problem is, therefore, to bring prices and other relationships into adjustment. This can be done by following one of two courses; either a complete deflation of all debts, taxes, and services to the present price level or a restoration of commodity prices to the level at which human relationships are most equitably adjusted.

We have been pursuing the policy of deflation and the practice of radical economy both in public and private business for three years. During this time, it would appear that common stockholders have been rather thoroughly liquidated. Also, although I know little or nothing about agriculture, it is difficult to see how farm prices can fall lower. Farm mortgages, however, have not as yet been liquidated. We are at the present time approaching a "mortgage standstill." It is comparatively easy to state that mortgages should and can be easily liquidated by passing the proper bankruptcy legislation; but writing down farm mortgages by 25 or 50 cents on the dollar has widespread ramifications. Although scaling down of the mortgage indebtedness reduces the farmer's expenses, it reduces the income of savings banks, private investors, and life insurance companies. If, as a result of declining prices, we must write down the farm debts, is it not logical that we write down the mortgage indebtedness on the laborer's home and on other sorely pressed groups in our industrial centers?. This method of bringing commodity prices and debts into adjustment is easily described but is difficult of accomplishment. It will strain our present economic order.

The value of America rests on commodity prices. If commodity prices fall, the price of homes, farms, in fact the value of all property falls. Figuratively speaking, we are in the process of writing down America 50 cents on the dollar. In 1929 then America was worth $362,000,000,000 and debts were about $203,000,000,000. At that time debts represented 56 per cent of the total value of the country. Since then we have liquidated a small part of the debt, but the value of the property has utterly collapsed. The extent of this collapse is any man's guess. If right to-day, it will be wrong to-morrow. Nevertheless, it is probably true that the debts to-day are as much or more than the value of America at the present ridiculous prices.

If we go on with deflation, it will also be necessary to reduce taxes. This will mean decreasing the number and the pay of teachers in our public schools and other Government employees. In addition it will be necessary to embarrass still further some of our State governments and our sorely-pressed municipalities.

If, on the other hand, we adopt the second policy and attempt to raise commodity prices to the approximate level existing in 1929, it may be possible to avoid the greater part of these unfortunate occurrences. Accordingly, although as I have said I have no definite plan, I recommend to your committee that it give serious attention to the various proposals for raising commodity prices to the level to which wages, debts, taxes, and other public services are most nearly adjusted.

The proposals I have in mind are: Management of credit; management of currency; wider use of silver; symmetalism; revaluation of the dollar; and the variable price for gold.

From these there should be chosen a plan which besides re-establishing higher prices will give us also a permanently stable measure of value.

Advocates of deflation tell us that if we attempt to raise commodity prices by managing gold, currency and/or credit, it will finally result in wild inflation and repudiation. There are now 33 countries off the gold standard and they are managing their currencies by permitting the price of gold to vary; and in no important case is there wild inflation. In fact the only cases of wild inflation until the currency was worthless in a first class modern nation occurred in times of revolution—French Revolution, American Revolution, Russian Revolution, German Revolution.

A modern nation with 12,000,000 unemployed laborers; thousands of bankrupt farms and home owners; a bankrupt industrial and transportation system; and a strained legal structure, is a ridiculous monstrosity. Such a state of affairs should not long exist—nor will it. Either we must settle the question promptly and wisely, or it will be settled for us in a manner not to our liking.

What the country needs most to-day is neither mere emergency measures nor some grandiose plan for a practically new economic system but a national economic policy. If such a policy were adopted by the Nation or by a sufficiently large majority we can be assured that ways and means would be forthcoming from our practical and business-like people to put it into effect and gradually not only to do away with depressions but to produce a prosperity we have never known.

Emergency measures are not merely too timid and too limited to fill the need, they are ineffective even for their modest and limited objectives. We simply must look ahead. As President Hoover's unemployment conference declared: "Prevention as contrasted with relief is only possible through foresight," and during a depression it is too late "for measures preventing these extreme fluctuations of business activity." That is true. But now, during the depression, is precisely the time, and the only time, when we realize most clearly the seriousness of the situation. If our immediate actions must be limited to the emergency, now is the one and the only time to plan ahead.

To plan ahead—but not for any variation of the five-year plan, not to institute a national board on the Russian model, nor to call for the reconstruction of industry by blue prints. We are not the sort of a people that undertakes in a few years to inaugurate a new economic system. What we want is not a plan to reorganize our economic structure. What we need is a policy, a common desire and understanding. We want neither a dictator nor new governing body of any sort. What we need is a few general but entirely practical principles, sufficiently consistent so that they can be brought together under one national policy. Certain definite measures for carrying out this policy should be presented at the outset but others could not be predicted and would be brought forward only gradually as the policy was put into effect.

What would such a policy be? I think we can be fairly confident as to its general outlines.

The foundation of an American economic policy must be the development of the maximum possible mass purchasing power: the raising of the standard of living of the masses of the people, wage-earners, the lower salary earners, farmers and all producers in the lower income brackets.

This is and always has been the tendency that has marked off the American economic system from all other systems. In recent years we have pulled away from it rapidly and alarmingly. But even to-day, or at least up to 1929, relatively high wages were at least verbally recognized as a foundation of the American system, though during those "prosperity" years we were already drawing away from that basic principle.

Mass purchasing power, the standard of living of the masses, must not only be raised—it must be increased at least beyond a certain known minimum. If we are not to have further depressions and ever worse depressions, mass purchasing power, the incomes of the great bulk of our wage and salary earners and farmers must be increased at least as rapidly as the increasing productivity of industry due to new methods and new investment.

Raising of our national standard of living at this tempo would prevent further retrogression, such as we are seeing to-day. Indeed, in proportion as the increased income of the masses exceeded the increasing productivity of industry, depressions would become less severe. But they would continue. They would continue until a balance was struck between consumption and production. That means that there must be a radical change in the present disproportion between profits and wages, between dividends, interest, rents on the one hand and, on the other hand, the incomes of the masses—whose purchases account for 83 per cent of our home market and three-fourths of our entire market, domestic and foreign. Not only that, but practically half of the new investment in industry, so much of it wasteful or excessive, has come from the higher income class (those having over $10,000 a year incomes).

To restore this balance, to insure more consumption and less investment in machinery in production, the first requisite is to advance mass purchasing power by every method adapted to that purpose. The second requisite is to use every practicable method to keep down excessive profits. Graduated income and inheritance taxes are the first and foremost means for this purpose—but not the only one. During the war we had also a highly practicable excess-profits tax. Nor is taxation the only method, by any means. The regulation of the charges of public utilities and all other laws to limit profits on behalf of the consumer are equally effective.

Taxation, the protection of the consumer, of the producer, and of the investor, all these problems must be viewed as parts of the basic policy, the raising of the American standard of living and the reduction of the disproportionate and excessive profits. For these excessive profits not only have held down the incomes of our masses of town and country but have produced the surplus savings and overinvestment in the machinery of production that have caused both the false prosperity of a few years ago and the overpowering burden of debt that keeps us where we are to-day.

The importance of the policy of keeping graduated income and inheritance taxes and all other taxes directed toward the reduction of excessive profits at the highest practicable maximum lies largely in its effect in enabling the Government to keep its debts so reduced and its Budgets so balanced that it will be able in a crisis such as the present one to extend the maximum aid to industry and to the people generally.

Senator GORE. Could you there develop the idea about how excess profits lead to excess debts? I did not quite follow you.

Mr. WOLL. Excess profits lead to overexpansion, incurring additional debts.

Senator GORE. On the part of whom?

Mr. WOLL. On the part of industry.

Senator GORE. On the part of the people who get the profits?

Mr. WOLL. Yes.

Senator GORE. They invest their profits, and still more, is that the point?

Mr. WOLL. Yes. At the same time these excess profits, themselves an evil leading to overinvestment in the machinery of production, are held down. If income and inheritance taxes, the excess profit tax, and other taxes leveled mainly against disproportionate savings had been kept at or somewhere near the war time level, two things would have resulted: First, excessive overdevelopment of the machinery of production would have been considerably less than it now is; and, second, the floating debt of the Government would be very much less, the Budget would be more nearly balanced, and the credit of the Government would be such that there could be no question of its ability to come to the aid not only of our great credit institutions and large corporations, but of the masses of producers and consumers of the country.

At a time like this, when the economic problem rises from unemployment, low wages, and so forth, the problem of the high cost of living is not so much in the foreground and the consumer is less considered. But we have only to look back a few years to the times—which will certainly recur—when the benefit of every improvement in employment and advancing wages was lost, owing to a mounting cost of living. There was a time, for example, under President Wilson, when he himself proposed legislation requiring commodities on which there was profiteering, in so far as they entered into interstate commerce, to be marked with the price with which they left the manufacturer or producer. It was also the demand of labor that the United States Department of Labor compile and issue monthly statements of the cost of manufacture of those staples which form the basis of calculation in fixing the cost of living, and that the Government be authorized to establish a permanent board for the prompt investigation of profits and prices.

All regulations of the charges of public utilities and all legislation to protect the consumer as to the quality of his purchases fall in the same category. They at once improve the standard of living of the masses and the prosperity of the nation as a whole and cut down excessive profits—and so by that much lessen the danger of depression.

Senator GORE. Right there, I remember that this crusade against the high cost of living went back even prior to President Wilson's administration.

Mr. WOLL. Yes.

Senator GORE. During 1910, 1911, and 1912, I know we were making quite a drive on the Republicans, because the cost of living was so high. We called it the "h. c. l.," abbreviating it. Everybody was protesting it, and trying to get it reduced, so it went to an extreme. Now it has gone to the other extreme, and we are all trying to get prices raised in some way.

Mr. WOLL. Absolutely true. I speak now, not of the immediate necessity, but of guarding against it in the future, because I am not confining myself wholly to the present emergency. I am speaking of long-term outlooks as well.

A broad policy against excessive profits will no doubt meet very great resistance. Nevertheless, there can be no question that once the nation has made up its mind, it will have the power to carry out that policy. Ways by which the nation and the Government can resume a reasonable degree of control over corporations have already been put forward by our leading statesmen. For example, President Taft first proposed, and President Wilson advocated, in a message of 1920, the Federal licensing of all corporations. The first result of such licensing would be that the Government would be in a position to obtain full knowledge about these corporations and to supply the public with that knowledge. It would then be possible on this basis to proceed to whatever regulation the public interest required and by one means or another to place at least some limit on the excessive profits of recent years, while protecting employees, consumers, and investors alike.

President Hoover has said that—

> The divorce of the ownership of our large corporations from the management is gradually bringing it about that the managers themselves see that a smaller proportion must go to profits and that they are thus getting a new vision of their relationships. Those relationships—

He said in an address given under the National Civic Federation, April 11, 1925—

> have a tripartite responsibility; to the consumer on the one hand, to the worker on another, and a grudging regard for capital in the sense that it shall be assured no more than security, and thus given the lowest terms in the market. Under this régime the savings we can make through application of invention, through increase in skill, through elimination of collective waste, are bound to be increasingly shared with labor to secure service and contentment, and to be decreasingly shared with capital, because capital comes cheaper with increasing security.

President Hoover might have added that the sound principle of less interest and dividends is a vital and indispensable necessity of the present moment. The Nation can not wait until the new managers of industry see the light.

There is no reason why the Federal Government as well as the State government should not enter whole-heartedly into the protection of the investor. Certainly if Secretary Mellon could intervene again and again to help the stock market, the Government could perfectly well issue full and periodical statements as to the prospects of the chief fields of investment—without going into situations of individual enterprises. The purpose would not be to find profitable investment for the investor, but, on the contrary, to indicate to him how limited that field was, with the knowledge that the result would be to discourage an excessive amount of investment altogether. As recent history has shown that the field for safe and profitable investment is limited by the market, the purchasing power of the people. It is to the advantage of the Nation first that savings should not be entirely wasted in enterprises which later have to close down; and second, that this money should rather be expended in wise purchases by the investor—investment in the health, education, or general well-being of himself, his family, or in scientific, artistic or philanthropic directions.

There is also the possibility and the need that the Government should use to the full its power over our credit structure for the purpose of carrying out this national economic policy. Up to the present the National Reserve Board and Reconstruction Finance Corporation and all other institutions and activities of the Government in the field of finance have been left almost entirely in the hands of the financiers themselves, to be used for the sake of safeguarding their investments at the expense of all other forms of income.

One can not be unmindful of the great importance and influence our system of credit has in our economic, financial, social, and political life. It was predominance of the credit factor in our economic structure that contributed so much to our present plight. The load of national credit and growing indebtedness is becoming almost a crushing burden to our productive industry. The very nature of credit now extended is such as may tend to lessen the security of productive enterprise and of every economic group depending solely upon this form of governmental aid. The further danger must be apparent that having once traveled this road it is difficult to know the limitations to be set.

Fortunately, a new light is beginning to dawn even on some of our financiers, in the proposition that governmental credit should be extended to industry in proportion as men are set back to work. This is a step in the right direction, but it is not sufficient. What is wanted is not merely that men should be set back to work but that their wages should be advanced sufficiently rapidly to insure the needed increase of mass purchasing power. If our bankers could accelerate the reduction of wages, as they undoubtedly did, by public statements and private pressure, there is no reason why persons put in high financial positions by the Government should not follow the opposite policy.

The banking and credit structure of our country is such that it is not thinkable nor desirable that the Government should attempt to direct it as a whole. But since it has been necessary for Government credit to come to the rescue of private credit, there is no reason why the Government should not demand that an economic policy aimed at the welfare not only of the masses but of the entire Nation, including business itself, should not be made dominant. The time has arrived when unregulated extension of credit for production should be curtailed and that some particularly public policy be set up which would to some degree at least regulate the development, expansion, and conduct of industry.

This policy applies also to our foreign relations. We can not hope rapidly to advance the standard of living of the entire world, desirable as such an advance might be, even from our own national standpoint. The standard of living of the American people can be raised only along strictly national lines. We can not throw open our doors either to the peoples or to the products of other nations. We must of course import what we can not produce in this country, or can produce only at very great expense. But as long as we have millions of unemployed and a huge surplus of idle capital in the banks, we must endeavor to set up every possible industry in this country, even if our facilities in some cases are inferior to those of other nations. We can not lean largely on producing goods which we can use for trade and export, for the reason that the export market is both extremely unreliable and very much less profitable than the home market. There is little danger that on any other ground the American people will abandon their own existing industries in favor of cheap imports or give up the hope of implanting in this country any industry for which there is any reasonable hope of practical success. The only danger is that the clamor for more exports may lead us to abandon some part of our home market.

International bankers, industrialists, and many of our liberals are urging that one of the chief cures for the present depression and for unemployment is the development of the export market. Then, too, our new Secretary of State, Mr. Cordell Hull, has said that—

> If this and other Nations could have profitably exchanged their respective surpluses since 1921, there would have been no surpluses piled up, no stagnation with resultant widespread unemployment, no agricultural collapse, no vast concentration of gold in one country, no serious German crisis, no domestic and world panic.

We can not subscribe to that theory. The cause of the depression and of our false prosperity has not been the loss of international trade, for international trade was never more artificially developed and inflated than during this period of so-called prosperity, and besides international trade has fallen no more than internal trade.

Might I add here that even the foreign trade we have promoted in the last few years has been promoted by American loans, and not because of any purchasing power had or developed in these foreign countries.

The cause of the depression is excessive profits and insufficient mass purchasing power in these United States.

American labor does not believe that the export market will rise in importance when compared with the home market. It is a practical certainty that for many years exports are destined to take a smaller and smaller proportion of our products when compared with the home market. Europe is not only providing for its own needs but is offering more and more formidable competition to us in other markets. The backward countries are getting lower prices for their raw materials. They can, therefore, buy less from us. In contrast to this, our huge home market has indefinite capacities for early expansion. For if real wages, salaries, and farmers' real incomes are progressively advanced, there is no limit to the possible increase of mass purchasing power.

Then, too, the foreign market is not so desirable as the home market—either for capital or labor. Goods exports must be sold at world prices in competition with goods produced by poorly paid, pauper, or even forced labor—and the certain results of large exports is always that the labor of the chief exporting countries, such as England and Germany, is forced to accept lower wages in order to be able to compete effectively in the foreign market. In other words, the predominance of the foreign over the home market totally destroys the benefits of the protection of labor.

Except in certain products which are mainly for export, there should be no exportable surplus. In cotton, naturally, the export market is and will remain of the greatest importance—unfortunate as that may be for the cotton producers dependent for their market upon the political and economic conditions of other countries, as well as being forced to compete with cotton produced by pauper labor. Only a few other American products of importance are in the position of cotton. Many more products are in the position of wheat, where the obvious remedy is that the exportable surplus should be reduced as quickly as possible to zero, for even if it is possible to sell it abroad at all, it will often have to be sold at less than the American cost of production. If the surplus exists, obviously this is the only thing to do. But it is equally obvious that the fundamental remedy is that there should be no surplus. The same thing applies to our surplus products of automobiles, machinery, or anything else which must be sold abroad below the American cost of production. The only result of such sales in the long run must be to lower the American standard of living more and more nearly to the level of that of other less fortunate countries.

Senator HARRISON. Do you not believe, Mr. Woll, that if the American automobile industry can sell abroad $500,000,000 worth of American-produced automobiles, that is good for American labor?

Mr. WOLL. Yes; it is good for American labor, but it is only temporarily good, because other countries will either restrict production to promote their own industries or American capital will invest its money abroad and establish branch factories abroad, and thus the foreign trade will have been lost anyway.

Senator HARRISON. American capital has moved to foreign countries, and is producing them now in foreign countries.

Mr. WOLL. Yes.

Senator HARRISON. Due to the benevolent tariff policy of the United States.

Mr. WOLL. I would not say that was true. It has been because of restrictions placed by foreign nations upon the importation of America commodities to some extent.

Senator HARRISON. Do you not think it has been largely at the invitation and because of the action of this country in doing that?

Mr. WOLL. No; I do not believe it. On this general subject, might I say I listened with great interest to Mr. Glen Frank's presentation of the subject. Propriety, of course, prevents my answering some of the statements he made, but I wish merely to draw your attention to the philosophy set out as to debtor and creditor nations. I think he answers his own argument better than any presentation I might make at this time.

Senator GORE. We have had a pretty ample protective tariff during the last 10 years, have we not?

Mr. WOLL. Yes.

Senator GORE. And have now.

Mr. WOLL. Yes.

Senator GORE. As a result, labor is prosperous, and we have no unemployment, and prosperity abounds.

Mr. WOLL. To-day, of course, with the depreciated currencies, we find factory after factory closing down.

Senator GORE. But we had this depression nearly two years before the foreign countries went off the gold standard.

Mr. WOLL. That is true, but all these factors contribute to the prolongation and the accentuation of the depression.

Senator GORE. When this depression occurred in this country we had a very high protective tariff, did we not?

Mr. WOLL. I would not say so very high. As a matter of fact, only one-third of the imports pay duty. Two-thirds are on the free list.

Senator GORE. I understand that. Coffee does not pay any duty, of course, and I do not suppose any protectionist would suggest that it should. But we had a pretty high protective tariff when this crash occurred in 1929. Then, whatever protection and whatever blessings it will produce, it will not prevent a panic, will it?

Mr. WOLL. I would not say it will prevent a panic.

Senator GORE. And it will not prevent vast unemployment, running up into the millions.

Mr. WOLL. I would not say the tariff legislation prevents panics at all, but I do say this, that since we exclude labor from foreign nations, to prevent undue competition among the workers here, and we are seeking to protect American industry and the conditions of the American workers, as against the lower standards of Europe, we must at the same time protect labor and industry against the competition of goods produced abroad.

Senator GORE. Do you not think, Mr. Woll, there is a fundamental difference between laborers coming in and living here and goods coming in?

Mr. WOLL. No.

Senator GORE. When a foreigner comes into this country he is a living human being. He may or may not be able to adapt himself to our institutions. Nobody will bring any goods to this country that does not want the goods, will he?

Mr. WOLL. I do not get you.

Senator GORE. There will not be any goods imported into this country that somebody does not want?

Mr. WOLL. That is true. They will not be imported here if somebody does not want them here.

Senator GORE. When a silk handkerchief comes here, or a piece of lace from Switzerland, that does not react on our whole social fabric, as immigration might.

Mr. WOLL. No; but when you have industries producing certain commodities at a certain cost of production, and those same commodities are produced abroad at a much lower cost of production, the want for the commodity is there, but, as between the competition of the homemade product and the foreign-made product and a lower cost and a lower price, the foreign commodity will close to the market to the American product.

Senator GORE. Our imports are paid for with our exports, are they not?

Mr. WOLL. What is that?

Senator GORE. Our imports are paid for with our exports, are they not?

Mr. WOLL. I take it our imports have been largely paid by loans made by our bankers abroad.

Senator GORE. Temporarily, that is true; but in the long run if the debts contracted abroad to buy our goods with are ever paid, they have got to be paid with imports coming into this country from those countries.

Mr. WOLL. That is the general theory of a balanced trade.

Senator GORE. The exports that go out of this country——

Mr. WOLL. I may also call your attention to this fact, presented by Mr. Frank. He set out the principle that a debtor nation must have a larger export market than import market; its trade must be balanced in its favor. And a creditor nation must be reversed.

Senator GORE. Yes.

Mr. WOLL. If that is also true, we are going to be the subjects of all the nations of the world, because we are the only creditor nation in the world. If we are going to wipe out our debts that way, it simply means the demoralization and destruction of American industry.

Senator GORE. I do not think it is possible to be a creditor nation and a protectionist nation at the same time. The two things are inconsistent and mutually exclusive. But I do not mean to embark on that now.

To get back to the question, the exports that go out of this country are paid for with the imports that come into this country. Do not those exports give employment to American labor?

Mr. WOLL. Those exports do give employment to American labor, but to the extent that we import it displaces labor.

Senator GORE. But take the farmer who produces cotton in Mississippi, or the farmer who produces wheat in Nebraska, and ships it abroad. Does he not have as much right to labor in this country and have a market for his goods as the man who produces stockings up here in New York?

Mr. WOLL. I say he has as much right, but he has not a greater right.

Senator GORE. But when you want to shut out imports so that the farmer can not buy these imports, then you are militating against the farmer in the cotton State and the wheat State, who has as much right to sell his stuff to somebody as a man has to sell his labor in a particular factory.

Mr. WOLL. Well, let us reverse the situation. Then in order to get the cotton grower what he wishes in the matter of foreign markets, we must manage to get our industries where they will have a foreign market.

Senator GORE. No, that does not follow at all, because we can only find a market for our surpluses that go abroad in the form of export by letting the foreigner ship his goods in here in imports.

Mr. WOLL. Yes, but he is going to ship his commodities in in competition with American industry and American workers.

Senator GORE. Now, Mr. Woll, I think that while we are a protected country and you say in advocacy of protection that it is to protect labor, nevertheless we have 12,000,000 unemployed labor to-day, notwithstanding high tariff. I think that notwithstanding that—you probably will not agree with me—measured by output, American labor is the lowest paid labor on the globe—measured by his output and the amount of labor cost in a unit of production.

Mr. WOLL. Well, supposing that were true: It is also true that the standard of living of the American worker is much higher than that of the people of any other country.

Senator GORE. Supposing that is true: That is the reason he gets the higher wages; he turns out more product. That is the reason he gets better wages. He earns more wages. Not because he is protected by tariffs, but because he has a bigger capacity and is a better worker and turns our more goods than any other living worker. It is not due to a high tariff, but it is because of his capability in muscle and mind and skill.

Senator HARRISON. Mr. Woll, have you any figures there to show what the unemployed are for to-day, and what proportion is due to our loss of foreign trade and how much has occurred in protected industries?

Mr. WOLL. No; I have not.

Senator HARRISON. There is a very large per cent of that 12,000,000 that are out of jobs now that are in highly protected industries.

Mr. WOLL. I will be very glad to secure the figures on that if it is possible, because I am in no position to either affirm or disprove your statement on that.

Point 8. The same principle applies to exports of capital. It has been proved and is now generally acknowledged that by far the larger part of our export of capital in recent years has been unwise. There has been sheer waste which can be defended from no standpoint.

It is also true that this capital has been used freely in promoting foreign competing industries, both in the form of short-term and long-term loans and by the establishment of branch factories abroad.

Recently the astounding charge has been made that those most urgent for the extension of foreign trade are themselves assiduously engaged in promoting and financing the trade of foreigners. It is quite freely alleged that some of our international bankers have not hesitated in the granting of short-term credits to foreign manufacturers and producers to promote trade between foreign nations and without the slightest concern as to the resultant restrictions, limitations, and reductions placed upon our own export trade.

Why should not a governmental commission investigate this whole subject, and why should not its sessions become permanent? It is natural and inevitable that if there is a vast surplus of capital seeking investment, owing to excessive profits and insufficient payments to the masses of our people in the form of wages, and so forth, that a part of that surplus would go abroad to be wasted or used to our detriment.

The evil lies in the existence of such a surplus. But as long as it exists, it is clearly to the Nation's interest to keep it as far as possible in this country, where at least there is some possibility of control. If the surplus is altogether too large to be put to any useful public or productive purpose, the only alternative is that it should be expended in private and personal consumption and not invested in already excessive machinery of production.

Ninth. As has been previously indicated, high wages and a continued increase in wages are conditions of national well-being. The buying power of the masses should and must expand if we are to maintain and raise the standards of living. If we are to recreate an early return of prosperity and maintain our Nation on a permanent basis of well-being, we must encourage and build an order, relationship, and practice wherein the distribution of surplus of industry will find more and more expression in higher wages and lower prices and less and less in the form of dividends, interest, and other forms of compensation to capital.

Inherently related to this problem of enlarging consuming power by means of a fairer and ever larger distribution of surplus of industry by means of higher wages is the shortening of the working week and working hours. It is the very essence of sound coordination. With productive capacity so greatly increased, through discovery, invention, and mechanization, and with a less rapidly increasing consumption, we shall have to choose between employing a relatively smaller number of persons in industry on the present hours or a larger number on shorter hours. As we come to realize what this means, there will be a universal demand for the 5-day week and a 6-hour day, so that work opportunity may be spread as well as earning capacity among our citizens.

In point of fact there are a number of prominent American industries which have adopted the 6-hour day to spread employment. The results have been so much more successful than they have anticipated, that it will be a part of their permanent industrial policy. I predict a great development in this direction of a shortened workweek and work-day as not only socially desirable, but economically necessary to achieve industrial balance.

A shortening of the hours of labor, if unaccompanied by any decrease in the daily wage, may act as effectively toward the restoration of the balance between consumption and production as an increase of real wages. Under our political system it is difficult to secure this shortening of hours by direct legislation but the same object may be indirectly achieved by the influence of the Government and the pressure of public opinion. If all branches of Government—National State, and local—not only established short hours and a short week for all their employees, but insisted on the same hours and week in public contracts, the country would already be far on the road toward the general establishment of this extremely important reform, important not only for the value of greater leisure to the individual, the family, the home and the State, but, as I have said, for the absolutely vital need of working toward a balance between consumption and production. Shorter hours and a shorter wroking week, like read wages, should be a part of every political program.

Tenth. It is unnecessary to remind you that unemployment has become the new barometer of American business. It is a much more effective tell-tale of the health of our industrial enterprise than the fluctuations of the stock market. When we deal with fluctuations in jobs, we are dealing with ultimate realties. When we deal with stock fluctuations, we are not infrequently dealing with fictitious values. The sorry commentary of the present situation is that while we have daily records of stock fluctuations, which are accurate, we have not any adequate unemployment index.

There should be some Federal agency charged to collect basic information on man-hours, length of work-weeks, productivity, employment opportunities, wage earners' incomes, and so forth, as a necessary device to facilitate any program of coordinated economic development. There is to-day in this country no adequate system of employment exchange. There is a dearth of statistics on actual hours worked, on the income of the American wage earners, on displacement, and a whole host of matters that are of vital concern in achieving economic balances. Labor believes that some such Federal agency is necessary to collect and collate such data as an individable part of our program.

Eleventh. A long step towards restoring the economic balance would also be taken if each industry were obliged to contribute to a reserve fund in order to insure steady work to its employees. There is no more economic justification for the establishment of reserves to maintain the industrial plant and to prevent depreciation than there is that the working staff should be maintained in a state of efficiency. Industry has no greater obligation to the shareholder than it has towards the employee.

Until recently the American Federation of Labor set its face against proposals for compulsory unemployment insurance. But conditions have been such that despite its understanding of the fundamental dangers involved in a system of state compulsory unemployment insurance, it is now favoring this legislation as an expression of its belief in the equality of the status of investment of the worker and the investor of capital in modern industry.

In order that such unemployment reserve funds should be created, each industry would have to be permitted a degree or organization which would perhaps be inconsistent with the present antitrust laws, but economic policy and public policy require in any event that these laws should be repealed and that they should be replaced by laws giving greater authority to the Federal Government through some appropriate agency and practical method of enforcing such regulation as is necessary without penalizing in any way the right of the industry to organize.

Twelfth. It will hardly be necessary for me to insist that we can no longer in this country trust to the operation of uncoordinated economic forces to achieve a balance in our mechanics. Unregulated competition, the doctrines of laissez faire are strangely out of tune with the needs of the present situation. We have moved out of the economic era where the prosperity of the Nation represents the sum total of the individual citizens. The basis of organization for activity must be shifted from individuals to groups through which the individual functions, and this in turn implies the necessity for learning the principles of group action and of group cooperation. We have had planning on a small scale in our own individual lives. What we now need is group planning—national planning that shall conceive of the economic activity of the Nation as a whole rather than individual parts. What has become necessary is some agreement as to both direction and purposes of economic undertakings in our recovered economic life.

Labor observes the fact that there are in this country less than 100 financial corporations that control 50 per cent of the total corporate wealth of the country and indirectly control the credit and investment policies of the country.

Senator GORE. Mr. Woll, did your suggestion a moment ago contemplate the enlargement of their holdings and the reduction of their number?

Mr. WOLL. Yes. That is a little further in this paper.

Senator GORE. Yes.

Mr. WOLL. Labor observes the fact that there are in this country less than one hundred financial corporations that control 50 per cent of the total corporate wealth of the country and indirectly control the credit and investment policies of the country. The labor outlook is clear and definite that power carries with it great social responsibility; that it will not be possible nor wise to trust to so small a group the dominion of so large a group of their fellow-citizens.

With coordinated planning we may achieve a better balance between production and consumption. We can make the things that people want and assure a distribution by planning for adequate consuming power. It is possible to increase the consuming power of the people without vastly increasing our productive capacity. But this can be done only through coordinated planning. To-day labor-saving devices frequently mean poverty and displacement of workers themselves. But that could not have happened if we had had a coordination of our economic activities.

Unregulated competition has become not the life of trade, but its death knell. There is thus nothing inconsistent with the removing of legal restrictions to cooperation and the development of quality production; indeed, the one should aid the other.

Undoubtedly, some legal and governmental control must be preserved. It is quite true that no form of effective and reasonable control has yet been worked out, but better no control at all than such as is provided in our present medieval statutes.

Industry is being charged more and more with a public trust and is being viewed less and less as an institution for the enrichment of a few and the impoverishment of many. Industry must, therefore, assume greater and greater social responsibilities and meet the changing order and conditions with a new economic outlook and with an entirely new attitude.

Many plans have been and are being presented for economic planning. It is our point of view that plans worthy of favorable consideration and acceptance must be designed to bring about a more even distribution of purchasing power, a workable basis for balancing consumption with production, the discouragement of investment of surplus profits in needless and unduly enlarged productive plants, encouragement of expenditure of large incomes for every sort of consumable goods rather than for productive instruments, and finally, for the spread of ownership of industry or profits of industry more evenly and equitably among all members of society.

It is not too much to say, I believe, that if modern capitalism is to continue, it must not only put its house in order, but be prepared to subject itself to a more vigorous ordering and coordinated development than it has hitherto known.

Senator GORE. You mentioned one point there, that industry would have to recognize larger social duties and responsibilities.

Mr. WOLL. Yes.

Senator GORE. Heavy taxes on its profits and incomes.

Mr. WOLL. Yes; and a fairer distribution of the earnings of industry.

Senator GORE. Do you think it will properly react to that prospect, Mr. Woll, or will it take refuge in tax-exempt securities?

Mr. WOLL. You are bringing up another question on the question of tax-exempt securities.

Senator GORE. I do not want to advert to that.

Mr. WOLL. Conclusion: An important aspect of the new economic policy embraces the organization of workers into trade unions as an important disciplinary and regulatory force in our industrial life. The union alone has the independence, power, and authority to assume responsibility for keeping wage earners' programs abreast of social and economic progress.

The prerequisite to industrial progress for wage earners is organization to mobilize and direct their forces. Organization represents consciousness of labor problems and the practicability of attacking these problems as something to be solved. Its first objective is a collective work contract. The unorganized worker either accepts the terms offered or hunts another job, if he can afford to run the risk of unemployment. Only when workers act collectively through their chosen representatives, can they negotiate a work contract, carefully weighing each item in order to reach mutually satisfactory terms. As the terms of contract or the relationship existing under a contract are more carefully defined, new fields for collective undertakings open up and the essential partnership of labor in the production undertakings is developed and utilized as the basis of progress.

Freedom and progress can only be achieved by thought and organization. This part of labor's program has been of the most effec ive force for the advancement of labor and a constructive national asset.

That, gentlemen, concludes the points I desired to bring to your attention.

Senator HARRISON. It is a very interesting paper, Mr. Woll. The committee thanks you.

Senator GORE. I would like to ask you another question, Mr. Woll: I failed at one point to keep step with you, and that is where you said that the entire commodity prices, or wholesale prices, are 95 per cent now, I believe, of pre-war.

Mr. WOLL. Yes.

Senator GORE. And in the next sentence said something about wages being 180 or 190—I just did not follow you there.

Mr. WOLL. The trend of wages has followed both as to the wholesale prices and as to retail prices, making clear, however, that wages must be adjusted to retail prices, because labor does not buy at wholesale prices but buys at retail prices.

Senator GORE. I get your point there, and I think you are right about it, but I did not follow your figures some way. If you will turn back to that. I would like to get that straight.

Mr. WOLL. I just do not have that right at hand now, Senator.

Senator GORE. I can check it up, then, later. I did not quite get the relationship.

Senator LA FOLLETTE. Mr. Woll, have you any figures or statistics available showing what has actually happened to wages during the depression?

Mr. WOLL. I did not prepare myself on that subject, because it is my understanding that President Green is to appear before your committee, and I felt rather it would be more appropriate for him to deal more accurately and more fully with the question of wages and hours.

Senator LA FOLLETTE. I have been unable to get any accurate figures, but such figures as I have been able to get indicate a very much more drastic reduction of wage standards than is generally believed to be true.

Mr. WOLL. Of course, the figures I have used are from the Department of Labor reports, which of course are average figures, and of course it does not tell the story in detail.

Senator LA FOLLETTE. Exactly; that is the point.

Mr. WOLL. But in this presentation I have sought to confine myself to such authorities as we have to base calculations upon, and which of course are in general terms and not in specific application.

Senator LA FOLLETTE. One of the bothersome aspects of this situation is that in completition for the ever-shrinking market wages seem to be tending to sweatshop levels.

Mr. WOLL. Yes.

Senator LA FOLLETTE. The director of industrial relations of the State of Pennsylvania, Mr. Roschenberg, appeared before the manufacturers committee on the relief bill, and I was appalled by some of the figures which he gave us concerning wages that were prevailing in some of the industries in Pennsylvania.

I cite one exapmle: He estimates that there are 100,000 women in Pennsylvania working for $2 a week or less.

Mr. WOLL. Not only that, but I might cite you a situation that in the Northwest, where we have our minimum wage laws for women in industry, not to work at less than $15 a week, and so forth, women are being dismissed and men are being employed at a lesser wage than $15 a week, because they can not employ women. So the depreciation of wages, of course, has been terrible. As I say, I have not ventured into that subject because, inasmuch as President Green is to appear before this committee, I did not feel that I would be justified in venturing into that field.

Senator HARRISON. The committee will adjourn until Monday morning at 10 o'clock.

(Accordingly, at 12.20 o'clock p. m., the committee adjourned, to meet again at 10 o'clock a. m. on Monday, February 27, 1933.)

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# INVESTIGATION OF ECONOMIC PROBLEMS

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**MONDAY, FEBRUARY 27, 1933**

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
*Washington, D. C.*

The committee met at 10 o'clock a. m., pursuant to adjournment on Saturday, February 23, 1933, in room 335, Senate Office Building, Senator Reed Smoot, presiding.

Present: Senators Smoot (chairman), La Follette, Harrison, George, and Walsh of Massachusetts.

The CHAIRMAN. The committee will come to order.

I have received a letter from the Hon. Nicholas Murray Butler, which will be placed in the record at this point.

(The letter is here printed in full as follows:)

NEW YORK CITY, *February 21, 1933.*

The HON. REED SMOOT,
*Chairman of the Committee on Finance,*
*United States Senate, Washington, D. C.*

MY DEAR SENATOR SMOOT: It is so difficult, perhaps impossible, because of academic duties here, for me to accept in the near future your invitation to appear before the Committee on Finance, that I venture to ask you to present to the committee the following statement of my views and suggestions concerning the topics under consideration. The time of the Committee on Finance at this heavily crowded period of the session will thereby be saved.

I. The present economic and financial crisis is in no true sense national; it is international and world-wide both in its causes and in its effects. In any given nation—the United States, for instance—the world-wide causes and effects are modified and either lessened or exaggerated by national happenings and developments of recent years. Fundamentally, however, the causes and effects are the same throughout the world.

The causes I believe to be: A. The colossal destruction in and by the World War of the world's saved-up capital accumulated through more than 200 years;

B. The destruction likewise of the whole system of international trade and commerce including the carrying trade which had grown up naturally since the end of the Napoleonic wars;

C. The artificial stimulus given by the World War to production of every kind and the enormous increase of capitalization attendant thereon in order that whatever supplies were necessary for the conduct of the war might be provided in the speediest possible fashion wholly regardless of cost. This was accompanied and followed particularly in the United States by nation-wise reckless and carefully stimulated speculation.

D. The effects concurrently with the foregoing of the rapidly developing system of mass production not only in industry but also in agriculture leading to the steady displacement of hand labor and to readjustments and reorganizations of agriculture, industry, and transportation which have not yet been undertaken because the necessity for them is not yet clearly understood;

E. The strain imposed upon the whole machinery of international credit and exchange with the result that the supply of monetary gold has been accumulated at a few centers leaving available for general international exchange an inadequate supply of this metal;

F. The almost unbelievable increase in the cost of government everywhere, attended by constant and inconsiderate borrowing which is involving huge increases in taxation at a time when agriculture and industry are least able to bear such increase and which is everywhere straining public credit to the breaking point.

G. And finally, resulting from the operation of all these causes and forces, a destruction of public confidence not only in our economic and financial system, but even in the fundamental principles of democratic government, which is unprecedented in modern times and is leading in more countries than one to changes in the economic, social, and political systems which, whether violent or not, are revolutionary in fact.

II. In the case of the United States it is, in my judgment, imperative:

A. That public budgets, whether Federal, State, county, or local, be immediately balanced and that the habit of public borrowing to meet current costs of Government be brought to an end. It is more than 150 years since Adam Smith wrote in his Wealth of Nations, "Great nations are never impoverished by private, though they sometimes are by public, extravagance."

This balancing of budgets should be reached not through increase in taxation, save in exceptional cases, but through reduction in governmental expenditures. These are to be made by the reorganization and simplification of governmental agencies and functions, and by the repeal of those statutes which give to privileged groups and classes vast appropriations from the Public Treasury. In the case of the Federal Government, as was clearly indicated when the plan for a Federal Budget was under discussion some 12 years ago, there is large opportunity for economy through the simplification and business-like reorganization of governmental agencies.

The power to effect this simplification and reorganization should be given to the President of the United States, whom the people can then hold directly responsible for the use which he makes of this authority.

The Departments of Agriculture, of Commerce and of the Interior all offer invitation for curtailment of their activities and consequent reduction of appropriations. In particular, the foreign representation of the Departments of Agriculture and of Commerce should be brought to an end and the conduct of foreign relations in their every aspect intrusted, as they should always have been, solely to the Department of State. An examination of the multiplicity of our governmental representatives, and their cost, at various foreign capitals will quickly and conclusively illustrate this statement.

The example of some 9 or 10 other nations should be followed through the unification of the present Departments of War and Navy in a single department of national defense, with under secretaries for the Army, the Navy, and the Air Force. The late John W. Weeks, when Secretary of War in the administration of President Harding, estimated that such a unification would save nearly, if not quite $100,000,000 a year. This step will of course be stoutly resisted by the professional servants of the people in the Army and Navy, but it is a step to be taken in the highest public interest none the less. A War Department is an anachronism and a breach of good faith when war, as an instrument of national policy, has been summarily and formally renounced.

The statutes which make possible the payment to veterans of huge sums in compensation for injuries and illnesses which have no relation whatever to their military service, should be promptly repealed.

The bringing to an end of this group privilege, which is nothing more or less than a dole, will, it is estimated, save the Treasury of the United States not less than $450,000,000 a year.

Governmental economy and balanced budgets are a first essential to recovery from the present disastrous crisis.

B. There must be no tampering with the foundations of our monetary system. In times like the present there is every temptation to adopt some plan of inflation. Nothing is more certain, however, than whatever may be the merely temporary and apparently favorable results of inflation, the larger and permanent results of such a policy can only be disastrous to the very individuals and groups for whose assistance it is now urged.

By this time it should be clear to the American people that their banking system is woefully inadequate. We have only to compare its operation in times of crisis with the banking systems of Great Britain or of Canada to see how greatly it needs reorganization and development. It is fortunate that plans to this end are already under way. Their perfection and adoption should be hastened by all possible means.

It is of the highest importance that steps be quickly taken to reach an understanding between the Federal Government and the Government of the several States, by which our outgrown and outworn systems of taxation shall be displaced for modern and scientific systems of taxation which will avoid heavily increasing the burden upon certain groups, individuals, or types of property by reason of their being made liable for both Federal and State tax.

III. The crux of the whole situation, however, is to be found in international understanding and international cooperation. Public confidence can not be restored, and neither agriculture, industry, nor transportation in the United States can again be prosperous until by international action the obstacles to these are removed.

A. First and foremost are the so-called intergovernmental war debts. These are not a problem in theoretical finance but are one of the sternest practical character. Their existence and attempted payment have imposed, are imposing, and will continue to impose an unbelieveable burden upon the taxpayers of the United States.

There is absolutely no analogy to be drawn between a debt and its payment which are under a single political jurisdiction and computed in a given national currency, and a debt which has to be paid, if at all, across political boundaries and in a currency other than that of the debtor nation. No matter how much wealth the debtor nation may have behind its political and economic boundaries, it can not pay indebtedness in another land save in goods, in services, or in gold. If tariff barriers, prohibitions, quotas and other vexatious administrative regulations will not permit payment in goods; if payment in services be not acceptable; and if there be not gold enough in the world to make these payments in gold possible, then the deadlock which now exists necessarily comes to pass. It would be a huge relief to the American taxpayer and the greatest possible stimulus to American agriculture, industry, and transportation, were our Government quickly to arrange with the debtor governments for a composition of these debts similar in form and spirit to that arranged by the former Allies and the German Government on July 9, last, at Lausanne. The mere announcement that such an arrangement was in contemplation, to say nothing of its quick completion, would go farther than any other one thing to restore public confidence and thereby give the greatest possible stimulus to our agriculture, our industry, and our transportation.

B. The Government of the United States should exert its full influence at the coming economic conference to stimulate agriculture, commerce, and transportation through international agreements; to diminish and, so far as possible, to coming economic conference to stimulate agriculture, commerce, and transportation through international agreements; to diminish and, so far as possible, to remove existing trade barriers set by high and discriminatory tariffs, by prohibitions and quotas and by other forms of administrative regulation. Such changes can not be effected suddenly or all at once without damage, but they can be arranged and entered upon for execution over a period in a way that would be of the greatest possible assistance at the present time.

C. The Government of the United States should make it plain that when it urges disarmament it means genuine disarmament and not merely some new change in the proportion of armaments which is agreeable to professional military advisers. It should not only diminish its own much too large expenditures for military purposes, but it should insistently urge like action on the part of those other nations, both in Europe, in South America, and in Asia, whose annual budgets contain very large and indeed increasing appropriations for military purposes. For Governments which have, through the pact of Paris, renounced war as an instrument of national policy this state of affairs is not only quite shocking, but it is an affront to instructed and patriotic public opinion.

D. Our Government should, through our Federal reserve system, cooperate with the Bank for International Settlements, that joint agency to which every leading central banking system of the world except our own belongs, in its efforts to study and adopt such measures within their power as shall put a stop to violent fluctuations of currencies, breakdown restricting existing exchange controls, and recreate a sound, international monetary system on a stable basis. This is essential to the resumption of normal international movements of capital and to the freer international movements of goods. These, in turn, are the conditions precedent to any thorough going financial and commercial regeneration in the United States.

E. The Senate should at once consent to the ratification on behalf of our Government of the protocol of accession of the United States to the Permanent Court of International Justice, which our Government signed on December 9, 1929. Such action would be in strict accordance with American traditional policy and in conformity with long-standing American leadership. It has been, in substance, recommended by every President since McKinley and by every Secretary of State since John Hay.

F We can not close our eyes to the fact that following the Conference on the Limitation of Armaments held at Washington in 1921–22, the very significant treaties of Locarno, signed on October 16, 1925, and the epoch-marking pact of Paris signed by representatives of 15 Governments on August 27, 1928, and now adhered to by no fewer than 60 nations, there has been a striking and world-wide backward movement toward reactionary nationalism with its inhibitions and complexes which is gravely threatening the whole of our present-day civilization.

The United States should take vigorous lead to counteract these reactionary tendencies and through close and helpful cooperation with the vitally important work of the League of Nations, seek to bring back the public opinion of the world to the support of the forward movements which it so eagerly embraced only a few years ago. Our people should give no hearing to the destructive and reactionary cry, "Buy American," but should substitute for it the motto, "Sell American."

In that way, and in that way only can national and international trade be restored.

IV. There remain some pressing problems to be solved that are national in character.

A. There should be legislation to free the Congress from the constant consideration of the mass of petty legislative details which now consumes a large amount of its time, in order that the Congress may be set free for the prompt and constant consideration of the grave problems of Government which affect all the people. A very considerable portion of the work which Congress now undertakes to do itself, can be done better and more satisfactorily by administrative action taken under authority of a general statute.

B. It must not be overlooked that the public mind is greatly concerned at the concentration of the control, in a few hands, of widely distributed wealth through prevailing forms of corporate organization and management. This is a highly dangerous development of recent years. A corporation exists by authority of law and there is no reason why those huge aggregations of capital of the sort referred to, should not be as closely supervised by government, either Federal or State, as are life-insurance companies and banks

C. The close interdependence of economic and political movements and problems is once more illustrated by the prevailing unemployment. There should be quickly formulated and put in effect, perhaps best by some cooperation between the Federal Government and the governments of the States, a scientific system of contributory insurance against the risks of unemployment and dependent old age. No single act would do more than this to bring a new sense of comfort and security to millions of our people.

It can not be too often or too strongly emphasized that what is now lacking is confidence. The public is in a state of fear It does not see what the end may be of the reactionary and ultranationalistic forces which are just now everywhere at work. It is certainly playing with fire to permit these forces to go on unresisted and unchecked indefinitely. The fundamental principles of our American form of Government, the unbroken lessons of its history, and any just and wise interpretation of our National ideals all call upon us now not only to take, but to claim leadership in bringing back prosperity, satisfaction, and peace both to our own people and to a world of cooperating and interdependent nations.

With cordial regards, I am

Faithfully yours,

NICHOLAS MURRAY BUTLER.

The CHAIRMAN. Is Mr. Fred R. Fairchild present?

## STATEMENT OF FRED ROGERS FAIRCHILD, POLITICAL ECONOMIST, YALE UNIVERSITY, NEW HAVEN, CONN.

The CHAIRMAN. Please give your full name to the reporter.

Mr. FAIRCHILD. Fred Rogers Fairchild, professor of political economy, Yale University, New Haven, Conn.

Mr. Chairman, I appreciate very fully the honor of your invitation, but I would be here under false pretenses if either your invitation or my acceptance implied that I thought I came with any panacea to cure all the economic ills of the country. The fact is, in my opinion, there is no panacea for our economic ills and, above all, I am very sure that government as such has no power, by its own action, to correct the economic condition. Economic prosperity will not be restored by act of Congress. I think that those who look to government magic to correct economic conditions have been disappointed for three years and that they will continue to be disappointed.

The causes of prosperity and adversity are too fundamental and too powerful to be controlled by direct action by Government. This may seem a discouraging introduction, and does not imply that I think that there is nothing that Government can do, or that I have nothing to suggest.

I would like to call the attention of the committee to what I regard as certain fundamentals in the economic situation. We are living under an economic organization which is extremely complex, and our modern civilization, with its extreme division of labor and its successful use of labor-saving machinery, has made the situation especially so. With an organization like this, which is like any complicated machine, the complexity of the machine is justified by the results it produces, but, at the same time, there is serious danger of dislocation, and what we are suffering now, I should say, is a dislocation of the smooth operation of our economic machine, not a collapse, not a breakdown, but rather a temporary maladjustment. What is needed to set us going on the road to prosperity is something which will restore the confidence and the courage of the business leaders and the investors.

After all, they are the ones whose decisions and whose action must be depended upon to bring about the upturn of business conditions; and so long as we have our present system, based on the fundamentals of personal liberty, private property, and individual control of business enterprise, as long as those who are in control are discouraged and look with misgivings toward the future, things are going to lag.

I repeat that I do not think that Government can itself revive business prosperity, but I think there are many things that the Government may do, and refrain from doing, which would tend to remove misgivings and restore the confidence of those upon whose action we must depend.

I would suggest that we consider those things which are peculiarly the functions of government, the things which government alone can do, and which the public relies upon government to do.

This represents a case of division of labor, in which certain functions have been set aside for government to perform, and upon the performance of which the business world must rely.

For instance, take the monetary system. It will certainly be admitted that it is the business of government to furnish a monetary system. I find that the business world to-day is considerably disturbed on account of the flood of suggestions which are appearing on every hand for tampering with the monetary system, whether these be by means of simple inflation of bank credit, or government notes, or by debasing the gold standard, or by restoring some sort of silver currency bimetallism, or by any of the various plans of fiat money, some of them extremely weird.

Business men who are looking forward to hazarding their capital and their business success on new ventures are certain to be very sensitive to the nature of the monetary standard, in which all of their contracts, their obligations, and their fortunes are expressed; and I think few acts of the United States Government would do more to put heart back into the business community than action which would make clear that the Government proposes to stand by the present standards and resist the many plausible and more or less popular proposals for its change.

I realize that proposals for modification of the monetary standard are often urged in good faith by those who sincerely believe that along this path lies restoration of economic prosperity. I am here to say, with due respect to their sincerity, that I feel they are mistaken.

The CHAIRMAN. You think they would be temporary in character, do you?

Mr. FAIRCHILD. Yes; and I think they would even be more than that. There would be danger that action to relieve temporary disturbance might create permanent dislocation of the monetary system.

As you will see, I am thinking of all this from the point of view of those business men and investors whose decisions to proceed with industry must underlie any restoration of prosperity. Those men can not make their plans if they are uncertain as to what the monetary standard is going to be, obviously, and they are disturbed by the possibility that there may be some tampering with it.

Another example is the war debts——

Senator HARRISON. Before you leave the other, there have been suggested at least three major propositions of inflation. One involves the cutting down of the gold content of the dollar, another the issuance of fiat money, and the third is silver bimetalism. Of those three, if one or the other were going to be enacted into law, which is the least dangerous and most effective in your opinion?

Mr. FAIRCHILD. That puts me in a rather embarrassing position, to choose among three measures, each one of which is vicious.

Senator HARRISON. You think all of them are vicious?

Mr. FAIRCHILD. Most certainly.

Senator HARRISON. And you do not think there is any difference in the viciousness of each?

Mr. FAIRCHILD. There are so many different ways in which they could be put into operation. I should say a mild form of one would be less vicious than the extreme of either of the other two; but, you see, I am in no position to give any commendation to any one of the three plans, all of which, I think, would be a very serious disturbance to business confidence, and which, I can say further, I think are not needed, and would produce eventually just the opposite of the result intended.

As to the war debts, there has been so much said by myself, as well as many others, that I do not think I need detain you long over that matter. The main thing, it seems to me, is to get the problem settled in some way or other, and that means by some immediate lump-sum arrangement, such as will take the problem out of international and diplomatic relations as quickly as possible, once and for all.

The CHAIRMAN. We had a definite settlement once.

Mr. FAIRCHILD. Yes, sir.

The CHAIRMAN. If we make another one, would they want still another in a couple of months?

Mr. FAIRCHILD. I think, Senator, the trouble has been that the definite settlement made implied such a long series of annuities payable in the future. With the very best of intentions, and the most serious attempt to marshal all the essential facts, it was inevitable that any such settlement, depending upon such a long series of future payments, must run up against unforeseen conditions. No human being can predict the future 63 years in advance, or determine so long in advance the capacity of different nations to pay.

The present situation has led to the claim by our interallied debtors that they are unable to pay. I do not think I need go into a long discussion of the soundness of that claim. At any rate, the situation is a disturbing one, but I can say, frankly, that I do not believe we could go on for two generations, more or less, collecting this series of payments from these European nations.

What I should like to see done would be a decision now upon some terms of settlement which would wind the thing up once and for all. I do not mean cancellation, although that would doubtless imply considerable reduction in the amount collected. I think the removal of this disturbance from our international relations and our international economic situation, on the best terms on which a definite, once-and-for-all settlement can be made, is, after all, more important than the precise number of dollars which we are ultimately to collect.

The CHAIRMAN. Do you think France is unable to pay?

Mr. FAIRCHILD. No; I do not think she is.

The CHAIRMAN. She refused to pay her yearly installment, and then immediately loaned more than she was to pay us to another foreign country.

Mr. FAIRCHILD. Yes. That is very obvious. I am not one of those who accepts without resistance the plea of inability to pay on the part of at least some of these debtors—not at all. I am not one of those who is crying for immediate and complete cancellation. I am not one of those who believe that these are not bona fide debts which we are entitled to collect. I am simply recognizing what seems to be a fact that we are facing.

The CHAIRMAN. Suppose some other country—England or France or some of the other leading countries that were involved in the war—were in the position the United States was at the close of the war. and these countries involved in the war had to make a settlement with that particular country—for instance, France. Do you think that France would ever have agreed to the terms of settlement that the United States has finally agreed to?

Mr. FAIRCHILD. I am inclined to doubt that, sir. Great Britain, on the other hand, of course, has taken a very different attitude.

The CHAIRMAN. The settlement, of course, was made between her and us.

Mr. FAIRCHILD. Yes. Great Britain, of course, was the only other nation that was largely a creditor as well as a debtor.

The CHAIRMAN. France was owing Great Britain about the same as Great Britain was owing us.

Mr. FAIRCHILD. Yes; and from Great Britain's point of view a wiping clean of the slate would not have meant substantial loss, whereas to France it would have meant a substantial gain and to us a complete loss.

I think those are all pertinent facts. I have no desire to cast any reflection at all upon the justice and validity of the American claims, or to give encouragement to the idea that some, at least, of these foreign debtors are not able to pay.

The CHAIRMAN. I think, as a member of the commission, I received more criticism for the settlements that were made, claiming that they were adverse to the Government, than any other thing in my public life.

Mr. FAIRCHILD. There has been a storm of protest in America, as well as abroad, over the collection of these debts, involving an emotional appeal which, it seems to me, has very slight foundation in fact or logic.

I am glad you gave me the opportunity to make my position clear as to that, beside my present feeling that some new adjustment must now be taken up.

The one essential thing that I would emphasize is the importance of arranging it so that payments as between nations shall be cleaned up now and for all time. If an obligation is left between nations and private investors, that is a different matter.

The CHAIRMAN. I do not think that can be done any more fairly than it was done. The American commission went into every detail of the expenses the debtor government was under, its resources from every source, its ability to pay, and then gave the debtor country the advantage in the final settlement based upon that theory.

Mr. FAIRCHILD. I have every respect for the thoroughness with which that matter was then handled. The trouble is that we are dealing with human nature and human prejudices and human ignorance, human emotions, and there you are. You have a businesslike, sound, logical system, on the one hand, against misunderstanding and ill will and disturbance, on the other hand, and perhaps logic must give way to the practical situation.

In this connection, of course, it is obvious that the United States Goverment has in the past taken a strong stand in favor of movements looking to disarmament, the outlawing of war, and international good will and peaceful relations generally. I only want to suggest that a continuance of such efforts toward minimizing international rivalries and ill will represents a line of action which the Government may take to help restore business confidence.

Now, I want to refer to a matter which will doubtless be considered more controversial, and that is the restoration of the normal flow of international trade. In recent years there has been a development of protective tariff interference with the free flow of goods in international trade, which is threatening to deprive the nations of the world of the elementary advantages of international trade.

In this modern civilization we can not have the prosperity to which our modern system would entitle us without trade between nations. America is suffering with all the rest. One reason, it seems to me, why this present depression is so serious and long continued and partakes so much of an international character is because the modern, complicated development of international banking, international finance, and international credit is not compatible with the present artificial interference with the free flow of goods in international trade. Here, of course, I am touching on a matter of long-standing American policy, the protective tariff, and I suppose you can discount my views in the light of the equally long-standing attitude of economists generally in favor of freedom of trade.

If, at the present time, the United States could see this matter as the economists generally see it, and could come to realize that the prosperity of America, like that of every other nation, is being depressed by interference with the free flow of goods between nations, and might be restored, in part at least, by the allowance of greater freedom, then America would be in a position to exert a powerful influence. As the traditional exponent of high protective tariffs, America's leadership in a movement toward gradually reducing the shackles which tariffs place on international trade would at once be recognized and would, of course, exert a profound influence.

So I want to urge in all sincerity and earnestness that action by this Government which would serve notice to the business world that from now on there is to be greater opportunity to develop our export markets; that the restrictions upon the import of foreign goods are to be reduced, with discretion and sound judgment, of course, would offer encouragement to business and serve as one measure to restore that confidence in the business world which must precede economic recovery.

Senator HARRISON. In 1929 when we were considering the last tariff bill there was filed a protest by 1019 economists against the passage of that act. Did you sign that?

Mr. FAIRCHILD. Yes, sir; I did. There have been various other memorials presented to you on tariff matters which I have not signed because, for one reason or another, they were not worded in language to which I could subscribe.

Senator HARRISON. That seemed to be a very important one.

Mr. FAIRCHILD. That document I signed. I do think that we might be better off to-day if a measure carrying such high rates as that had not at that time been enacted.

The CHAIRMAN. Evidently, though, the amount of our importations compared with our exportations and the volume of the trade of the country and of the world is no different than it was before the passage of the bill.

Mr. FAIRCHILD. True; but no one can say from that what they might have been had the bill not been passed.

The CHAIRMAN. I can say that if there had been more importations and not an increase in exports, it would simply have taken the labor away from America, that is all.

Mr. FAIRCHILD. I can agree with that; but the position I take is that had there been more importations there would have been correspondingly more exportations.

The CHAIRMAN. But they have not fallen off any more than the business of the world has fallen off, and not as much.

Mr. FAIRCHILD. They need not have fallen off as much, I should say.

What the economists believe is that international trade is, in the last analysis, an exchange of goods for goods and services, and I think the public has come to learn that lesson as never before in the last two or three years, partly as a result of the widespread discussion of the interallied debt payments and how those could be handled. That being the case, I believe that artificial action which tends to prevent imports is, by the same token and in about the same amount, preventing the capacity of foreigners to buy our goods and so checking our exports. The payment of balances in gold is a small matter and a temporary matter. In the long run, if we will not buy the goods of foreigners, they can not buy from us; and we gain from both. We gain from the purchase of the foreign commodities for our consumers and from the expansion of the foreign markets for our producers.

When we are not talking about the tariff, and when we develop that as an elementary mechanism of international trade, it seems to present no question whatever, and I think that in our discussions of the tariff we are apt to forget these elementry principles of international trade summed up in the general thesis that every nation in the world gains both from its exports and its imports.

The CHAIRMAN. Based upon that, I should judge that you think we ought to have free trade.

Mr. FAIRCHILD. I think we should have free trade. I do not mean that we should immediately and ruthlessly sweep away all protective barriers which we now have. I have undertaken to emphasize the necessity of a careful, gradual change.

The CHAIRMAN. Your argument leads to that.

Mr. FAIRCHILD. It leads to ultimate freedom of trade; yes, sir.

Senator HARRISON. In reading that protest over now, in view of the circumstances and conditions that have come about since you signed that protest, do you apologize for any of the prophecies then made?

Mr. FAIRCHILD. No, sir; I do not apologize for any of the prophecies, although I do not pose as much as a prophet myself.

Senator HARRISON. Is it not a fact that most of the things have come about that you suggested might come about in the event of the passage of that bill?

Mr. FAIRCHILD. Yes, sir; I think they have.

The CHAIRMAN. Then, do you believe the condition of the world was brought about by it?

Mr. FAIRCHILD. No; I do not.

The CHAIRMAN. Then, how could you judge?

Mr. FAIRCHILD. I said a moment ago that I do not think that we can judge. I think Senator Smoot is right in suggesting that to ascribe all the present economic ills to our tariff policy would be distinctly a mistake. In fact, I do not think our memorial made any such extravagant claim as that.

Senator HARRISON. You think it just played its part?

Mr. FAIRCHILD. Precisely. All I should say is that among these various causes which are responsible for our present economic condition I would place artificial interference with international trade as one; and among the actions which we might take to start the business upturn, I would say some definite promise of relaxation of these shackles upon international trade would be one. But I disclaim any confidence in extravagant charges against the protective tariff, or the extravagant statement that all our ills are due to this one cause. Certainly not.

In fact, I might interject here that anyone who tells you that some one factor is the cause of our present economic depression, and that one simple cure will solve the whole problem, is talking from the basis of ignorance, at least. The problem is not so simple as that, and the many complex factors involved are just what make it impossible, as you gentlemen both have suggested, to pin a precise result to a precise cause. The problem is not simple enough to make that possible; and, as a conservative economist, I should certainly not want to be charged with any such extravagant statement as that would imply.

Another matter in which government, in performing its own peculiar function, could help is, in general, the putting of its financial house in order. I realize how seriously and laboriously and courageously you gentlemen have been for some long time now struggling with this matter of revenues and expenditures, the balancing of the Budget, and the international debt. No one, I think, realizes better than I do the magnitude of that problem, the continual recurrence of unforeseen events which have disturbed the calculations and the difficulties which the United States Congress, and this committee in particular, have to face.

All I need to say is that the business world will be terribly affected by anything which casts the slightest suspicion upon the financial stability and integrity of the United States Government, and that your efforts to reduce public expenditures in a sensible, reasonable way, without injuring necessary governmental functions, but by economy and wise discretion, making the cost of Government as low as it may be now, in recognition of the straitened economic circumstances of the people generally, will be appreciated.

On the other side of the question the necessity of taxes sufficient to meet the cost of government is obvious, and the necessity of making that tax system fair and equitable to all parties concerned. I think the business world to-day is distressed on account of the high burden of taxation, and distressed in view of threats of increased taxation, which may well be inevitable. On the other hand, I do not think the business world wants essential Government services to be impaired. Here we have the difficult problem of imposing the necessary taxes to meet expenditures, reduced as low as they may be without sacrificing essential public functions.

The CHAIRMAN. There is not any question that anyone who studies the situation in the way that you have can see many, many things that are impossible of accomplishment from a political standpoint.

Mr. FAIRCHILD. Yes.

The CHAIRMAN. For instance, there are $900,000,000 paid to soldiers of the war, many of whom never saw the battle fronts, and who are in as splendid health as they ever were. We are paying $900,000,000 a year to them. That would be a very good subject to handle, would it not?

Mr. FAIRCHILD. I am glad you raise that.

The CHAIRMAN. Do you think that if you were in Congress you would vote for its repeal if you had an organization as strong as the soldiers have to-day?

Mr. FAIRCHILD. What I would do if I were a Member of Congress is a hypothetical question that is certainly very difficult for me to answer. I do not believe my answer would contribute much to the progress of your deliberations. As an economist, however, and not a Member of Congress, I want to subscribe to what you have said, Senator, and to express my very strong feeling that sooner or later such expenditures as that must be squarely faced. There is a cry all over the country now for reduction of the cost of the National Government and yet here is one item which represents very nearly 25 per cent of the entire Federal Budget, besides which the reduction of salaries, the elimination of bureaus and offices here and there all together make up a relatively small sum. The time must come, I believe, when the public must face this matter, and face it in such a way that the Members of Congress need not fear that their political lives are jeopardized by taking a straightforward, honest position on such matters. After all, the public is to blame in the last analysis, and I am certainly not here to blame the Members of Congress for a situation which they may have every reason to think the public is demanding. But, after all, is there not something rather futile in talking about balancing the Budget and reducing the expenditures of the National Government when, by common consent, we must never mention the one item that constitutes about 25 per cent of the total?

The CHAIRMAN. That is the reason I brought it to your attention. I wanted to know how you felt in relation to it.

Mr. FAIRCHILD. Precisely. Of course, we all recognize that some of this $900,000,000 is very necessary, and is an essential expenditure for the care of veterans who actually did suffer in the war.

The CHAIRMAN. Nobody has suggested that that is not true, but a great proportion of it is paid to those who are just as well as they ever were in all their lives.

Mr. FAIRCHILD. I am perfectly willing to go on record in favor of a most drastic pruning of expenditures of that sort. I think the business situation will be improved by a rapid funding of the floating debt. A situation is arising there which is peculiar, anomalous in the extreme—a rapid increase of floating debt, issued at almost unbelievably low rates of interest.

These are, of course, made possible by a disturbed business and investment situation which you understand as well as I do, but sooner or later the floating debt is going to be very embarrassing, and I think there is a very real necessity for its funding into comparatively long-term obligations at the earliest possible time.

If I may turn for a moment to certain policies which I believe are not likely to promote economic well-being, I would suggest the futility of attempting to restore prosperity by measures aiming to keep up the rate of wages, for instance; the expenditures of large sums on public works with the idea of promoting employment of labor; by currency inflation, with the idea of increasing purchasing power; or by any of these drives to increase purchasing or stimulate production, which are coming about in popular discussion to-day. I do not want to weary you with details. You all know of the flood of propaganda going about the country now in favor of a whole list of panaceas of this sort. In general, I believe that they will be futile and will create more harm than good. In particular, I see no hope in measures aiming to dispense prosperity to special groups of the people, whether they be farmers or miners or manufacturers or war veterans I do not think that governmental action can give prosperity; and if it seeks thus by artificial means to dispense prosperity to a particular group, the advantage to that particular group is very doubtful. Whatever advantage is given must be at the cost of the rest of the community, and the incidental disturbances to the delicate adjustment of economic conditions may well be disastrous.

Again, I am not at all optimistic with respect to various plans which you are now hearing looking toward a greater control of industry by government. These plans come under such titles as "Social planning," "Social control," and so forth.

I am not one of those who would deny the authority and the obligation of Government to exercise regulation over private business where that is required in the interest of the public. But these proposals we are hearing now go beyond that, and look to a usurpation by Government of some, at least, of the functions which our present economic organization imposes upon individual investors and business men.

Again, there is a division of labor. The Government has certain things to perform and certain other things are left to private enterprise. Among those are the protection of the capital of the Nation and the guidance of business enterprise. Along with that power to direct and guide goes the obligation to accept the risks of business enterprise The Government, I think, can not usurp the direction while leaving the risks in the hands of private business men and investors, and there is great danger, I think, involved in these measures which would thus deprive industry of the right of control which it now has. Carried to the extreme, of course, it means a socialistic state

But there are many who, not wishing to go to that extreme, nevertheless see good to be accomplished at some halfway point by increasing the degree of social control which the Government may impose. Such measures, I think, should be looked upon with great care. They involve, in my opinion, serious danger of fundamental disturbance, and they are not calculated to inspire confidence and courage in the minds of those who are now in control of business.

In conclusion I would say that America will, without doubt, work out of this state of depression sooner or later, in some way, through the operation of natural forces; that to aid in such recovery the Government should seek, first, to perform well its own peculiar functions and to let the business world see that in this division of labor between Government and private enterprise, Government is doing well its own special part, and, secondly, to refrain from such ill-advised interference in the conduct of private business as may introduce a discouraging element and add to or at least not remove the present misgivings which are holding back the present restoration of economic well-being.

I do not think I wish to add anything further, but I would be happy to answer any questions which you may wish to ask.

The CHAIRMAN. Thank you, Mr. Fairchild.

## STATEMENT OF A. D. NOYES, JOURNALIST, NEW YORK TIMES

The CHAIRMAN. What is your business, Mr. Noyes?

Mr. NOYES. Journalist.

The CHAIRMAN. On a daily paper?

Mr. NOYES. The New York Times.

The CHAIRMAN. You may proceed.

Mr. NOYES. Senators, I have only a very modest contribution to the discussion of this absorbing subject. Most of its aspects have been thoroughly convassed in your committee's hearings; I shall try not to repeat what has already been stated better than I could state it. There are some considerations, however, bearing both on the cause and character of this depression and on certain current proposals to deal with it, on which perhaps it may be worth while to place emphasis.

Reaction of such scope and magnitude must have had a cause of corresponding magnitude and scope. The usual explanations of reaction are not sufficient. Overproduction on the eve of the crash of 1929 will not do. Overemployment of credit and overconsumption of goods in the speculative period may have been and certainly were highly aggravating influences, but they are not sufficient to have caused the momentous worldp henomena of 1931 and 1932.

If we ask where we shall find a cause which measures up to the magnitude of the resultant catastrophe, the answer is, only one such cause can be found in the history of the period. But it is sufficient, in the light both of reasonable inference and of historical precedent, to account for everything that has happened in the last three years, and that is happening now.

The European war was economically the most wasteful and most destructive of all wars in history. There were a greater number of nations engaged in it than in any previous war in history. The actual destruction, both of capital and material, was probably greater than in any preceding war in history. Its requisitions for war material were unprecedented in the history of the world, and the material bought in such prodigious quantities was used entirely for purposes of destruction. The scale on which such purchases were made, at the moment when workingmen were being drafted by millions from normal industry into army service, paralyzed the production of belligerent states for other than military purposes.

It did more than this. Since ordinary supplies were thereby heavily reduced in the war period, and since military supplies were purchased regardless of cost, the advance in prices was the most rapid in history. Roughly compared, the economists have estimated that average prices in England rose nearly 90 per cent during the Napoleonic wars (1790 to 1810), 132 per cent in the United States during the Civil War between 1861 and 1865, and 144 per cent even in America between August, of 1914, and May of 1920. With prices rising to such heights, and the war purchases mostly made with borrowed money on the basis of such prices, national and international indebtedness was increased on a geometric scale that has never been paralleled in the history of the world.

When the war suddenly ended, what was the prospect? The orders for war material ceased suddenly, at the moment when they were at their largest. In due course, production for peacetime purposes was resumed. It soon came to be in the aggregate exceptionally great. It was so, first, because people in the lately belligerent Europe were poor and had to repair their losses through urgent pressure of their products on the markets. But it resulted also from the fact that the very high prices were an inducement for such selling. Furthermore, even when production for peaceable uses was restricted, plant and facilities for production had been abnormally expanded by the insatiable demand for war material. But finally, and of great importance, it was so because scores of neutral communities, cut off in war-time from the necessary supplies which had previously been imported by them, had started up, on a scale previously unknown, production of their own in both agriculture and manufacture. Coming along with the almost overnight disappearance of the war orders, and with prices jacked up by the war to an almost unprecedented height, this combination of influences in the producing and selling market was certainly sufficient to explain a sensational fall in prices.

All this might seem to be so self-evident as to need no argument. Yet it has absolutely fallen into the background in recent efforts to explain the present hard times. Instead, discussion has begun which is based on the assumption that something must be wrong with the standard of value, a favorite catchword has been the "rubber dollar," for which the Labor Bureau index number could go up from 67⅛ at the end of 1914 to 167¼ in the spring of 1920 and down again to 62½ at the end of 1932. Change the standard, we are now informed, inflate and depreciate the currency, and all this wild variation will be corrected. Probably this attempt to find a cause which is not at all obvious—which does not, indeed, conform with the known facts—when there is, as we have seen, another and an entirely convincing cause in plain sight, is largely a consequence of the fact that prices did not return immediately to the pre-war level when the war was over.

We all remember the great uneasiness which existed at the end of 1918 over that possibility. But we know also that prices went still higher in the second year after the armistice; also that, 10 years after return of peace, a wild speculation for the rise broke out on all financial markets. It was based on the absolute conviction that prosperity could never be impaired—a belief which was incompatible with a 30 per cent fall in average prices such as has occurred. Even the very omniscient economic oracle Gustav Cassel, in his lectures of last year at Oxford, insisted that all the causes for the reaction since 1929 must be found in the events and circumstances of that period. "The idea that a great war must necessarily be followed by a crisis of corresponding importance," he told the Englishmen, somewhat superciliously, "is of course pure superstition."

If it is so, it is a superstition which has pretty solid grounds in history. Strange as the wild speculation and unbridled optimism of four or five years ago may seem, coming as it did in the face of inevitable readjustment from the abnormal influences of the great war, as a matter of fact it repeated exactly what has happened in every similar episode of the past. Every great war in history which has upset the world's economic structure has been followed by precisely the same succession of events. I need mention only the two most striking periods of the kind; perhaps we shall find that we are not confronted now with circumstances wholly unparalleled in economic history. One of these instances was the sequel to our own Civil War. A year of much confusion but generally of financial hopefulness followed the ending of that war in the spring of 1865. The spirit of reviving cheerfulness was arrested, suddenly, by the panic of 1866. This violent readjustment was recognized by every one as the penalty for the war. But the period of liquidation was comparatively short. It was the 1921 of that period. The need for replenishing stocks of merchandise exhausted in war time became urgent. Credit expanded again, and in 1871 and 1872 a world-wide speculation in stocks broke out, and real estate and foreign loans. In those years, as in 1929, markets talked of a "new era" in which the old-time reactions were never to recur.

The panic of 1873, eight years after the end of the Civil War, put a quietus on the idea that the full penalty for that immense waste of resources had already been paid. The subsequent depression lasted acutely during four years; in our country it was marked not only by nation-wide bank failures never exceeded in number, but by extensive money hoarding, by outright collapse of the real estate market, by agricultural distress, by suspension of payment on scores of foreign loans, by "bread lines" in every industrial city, and, more interesting still as a parallel, by the disappearance of accumulated fortunes, great and small, the reduction of thousands of previously prosperous individuals to a condition of relative poverty.

Senator HARRISON. Quite a similar situation to the present.

Mr. NOYES. Absolutely. The parallel is almost exact.

Senator GEORGE. It might be interesting to note at that point that you had a dissimilar monetary base at that time.

Mr. NOYES. To that I shall refer a little later.

The other instance to which I wish to call your attention was what happened after the closing of the Napoleonic wars, a little more than a century ago. They resembled more closely than any other episode of the kind, in the multitude of nations involved, the recent European war. It is not so easy to obtain exact data of the period's economic movement, for historical writers in those days were apt to regard politics as the only theme suited to the dignity of history and financial and industrial movements as a minor incident. But some of the contemporary memoranda show that the peace of 1815 was immediately followed, first, by a period of much economic confusion, then, a year later, by "very great depression in the prices of nearly all products and in the value of all fixed property, entailing losses and failures which marked that period as one of extensive suffering and distress." This postwar reckoning also was brief. There were two years of gradual revival, followed in 1824 by a furious speculation for the rise, based on belief that the reaction from the war had been completed and that consumption was outrunning production.

At the close of 1824, the economist Tooke informs us—

> The example of successful speculation became infectious. The possibility of enormous profit by risking a small sum was a bait too tempting to be resisted. Crowds of individuals of every description—politicians, lawyers, physicians, divines, philosophers, with women of all ranks and degrees—hastened to venture some portion of their property in schemes of which scarcely anything was known except the name.

This has a familiar ring. Foreign loans were taken at London with reckless readiness. Tooke cites companies organized and placed on the market to develop pearl fisheries in Colombia, mines in Mexico, Brazil, and Peru; not to mention an "association for cutting a canal across the Isthmus of Darien." He adds that "in all these speculations only a small installment, seldom exceeding 5 per cent, was paid at first." Yet many of the shares rose to premiums as high as 40 per cent. This ended in the world-wide panic of 1825, perhaps the most severe that had visited Europe since the South Sea bubble, and possibly worse than our own collapse after 1929.

Senator HARRISON. How long did that period of speculation last?

Mr. NOYES. It is a little difficult, Senator, to put your finger on exactly the period, because the account is not chronological. I should suppose, however, from the account, that in the middle or towards the close of 1823——

Senator HARRISON. It lasted about a year and a half.

Mr. NOYES. It lasted about a year and a half. At any rate it did not last more than a year and a half in a violent form, as far as the records show.

There was a run upon practically all banks in Europe and America, followed by widespread suspension of banks and business houses.

Hoarding of money followed. In the memoirs of the period the four years of depression which ensued were recalled as a time of grinding poverty. It was plainly recognized when the hard times at last ended, that the true penalty for the waste of the Napoleonic wars had been paid by this depression. coming 10 years after the peace of Paris.

I may have dwelt at too great length on these invariable parallels of history. They seem to me, however, of great importance, because they show that the course of events since 1918, and especially since 1929, does not present isolated phenomena, but that it is, in time, order, and character of sequence, precisely analogous to what followed other devastating wars. They show, also, as we may learn from the subsequent record of history, that the nations which suffered from those other disheartening depressions—the United States especially—emerged from them, and entered eventually on a new chapter of economic progress and prosperity. They show something else, if the full story of these older depressions is traced; namely, that every one of these older depressions was brought to its end, not through rash experiments with the currency, but through the eventual assertion of the principles of sound money and the gold standard.

Whether the present depression is or is not, as many people contend, the worst in the world's history, is debatable. It is easy to assume too much in that regard.

Senator HARRISON. Are you giving to the committee anything specific that the governments did do at those particular times?

Mr. NOYES. That I am coming to. I should say, however, with regard to what the Governments did in the way of constructive legislation, I have not gone extensively into that. I realized I was taking your time at too great length in that.

Senator HARRISON. But did they do much?

Mr. NOYES. No. It was the period of laissez faire. There are some things to which I shall call attention, however, that they did not do, although they came very near doing.

But there is at least this point of useful interest in such historical comparison—that no one of these older periods of acute depression was ended by inflation of the currencies. On the contrary, the path out of all such depressions was the path if maintenance or restoration of a sound money standard, and rejection of the expedients of inflated currencies. This was in spite of the fact that, on every successive occasion of the kind, exactly the same campaign for currency inflation or depreciation came into the foregorund as that which has lately seemed to have captured popular imagination.

The organized movement of 1894 and 1896 to inflate the existing currency through the free coinage of silver is a very dramatic chapter in our financial history. The closely-fought presidential contest over the issue followed even wilder political declarations, one of which demanded the immediate doubling of our money issues. In the hard times from 1873 to 1877 the debates even of Congress were largely given up to proposals ranging from the indefinite postponement of gold resumption (we were then still on the "paper standard" of the Civil War), to the free coinage of silver or continuous paper inflation. It was the author of the free-silver-coinage bill of those days who declared in the House that, if his silver plan were not approved, "I am in favor of issuing paper money enough to stuff down the bondholders until they are sick." After the panic of 1866, public discussion ranged from declarations for paying off the Government bonds in depreciated paper to suspending interest on those bonds and applying the amount thus saved to bond redemptions.

As far back as the great depression in England after the Napoleonic wars, Tooke tells us that one strongly influential party was for degrading the gold content of the sovereign 20 per cent and that another would have gone as far as 40 per cent. There seemed to be highly responsible opinion for both expeients. But Lord Ashburton remarked afterwards: "Much might have been said for putting the pound sterling at 15 shillings, but the strong opinion, the moral feeling, was the other way." Recourse to such proposed expedients was never adopted on any one of these occasions in the past. In all of them, the sound-money standard was vonvicated after the struggle over currency experiments. The depression after 1825 ended with the pound sterling restored to its old gold parity, which it maintained through the subsequent century. The reaction after 1866 passed even without the payment of bonds in depreciated currency and without new currency issues. The confusing turmoil of proposals to alter the currency, brought up between 1873 and 1878, ended with the resumption of specie payments. The free silver coinage movement was defeated in the election of 1896, and the gold standard act which now prevails was adopted in 1900.

What were the results? Well, the facts are part of modern history. Great Britain became the world's money center of the nineteenth century, sterling a symbol of financial soundness, the world's floating capital flowed to London, prosperity returned to Europe. The 4-year depression after 1873 lasted as long as plans for currency inflation and depreciation seemed to prevail in Congress, but prosperity returned after resumption of specie payments in Janaury, 1879, and an era of great economic progress ensued. In 1894 and 1896, business was at times almost suspended in this country while the contest over the currency was in progress. The defeat of free silver coinage at the November election of 1896 restored public confidence; supplemented afterwards by the gold standard act of 1900, it ushered in one of our most famous eras of prosperity.

I think I may safely challenge any instance in which a period of severe economic depression has been brought to an end and prosperity restored through the expedient of inflated or depreciated currency.

This quite unbroken record proves in the first place that return to prosperity, which always came eventually after the other periods of depression had run their course, did not in any case result from inflation or depreciation of the currency. In the second place, it proves that the positive rejection of plans urged for such purposes was in due course followed by returning prosperity. This at least suggests the question whether the seeming deepening of depression at the present moment may not be consequence as well as cause of the prevalent talk about currency experiments.

And why not? No business plans are possible while the standard of value is at stake. Of necessity, the future is wholly obscure. It is not a question of one step in currency deflation or depreciation; it is the teaching of all experience of the steps that follow. All landmarks by which the course of the financial ship has hitherto been chartered would seem in danger of being swept away. The disastrous experience of other well-known episodes of currency inflation is bound on all such occasions to impress the mind of the careful business man with a sense of utter uncertainty about the future, if not of despair about the present.

I know that the advocates of such experiments are usually careful to talk about "controlled inflation", "a little inflation" such as would suffice to cause recovery in general prices. But there is in my judgment one serious fallacy involved in all such expectations. No one denies that, at some point, inflation of the currency will drive up prices. It will do so, if the inflation is carried far enough, for the reason that the gold value of the currency itself will depreciate and that prices, measured in that depreciated currency, will rise proportionately.

But how is the additional currency to be put into circulation? Our present Federal reserve system, established in 1913 with the utmost care and in accordance with the teaching of all financial experiences, provides the mechanism for an increase in outstanding currency if the requisitions on member banks by their customers, in the way of ordinary business, show need for it. If the business grows more active and prices rise, the genuine need for more hand-to-hand and pay-roll currency is automatically met. But the "inflation plan" puts the cart before the horse. It would give us the relief first and wait for the expression of the need for it. When people talk of voluntary inflation, what do they mean? Certainly not the requirements of business; for if those existed, they would operate automatically for increase of outstanding Federal reserve notes. But if the member banks did not ask for the authorized new currency, how would it be circulated?

The answer is that currency of this sort can not be circulated unless the Government itself directly puts it out. The Government can do that only in one of two ways: Through making a flat donation of the money, or else through issuing it to meet Government expenses which would ordinarily be covered by loans and taxes. But this would be merely what used to be called a "forced loan" without interest, such as has heretofore been utilized only in the extreme financial emergency of war time. That this is so, is illustrated by one of the bills proposed at this session, which directs the Secretary of the Treasury to pay the full principal on veteran's adjusted-service certificates, estimated at \$2,400,000,000, and "to issue United States notes to the extent to make the payments." This would inflate the volume of United States notes almost exactly sevenfold, and the total supply of all kinds of money by 42 per cent.

But it would mean more than that. Assuming that the purposes for which the new United States notes were paid out were valid expenditure of the Government, it would mean that the Treasury was meeting its deficit in virtually fiat money—which is precisely what Germany undertook to do between 1918 and 1923. In one respect indeed the experiment would be more dangerous even than Germany's because Germany at the start endeavored to issue the currency without raising prices, whereas the raising of prices is avowed as a primary purpose in such American proposals as I have referred to.

If the new currency issues on such a basis did not result in depreciation of the currency—and we are told that it would not so result—then it is not easy to see how they would automaticaly raise the general price level. But if prices were not raised, we should infallibly encounter proposals from the same sources for more inflation, and at some point currency depreciation would quite inevitably occur. Then prices, measured in the depreciated paper, would undoubtedly rise. What would be the limit fixed by the "controlled inflation"?

Another bill of this session directed the Federal reserve, rather footlessly, so to manipulate its loans and currency issues as to restore the prices of 1929 Another objective point is open to the minds of aspiring inflationists, but if the Government endeavors to adopt the policy of meeting its deficit in forced issues of new paper, no level of depreciation can be positively fixed

I have said that Germany struggled at the start against the violent rise of prices; nevertheless, such was the rapidity of currency depreciation when the huge Government deficit was habitually met with fiat money issues, and when the cost of running the Government increased along with the rise of prices measured in the depreciated money—so rapidly did the currency depreciate that in November, 1923, the Frankfurter Zeitung's "index number" of average prices in Germany, based on the average of 1914 as 1, was figured out as 49,071,500,000 No one imagines any such result under any combination of circumstances in the United States. But the road of forced currency inflation and currency depreciation is always the same The consequences differ only in degree In any case the Government trying the experiment will have cut loose from the safeguards that two centuries of experience have proved to be indispensable.

To sum up: The cause of our present distresses is the prodigious waste of the great European war, the rise of prices to a fantastic height as a consequence of war conditions, the incurring of enormous indebtedness at the high level of prices, followed by the fall of prices to the pre-war level, as has always happened after a great war, and by difficulty in meeting debt incurred at the higher prices. Undoubtedly the resultant situation has been very greatly aggravated on this occasion (as on the other similar occasions to which I have referred) by the extravagance of speculation which immediately preceded the crash

We talk much nowadays of the folly and recklessness of our foreign loans. But it must be remembered that our country's position as a world creditor after 1918 made it inevitable that the balance should be struck on our foreign account either through taking goods in payment from the debtor nations or else through advancing American capital in great sums to the governments and industries of the countries which are indebted to us. Payment in goods alone seldom meets the requirements of such circumstances, and in our own case we pursued the policy of excluding imports from abroad. Not alone our tariff but the fact that in primary materials we are nearly self-sufficient stood in the way of it on this occasion.

By far the greater part of our foreign loans from 1921 to 1929 were sound But one reason why the speculation from 1927 to 1929 was the immediate occasion, not only for the crash in our markets during 1929, but for the European crash of 1931, was that the insatiable demand of our own markets for credit to use in the wild speculation pulled the supports from under financial Europe. It was not alone that our foreign lending came to a complete stop In 1929 our extravagant money rates were actually depleting Europe of its own necessary working capital. Our own folly pulled down the foreign as well as the home financial structure. It immensely complicated the difficult readjustment which was in any case inevitable as a later consequence of the war.

To point out what were the causes of the present difficult position will not necessarily show how we are to emerge from it. Congress has pursued already the path of protecting our railway and fiduciary industries against the immediate strain This can not last indefinitely. But the next step must be adapted to the circumstances that arise. The widening of the provisions for reorganization of companies which shall have been brought to the necessity of reconstruction of capital is one exceedingly useful recourse. One of the impressive phenomena of the day has been the frank conference of corporations with their creditors, with the purpose of lightening the load of liabilities by mutual consent. This process may call for clarifying legislation.

That the Federal Budget should be balanced is an imperative necessity which every one recognizes.

To deal with the larger influences which have complicated the already tangled situation, the approach must be international as well as national. At the moment, not only are the orderly processes of international finance and trade blocked by the action of frightened governments, adopted with the mistaken idea that they were protecting their own countries by shutting out normal intercourse with others, but an utterly disordered conception of the underlying principles of a sound money standard has permeated countries which it never before has touched. If there was ever need for a world economic conference with a purpose to find the way out by frank and honest exchange of views, it is now. The United States, still the richest Nation of the world, would naturally take the leadership, because it is able to offer concessions of its own, both on the American tariff structures and on the intergovernmental debts.

The time will come, I can not help believing—after we have struggled out of the financial morass as we have always struggled out of others nearly or quite as deep—when the most astonishing recollection of the period will be the apparently willing ear that so many well-meaning persons have lent to proposals for degrading the American currency.

Senator HARRISON. Mr. Noyes, you have presented a very excellent paper. But may I ask you, in 1928 and 1929 when we had this wild speculation did you have an idea that the crash might come?

Mr. NOYES. Why, it is very easy to claim that one foresaw it. I have met large numbers of people who were extremely noncommittal at that time, who looking back at it from this background are sure now that they were sure then that it would all happen. Consequently I do not wish to claim too much.

I will answer your question in a broad way, however, by saying that the speculative markets comprising chiefly real estate and stocks were headed for a very severe reckoning, I think I can claim not to have doubted, during the progress of that speculation. I shall have to confess, however, in common with everyone else, however experienced and enlightened, that I did not foresee the scope of the consequences which have followed.

Senator HARRISON. But you did believe that there was to be a reckoning?

Mr. NOYES. That there was to be a reckoning was—well, I dislike to claim anything of that kind.

Senator HARRISON. The reason I asked the question was that I had understood you had entertained that viewpoint in 1928 and 1929

Mr. NOYES. Well, I presume that as financial editor of the Times I was singled out as the most unpopular member of the community at all in touch with Wall Street. And at times the attitude was unpleasant personally—altogether dislikable.

Senator HARRISON. Well, you are very modest in your statement.

The CHAIRMAN. Thank you, Mr. Noyes.

Mr. W. W. Royster.

## STATEMENT OF W. W. ROYSTER, CHAIRMAN OF THE RAILROAD EMPLOYEES' NATIONAL PENSION ASSOCIATION, CHICAGO, ILL.

The CHAIRMAN. State your name, your address and your position for the record.

Mr. ROYSTER. My name is W. W. Royster. Chairman of the Railroad Employees' National Pension Association, 341 East Ohio Street, Chicago.

I am a locomotive engineer in active service. I am a member of the Brotherhood of Locomotive Engineers of nearly 30 years' standing. I have been chairman of the Minnesota State Legislative Board of the Brotherhood of Locomotive Engineers for the past 20 years and was chairman for 16 years of the Railroad Brotherhood's State Legislative Board of Minnesota, composed of the Brotherhood of the Locomotive Engineers, Order of Railway Conductors, Brotherhood of Locomotive Firemen, and Enginemen and Brotherhood of Railroad Trainmen.

I am national chairman of the Railroad Employees' National Pension Association, located at 341 East Ohio Street, Chicago, Ill. This is an association of all railroad, express, and certain sleeping-car employees of the United States, irrespective of positions or craft affiliations, organized for the purpose of promoting a retirement pension for the transportation worker. Perhaps more than 98 per cent of our dues-paying membership are members of some one of the 21 standard railroad labor organizations.

There is pending before the Interstate Commerce Committees of both Houses of the present session, bills S. 4646 and H. R. 9891, introduced by Senator Hatfield and Congressman Keller, respectively, which provides for a retirement pension for transportation workers after 30 years of service or attaining the age of 65 years After three years of service and completing 30 years, or attaining age 65 years, each employee is credited with 2½ per cent of his average wage to be multiplied by his number of years of service, but in no instance shall a greater number of years be used in such computation than 30 so the maximum percentage will not be greater than 75, and the greatest amount of such maximum percentage shall not exceed $300 per month. This bill covers every transportation employee from the president of the railroad to the least-paid employee It is to be financed by such an indentical percentage as is necessary to meet the pension roll, levied on the operating revenues of the transportation industry and the wages of the employees. So the wages of the industry and the wages of the employees afford a source to be taxed to provide a retirement pension for the worker. No part of a wage in excess of $400 per month would be subject to a tax. This, briefly, is the skeleton of the bill.

Mr. Chairman, as a citizen of many American generations and as national chairman of the Railroad Employee's National Pension Association, it affords me great pleasure to offer our suggestions to your honorable committee of a cure for the so-called depression, which we interpret as an industrial revolution.

During the past 150 years we have developed the confines of the nation. In that process we have constantly made use of machines and their myriad improvements to produce the people's needs. Man power production has been increased many fold, to such an extent that the people's needs are produced with little effort. By reason of the use of these multiproducing machines which displace workers we have to-day an army of more than twelve million workers who are unemployed. These unemployed who with their dependents number nearly forty million people—one-third of the Nation's population, have no job nor a wage and consequently can not buy the product of the machines. Without purchasers of the products the machine is idle. That is the condition to-day which we call "depression." It is not the fault of the worker, the machine or a lack of need of the Nation's production. It is a lack of a wage in the pockets of the worker. When a machine is installed in industry it displaces workers. The cost of the machine is charged to capital account. The savings accruing by reason of displaced workers goes to pay interest and dividends on the machine. In effect we have the condition of disemploying the worker and putting the dollar to work. The worker is in competition with the dollar for a job. The dollar gets the job. When the dollar displaces the worker it is a matter of momentous concern to the people. The dollar has displaced the worker by reason of which hunger, want, misery and dispair confront us. It is the work of the Congress to correct it In doing so be sure to preserve the machine and make it a benefit to the people instead of a curse. When the cost of the machine is charged to capital account it has the effect of constantly expanding capital structure to such an extent as to impose unbearable capital charges on industry.

To meet these charges, the price of the product must be raised or employees be disemployed and the same work be performed with fewer employees. Competition keeps prices down and battles rage to maintain wage schedules, with the result that fewer workers are employed, the savings of which are used to pay "wages" to dollars employed in capital account. Most of these dollars in business capital account are bogus dollars known as watered stock. The use of watered stock is racketeering for the purpose of hijacking the public. In comparison Al Capone is a miserable piker who risks his life and liberty for a few paltry thousand dollars while big business brazenly steals millions of dollars from the people. See Samuel Insull, who expatriated himself after robbing the people of more than two thousand millions of dollars. Note the testimony of Chairman Mitchell and President Reutschler, of the National City Bank, how their investors were deflated of three thousand millions of dollars. How bland and suave they are in telling it to the committee in such a way as to imply: What business is it of yours and what are you going to do about it? The above-cited practices are being practiced in thousands of different ways throughout the country without regard to public welfare. It is your business to regulate all matters that affect public welfare in any way and make it beneficial for the public.

The industry of the Nation can afford a standard of living for all of the people better than $5,000 would have afforded the average family in 1928. The industry of the Nation was instituted to provide the people's needs. The people man the industry, consequently by reason of that operation and the consumption of its products, it is subservient to the people's welfare.

Governments are instituted by men to promote the public welfare. All functions of the Government are subservient to public welfare. It is the basic clause of the Constitution of the United States. No other clause is its equal or matches it in importance. Every part of the Constitution was written for the purpose of promoting public welfare. It is the duty of the Congress of the United States to so regulate the conduct and industry of the Nation as to promote the social and economic welfare of the whole people. That you may do that very thing I respectfully refer you to the principle in the Hatfield-Keller retirement pension bill S 4646 and H. R. 9891. Bear in mind that the industry of the Nation can and must support the people.

Enact legislation which will afford a retirement monthly pension adequate and sufficient to maintain a standard of living such as $150 will provide for a man and wife and for single persons what $100 will provide, to heads of families and single persons who have attained 65 years of age. Make retirement compulsory at a to-be-determined age such as will put to work in the Nation's industry all who at that time are unemployed. This will obviate the need of unemployment insurance and will insure the stability of the Nation. These prospective pensioners who have served a lifetime in the Nation's industry will be afforded a means with which to live a proper standard, they will be a power in the purchasing market consuming the Nation's goods, they will be an asset to their respective communities, they will carry their end of the economic log. The job they will have vacated will be filled by men now in the bread lines. The most of these, victims of the evil administration of our economic affairs, are between 25 and 50 years of age. Their homes are broken up and in many instances their children are scattered in four ways. These people are the most important of all the American people. They should have jobs and wages. Their homes should be reestablished and their families gathered together. Their children should have educational and cultural opportunities to fit them to carry the torch of enlightenment and civilization in their generation. That these things may be done they must have a job and an adequate wage. By the use of machines such a wage will be insured. The use of newer and labor-saving machines is to be encouraged.

We have another factor of unemployment that comes to us constantly. Our young men and women attaining 21 years of age are looking for an opportunity to serve to earn their economic needs. These young people are eager and ambitious to serve but there is nothing for them to do. Why isn't there something to do? The wants and needs of the people are unsatisfied. The means of producing these needs in great abundance is present. Why may they not be used? Must we tell them, our children, that a "tribute" must be paid to certain persons, like the tribute that was demanded of our commerce by the Tripoli pirates, before we can satisfy our economic needs? How will we respond to our children's indictment of us for our incompetence of self-government? We are competent to govern ourselves. We have the intelligence and wisdom. Pension off the older people and keep the younger people at work. As a condition of unemployment develops lower the retirement age enough to absorb it Make use of the inventive genius of the people by using labor saving devices. As these machines are installed in industry charge their cost to operating expense thereby writing off their cost as soon as possible. Deflate the capital structure of industry by at least 75 per cent. It is mostly water anyway. The people who would suffer by this will not be as badly off as the many millions of other people who have been deflated 100 per cent and who in many instances have lost their lives. They should not complain because, if matters continue as they are, a revolution is in the offing. We don't want a revolution. We should have intelligence enough to avoid it. Establish sinking funds to pay off all capital accounts in 10 years. This can be done at the rate of 2½ per cent annually. Revise the inheritance and gift laws so all estates revert to the Government. Why should an heir be endowed with the sweat and brawn of the people? They are no better or no worse than the common people. Legislate at all times in the interest of the whole people and do not forget that "public welfare" is the basis of the Constitution.

With such laws in effect the whole people would have the means of living a proper standard The wheels of industry would spin as they never turned before Our home market which is usually referred to as consuming 90 per cent of our production would be trebled and perhaps quadrupled. Our children would have every educational and cultural opportunity to fit them for citizenship Unemployment, the producer of poverty and the breeder of crime, will be wiped out by affording a job and wage for all persons. This legislation will afford equality to all, economically as well as politically. It is of the utmost importance that it be enacted immediately to save the Nation. It is practicable, equitable, and fair to all persons and is consistent with the basis clause of the Constitution of the United States of America.

The CHAIRMAN. Thank you, Mr Royster

We will now hear Mr. Robertson in executive session. This afternoon we will hear Mr. Weir and Mr. Smith, at 2 o'clock.

(Thereupon, at 11 25 o'clock a. m., Monday, February 27, 1933, the committee went into executive session, for the purpose of hearing Mr. Robertson, after which an adjournment was taken until 2 o'clock p m. of the same day.)

AFTER RECESS

The committee reconvened at the expiration of the recess at 2 o'clock p. m.

Present also: Senator Reed.

Senator REED. The committee will be glad to hear your statement, Mr. Weir.

## STATEMENT OF E. T. WEIR, CHAIRMAN NATIONAL STEEL CORPORATION, PITTSBURGH, PA.

Senator REED. Will you please state your position?

Mr. WEIR. I am chairman of the National Steel Corporation, of Pittsburgh.

I come here not to present to you new theories of government or economics nor to propose legislation, because I believe it is within the wisdom of this committee, after full hearing of the case such as you are now carrying on, to work out the details and take such definite action, both with and without legislation, as will be important in furnishing the leadership, which must come from the Federal Government, in restoring confidence to this distressed Nation. I am here simply to give you the opinions and experience of a business man, from daily contacts with situations relating to the present position of both capital and labor.

The causes of the depression can very definitely be traced to the World War because the seeds of terriffic inflation were sown therein both mentally and practically. Prior to the war—in 1914—conditions in this country were what might be termed "normal." There was slight hesitation and some little reaction from 1913, but nothing abnormal in any way. This is indicated by bank clearings of the United States, as follows: 1911, $160,000,000,000; 1912, $174,000,000,000; 1913, $170,000,000,000; 1914, $155,000,000,000.

At that time—1913–14—this country was on a scale of living much lower than that developed later because wages, salaries, dividends, and earnings generally were on a modest scale; and while people were beginning to reach out for better living conditions, more of the luxuries, and a greater percentage of necessities, yet it was not a well-defined movement—only the beginning. This is indicated by the trend of automobile production, which was, in 1911, 210,000 cars; in 1912, 378,000 cars; in 1913, 485,000 cars; and in 1914, 569,000 cars, these being the largest annual productions up to the dates mentioned.

Following the beginning of the war, we had a growing demand for materials for shipment abroad, and European money was poured into the United States both in the shape of gold and liberal credits extended to them by our own banks. When we entered the war, this developed into a great boom in materials.

Credit inflation on an enormous scale occurred as a result of putting into circulation nearly $25,000,000,000 of new credit and money, as indicated by the increase in our Federal debt from approximately $1,000,000,000 at the beginning of the war to practically $26,000,000,000 at its termination.

After the war, while we had a short period of hesitation it was only temporary because we had unlimited money and credit, and there was great demand for materials as a result of war destruction and failure to maintain standards during the fighting period; and tremendous demand for new buildings of all kinds, including homes. Also, of course, the appetite of the individual for better things and more of them had been keenly whetted so that our great activity and prosperity carried on. Practically every one was employed who was willing to work. This movement carried on into 1928, by which time it had grown to such proportions and prosperity was so firmly fixed in the mind of every individual that even sound thinkers, bankers, business men, statesmen, and economists came to the conclusion we had come into a new era and never again would we suffer from the privations of panic and depression.

Thus developed such confidence that it carried us into the great security boom of 1929. At that time there was no limit to values. Everybody wanted to buy with no one inclined to sell, and paper profits accumulated every day. No real effort was made to stop this mad scramble to build up sensational but ridiculous values. State and municipal governments went into riotous spending and the issuing of new securities for all kinds of projects, some of them good and many of them foolish. Governmental organizations grew in size and cost. People paid taxes without objection because they had the money or could borrow it, and having large paper profits felt the taxes were conservative and within their ability to pay. Banks loaned money with very little consideration, making it easy for people to go into debt to a degree beyond wisdom. Then we reached the climax. Europe began to sell our securities; some of our large holders at home began to dispose of their holdings, and the market became glutted and we had the first radical break in prices. This started the downward movement because practically everybody was in debt, their collateral was over-priced, and when the decline took place it was but a short time until the available collateral was entirely exhausted and then the banks proceeded to sell in order to protect themselves.

Also, while there is always some inequality in the distribution of income between capital and labor, the unusual conditions as recited above accentuated this and there is no question but that during this period the percentage that went to capital was considerably in excess of a fair division. This had its influence on the breakdown and on the extent of the depression.

The above are the causes for the depression; the seeds go back absolutely into the war and responsibility for this movement can be placed as an additional cost of the World War.

The importance of the connection between the causes as given in the above recapitulation and the effects as outlined in the following remarks is in the fact that through the great inflation and disturbed conditions of the whole world as a result of the conflict that lasted over four years there was produced an entirely new and unknown situation with every country in the world; there was thrown into use enormous credit inflation; and from the destructiveness of the war industrial activity was stimulated more extensively than in any previous history, which produced the thought that prosperity was a permanent factor and resulted in building a top-heavy structure which, in the leveling-down process, has carried us into a state of chaos and depression unprecedented.

We have now passed through more than three years of continued liquidation of values, prices of commodities, earnings of labor and capital, and are finally where the volume of activity in the country is so low as to leave us nonsupporting Practically all the people have suffered severely, and are worn out not only in their resources but in their patience. I believe that further liquidation now along the above lines will be extremely dangerous and, also, that it is unnecessary. People in all walks of life are in sore distress and uncertain in mind as a result of the multitude of cure-all panaceas, proposed legislation, and chaos from which, so far, little that is constructive has come. More than 11,000,000 of people are without employment and other millions are so partially employed as to not earn enough to provide a living, and without as yet stopping liquidation. Certainly of a necessity we are now where the paramount question is the developing of constructive measures and deciding on what basis the upbuilding can be started.

I can not emphasize too strongly the critical situation which exists among the wage earners in all lines of activities, and which is daily bringing about the breaking of the standard of living that we have secured through years of earnest struggle I am firmly convinced the main consideration now is the building of confidence in the fact that we have seen the worst and that violent and forced liquidation is ended. To attain this, as a beginning confidence in our financial institutions must be established. There is nothing that so undermines belief of the individual and corporation in the present and the future as bank failures, particularly the large ones which affect wide agreas and which tie up money of the individual and corporation so that neither one can do business After these years of depression, the important thing has become the "bread and butter" question and the necessity of actual cash for daily use. To those who have resources—and there are still millions in the country, although many such reserves may be small and growing smaller each month—the fear of tying up of these reserves is so predominant as to be a point of most importance. The situation that developed in the State of Michigan within the past two weeks has done untold harm, has broken down confidence in all sections of the country, and reestablished fear of widespread bank failures.

Therefore, I believe it is a fundamental and important necessity that the Government, which after all is the only power in the country to-day that has sufficient resources, should protect the banking situation where possible failures are of such magnitude as to break down confidence This can be done through the Reconstruction Finance Corporation with Government funds, and it must be done on a basis of liberality in estimating the value of securities put up as collateral, because where these situations are not protected the loss to the country at large through failure to protect them will be many times greater than the possible loss than could come to the taxpayer in keeping open for business daily necessary banking institutions.

Senator HARRISON. Have you given any thought, Mr. Weir, to the proposition of guaranteed bank deposits as a temporary proposition?

Mr. WEIR. Yes, Senator.

Senator HARRISON. Do you discuss that in your brief?

Mr. WEIR. No; I do not. I can not subscribe to that.

Senator HARRISON. You think the better way is through the Reconstruction Finance Corporation?

Mr. WEIR. Meeting the emergency situation.

Senator REED. What are your reasons for disapproving the proposed guarantee of bank deposits, Mr. Weir?

Mr. WEIR. The guarantee of bank deposits, if inaugurated, would be, to my mind, almost a permanent thing. Once it is established it would be hard to eliminate it. It would destroy, I think, or hurt our credit the world over, to undertake to guarantee $40,000,000,000 of bank deposits. Also it would certainly put a premium on bad banking.

Senator REED. Suppose we made it temporary, for a year only. What would be the situation, say, in the twelfth month of that year? Would there not likely be a sudden run on the banks in anticipation of the expiration of the guarantee?

Mr. WEIR. I think that is right, Senator. The banks of this country are sound, as a general thing. Their trouble now is lack of confidence and uncertainty on the part of the depositors, which create these drives and bring down the liquidity. Assets which are valuable and will in time pay out many times over, of course, are impossible to dispose of now.

Senator HARRISON. Do you think confidence would be restored to the depositors, with moratoriums already having been declared in two States, through the policy that you suggest, of the Reconstruction Finance Corporation making advances?

Mr. WEIR. I do not understand that the moratoriums have been the result of the policy of helping the situations. I think that in the State of Michigan the moratorium could have been prevented by liberally loaning to the institutions there. Then, of course, it would not have spread into other States, because if one State has a moratorium, naturally the people in the adjoining States fear a repetition of the same thing.

Senator HARRISON. It has come to our knowledge that there was a very liberal policy of loans or advances upon the part of the Reconstruction Finance Corporation in the case of the two banks in Michigan, and that it was the failure on the part of certain stockholders there to come to the rescue with a very slight amount that they were asked to put up.

Mr. WEIR. I think the policy in connection with these banking situations that have been in distress must be very liberal. It must be to the point where the protection of the situation is the important matter. In view of the fact that this was the first situation that developed, while some of the large depositors there may not have done their part in protecting the situation, I think now in other districts the large depositors realize the importance of this, to the point where you will find that they will do their part. But the basic support must come from this Reconstruction Finance Corporation money.

Senator HARRISON. I agree with you thoroughly in your contention with reference to loans from them.

Mr. WEIR. I do not think that the situation has developed yet so far as to make it impossible to stop it. I think the resources of the Federal Government can be used now to prevent it from going further. I think that is very important to-day, Senator.

Should the Government follow out this policy, in a short time the fear of bank failures would pass and the beginning of permanent and secure confidence develop. Carrying out of this move is not a matter of politics. Whereas there may be criticism and the claim made it is protecting the rich, the sound facts are that it is the greatest protection to the greatest number of wage earners, small depositors, and industries that are employing labor.

I can not emphasize too strongly the necessity for this banking protection because no improvement can possibly be expected, in fact, I fear we will sink further, without the assurance that the banking situation of this country has the Federal Government behind it in an aggressive way.

Much harm has been done by publication of loans made to institutions by the Reconstruction Finance Corporation because it has created the impression in the minds of many people that because a bank has borrowed it is in a weakened condition, and the very activity which should develop confidence has in many cases operated to the contrary as a result of this publicity.

Since the break in prices in the late fall of 1929, we have had liquidation of values, debts, and earnings unprecedented in the world's history, yet the country is surviving, and progress in being made. But the demand for payment has been so continuous, so intense, as to have finally reached the place where we must have a stopping point, a holiday period, so that the resources of the individual will not be completely exhausted but that he will be given time with which to again build up and be in position to eventually take care of his obligations and pay his debts. A movement in this direction would immediately help to restore confidence. We still have vast resources in the country which can be used to rebuild. Values to-day certainly are generally conservative, and common sense tells us we have reached a point where we can stop the downward movement and start back. Therefore, I suggest that creditors adopt a policy of leniency toward debtors, this to apply to mortgages whether on farms, homes, or of whatever type may be in effect; on loans whether in bank or other form, the debtor being given time and not forced into further liquidation.

Also, in order to help restore the ability of the creditor to pay, that interest charges, where necessary, be reduced over a period.

In the aggregate, this would be of tremendous sentimental value in addition to practical help, and change hopelessness into hope.

I would not recommend that this be done by legislation, because it is such an unprecedented action that legislation which might and frequently does become established as a permanent practice perhaps later on would interfere with the normal extension of credit. We have 12 Federal reserve districts, and the President, either through the Federal Reserve Board or direct, could appoint an active committee for each district, entirely nonpolitical in character, which committee in turn could appoint subcommittees over the district whose object it would be to establish contacts between the debtor and creditor in each district. Where a creditor was pushing for payment of an obligation in an unjustifiable way or a debtor was trying to take advantage of a situation, the committee could use their influence in a proper and equitable adjustment. The very fact that these representative committees, operating with governmental approval, would review situations with the intention of securing proper extension of time for worthy debtors would have its immediate influence in preventing forced liquidation and certainly aid in establishing confidence through a decrease in the volume of liquidation. I am suggesting the idea and in no wise trying to offer the technical application. There is no question as a business method that this can be done and would be effective.

The financial credit of the Government of the United States is after all the basis for financial stability, and just so soon as there arises any doubt or question either at home or abroad as to our ability to meet every obligation, just so soon will confidence in all private undertakings be shaken. It is a well-known fact that even governments can not carry on indefinitely expenditures in greater volume than income—when I say income I mean not what might be estimated or forced through the levying of taxes, but what can be collected legitimately out of the earnings of the people; and our national income has suffered such a severe deflation that it is not hard to estimate the paying ability of the people.

National income has declined since 1929 about 50 per cent, and it certainly is plain that on this reduced basis it is not possible to carry costs, either for government or anything else, such as existed in more prosperous years. Business and the individual have had to adjust to the new conditions, and the people certainly expect the Government to do the same.

There exists, as a matter of restoring confidence, the great necessity for balancing our Budget, and this applies to Federal, State, and municipal governments. It may be possible to carry on for a time with a large deficit, issuing governmental securities to cover same, but it is undermining confidence. I believe one of the great necessities is an immediate and earnest effort on the part of the Government toward balancing its Budget in such a manner as will give confidence to the public that this will be done. As a result of this, Government credit would improve, questions as to permanent substantiality of our credit removed, and public confidence built up. Government is no different in the long run from business or the individual. The greater credit of the Government may carry it in the face of unsafe policies for a longer period, but these are days when people are beginning to analyze situations carefully, and confidence in stability of our financial structure will be undermined through a continuance of a large Federal deficit. Therefore, as another means toward restoring confidence, a balanced Budget is necessary.

Balancing of the Budget would permit the refunding of our Federal debts, also transfer the short time indebtedness into a long-time obligation. The large saving in interest obligations of the combined debts as they stand to-day and what would be possible through refunding would have the popular support of the investor. This refunding would be another substantial link in forging the chain necessary to establish confidence.

There should be no question as to continuance of the United States on the gold standard. Inflation, or the breaking away from this known financial basis, would immediately undermine confidence because there would be no known standards for commercial interchange, and uncertainty would be universal. Property, securities, wages, and earnings of all kinds, would assume a basis of doubtful value. It would mean such a reconstruction of our estimate of values as to undermine confidence in the stability of the American dollar. There is, to my mind, no necessity for inflation because we have ample money and credit to carry on such a volume of business as it may be possible to develop. Irrespective of the ideas of the various inflationists, I fail to find one good point on the theory of inflation or the changing of our demonstrated gold standard of value. Any radical change of this nature would immediately undermine confidence whereas an announced determination to maintain the gold standard and deny inflation would bring about confidence with substantiation of existing values. I know of nothing that would be more harmful to reestablishment of normal conditions than the matter of inflation or any doubt as to our ability to stay on a gold basis.

I am opposed to any extensive use of Government funds for large building programs, either of liquidating or nonliquidating character. These projects would naturally be scattered and take months in which to even make a beginning. They would increase the burden of taxation, and the majority of them would be of doubtful value.

They are unnecessary because we have already over the length and breadth of this country facilities, plants, factories, railroads, farms, and all kinds of activities built, organized, and all ready to start producing as soon as demand for their products arises. Therefore, we must aim to put these activities back to work, which would give immediate employment to the regular organization whose homes and interests are centered around their employment. The demand that would start these factories would very promptly begin to develop, with a return of confidence in this country and belief in the fact we have reached the end of liquidation. This confidence would bring into active employment the capital that is now in hiding and willing to stay so without remuneration until assured of safety and profit.

We must have adequate tariff protection against the deflated currencies of competing nations. The propriety or impropriety of a protective tariff under the changed conditions that have made us a creditor instead of a debtor nation is to-day a strictly doctrinal question, and not one that can be or should be decided now to the point of making any change in our basic principle of protection. We have back of us a history of many years of protective tariff under which we have developed a standard of wages and living, and wealth and prosperity, that speaks for itself. We certainly can not afford to speculate by trying out new tariff theories, particularly in a time of such serious depression. Being now a creditor nation, the new influences and effects can be studied over the years to come and when our conditions are so normal as to allow a fair contemplation, then, consequently, a decision based upon known facts can be made. Radical departures such as the bringing in of materials from abroad produced under deflated currencies and standards of living such as we can not countenance, certainly will be a factor in the destroying of confidence.

Unquestionably, a readjustment of debts owing us by foreign countries is an important matter for consideration not from a political angle but as to its effedt and influence on our present situation and on our future. My thought is that readjustment would be followed by a stirring of confidence in other sections of the world which would react on us. When I say readjustment, I mean not only in amount but in time and interest.

Much consideration is being given to the low prices ruling on farm commodities, particularly the leading staples like wheat and cotton, prices of which have been seriously affected by meeting those established in the world's markets. There is no sound reason why that portion of these crops consumed at home should not be priced on a basis in harmony with the general domestic price structure, and only that portion sold for export priced on a competitive basis. This is done on other commodities that are partially exported and partially used in our home markets.

Help in establishing machinery to coordinate prices of these farm products could well be done by Federal Government action, but certainly without obligation on the part of the Government to assume financial responsibility for the plan which may be developed. Any plan must have the approval of the farmers themselves and its cuscess will be in proportion to their interest in the movement. Prices of these competitive farm products can be materially improved by the farmers voluntarily decreasing production, this being done by all other lines of activity; and after all the farmer must decide whether or not he wants better prices with lower production or greater production, a large part of which must flow into the world's market. This country can well afford to pay higher prices for these farm products, operating as it does under a protective tariff and resultant scale of costs and values above that of outside competing nations. Furthermore, farm products have ample tariff protection and are not under the necessity of meeting in our home markets the foreign prices. The farmer is deserving of support of the Government in carrying out corrective plans and the country, as a rule, would be benefited by improved prices on these staple agricultural products.

The propaganda that is developing toward scaling down of debts of all classes through the statements that they are too great to carry and will never be paid, or that the interest or carrying charges are impossible to earn, I do not believe is sound or helpful at the present time. We are in such a period of deflation and depression that no one has any specific knowledge as to what legitimate values or available earnings will be. The decision as to values and earnings, which naturally will have their ultimate influence on debts of the country, should be developed through time and then automatically, in the course of business, debts will be adjusted on a basis of proper values. Legislation to effect such standards would certainly have the effect of destroying confidence. One trouble, as I see it, is the anxiety of certain classes—largely theorists—to correct everything in a short time to coincide with their theories. What we need after these several years of severe deflation is a moratorium period, a resultant establishment of confidence, stimulation of commerce, an activity through that confidence and hard, persistent work into a stability which will indicate what are normal and reasonable values.

Senator Reed. Do you mean that literally, that we need a period of moratorium throughout the United States?

Mr. Weir. Yes, as I have described here.

Senator Reed. You mean a period of quiet.

Mr. Weir. Yes. I do not mean that we should establish officially a moratorium, but in effect we should have a period of delay.

Senator Harrison. In other words, it is a bad time to collect debts.

Mr. Weir. Yes. It is a bad time to force collection, Senator.

Senator Reed. I think we understand it.

Mr. Weir. That may have been a rather unfortunate place to put that word.

Following the principles of sound and sensible action such as will restore confidence is the crying necessity of our situation. It should be faced not from a partisan standpoint but from an appreciation of the serious conditions of the rank and file of the people in this country toward the end that liquidation of labor shall stop both in size or organizations and in wages and earning power.

Senator Reed. Mr. Weir, I think we can assure you that there is not a particle of partisanship in the attitude of Congress toward this question. I believe I speak for the Democrats as well as the Republicans in saying that.

Mr. Weir. I think that will establish confidence, that very fact, Senator.

Senator Reed. Congress realizes, speaking generally, the terrific seriousness of this present situation, and we are all determined to do the soundest thing to help the situation, without regard to any party lines at all.

Mr. WEIR. Then you will help it on that basis. People have suffered to an extent that I feel is not thoroughly recognized nor appreciated either in Washington or any of our State capitals.

That may not apply to Washington, Senator. It does apply to some of our State capitals.

The necessity for improvement is immediate. We have in this country an understanding of sound principles developed and demonstrated from our history since the Revolutionary War. The examples are all there. We do not need in this great period of stress to apply undeveloped plans or drift into uncharted seas. We should be careful to stand firmly on principles—commercial, governmental, financial, in human relationship—that we know to be sound. Let experiments come when the country is able and willing to try them.

Let me say in conclusion that I believe this country has reached a point of liquidation where it is justified in facing about, and beginning to do business. Supplies of all kinds have been heavily liquidated and obsolescence of property has been going on for the past three and one-half years. We have money, credit, and an earnest desire to resume business but impetus for such resumption must be confidence on the part of all people, capital and labor that our Federal Government is not only in position to protect them in the building of a new prosperity but determined to do so on the basis of sound and demonstrated principles.

Then will come a new courage, the ending of the depression, the reemployment of labor, and the gradual return to the standards justified by the wealth and resources of the United States.

I now consider the situation so serious that I plead for quick and decisive action.

Senator HARRISON. That is a very good statement.

Senator REED. You have been very helpful, and we are glad to have it.

If you were Congress, what would you do first?

Mr. WEIR. Well, of course, I think the present emergency is a banking emergency, Senator.

Senator REED. You would put your mind to that first?

Mr. WEIR. Absolutely. That is the crying necessity of to-day, not to-morrow. That is here to-day. I would put into the hands of the Reconstruction Finance Corporation, as I say, sufficient money immediately, because it will take less money to-day than it will in the future.

Senator HARRISON. They have a pretty good sum of money and they have the authority. We went to the rescue of the banks to that extent. Of course, I agree with you that this publicity right now is probably doing some harm. I do not know whether what we have already done will save the situation, and if it does not save the situation, so far as I am concerned, as much objections as I have to the principle of the guarantee of bank deposits, I would go to it as a temporary proposition.

Mr. WEIR. We may be able to do it without that.

Senator HARRISON. I hope so.

Mr. WEIR. If it comes to that, I would dislike very much to see that.

Senator REED. I do not know of anything else. Thank you very much, Mr. Weir. The committee appreciates your coming.

## STATEMENT OF DICK SMITH, MANAGING EDITOR, KANSAS CITY JOURNAL-POST, KANSAS CITY, MO.

Senator REED. Tell us, first, your occupation.

Mr. SMITH. I am a newspaper man; managing editor of the Kansas City Journal-Post. I have prepared a brief statement that may form the basis for some discussion that may crystallize some worth-while thought.

I do not come here with a cure-all, but I do have some convictions that I want to outline in the broadest and most general terms.

It may help you to follow me if I state at the outset that I am a free trader and a deflationist. Knowing this you will perhaps understand if my views in some respects seem extreme and make allowance for them.

I know that progress usually comes through compromise, but before we can reach a middle ground we must know what the extremes are.

It seems to me that it has become the fashion for every one to look to the Government to make good his losses, whether suffered in farming, in business, playing the stock market or shooting craps.

I believe that the distinctions that once existed between the functions of government on the one hand and the functions of business on the other have become sadly entangled, confused and merged.

I feel that the Government, in a measure at least, has abandoned the job of governing for the job of financing the business of the country, which, by and large, ought to fight its own battles.

I don't think the farmers, industry, the insurance companies, the ex-service men or individuals have any right to unload their problems on the Government.

I seriously question the wisdom of many of the things we have done to try to prevent orderly deflation from taking its natural course. It seems to me that instead of letting it trickle until it found its level and began to build up a body of water that would float the craft of business, we have sought to dam the stream at its source and have created a flood menace that threatens to break through the dam and sweep all before it.

We have resorted to the use of Government credit to try to jack up prices so that they will pay a return on many capital structures based on boom conditions. But prices keep on falling. I seriously doubt that there will be seen in the lifetime of anyone here a return of the prices and the profits of the boom period. In fact, I can not conceive of any sane person wanting to see the same conditions return and precipitate another depression like the present. And yet, it seems to me, that that is what we have been trying to bring about.

What, then, is the alternative? As I see it, it is a washing out of excessive capitalization. Much of this can be accomplished without foreclosures, receiverships, and bankruptcies. But in other cases, in my judgment, foreclosures, receiverships, and bankruptcies are inevitable.

They have been taking place right along in spite of the Reconstruction Finance Corporation, in spite of the Federal home loan banks, in spite of Federal farm loan schemes, the lamented farm board and a hundred and one other palliative that treat only the symptoms and not the disease.

Let us examine into some of the causes that created over expanded capital structures. I am not a technocrat, but I know that machinery and mass production played a part in it. Machinery and mass production produced excessive profits instead of what they should have produced—reasonable profits, higher wages, better working conditions, shorter working hours, lower commodity prices and more of the good things of life for everybody.

These excessive profits in many instances were based to an idiotic degree on debt (foreign laons and installment buying) instead of real assets. They were capitalized in the unfounded belief that they would be earned forever. We now know that this was a fasle hope, but we are trying to recreate these excessive profits to support that fictitious capital structure.

The Government borrows for this purpose and runs into debt to pay its operating costs as though Government credit were a bottomless well. I tell you it is not, and if we keep on along the present course, Government credit will dry up as commercial credit has dried up. And when the Government's credit is gone everything will be gone.

What then, you may ask, do I consider the proper functions of Government in the present emergency? I would say that first and foremost it should virtullly limit all future relief appropriations to the sums required, with those raised locally, to furnish the necessities of life to those out of work and their dependents. Public works to relieve unemployment amount to taking money out of one pocket and putting it in the other and losing a percentage of it in the process. They result in structures that require higher taxes to maintain them once they are finished. They are like trying to lift yourself by your bootstraps.

Next, if it is possible, the Government should spread a feather pillow for business to land on so that there will not be too many broken bones and bashed heads. Perhaps the proposed changes in the bankruptcy law would serve this purpose best. The States already are modifying foreclosure laws.

Then the Government should return to the business of governing. This would call first for balancing the Federal Budget, principally by reducing expenditures, particularly veteran costs. Any additional revenue required should be raised through a sales tax—a tax so imposed that it would make every person who spends a dime tax-conscious.

Next in importance I would rank adjustment of international debts. This should be hand in hand with the following:

Removal of international trade barriers.

Stabilization of debased currencies.

Reduction of armaments.

Satisfactory settlement of these problems would be of more benefit to the farmers—and I come from a farming section—than half a dozen farm relief plans, and to industry, too. Such a settlement would be be the first step toward a world economic system that must be evolved if society as we know it is to survive.

When we talk of farm relief we all seem inclined to forget that depression and trouble have gripped agriculture most of the time since 1920, when land ceased to increase in value. Hard times are nothing new to the farmer. He did not share in the profits that accrued to industry in the boom period and he never has shared proportionately. It follows, therefore, that the present chaos in business is not responsible for his troubles and we must look elsewhere for the cause.

If we face the facts, I believe, we must confess that he has been the victim of a system that, through tariffs, subsidies and other forms of special privilege, has worked solely to the advantage of his urban brother.

Attempts to put him on a parity with industry by the same artificial methods have failed, and always must fail, because collectively he sells in an unprotected market and buys in a protected market.

This is true because the farmer produces a surplus above what is needed for domestic consumption. The solution then must lie in wiping out the special privileges that have made it possible for industry and industrial workers to hi-jack him, and that have caused foreign buyers to take revenge on him because their products have been barred from this country. Even the most rabid protectionists of other days, through enlightened self-interest, are coming to recognize this. They have finally found out that they can not have even half a loaf when the farmer is bankrupt, and that half a loaf is better than none.

In this connection I want to say a word about the so-called "Buy American" movement. It is as fallacious as the theory upon which the farm board was based—as fallacious as any scheme must be that has for its purpose national self-containment.

I need only cite one instance to show how all of these schemes work, directly or indirectly. You may not know it, but various State legislatures are attempting to usurp the power of levying imposts which is vested solely in the Federal Government by the Constitution. They are adopting bills which provide for what amounts to a tariff on coconut oil imported from the Philippines for use in the manufacture of margarine, a butter substitute. These bills are sponsored by the dairy and live-stock interests which want to force the use of animal fats in place of coconut oil.

The sponsors of the bills have lost sight of the fact, or do not know, that the Philippines pay more for American dairy products, principally condensed milk, than we pay for coconut oil used in margarine.

This is the short-sighted policy that marks all movements for national self-containment. It epitomizes our whole tariff policy—that great filler of dinner pails which has finally left us without dinner pails to fill.

When the country learns that the Government is devoting itself to the things which properly fall within the sphere of government and has adopted the principle laid down by Grover Cleveland that the Government can not support the people because the people support the Government, industry and agriculture and the money lenders will begin to attend to their own knitting. They will find that the obstacles that have confounded them are not insurmountable. In fact, there already is a marked trend in this direction, particularly with reference to foreclosure of farm mortgages.

What we need in business is a little more shirt-sleeve tackling of business problems by business men and less running to the Government for pap, pork, or whatever you are minded to call it.

The kiss of a mother may soothe the burnt finger of her child, but the caress of Government blights business.

I can not remember that I ever heard that the Government was asked to pension pony-express riders or put the mules that used to tread the towpaths of the canals on pasture when they were put out of business by the railroads, the telegraph, and the telephone.

It is not of record that the Government voted an endowment for the fox terrier that used to listen to "His Master's Voice" when radio sent the phonograph to join the corset and the hairnet in the limbo of forgotten things.

I have said nothing about proposals to inflate the currency and to go off the gold standard. It is impossible for me to conceive that Congress will consider them seriously—at least not until we see how the other nations behave at the coming world economic conference.

Prohibition repeal needs no discussion, as it is on the way. But beer should be legalized pending repeal of the eighteenth amendment.

It is perhaps too early to talk about what to do to prevent a repetition of the conditions that preceded the depression in this country. Personally, I am of the opinion that those manifestations of the boom that were purely domestic might have been controlled, at least in a much larger degree than they were, by proper exercise of the authority of the Federal Reserve Board. The Glass banking bill, as I understand it, is designed to increase the authority of the board. But one trouble seems to be that many State banks refuse to join the Federal reserve system. They prefer to keep their reserves on deposit with member banks where they will draw interest. What we need is one banking system instead of 49. Pending attainment of the 1-system ideal, why not prohibit banks which are members of the Federal reserve system from acting as depositories for nonmember banks? This would tend to force nonmembers into the system, where they could be controlled.

Senator REED. Do you think we will ever be able to convince the people of the United States that the Government does not owe them a living?

Mr. SMITH. I have been trying the best I can in my feeble way for the last two years, in the columns of our paper.

Senator REED. And you are called hard-hearted?

Mr. SMITH. I do not know. We have not had many protests from the farmers when we have told them that their solution did not lie in some action by the Government. We have had more protests from the business men. I was talking to the Governor of Kansas the other day, and he told me he had called in a number of insurance-company executives and told them that he thought that they were going to have to go part way in the matter of farm mortgages. They said Congress should do it. But about a month later Iowa passed a foreclosure bill which gives the man a right to stay on his farm if he turns in a certain portion of the income from it to the court, and so forth. One of these very insurance presidents who was there talking to the Governor of Kansas hailed that as a fair plan for relief in the agricultural sections.

Senator REED. Has anybody loaned any money on a farm mortgage in Iowa since they passed that law?

Mr. SMITH. I do not know; but this one insurance company president did make that statement. If the insurance companies and the other lenders on farm mortgages lent their money as recklessly as lenders on real estate in the city all during the boom, then I think they ought to take a loss. They built apartment hotel buildings in Kansas City, bought the land and built the buildings, and they furnished them, even down to tinted toilet paper to match the walls in the bathrooms, and had some money left over. The builders borrowed all the money and had some left over. I had a representative of an insurance company solicit me to increase the mortgage on my home by $2,500 six or seven years ago. He wanted the extra commission. If they lent their money on the same basis in the country, they are due to take a loss.

Senator HARRISON. What is the sentiment among your constituents with reference to the abolition of the Farm Board?

Mr. SMITH. I think it is favorable, among farmers as well as city people.

Senator REED. Have you any further questions?

Senator HARRISON. No, sir.

Senator REED. Thank you very much.

Have we any more witnesses to-day?

Senator HARRISON. A message just came from Governor Smith that he would like to be heard the first thing in the morning, so he will be here.

Senator REED. The committee will stand adjourned until 10 o'clock tomorrow morning.

(Whereupon, at 3 o'clock p. m., the committee adjourned to meet to-morrow, Tuesday, February 28, 1933, at 10 o'clock a. m.)

# INVESTIGATION OF ECONOMIC PROBLEMS

**TUESDAY, FEBRUARY 28, 1933**

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
*Washington, D. C.*

The committee met at 10 o'clock a. m., pursuant to adjournment on Monday, February 27, 1933, in room 335, Senate Office Building, Senator Reed Smoot presiding.

Present: Senators Smoot (chairman), La Follette, Thomas of Idaho, Metcalf, Harrison, King, George, Walsh of Massachusetts, Barkley, Connally, Gore, and Costigan.

The CHAIRMAN. The committee will come to order.

Hon. Alfred E. Smith, of New York City will be the first witness this morning. You may proceed, Governor.

## STATEMENT OF HON. ALFRED E. SMITH, NEW YORK CITY

Mr. SMITH. Mr. Chairman and members of the committee.

The CHAIRMAN. Mr. Smith.

Mr. SMITH. I first want to take up the question of the extent of unemployment. I, however, want to preface my remarks along that line by saying that my intimate knowledge is confined to New York State. Although I assume it is pretty nearly the same at least through the eastern part of the country.

I happened to be in Albany last Friday and there was a conference of the mayors of the different cities. They were conferring with Governor Lehman, and as I heard the different mayors report on conditions in their respective cities I came to the conclusion that unemployment is as widespread now, if not more widely spread, than it was at any time during 1932. And as far as any of these mayors are concerned with their knowledge of affairs in their own cities, and as far as New York City goes, with my knowledge of it, I see nothing in the immediate future to give it any great relief. Therefore I think we ought to speak for a minute or two on this question of public relief by construction projects.

Made work in New York paid for with State and city funds and from private sources is not working out so well. The class of people that are employed upon these made-work projects are not equipped, are not able to do that kind of work. And I fail to see that the taxpayers in the last analysis are getting very much of a return from made work. They have men cleaning up in the parks. It does not mean anything. And we have an awful lot of people on what we call home relief. The Commissioner of Public Welfare in New York spoke to me about it a short time ago and he said that he thought that it was coming to an alarming stage where there were so many people receiving what was really the dole.

The CHAIRMAN. Does the State provide that money?

Mr. SMITH. Yes, Senator, the State; and the R. F. C. provided some of it.

The CHAIRMAN. Well, that is, the State is responsible, however, for the amount of money that they received from the R. F. C.?

Mr. SMITH. Yes, sir. Plus that the State bonded itself by vote of the people last November for $30,000,000. And plus that the so-called Gibson Committee, a private committee of citizens, by public subscription, raised $18,000,000.

Senator BARKLEY. Just there, Governor. The R. F. C. furnished how much? It has only recently made an allotment to New York.

Mr. SMITH. I believe the R. F. C. gave $6,000,000.

Senator BARKLEY. $6,000,000?

Mr. SMITH. Yes.

Senator BARKLEY. So that for this current winter you have had about $52,000,000 or $54,000,000 for relief work in New York?

Mr. SMITH. We had $30,000,000, $18,000,000, and $6,000,000.

The CHAIRMAN. $54,000,000.

Senator BARKLEY. Yes, $54,000,000.

Mr. SMITH. Yes. But of course that is budgeted to run into June. Now by June the $300,000,000 for direct relief provided by Congress will be exhausted. And I notice that a bill for $300,000,000 more has passed the Senate. I believe that that bill should also pass the House and become a law, because we are going to be in bad shape at the end of June is there is not some place to get money, because these people will probably be in want in the summertime just as well as in the winter.

One weakness, however, of the appropriation for the direct relief is that none of it can be used for materials. Now, if some reasonable part of the $300,000,000 could be used for material, there would be something of substantial benefit to the taxpayers after we get out of the fire. When we get out in the clear sea again, we will see something. Because we have not got down there the price of a shovel or a pick to put some of these men to work. They are on what we call made work, but it can be done without materials; work such as I said a minute ago, cleaning in the parks, and so forth.

The CHAIRMAN. Could not the State provide that money and use the Government allotment just as it was intended, for relief?

Mr. SMITH. By the time this additional $300,000,000 for direct relief from the R. F. C. will be available, the State money will be gone.

Senator GORE. Could not the State money be used for providing the shovel and the pick for the men to work with and the money advanced by the R. F. C. be used to pay the fellow who works with the shovel and the pick?

Senator BARKLEY. There was no restriction placed on the $18,000,000 that was raised by public subscription as to materials?

Mr. SMITH. Oh, no; that could be handled in any way.

Senator GORE. They could buy shovels and picks with the money?

Mr. SMITH. Well that, of course, would be up to the committee that raised the money, and they have never spent any of it for materials.

Senator GORE. There is no reason why they should not. There is no restraint on that power to do so, I mean?

Mr. SMITH. No, no; they can do what they like about it. It is practically their money.

Senator BARKLEY. But it has not been as a general thing regarded as wise for money raised by private subscription for charitable purposes to be used for the purpose of buying material for the construction of buildings?

Mr. SMITH. That is the way the people that give the money feel about it.

Senator GORE. Is the same restraint laid upon money appropriated by the State for this character of work?

Mr. SMITH. Well, the money appropriated by the State has been given to the localities.

The CHAIRMAN. To be spent as in their judgment seems best?

Mr. SMITH. Yes. But the point that I want to make is that it will be all gone by the end of June, or by the middle of June.

Now there is one other matter that I would like to call the attention of the committee to, and that is with regard to the ruling of the R. F. C. that they have held that projects must be self-liquidating as to all of the money put into the project, whether it is from an appropriation by the R. F. C. or otherwise. And that has kind of held things up a little bit, and I asked the members of the R. F. C. about it, and they said that they had an opinion of their lawyer that under the strict wording of the reconstruction finance act that the projects had to be fully self-liquidating as to all moneys, whether put in from the R. F. C. or whether put in by private individuals, as in the case of housing, or whether an initial appropriation may be made either by a city or by a State.

And the question came up in an application on behalf of the State of New York for the money to construct two bridges at Niagara Falls. The State having already appropriated a million dollars, and expended $500,000 of it in the purchase of land for approaches to the bridge; in considering a loan the R. F. C. wanted the toll rates so fixed and wanted other things so fixed as to make it self-sustaining, not only as to the $3,000,000 that the State desires to get from the R. F. C., but the other million that the State of New York has put in already, and probably does not expect to get back because it is going to be State property when it is finished.

Then we come to the next question: The question of the interest rate. I am of the opinion that that probably ought to be fixed, because the R. F. C. feels that inasmuch as they charge 5 per cent to California for the California bridge, that everybody must pay 5 per cent. I think 4 per cent would be enough. Because every 1 per cent that you add makes it more difficult to prove that the project is self-liquidating, or increases tolls in the case of a bridge or a toll highway.

The next thing I would like to call the attention of the committee to is the——

Senator BARKLEY. Just a moment, Governor. Do you think that the R. F. C. ought to in the fixing of its interest rate take into consideration the possibility of losing on some other project, or that each project ought to bear an interest rate based upon its own self-liquidating quality?

Mr. SMITH. Yes, I do, Senator. I think the R. F. C. can afford to take a little bit of a chance.

The CHAIRMAN. Well, we all think, Governor, that they are taking a great deal of chances as the situation exists to-day.

Mr. SMITH. Well, maybe. I am familiar only with the projects in New York State, and I am satisfied that there is no chance in any of those.

Senator GORE. Do you mean no chance of losing, Governor, or no chance of getting the money back?

Mr. SMITH. No chance of losing.

Senator GORE. I wanted that in the record.

Mr. SMITH. Another matter that I would like to call the attention of the committee to, and that is somethng that I have spoken of publicly before, and that is either some individual or some small commission to start up United States construction work. Now I have had a great deal of experience in New York City. I know it is a hard thing to do. I know that it takes the Government usually twice as long as it does a private concern or a private individual to progress construction work. We can put enormous buildings up in New York inside of a year, but it took three years to build the State office building in Albany. I was there during all the period of its construction, and when we followed all the checks and balances that we would find in the State law and wait for the attorney general to come from a trip he was making some place through the State to give us an opinion as to whether or not we could substitute some other kind of marble for the kind of marble there was in the contract, or in the plans and specifications, because the builder finds that the marble he got does not work well, it cracks when he tries to bore holes in it, and so forth, so it took three years to build a 36-story building. And we can put them up down in New York inside of a year and run them up to 86 stories.

Senator KING. Well, all private concerns do not have Governor Smith to run them.

Mr. SMITH. Well, I do not know as I had anything to do with the building. I only just stood looking at it. You see at a time like this when there are so many contractors looking so hard for work and there is a glut of material and it is cheap, something in my opinion should be done to speed up this building.

Now I consider that this present condition we are in here is something like war. I was around all during the war and I did not see nearly as much suffering or as much hardship as the starvation and bread lines I have seen in the last two years. I think we have got to battle with this thing the way we do with an enemy, and just cut out all the red tape and get away from all these rulings and go at it. Build the buildings the way we built cantonments, overnight.

The CHAIRMAN. You say the last two years. I thought it would be very much better if you would have said for the last two months. The suffering in the last two months is perhaps more than all the suffering during the war time.

Mr. SMITH. As far as the people of this country are concerned, sure, Senator.

The CHAIRMAN. That is what I mean.

Mr. SMITH. Sure. No doubt about it.

Now I do not remember how many years ago the appropriation was made for the Albany post office. I think it was before Senator Wagner came to the Senate. But there is no post office there yet. Now down in New York we have the same story. General Will Hays in the administration of——

Senator KING. Harding.

Mr. SMITH (continuing). President Harding, asked me to serve on a citizens committee to select a site for a new post office. That was back in 1921. We have had the site for quite a while, but no post office.

The CHAIRMAN. Well, that is Congress's fault.

Senator GORE. Do you know how far along they have got with the plans and specifications?

Mr. SMITH. No, Senator; there is no way of finding it out either.

Senator GORE. You would have to consult three or four departments or offices here in order to get a line on that.

Mr. SMITH. I believe the amount appropriated for public buildings was $100,000,000, and there has been about $10,000,000 of it spent.

Senator BARKLEY. Governor, do you believe that in proportion to the amount of money involved the construction of a public building affords as much employment to labor as in any other character of construction?

Mr. SMITH. Well, if you speed it up it does, because it is not the number of men that are employed in the actual construction of the building; it is the number that are employed in the fabrication of all the material. Take the Empire State Building. The highest number of men that worked on that at any one time was about 4,000. Somewhere in the neighborhood of 4,000 men. But all that stone was quarried in Indiana. All the glass was made in Mississippi. It is the Mississippi Glass Co. I do not know whether it is out of Mississippi.

Senator GORE. I see.

Mr. SMITH. And all the cement had to be bagged and carted. It helped the railroads. It helped trucking in New York. Most of the steel was moved in the nighttime. It is the amount of work that it gives that counts in construction. It goes around in the mines, to the steel works, to the brickyards, to the cement works, where plaster is made, and other materials are made, woodwork—all that goes into it.

Now there is one other thing I want to say: The most effective aid to unemployment is the Federal highway. The Federal-highway money. Highways are all designed. We know just where they are to be built. You get the quickest action in the relief of unemployment from the use of highway aid money than from any other thing that we do, because we are ready to do it right away.

The CHAIRMAN. In a hearing the other day before the committee, Governor, that same question arose. And it was disputed upon the ground that nearly all of that work now on the highways was done by machinery and not by hand labor. How is it in New York?

Mr. SMITH. Well, the superintendent of public works estimated that about 60 per cent of the total appropriation for the construction and repair of highways went into labor. And that 40 per cent of it was materials.

Senator BARKLEY. Governor, the same witness I think the other day made the contention that we had built highways too rapidly in this country. That by reason of that we had bonded States and counties——

The CHAIRMAN. And districts.

Senator BARKLEY (continuing). And districts all over the country, and heaped up large debts against them which reflected in the interest and sinking funds, in addition to the appropriations by Congress. What is your reaction to that?

Mr. SMITH. Well, Senator, as to any other State outside of New York or New Jersey I would not be able to give you any opinion on it. But I certainly know that as far as New York State is concerned the greatest investment that we ever made is in our highway system. Of course we have the Adirondack and the Catskill Parks. We have Bear Mountain Reservation, and we have the great parks system on Long Island and on the Niagara frontier to attract people into our State. And I would say that the first roads we built we built from bonds. We issued $100,000,000 worth of bonds. After that we changed the State policy and we put cash into roads, and we sold bonds for the construction of hospital buildings and prisons and other State construction.

We are building roads in New York State now with cash, and of course with the number of automobiles there are now, the business that they take along the road to the country places in the summer time has been a great advantage to the State. It has opened up parts of the State of New York to people that never saw them before. I was a member of the legislature for eight years before I saw Lake George, and I do not suppose I would have ever got there if I had to go up on the D. & H. Railway. I went up in an automobile.

Now with respect to the unemployment and relief act of 1932, I would like to suggest that the function of relief and unemployment be put into another commission instead of being with the R. F. C., because there is such a thing as loading a commission down with so much that they do not make the progress that they might. Now if they deal with the kind of projects they have had right along I think they have got about all that they can handle.

Another thing. I believe that the Federal Government could build bridges or public highways that are on what we call national routes. And I do not believe they should not build them inside of a city if they are connecting links of the national road system.

In order to do that I come back to my recommendation of about a year ago, that we have a reconstruction bond issue. And I would sell that bond issue the same as we did the Liberty bonds. And I would give the people around in the clubhouses and in the literary organizations and the different associations a chance to buy the bonds the way they bought the Liberty bonds. There is a great deal of money in hiding that would be put into government bonds, but it is being held by people that do not know how to buy a Government bond; they do not know where to go to buy it; they do not know anything about a bank. If they could be offered just the same as the Liberty bonds were offered, and in the offering make an appeal to their patriotism and their devotion to the country to help it in a time like this you could float a good-sized bond issue and put some part of the cost of getting us out of this trouble on the next generation. So much for that.

I read what Doctor Butler said and what President Hoover said about monetary inflation. I would be against cheapening or reducing the gold in the dollar, or the adoption of any silver standard, or any free coinage of silver, or any arbitrary fixing of higher silver value, and I would certainly be against fiat money.

I do not believe that by inflation of the monetary system you are going to help us at all. It is just like giving a sick man a shot in the arm of something; that goes on for a little while and when it dies out he must get another one.

Senator GORE. And a little bigger one.

Mr. SMITH. And each time in order for it to be effective it must be a little bit stronger than the last one. It won't get us any place.

In a recent report on the railroads I said that I did not believe that the Reconstruction Finance Corporation ought to be authorized to lend money to railroads without adequate security. And I think that is right. I think the railroads ought to be forced to consolidate. That is one way to make them do it. They will never do it voluntarily. We have talked it, we have heard about it. We have heard first about regional consolidation. Nothing happened. Now we are going to come to the time when there is going to be a consolidation of all the roads in this country, and it will not be necessarily a railroad, it will be a transportation system. And the railroads will be enabled to go into new and modern forms of transportation. There is not any reason why they should not be able to run airplanes to supplement their transportation lines; there is no reason why they should not carry water-borne traffic; there is no reason why they should not operate motor trucks.

Senator GORE. Except they are mossback conservatives.

Mr. SMITH. Well, they are wedded to the idea that they are a railroad. And there has been so much talk in the past about railroads being the arteries of commerce and being to the body of the United States what the blood vessels are to the human body that they seem to have a notion that nobody must disturb them. And that they can carry this great big capital structure indefinitely. Now they can not do it, and they might as well get ready for it.

The CHAIRMAN. Most of the roads have bus lines, have they not, Governor?

Mr. SMITH. Well, they have them in a kind of a way. They have them through the ownership of subsidaries. But they do not run them in conjunction with the present line. They have them on the side. I believe the large part of the stock in the Greyhound line belongs to some of the railroads.

The CHAIRMAN. I believe that the railroads own it all.

Senator HARRISON. The Pennsylvania owns part of it.

Mr. SMITH. The Pennsylvania owns it. That one runs to Philadelphia.

Now, there is another thing I want to call the attention of the committee to. I think it was a mistake——

Senator GORE. Governor, are you passing from the transportation?

Mr. SMITH. Yes; Senator.

Senator GORE. I wonder how it would do, Mr. Chairman, to have printed in the record in connection with the governor's statement the report just made by the committee on transportation a short time ago? Would there be any objection to that?

The CHAIRMAN. No; I hardly think so. If the governor does not object it would be best to print it in the record following the governor's remarks.

Senator WALSH of Massachusetts. Is it a public document?

Mr. SMITH. Oh, yes. It was published in the newspapers.

Senator WALSH of Massachusetts. I mean, has it been published officially by the Government, do you know?

Mr. SMITH. I do not know that the Government published it at all.

Senator WALSH of Massachusetts. Why should it not be a public document?

Mr. SMITH. This committee made this report to a group of life and fire insurance companies and trust companies

Senator GORE. I ought to be in this record, I believe, Senator, so that students of this record may have it.

Mr. SMITH. And it is bound in their portfolios.

Senator WALSH of Massachusetts. I think the suggestion a good one that any students of this record should have the benefit of that report

Senator HARRISON. There were two reports that were made, as I understood it You made a separate report?

Mr. SMITH. Yes.

Senator HARRISON. So both of them ought to be placed in the record.

Senator BARKLEY. While that committee was unofficial, it was not representing the Government of the United States, I think its report and the governor's report are of sufficient importance that they ought to be made public documents.

The CHAIRMAN. Why not put them in following the remarks of the governor, in this record.

Mr. SMITH. Do you want me to send you some copies of that report?

Senator GORE. Send a copy to be printed in the record in connection with your statement.

The CHAIRMAN. Governor, if you will send them as quickly as possible, because we want to keep these prints up to date.

Mr. SMITH. I will send them to-morrow.

(The report of the committee on transportation and the separate report by Mr. Smith will be printed in a subsequent volume of these hearings.)

Senator BARKLEY. Governor, before you get away from the transportation problem. You are, of course, familiar with the plan adopted or recommended two or three years ago—the consolidation of railroads into four great groups?

Mr. SMITH. Yes.

Senator BARKLEY. I have not read the full report of the committee, or your report, except hastily. Did you go into detail as to the four big transportation systems outlined in that recommendation?

Mr. SMITH. No. At that time was that called the regional consolidation?

Senator BARKLEY. Yes.

Mr. SMITH. Well, we dealt with it, but not with any explanation of the set-up of it.

Senator BARKLEY. Are you sufficiently familiar with it to be able to say whether that is somewhat along the lines you have in mind in the consolidation of railroads?

Mr. SMITH. I believe that would be the meaning. And thereafter, following that, would come the complete consolidation of the four groups.

Senator BARKLEY. Into one great system?

Mr. SMITH. Into one great system.

Senator BARKLEY. How would you have it operated? Is there any one man who has sufficient grasp of the transportation problem of the country to operate the entire railroad system, or would you have it divided up into regional groups for purposes of executive authority?

Mr. SMITH. Well, you could have one man at the head of the entire system, dependent then upon those under him to take control of certain sections of the country. I think it might be a good idea to make a secretary of transportation.

Senator BARKLEY. To what extent would you increase the powers of the Government over such a consolidated system?

Mr. SMITH. I think if you had a bureau, or at least a secretaryship of transportation, you might take over such duties as would then be required, that now repose with the Interstate Commerce Commission.

Senator GORE. The newspapers say that the Department of Commerce is to be converted into a department of commerce and transportation. That is a step in the direction you have in mind.

Mr. SMITH. Well, that would probably answer.

Senator BARKLEY. If any such new department of transportation should be established it would have to include all forms of transportation, not merely railroads, would it not?

Mr. SMITH. If you permit the railroads to go into these other forms of transportation, it would automatically bring them under any department of the Government that would be regulating them. But I do not believe that you could extend that regulation to the individual truck owner or to the contract truck owner. You would have to have them in the common-carrier class.

Senator BARKLEY. Yes; I agree with that. But what I have in mind is: Following your suggestion of a secretary of transportation, whether you can separate some forms of transportation put under the jurisdiction of such a department, or would it necessarily result in the consolidation of all the Government authority over all transportation over which it has authority under that jurisdiction in that department?

Mr. SMITH. That is what I think would finally work out.

Senator BARKLEY. That would include railroads and steamboats, interstate electric lines, bus and truck lines that did an interstate business?

Mr. SMITH. And the common carriers.

Senator BARKLEY. And the common carriers; yes.

Mr. SMITH. Yes.

Senator GORE. Pipe lines, inland waterways, and ocean transportation? Do you not think it ought to embrace them all?

Mr. SMITH. Now, there is another thing that I would like to call the attention of the committee to. I think it was a mistake to publish in the newspapers the banks that borrowed money from the R. F. C. Now, whatever was the original intention of that, it did not carry out as was intended. It evidently was intended to give people confidence in their bank by publishing the fact that they were in sufficiently good condition to be able to borrow Government money. But it did not work out that way. In the small banks in the country sections in New York State when the people saw that their bank had to go to the Government for aid they got suspicious about it.

Senator GORE. They even get suspicious, Governor, when a bank rediscounts now with the Federal reserve. One bank will use that against its competitor when that appears.

Mr. SMITH. Well, that is not so well understood as this is. When one bank is dealing with another bank it is not so well understood.

But in this instance here is what I found out in talking and listening to people, that as soon as the bank came down here to Washington to borrow money from the R. F. C. they were afraid the bank was in trouble. And they did not look any further to find out just what the facts were. They just said, "Well, the bank can not be all right. It had to go to the Federal Government for aid." That is what prompts the thought in my mind that it was a mistake to publish it.

Senator HARRISON. Would you not apply the same stricture to life-insurance companies?

Mr. SMITH. No; because you can not go and draw your money out of a life insurance company, but you can go to the bank and say, "I guess I will have my money." And then they go downstairs and rent a safe-deposit box and put the money in it.

Senator HARRISON. It has come to the attention of some of us that so far as insurance companies are concerned it is affecting the policyholders. They are not taking insurance in certain ones that borrowed, and so forth. And that one competing insurance company uses it against another. I have felt that the insurance companies and the banks were in a class by themselves. It does not affect mortgage companies, and so forth, but it would those.

Mr. SMITH. Well, Senator, I did not hear anything about the insurance companies, but I did hear it about the banks.

Senator BARKLEY. Of course, that publicity feature was put into the bill on the theory, which is correct as a theory, that the people who are putting up the money have a right to know who is getting it. But I can not see just what good it has done to carry out the theory, although it is correct in theory in this particular situation. That is your viewpoint, is it?

Mr. SMITH. That is the way I feel about it. I feel—well, I go a little bit stronger than that. I think it has done a little bit of harm.

Senator BARKLEY. I go with you.

Senator THOMAS of Idaho. Governor, when you say it has done a little bit of harm I think you could make it stronger.

The CHAIRMAN. The results that have followed from it have been bad in some cases.

Senator THOMAS of Idaho. Governor, I think you could make that a little stronger than saying it has done a little bit of harm. I think the publicity feature has meant the closing of a number of banks.

Mr. SMITH. I do not know of any banks that closed as the result of it, but I do know, talking to people in New York, that, particularly in the small localities where the borrowing was small, human psychology being what it is, the bank having to borrow three or four hundred thousand dollars, the publishing of it did not have a good effect.

Senator THOMAS of Idaho. The publicity of the large loans in the cities, too, to the city banks, such as the Dawes loan, has created a very bad impression throughout the country, Governor, I think.

Mr. SMITH. I do not think the publication of the large loans to the big banks made so much difference. I am thinking of the small banks throughout the country.

Senator THOMAS of Idaho. I was thinking of the general psychology that was created throughout the country that caused the unrest.

Senator GORE. You are right about that.

Mr. SMITH. There is another matter I want to talk about, and that is the moratorium on foreclosures on farm dwellings and properties.

I believe it should be limited to a year, and where the proceeding is brought in a Federal court Congress could erect a procedure that would give reasonable time to these people. It would have to be done by cooperation with the States, so that the States may so fix their laws in the different States to fit in with the statute that would be enacted for the Federal courts.

I got the notion from what happened in New York in 1920 when we enacted what was called the rent laws. I do not suppose that ordinarily the court of appeals would have sustained the rent laws, but they did on the theory that there was a chance of public disaster, and it was the exercise of the State's police power. Now we called them rent laws for short. But all they really were were amendments to the Code of Civil Procedure that allowed a tenant who was served with a dispossess to set up the defense that the rent was oppressive, and the money at the old rental was paid in to the municipal court, and the judge became a kind of a judge of whether the proposed increase in rent was justified. And it was the first time that a lot of our people found out who paid the taxes. They always thought the landlord pays them until they get into court and then they found that they paid them.

Senator BARKLEY. Governor, in that connection of course we all realize that most foreclosures on farm and city property are proceedings under the State laws and in the State courts. Mortgages are executed and enforced under State laws. There is a very limited field in which the Federal court even try foreclosure cases. And we can not, I suppose, as a matter of law, compel any creditor to withhold foreclosure if he sees fit to go into a court to assert his rights.

We have now on the calendar in the Senate, and had it up for consideration yesterday, and I hope we can pass it to-day, a bill based on the Hull bill introduced here, with which you may not be familiar, offering to loan money up to $500,000,000 for the purpose of postponing foreclosures on farms and small dwellings in cities for a period of two years while Congress attempts to work out some permanent refinancing solution of the whole farm and small home mortgage problem. Is that somewhat in line with your idea?

Mr. SMITH. That would be helpful. And of course as President Roosevelt is going to have the governors of all the States here on Monday, as I understand it from the papers, that might be a good time to call the attention of the governors of the different States to the necessity for State legislation on foreclosures.

Senator GORE. Several of the mid-Western States are doing that now, Governor. There is a bill pending in the legislature of my State. I think perhaps Nebraska and Iowa have already passed such laws.

Mr. SMITH. Well, I am in favor of it because it gives a fellow a chance.

Now, on our foreign debts. I still feel that I was right last spring when I said that I thought we ought not to cancel them but just declare everything off for a good long period of time.

The CHAIRMAN. What would you call a long period of time?

Mr. SMITH. Well, you could start with five years. You could say, "Here, we won't talk about this for five years, if you will do business with us." But of course you have go to do something to the tariff before you invite a man to do business with him. We have built a wall around this country here that nobody can get through.

The CHAIRMAN. But they are getting through, Governor. The same proportion or a greater proportion are getting through than our own trade in the United States.

Senator KING. That statement is subject to modification.

Mr. SMITH. Senator, I do not believe in the big, high tariff.

The CHAIRMAN. I know. That I do not object to at all.

Mr. SMITH. My opinion of the tariff is that it should be only what is necessary to take up the difference between the cheap labor of foreign countries and the high-class labor of this country.

The CHAIRMAN. That is what I think, too.

Mr. SMITH. But I think we have got it a little higher than that. That is the trouble.

Senator THOMAS of Idaho. Governor, may I ask you a question on that?

Mr. SMITH. Certainly.

Senator THOMAS of Idaho. Do you think the depreciated currency affects the situation any so far as our tariff is concerned at this time?

Mr. SMITH. Do you mean the depreciation of the foreign currencies?

Senator THOMAS of Idaho. The depreciation of the currencies in the foreign countries.

Mr. SMITH. Oh, yes; sure. They have got a poor money. They have got no money, and what they have isn't very much good. And when they get here with it they can not get anything with it.

Now, I got this notion from what would go on in a bank. You have got a customer in a bank and he owes you, and he can not pay. He is willing to trim down his overhead in his business. And we might take this up with the foreign countries to trim down their armaments a little bit, because I call that an overhead. You do not throw the fellow out of the bank and send for the sheriff and try to get the money out of him when you know he has not got it. You want to give him a chance. The way to give him a chance is to say "All right, now, we will just carry your loan along here in the deferred account for a couple of years; you keep doing business with us, and as you do business with us we will be kind to you."

Now, if we could say to these foreign countries: "All right, you come over here and buy some of our cotton, and buy some of our wheat, and some of our manufactured articles, and in accordance with the amount of good will that you display toward us we will deal in the future with these debts; for every million dollar's worth you buy from us we will take 10 per cent of it from what you owe us"—I think we would get out that way quicker than by standing back and insisting on getting something that we all believe we won't get.

The CHAIRMAN. That is quite different than when the settlement was made. For instance, when the settlement was made it was made in every case upon the basis of ability to pay. And there was not a Government at that time that particularly objected, outside of France.

Mr. SMITH. The answer to that, Senator, may be that at the time these arrangements were made these countries were in better condition to pay.

The CHAIRMAN. We understand that. So was the Government of the United States at that time in better condition to reduce the obligations.

Senator KING. Well, it is obvious that the United States is not getting it and the other nations are not paying. So the philosophy of the ex-Governor of New York is eminently wise at this time.

The CHAIRMAN. Well, that is a question that is doubtful, too.

Mr. SMITH. Here is another thing that I believe. I believe that we ought to recognize Russia. I do not know any reason for not doing it. Somebody says they owe us $100,000,000. We kept troops in Russia for quite a while when we were not at war with them, and we did some damage to them. I think we could sit around the table and settle that matter very easily.

There is no use of trading with them under cover. We are doing it. Through the Amtorg, or whatever you call it, the Russian Trading Co., our material and stuff is getting into Russia. We might just as well be represented there and let them be represented here at Washington and let us do business with them in the open.

Senator GORE. They have got a counterclaim against us based on the fact that we sent an army into Russia although we were at peace with Russia.

Mr. SMITH. Yes.

Senator GORE. I think you are right to the extent that we ought to sit down and see how much their claims amount to, if anything, and offset them against our claims against them and arrive at what the difference is, and then have them agree to pay it. Our objection to recognition is gone then.

Mr. SMITH. Of course, I do not believe in being against them just because they have a form of government that we do not like, you see. Because Jefferson told us in our Declaration of Independence that any time we did not like this Government we could pull it down and build it up the way we want it.

Senator GORE. He limited it to this Government. He did not say we had a right to change other people's governments, did he?

Mr. SMITH. No.

Senator BARKLEY. Governor, I do not like to base the idea of recognition of Russia purely upon the possibilities of trade. That has the appearance on the surface of being a more or less mercenary way to look at it. But waiving all the other ethical and international questions involved, to what extent do you think the recognition of Russia would bring increased trade to the United States which would tend to relieve our present economic situation?

Mr. SMITH. Well, to begin with I think that if we were on a friendly relationship with Russia that she would buy a lot of wheat here.

The CHAIRMAN. Has she not got a lot of wheat for export?

Mr. SMITH. She has, but it has all gone over to that far eastern front where all those soldiers are. The most of it has gone there.

The CHAIRMAN. She is exporting wheat to nearly every country.

Senator BARKLEY. Would she buy cotton?

Mr. SMITH. I do not know, Senator. I am not in a position to tell just what it is, but I know that they are buying in this country now.

Senator GORE. Machinery and things of that sort.

Senator BARKLEY. They buy machinery.

Senator HARRISON. Yes; they could buy some cotton. They have tried to buy cotton.

Senator BARKLEY. I was in Russia two years ago and came to a little town where they had a cotton mill, and the mill was closed and about 1,500 laboring men were out of work, and when we inquired the reason, they said they could not get cotton from the United States. And they propounded a very pertinent inquiry, to this effect: They said, "We want cotton, and our mill is closed, and we are all out of work because we can not get cotton. You have got your cotton piled up in the fields. You want to sell it. Why can't we buy from you the cotton that you want to sell to us?" And that was a very embarrassing inquiry.

The CHAIRMAN. Do you think that they can not do that? What is to prevent them from doing it now?

Senator BARKLEY. There is no law against it, but the economic situation and the political estrangement between the two countries contributed to a situation that made it impossible for them to buy our cotton. In other words, they could not obtain either the money or the credit with which to purchase it although they wanted it.

Senator KING. Senator, it is simply a question of credit. Germany backed her exports up to 60 per cent and therefore Russia bought considerable commodities from Germany so long as the German Government backed the exports.

Senator BARKLEY. At that time I will say that our Government was not only frowning upon any proposals in this country to loan money to Russia, but frowning upon any proposal on the part of American manufacturers to sell to Russia on credit.

Senator KING. However, it is well known that it is not a question of debts—if the governor will pardon me—that are impediments to recognition. When I was in Russia I told the leaders—and I talked to all of them—that as far as I was concerned I would forgive them their debts and recommend it to the Senate of the United States provided they would keep their international agreements, would cease their propaganda and disassociate themselves from the Third Internationale. They absolutely refused and said the Third Internationale was an organization which was to be utilized in the battering down of the walls of other governments because communism in order to succeed was to be world-wide.

The CHAIRMAN. The very basis of their present government.

Senator KING. It is not a question of their debts at all. I would forgive them their debts to-morrow if they would do the right thing.

Mr. SMITH. Well, I do not think myself that they are making any headway with this communism. If there would be any place where you would see some of it, you would see it in a city like New York, and it does not mean anything down there. New York City is contented. The people are satisfied. They are suffering but they are satisfied. Now and then down in Union Square there are a half a dozen crack pots jump up on the platform and holler out at the people, but that has been going on down there since I was a boy.

Senator GORE. To what extent, Governor, do you think that the fact that they have forced labor should enter into the consideration of the subject? To me that has been the most important consideration. The fact that they have forced labor and do not pay wage of any sort, you might say, and produce things to sell without the payment of living wages, and then inject those products into a world market or into our market in competition with our products when we do pay a living wage. I think that is the most serious consideration

Mr. SMITH. Well, we protect ourselves there with our tariff.

The CHAIRMAN. Well, that is to be abolished.

Mr. SMITH. How?

The CHAIRMAN. That is to be abolished, from what you say.

Mr. SMITH. Oh, no. I am not for abolishing it, Senator.

Senator GORE. I agree with the governor in regard to the tariff, but we have dumping laws, and I think we ought to have dumping laws, and they might protect us against forced labor.

The CHAIRMAN. We have dumping laws now and just as strict as words can be drawn.

Senator BARKLEY. Mr. Chairman, in connection with that, and in connection with this depreciated currency, the chairman of the Tariff Commission, who does not belong to the political party that is supposed to be in favor of lower tariffs, issued a statement the other day in which he ridiculed the idea that the depreciated currencies were bringing an increase of imports into the United States. And in view of his position I think his statement is entitled to a good deal of credit.

Senator GORE. We can not increase imports without increasing exports.

Senator HARRISON. We have the law with reference to forced indentured labor.

Senator WALSH of Massachusetts. What time does the Senate convene, Mr. Chairman?

The CHAIRMAN. At 11. Can we not expedite the hearing?

Mr. SMITH. Yes. I will finish in about five minutes. I have got a few more things.

Senator BARKLEY. If we do not ask you any more questions.

Mr. SMITH. On economy. Of course I believe in the reorganization of the Federal Government. I think it has got to be done. I think the machine has gotten too big. And I would favor the granting of broad power to the President for the consolidation of overlapping agencies of the Government and the reduction of them to a smaller number.

And I am not in sympathy with all this talk about dictators and monarchs and kings when you give the President of the United States the power to run the business of the country the way it would be run if it were a private undertaking. There is a great deal to that suggestion, and it can be taken from a speech that was made by Will Hays back in 1921, at a dinner of the Fifth Avenue Association in New York, when the original bill for the consolidation of the scattered activities of the Government was pending before both Houses here.

The CHAIRMAN. Well, he did not get anywhere with it.

Mr. SMITH. I know, Senator.

The CHAIRMAN. Congress would not do a thing. We presented a plan then. They just laughed at it.

Mr. SMITH. I know it is awful hard to do it. It took 10 years to do it in New York State. It was proposed originally in the constitutional convention in 1915, and it never became a part of the constitutional law of the State of New York until 1926, 11 years later, although everybody seemed to be in favor of it. Nobody every made any speeches against it, but it never moved. The people that were to lose their jobs by it were the great force behind the knifing of it all the time, but they kept under cover.

Senator BARKLEY. And they will fight any such thing.

Senator GORE. That is the sensitive nerve here.

The CHAIRMAN. Have you studied any soldier payments?

Mr. SMITH. Yes, sir; Senator. I am just coming to that. At the last session some committee of Congress was charged with the responsibility of looking into the question of all these veterans' payments. I do not know what they did about it. I never saw any report on it.

Senator HARRISON. They are still considering the question.

Mr. SMITH. Well, they worked on it.

Senator HARRISON. They are still considering it.

Senator GORE. Yes.

Mr. SMITH. I believe that the original agreement that was made in the time of President Wilson with our soldiers was the fairest and squarest that was ever made between any country and soldiers that served it during the war probably in the history of the world. But it has been these recent bills that followed afterwards adding on new burdens. I do not believe anybody is entitled to any money from this Government that can not show that the disability then is directly traceable to his service to the country in time of war.

The CHAIRMAN. We have nearly $1,000,000,000 of that kind of expenditure of the Government now.

Senator GORE. $3,000,000 a day.

Mr. SMITH. I think it ought to be cut out. I do not believe that a man that 10 years after the war is all over—who never left this country, who went down to camp and got the benefit of regular living down there, and had his teeth all filled and his flat feet corrected, if he had flat feet, and had all the acid taken out of his system by good, regular living and good food—just because he gets hit by a taxicab 10 years later, I do not think that we ought to take care of him forever.

The CHAIRMAN. If it were only a taxicab, or accidents, it would be quite different, Governor. But they do not stop there.

Mr. SMITH. If he is hurt, they take him to the doctor's. They write the prescriptions in some foreign language and they have some way of finding out that no matter what is the matter with you, it can be traced back to a war.

Senator GORE. I know of an instance in my State that occurred about three years ago where a man was out driving a pair of mules, and he was supposed to be in his cups more or less, and the mules ran away, broke his leg, and you and I and the people in this room are paying taxes to pay him an allowance.

Mr. SMITH. Well, I believe it ought to be cut out.

Now, prohibition. I would certainly be opposed to congressional action on the make-up of State conventions. That ought to be left to the States.

Senator GORE. Well, you do not think Congress has any power to regulate or even indirectly to meddle with those conventions, do you, Governor?

Mr. SMITH. Well, it is a sharp question. The Constitution says, "by conventions of the people." There are a great many lawyers that think that Congress can define what a convention is and how it is to be made up.

Senator GORE. Congress can submit amendments to the States and the States ratify them. I do not think, and I do not want you to admit that Congress has any power on earth to meddle with those conventions, directly or indirectly. It is a State convention pure and simple.

The CHAIRMAN. There would be such a howl, Governor, that would come from all over the Union that it would cease immediately.

Mr. SMITH. What I am a little bit afraid of is that Congress may amend the Constitution in this respect, as it has in many others, without the consent of the States. I hold that Congress amended the income tax law. I was the leader of the assembly and Senator Wagner was the leader of the senate in the New York State Legislature when the income tax of the United States was ratified by New York State, and it had never been ratified if the people in that State thought the Congress was ever going to define income. But Congress has done it. I believe they have amended the Constitution with the consent of the United States Supreme Court.

Senator BARKLEY. Regardless of whether the Congress has the power in the submission of the amendment to conventions to prescribe the methods of holding the conventions and the qualification of delegates thereto, we have not attempted it in this resolution. And presumably it is to be left to the States.

Mr. SMITH. I thought I read in the paper that there was something either introduced or going to be introduced as to how the conventions are set up. If what you say is true, Senator, why I withdraw it. I read it in some paper.

Senator WALSH of Massachusetts. There was a proposal made by former Attorney General Mitchell Palmer along the lines you indicated.

Senator HARRISON. That matter is behind us. It is up to the States.

Mr. SMITH. Good.

Senator WALSH of Massachusetts. Senator Wagner says that Congressman LaGuardia was going to introduce a bill to the effect that you read about.

Senator BARKLEY. Suppose the legislatures of a number of States deliberately refused to call conventions to pass on it at all, would you think then that if Congress had any power to make any law about it that it ought to do it?

Mr. SMITH. No; I would not like to see Congress interfering with the sovereign right of a State. There were some States did not ratify the eighteenth amendment.

Senator BARKLEY. I am not speaking about that. Of course we are assuming in the submission of this resolution to conventions that all the States will through legislation provide for the conventions, fix the qualifications of voters and delegates, and delineate districts to be represented by them. But assuming that they did not do it? If we could assume that say 15 or 20 States through their legislatures would not call these conventions, then would you favor Congress taking any action at all, or just leave it suspended in mid air like that?

Mr. SMITH. I would leave it right to the States.

Senator BARKLEY. On the theory, then, that the members of the legislature who would refuse to call conventions are responsible to the people, and the people can have their own remedy?

Mr. SMITH. That is the answer to it. It is pretty much the same thing as the States that did not act on the eighteenth amendment when it was submitted. They just did not do anything about it. Now, Rhode Island kind of threw it out of the window.

Senator GORE. Yes, it did.

Mr. SMITH. I would make another suggestion, that there ought to be a tax plan prepared by conference with the State governors covering tax on liquor in connection with repeal and in the event we get repeal. We do not want to have both the State and the Federal Government rushing right at liquor right away and taxing it so that it won't be any good.

Senator HARRISON. Do you mean the tax won't be any good or the liquor won't be any good?

Mr. SMITH. The tax won't be any good. By the time they pay the big high tax on it they will have to make it cheap.

Senator METCALF. And the bootlegger will continue to sell his product.

Mr. SMITH. Encourage the bootlegger to keep going because he probably will be under the price of the legitimate fellow if the tax is too high.

The last thing I want to speak of is the balancing of the Budget. I do not know whether that can be done or not. But it is very important, and it would go a great distance toward restoring confidence at a time like this. And if you have to resort to it I think we ought to put on a manufacturers' sales tax.

The CHAIRMAN. That is right.

Mr. SMITH. I really believe we should do it. Exempt from it, of course, food, clothing, and so forth. The man that spends say $1,000 a year, if he paid 1 per cent on it that would not hurt him. It would give everybody a chance to throw in a white chip when we need it to keep the ship going.

Senator BARKLEY. Governor, in that connection, one of the objections raised to the suggestion of the sales tax years ago before it ever became involved in the balancing of the Budget, was that it was promoted for the primary purpose of substituting it for the income tax as the final method of raising money to support the Government. Do you subscribe to that theory if in normal times the question of a mere balancing of the Budget became a side issue or was not serious like it is now—would you favor the substitution of the sales tax as a method of raising money to support the Government in lieu of the present income tax law?

Mr. SMITH. I would use it in normal times to make it possible to reduce the rate of tax on incomes. I believe in an income tax. But the present rates are just holding capital down to the earth. Take a man who takes a chance—if he loses, why it is just too bad. Everybody is sorry for him. But if he wins look what happens to him. They come in and take the largest part of it away from him.

Take the man that is fixed in this kind of a position. Back in 1928 and 1929 when we were all sitting pretty on top of the earth he signed a long lease for his apartment; there were not many of them around; rents were high, he wanted the apartment, and he signed a long lease. He has run into the decrease of salary made necessary by the red figures of the concern that he is working for, and the income tax comes along and takes the rest of it away from him.

Take my case. I got $50,000 a year as president of the Empire State Building. I have no other money. I got myself a nice apartment. After I left Albany, after living in a mansion for six years I couldn't see First Avenue very well, so I went over on Fifth Avenue. I signed a lease for $10,000 a year.

Senator GORE. You left the Fulton Street Market?

Mr. SMITH. Yes, I left the market. Now, in 1932 with my salary decreased, with the lease still in my lap, the Federal Government and the State together are going to take $10,800 away from me in taxes. Well, lay up the automobile. Chauffeur out of work. If three or four more fellows in the garage follow my example a couple of car washers are laid off. Less gasoline bought. Less rubber tires bought. It is a kind of a vicious circle. It keeps rolling around and grabs everybody.

Take a man to-day that wants to invest his money. The Pennsylvania Railroad says to him, "Here, we are electrifying the lines to Philadelphia. Come in and buy some of our first mortgage gold bonds. Pay you 5 per cent." The fellow looks at him for a minute and says, "Well, it will put people to work, that is true. But the trouble is I don't get 5 per cent. By the time the Government gets finished with me that is down to about 3 per cent. So I think instead of doing business with you I will do business with the Government." So he goes and buys a Government bond and there is no money to build the railroad.

The CHAIRMAN. And no money comes in to the Treasury as taxes.

Mr. SMITH. No. The Government gets no taxes from him. It is all velvet.

The CHAIRMAN. Senator Barkley, on the subject of the sales tax taking the place of the income tax, no thought of that ever entered my head.

Senator BARKLEY. I am not talking about the present situation, but there was an objection 10 years or more ago to the sales tax, because it was thought to be projected in the hope that it would some day supplant the income tax.

Senator GORE. We will spend all we can get from both.

Senator HARRISON. It is advocated by some influential people in this country because they want to use it to substitute for the income tax.

Senator BARKLEY. It may be necessary to adopt it as a supplement to the income tax.

Mr. SMITH. I believe in the income tax, but I do not believe in the high rates, because I think they are stifling business. If you will go back in your mind and study the history just before the election of President Coolidge in 1924, we had high income taxes. Mr. Coolidge recommended their reduction. Everybody was afraid to reduce them, but they did it anyway, and then he was elected in 1924, and when they saw the tremendous plurality he got in the face of his outspoken recommendation for reducing the rate on incomes, everybody rushed in reducing them a little more, and the direct result was that beginning in 1925, with the inauguration of Coolidge, we went into the greatest era of prosperity the country has ever known.

Senator BARKLEY. The great reductions in the income tax were due largely to the fact that each year we would have a surplus of revenue ranging from $300,000,000 to $900,000,000 a year, and, of course, we did not have any right to collect taxes from the people and pile up surpluses.

Mr. SMITH. My theory is that if you put on the manufacturers' sales tax, balance the Budget in the first instance, and hold it there, proper reductions in the income tax brackets can be made. Take the man who goes into a business venture. Suppose he makes $1,000,000.

The Government takes about $675,000 of it away from him. So, after he has risked all his money to make $1,000,000, all he gets is $325,000 out of it. With these high brackets it is going to be hard to induce men to go into great projects.

The CHAIRMAN. It has prevented them already. Is that all?

Mr. SMITH. That is all, Senator.

The CHAIRMAN. Thank you, Governor—unless there are some questions some members of the committee want to ask.

Senator CONNALLY. Just one question. I understood the Governor to say that on a $1,000,000 income a man would pay about $675,000 Federal taxes.

Mr. SMITH. In New York State.

Senator CONNALLY. That includes both Federal and State income taxes.

Mr. SMITH. Yes.

Senator CONNALLY. We are not responsible for the New York State income tax. That is the State's own business.

Mr. SMITH. I know; but you are responsible for a terrible part of it.

Senator CONNALLY. Not of your own State income tax.

Mr. SMITH. No; the total tax.

Senator CONNALLY. I thought the Governor referred to the Federal tax, and I knew he did not want that statement to stand.

Mr. SMITH. No. I referred to both taxes.

## STATEMENT OF MARY VAN KLEECK, DIRECTOR, DEPARTMENT OF INDUSTRIAL STUDIES, RUSSELL SAGE FOUNDATION

The CHAIRMAN. Whom do you represent?

Miss VAN KLEECK. I am director of the department of industrial studies of the Russell Sage Foundation.

Senator LA FOLLETTE. I ask for order.

The CHAIRMAN. I have asked for it. I wish those present would please let us have order. Proceed.

Miss VAN KLEECK. A brief statement of what I believe to be the basic cause of the present depression, as well as the starting point for consideration of legislative remedies, is contained in a report issued by the Bureau of Labor Statistics of the United States Department of Labor. The bureau has made a study of "the relative share of wage earners in the product of their labor, together with the relation between the purchasing power of the wages paid to labor and the value of the products of that labor."

Senator GORE. What is the name or number of that bulletin?

Miss VAN KLEECK. United States Bureau of Labor Statistics, Bulletin No. 541, Handbook of Labor Statistics, 1931 edition, page 615.

The basic figures were the data gathered by the United States Census over a period of 80 years. From this analysis the following summary was derived:

> That the average yearly earnings in manufacturing industries were 76.2 per cent greater in 1899 than they had been 50 years before, that the value of the product per wage earner was 130 per cent greater, that the value added to the raw material as the result of manufacture was 119.8 per cent greater, that the per cent wages bore to the value of product had decreased 23.2 per cent, the per cent that wages were of value of product added had decreased 19.8 per cent, and wholesale prices had decreased 13.1 per cent.

Senator GORE. What was it?

Miss VAN KLEECK. What was the actual amount?

Senator GORE. Yes. You say it was decreased 19 per cent.

Miss VAN KLEECK. I have not the figures here; but they are obtainable in a table in the bulletin, taken from the United States Census figures. It is the relative percentage that was the vital point here, rather than the absolute figure. (Continuing reading:)

By 1929, or 30 years later, the average yearly earnings had increased over 1849, 431.5 per cent, the value of products per wage earner had increased 651.7 per cent, the value added by manufacture per wage earner had increased 649.9 per cent. The per cent that wages were of the value of the product had decreased 29.2 per cent, and the per cent that wages were of value added had decreased by the same amount, while prices had increased 60.6 per cent.

Here in brief compass is a statistical picture of the failure of purchasing power to keep pace with production. It is not surprising, then, to read to-day the final results of this lack of balance between production and consumption in the figures of declining employment and decreasing income. In its most recent report on "Trend of employment" for December, 1932, the United States Bureau of Labor Statistics shows for manufacturing (including 89 industries) a decline of 12.6 per cent in number of employees compared with December, 1931; and a decline of 27.8 per cent in total pay rolls. The general index for ths 12-month average of 1932 (with 1926 as 100) was 60.1 for number of employees and 41.6 for pay rolls.

Senator GORE. State that again, please.

Miss VAN KLEECK. The general index for the 12-month average of 1932 (with 1926 as 100) was 60.1 for number of employees and 41.6 for pay rolls.

Senator GORE. You mean the number of employees had declined 60 per cent?

Miss VAN KLEECK. The index of number of employees had declined from 100 to 60.

Senator WALSH of Massachusetts. Forty per cent.

Miss VAN KLEECK. Pay rolls had declined 59 per cent. This pay roll figure refers not to wage rates, but to the actual total earnings paid to wage earners in these industries.

A further analysis of these earnings showed that the highest per capita weekly wages received in December, 1932, were $33.88 in the newspaper branch of the printing trade, while the following industries had per capita weekly earnings of less than $15: Confectionery, $14.12; cotton goods, $10.39; hosiery and knit goods, $13.15; silk goods, $12.76; men's clothing, $11.41; shirts and collars, $10.67; millinery, $14.72; corsets and allied garments, $14.73; cotton, small wears, $14.58; men's furnishings, $11.05; iron and steel, $12.50; cast-iron pipe, $12.63; hardware, $13.46; plumbers supplies, $13; saw mills, $10.86; millwork, $13.98; furniture, $13.22; turpentine, rosin, $13.59; boots and shoes, $12.76; fertilizers, $13.27; cotton-seed oil, and so forth, $10.44; brick, tile and terra cotta, $12.25; stamped and enameled ware, $14.92; clocks, and so forth, $13.96; chewing tobacco, $13.42; cigars and cigarettes, $12.81; agricultural implements, $14.72.

The index of employment on Class I steam railroads as computed by the Bureau of Labor Statistics from figures obtained by the Interstate Commerce Commission, was 58.1 as an average for 11 months of 1932, the low point for the whole series having been 55 in August, and 55.9 in November. It is noteworthy that this index reached 100 only in two years in the last 10—104.1 in 1923 and 100 in 1926. Comparison with car loadings, which before 1929 sustained themselves better than the number of employees, would show that part of this decline of employment on the railroads was due to technological unemployment; but in these last few years it may be regarded as a general reflection of decrease in interstate commerce. This, of course, is also an indication of decreases both in production and in the distribution of articles in interstate trade.

As to the declining income of the farmer, no statistical evidence is needed here, but as we have quoted the figures for December, 1932, in comparison with 1931 for manufacturing, it may also be of interest to note in the report on wholesale prices issued by the Bureau of Labor Statistics for December, 1932, that the index of the price of farm products at wholesale reached in that month the record low point of 44.1 compared with 55.7 in December, 1931. In a report of the same date on retail prices and cost of living, the index number of the principal articles of food at retail for December, 1932, was 98.7 (with 1913 as 100) in comparison with 114.3 for December, 1931.

We might go on and on with statistics for the different industries, but the point is probably sufficiently made, that, despite many inadequacies in the statistics of wages and farmers' income, the fact can not be doubted that in all our basic industries purchasing power is out of line with productive capacity to a degree which amply justifies the description of our present economic situation as "starving in the midst of plenty." No wonder that a mounting burden of debt has depressed the status of farmer, wage earner, and the gainfully employed in many other occupations, to a level which still further disturbs the necessary balance between the consumer's purchasing power and capital investments in production.

It should be pointed out here that not since the war have we had any study of standards of living. The figures published regularly by the Bureau of Labor Statistics on cost of living are quite different. The earlier studies of standards of living are used as a means of weighting the articles entering into typical family budgets, and the costs are determined on this basis. They show what buyers pay when they have income with which to buy; they do not show the actual standards or levels of living as they exist at the present level of wages and under the present conditions of part time and unemployment. An actual picture of the present level of living of workers, including part-time employees, and those who are unemlpoyed, does not exist; but it would be alarming in what it would indicate about the undermining of standards and of purchasing power.

This, then, is the basic fact in the present industrial depression—a decrease in the national income due to decrease in production which in turn has arisen from the lack of distributed and sustained purchasing power.

If this be a true analysis no remedy will be adequate which is not directed toward the raising of standards of living by the full utilization of productive capacity. Only so can the national income be increased or even sustained. Unless it is sustained it is idle to talk about balancing the Budget of the Government, or solving the problems of taxation.

If we have a declining national income, where can rising taxes come from, and how can you balance the Budget of the Government which, on the other hand, in our complicated civilization, has to give additional services to people or else we go down still further in our standard of living?

Moreover, financial arrangements and banking policies can not be sound unless they are controlled as instruments for the planned distribution of wealth, that is, the planned distribution of purchasing power. We have begun to discover that total wealth is meaningless, unless that wealth is distributed and used. That is merely economics, and not a social theory.

Nor can agreements to restrict production in order to maintain or raise prices for one group of producers be permanent or successful, even in accomplishing their own short-sighted purpose, if the purchasing power steadily goes down.

In short, the central problem to-day is to restore earning power to all the gainfully employed, and to establish security of income for those who work. In contrast, policies of deflation and of restricted production for price maintenance have the opposite effect, as have many of our international arrangements tending to depresss our total production because of the lack of a market for the exportable surplus.

If as a nation we seriously undertook to plan economic organization so as to raise standards of living in proportion to productive capacity, we would have to make considerable changes in economic organization, and particularly to study the functioning of corporate ownership, in the present development of the industrial and financial structure of the United States. Pending this fundamental action which our technological development demands, it is possible, however, to face in the direction of social economic planning which can have no other foundation than the raising of standards for labor.

In our present economic organization, efforts to maintain standards for labor have taken two forms: (1) Legislative action; (2) collective agreements between organizations of workers and the management in the industries in which they are employed. The second method, collective agreements, represents the field of action of the trade-unions. Legislation bears upon it in so far as it restricts or frees the trade-unions to function in winning sufficient power to make and maintain labor agreements. Into this question it is impossible to enter here further than to call attention to the constructive program put forward by the American Federation of Labor in its annual convention last November. The organized-labor movement can and must function to maintain and to raise standards of living by the twofold means of safeguarding wage-earners' security of income through wages and of decreasing the length of the working day. To make it possible for the trade-unions to function a radical change of policy must occur in the large corporate industries of the country, which have generally opposed what is called "recognition of unions," substituting for them the so-called "company union" and the "yellow-dog contract."

As to the method of legislation to maintain labor standards, it is of course complicated for the United States by the limitations upon the Federal Government's power to enact labor laws. In general this is a function of State governments. The disadvantages of different legislation in different States are quite as keenly felt to-day by the management of our industries as by labor, in those trades and occupations which are found in many States.

Talk to some of the cotton manufacturers, who wish that there were a uniform standard that their competitors would have to maintain. Talk to any of the producers who are worried over the toboggan slide in prices, bearing little or no relation to their costs of production, but with no apparent stopping place. In general, this need for interestate cooperation is recognized.

Perhaps we shall soon begin to see the necessity for a constitutional amendment which will give power to the Federal Government in cooperation with the States to establish basic standards. Pending such a change perhaps some form of agreement between States with the Federal Government acting as a standardizing agency, might be developed to prevent the present lags through the failure of some States to keep pace with those in which the same industries are competing.

The message of the Governor of New York State to the legislature published to-day, on the minimum wage for women and minors calls attention to cooperation between several industrial States which is already under way, and in which the Federal Government may have an opportunity for leadership in achieving uniformity in our basic standards.

The Department of Labor is the agency through which the Federal Government has the opportunity to deal with labor standards. The following immediate steps are suggested as feasible if as a nation we are in earnest in our intention to adopt a new policy directed toward economic security for wage earners:

1. Give to the incoming Secretary of Labor the responsibility and the appropriation necessary for a rounded program within the scope of the department's purpose and powers. The act creating the department declared that its purpose "shall be to foster, promote, and develop the welfare of the wage earners of the United States, to improve their working conditions, and to advance their opportunities for profitable employment." In general its relation to State departments of labor is to give leadership and coordination in fact finding for current statistical purposes; in investigations upon which the States may base legislation; and in the setting up of standards for industrial policy and practice.

Of its budget of $12,900,000 (round numbers) for 1932–33 $9,450,000 was for salaries and expenses of the Bureau of Immigration, with an additional $30,000 for immigration stations and $975,000 for the Bureau of Naturalization. Thus the amount available for the direct service in maintaining labor standards as distinct from the enforcement of immigration and naturalization laws is somewhat under $2,500,000 (72d Cong., hearing before subcommittee of House Committee on Appropriations, bill for 1934, p. 1.) In the report of the Committee on Appropriations for 1934, the Immigration Service alone was recommended for increase; all other divisions suffering a decrease. Moreover, even in the past year limitations on the printing budget result in withholding from the public certain valuable studies which are pertinent to the present situation.

In contrast to this action, recommending decreased appropriation, there is needed a more vigorous program of fact finding and publication to give stimulus to the labor legislation programs of the States.

2. New Federal legislation is needed for a comprehensive and effective Federal State employment service, such as has been proposed in the bill introduced into successive sessions of Congress by Senator Wagner. Such an employment service would be a means of organizing the labor market and preventing the waste involved in fruitless search for employment where none exists, or in the inability of industries seeking workers to find those available without delay. Moreover such a service, through its recording of opportunities for employment and applications for work, would serve as a barometer.

3. The Bureau of Labor Statistics needs a larger appropriation than has been recommended for this year if it is to fulfill its obligations under the law, particularly in gathering current statistics of the trends of employment and earnings. A very vital need is to measure in this way the effect of a public works program upon employment and earnings. In addition special studies bearing upon such vital problems as technological unemployment are needed, besides investigations of standards of living and the amplification and extension of current data on wholesale and retail prices and cost of living.

4. Because of the special problems of women in industry, their generally lower wages as compared with men, and the necessity for safeguards for an economically disadvantaged group, the Women's Bureau was created to carry out the department's purposes for women. It has cooperated closely with the States, but its investigations have had a broader scope than is possible for any one State. The industrial depression has tended toward abnormally low wages and long hours for women, with consequences for the labor standards for men. At this time the program of the Women's Bureau is especially needed, and an emphatic protest should be made against the opinion of the Committee on Appropriations which stated that it—

> feels that a large part of this work should now be done by the States; the justification for the national Government entering this field being to stimulate the States to make these studies. (72d Cong., 2d sess., House of Representatives, Rept. No. 1890, p. 34.)

5. The Children's Bureau is also suffering a reduction despite the urgent importance at this time of Nation-wide comparable studies for the protection of children in so far as it is possible to protect them against the devastating effects of unemployment.

6. In the office of commissioner of conciliation, the Department of Labor has a mediating service for industrial disputes which is susceptible of much greater development in the just settlement of grievances arising in the relationship between labor and management. If wages, hours, and other conditions of labor were made the subject of collective agreement between organized workers and management on a much more extensive scale than at present, it would be sound public policy for the Department of Labor to extend its conciliation service as an aid in the administration of these collective contracts. Without these collective agreements the need is all the greater for disinterested mediation for the protection of labor standards.

Such a program, going as far as the Federal Government can in leadership in investigations, and in the formulation of standards on which the States can base their legislation, with perhaps some very much more definite concurrence between the States and the Federal Government as to the standards to be embodied in labor legislation, would, in the last analysis, do little more than maintain services already provided by law, but their maintenance can be made to express a new social objective in the national economic policy.

When we speak of the necessity for immediate action, that is, of course, true; but if we are going to postpone any permanent solution in order first to take the immediate action, and then if we postpone, also, the immediate action, we shall be in an alarming state as the months go by. It seems to me that we need to divide our people into two groups, those who will look after immediate action, and those who will think out what is fundamental; and the sooner those who think out what is fundamental get to work and have influence, the better it will be.

I want to speak of one aspect of our foreign trade which seems to me the most hopeful for increase of employment by the only sound method, namely, the giving of orders to our own industries. I refer to the recognition of Russia. Without that recognition, it is impossible for our manufacturers, especially the smaller ones, to make the arrangements which they ought to be able to make, in order to sell goods to the Soviet Union. I speak as having been in the Soviet Union last summer, and having made an examination particularly of the second 5-year plan, and of the completion of the first 5-year plan in the mines, the factories, on the farms, and on up through the administrative agencies which have to do with planning. And I can testify, without taking the time to give the details here, that the U. S. S. R. gives evidence now of a steadily expanding demand for goods.

Although the foreign trade of the United States has always been a comparatively small part of our total production—recently about 10 per cent—it is axiomatic that the export of that surplus and the price received for it influences the selling price of the remaining 90 per cent. One of the influences which is now causing unemployment is the great reduction in world trade, including exports from the United States. In 1930–31 trade with the U. S. S. R. was beginning to assume promising proportions, but the present difficulties of doing business with the U. S. A. which has not recognized diplomatically the U. S. S. R., have turned the purchasing of the Soviet Union toward other countries. To remedy this situation would be an important element in restoring employment in the United States, not only in the industries from which the U. S. S. R. would buy, but also for those products which employees in these industries would purchase.

The U. S. S. R. alone of all the nations, offers now a steadily expanding demand for goods—what the economists have called "an effective consumers' demand"—which may be expected to continue because it is the result of national economic planning directed toward the distribution of purchasing power. A competent market analysis of the Soviet Union, would certainly show it to be a very good prospect.

The first 5-year plan, just completed, has laid the basis for industrial development by its emphasis upon providing machinery, equipment and power. The second 5-year plan, which is now in its beginnings, must continue this emphasis upon producers' goods while at the same time stressing more than in the past the consumers' goods, including the food supply.

The Soviet Union's policy with reference to exports is to sell only what is needed to make possible the necessary imports. The U. S.

S. R. has no surplus. It is not seeking a foreign market. Exports are a sacrifice made by the people in the hope of a higher standard of living in the near future. The U. S. S. R. has a plan for exports handled by a government monopoly which makes possible thoroughly rational and controlled trade arrangements with other countries.

This policy of planned exports as a means of securing imports removes all danger of "dumping." The Soviet Union is naturally unwilling to sell below the market because it is selling so that it can buy goods in return. Therefore it is not going to sacrifice its own exports. But whatever the circumstances, the most effective way to deal with problems of world market prices is by agreement; and moreover by the extension of credits to the U. S. S. R., enabling that country to buy from us.

It is not impossible, also, that such a policy on the part of the United States would make unnecessary some of the exports of wheat, for example, from the U. S. S. R. to European countries which might otherwise be a market for the wheat of our own farms. The Soviet Union needs wheat at home; and if a policy of recognition by the U. S. A. makes it possible without exporting it to receive the machinery and other goods which we can sell, the result of such planned international trade will give us far greater security than the present policy of inaction.

Generally speaking, our imports from the U. S. S. R. are noncompetitive with our own industries, and a mere fraction of our exports to that country. Our balance of trade with Russia has been uniformly favorable to the United States.

In 1932, American exports to the U. S. S. R. dropped almost 90 per cent compared with the preceding two years, amounting to less than $13,000,000, as compared with over $100,000,000 in 1931, and in 1930.

Senator GORE. What country was that?

Miss VAN KLEECK. Soviet Russia. I am talking entirely about Soviet Russia.

Senator GORE. Do you mean Russia's entire trade, or her trade with us?

Miss VAN KLEECK. Her trade with us. Her trade with us dropped from $100,000,000 to $13,000,000.

No such depression was shown in trade between the U. S. S. R. and other countries. It is true that in 1932 there was a contraction in foreign markets and that the drop in world market prices reduced the monetary value of Soviet exports, but nevertheless Germany, Great Britain, Italy, and other leading European countries maintained their sales to the U. S. S. R. at almost the level of 1931.

Senator GORE. But Germany and the Scandinavian countries guaranteed part of the sales to Russia; guaranteed that their people who made sales to Russia would collect at least, say, 60 per cent.

Miss VAN KLEECK. Yes. They gave a guarantee for that amount.

Senator GORE. And Germany borrowed the money from us to guarantee it.

Miss VAN KLEECK. Yes. As some one has expressed it, we permitted our loans to Germany to be turned into "a good note (credits to the U. S. S. R.) with a bad indorsement (Germany's incapacity to repay us). There has been no default in payment on the part of the U. S. S. R.

Senator GORE. Germany has discontinued the policy of guaranteeing these payments.

Miss VAN KLEECK. I am sorry I can not answer that question, but German sales to the Soviet Union are now much larger than ours.

Senator GORE. There is no doubt, Miss Van Kleeck, that we could sell goods to every country on earth if we ourselves would guarantee payment for the goods.

Miss VAN KLEECK. I am not proposing such a guarantee of payment for the goods in trade between the Soviet Union and the United States, but recognition which would facilitate credit arrangements.

Senator GORE. Do you think it was necessary on the part of Germany and the Scandinavian States to make the guarantee, but it would not be necessary with us?

Miss VAN KLEECK. I am not familiar enough with the policy which led to that arrangement in Germany to answer the question. I am somewhat familiar with the situation in this country, and the fact that manufacturers are ready to do business as they have in the past with the Soviet Union. But the lack of recognition, of course, creates many difficulties which are reflected in the present decrease.

Senator GORE. There is no doubt of that.

Miss VAN KLEECK. Such drop as there has been in Soviet purchases has been borne by American manufacturers, affecting primarily industrial and electrical machinery, which constitutes the principal group of American exports. Naturally, the loss of some $80,000,000 of possible sales which might have increased considerably about that figure affects not only our sale of industrial and electrical machinery but the purchasing power of all employees in those industries who would otherwise be purchasing from American manufacturers of consumers' goods.

By the way, some one asked Governor Smith for some data in connection with his testimony favoring recognition of the Soviet Union; and I am glad to put into the record the figures which I have in my manuscript here, but which I shall not read at this time.

Some one made the statement that it is rather mercenary to put favored trade as the reason for diplomatic relations with the Soviet Union. Of course, I do not think it is mercenary to advocate trade relations. They are fundamental in the life of the people. They go beyond the mere selling of goods to the Soviet Union. What we want is economic cooperation on this globe of ours. We need international economic cooperation, both for the sake of our own institutions and for the sake of what it would mean to world trade as a whole to have these two big, growing, enthusiastic, and, on the whole, optimistic, countries working together.

In contrast with this decline in actual trade, is the possibility of economic cooperation which would not only give trade to the United States but would put us in a position to cooperate in international relations generally more effectively than is possible without these diplomatic relations with the U. S. S. R. Recognition would of course be merely a first general step which would be followed by negotiations dealing with unsettled questions between the two countries and agreements laying the basis for future relations. These agreements would have their basis in trade agreements already existing between the Soviet Union and other countries.

In answer to questions which are raised as to the Soviet Union's good faith, and as to the danger of propaganda for communism, I want to call attention first, to the pact of Paris, signed November 29, 1932, between the U. S. S. R. and France, in which they bound themselves:

> To participate in no international agreements which would have the practical consequence of prohibiting purchases to be made of the other party, or the sale of goods, or the granting of credits to the other, and to take no measures which would result in excluding the other party from any kind of participation in its foreign trade.

Incidentally, this is a practical expression of the principle in article 23 of the covenant of the League of Nations—which Woodrow Wilson succeeded in having inserted—calling for "equitable treatment for the commerce of all members of the league." It is a pity that we and the league have made no effort to enforce that principle.

The same idea is embodied in the draft protocol for economic nonaggression put forward by Litvinoff, Commissar for Foreign Affairs of the Soviet Union, at the session of the League of Nations Commission for the Study of European Union at Geneva, May 18, 1931. He called first for a reaffirming of the principle proclaimed at the International Economic Conference in 1927, "of the peaceful coexistence of countries, irrespective of their social, political, and economic systems." Acting upon this principle, the proposed draft protocol would require of all countries—

> the complete cessation of all forms of economic aggression, both avowed and concealed, by any countries or groups of countries against any other countries or groups of countries.

If that had been adopted in Europe to-day, we would have less risk of economic warfare, instead of cooperation; and the other kind of warfare that comes out of it.

The draft further declares that:

> The cessation of economic aggression is an essential condition for the peaceful cooperation of States in the sphere of economics, irrespective of their political and economic systems.

The spirit of this declaration which was put forward by the U. S. S. R. opens the way for exactly the policy of recognition which has always controlled the United States of America.

Senator GORE. Have you that declaration in full?

Miss VAN KLEECK. I have. You mean Thomas Jefferson's declaration?

Senator GORE. No. The soviet declaration in favor of the cessation of economic aggression. Have you set that out in full?

Miss VAN KLEECK. I shall be very glad to file the full protocol with this committee.

Senator GORE. I wish you would.

(Printed at close of testimony.)

Miss VAN KLEECK. The spirit of this declaration which was put forward by the U. S. S. R., opens the way for exactly the policy of recognition which has always controlled the United States of America. This principle was first pronounced on March 12, 1793, in an instruction issued by Thomas Jefferson, Secretary of State, to Gouverneur Morris, Minister to France, in these words:

> We surely can not deny to any nation that right whereon our own Government is founded—that every one may govern itself according to whatever form it

pleases, and change these forms at its own will; and that it may transact its business with foreign nations through whatever organ it thinks proper, whether king, convention, assembly, committee, president, or anything else it may choose. The will of the nation is the only thing essential to be regarded.

That will in the Soviet Union has now been expressed in a form of government which has lasted 15 years and which is so intertwined with the economic administration of the country and so shared by the mass of the workers in the Soviet or the council in each work place that no one who has had an opportunity—as I am glad to say I had last summer—to observe the Soviet Union at work to-day in the shops, mines, and factories can doubt the stability of its present form of government grounded in economic planning.

Although it is clear that recognition would not imply approval, it should be pointed out that recognition would open for us in the United States a valuable opportunity to study the methods of administration of industry in this new economic system. We in the United States are forced to-day to a fresh study of economics. There are two ways of studying economics: (1) By reading books; (2) by observing a system different from our own and comparing its results with ours in order to see where ours may be made to work better. It is especially challenging to us, with our millions of unemployed, to study the reasons why in the Soviet Union there is no unemployment, but rather a shortage of labor.

Recognition would give to the United States and to its travelers in the U. S. S. R. sources of service and of information which are always provided by embassies and consuls; opportunity for observation of economic developments; a chance to watch more closely such international developments as are now occurring in the Far East; trade relations which for the moment at least would place orders and give employment to thousands of American workers in a form more fundamental than any program of relief; and finally, the opportunity to set at rest the fears and the district which arise through our inability to negotiate differences by established methods of international conference and agreement.

We are tremendously handicapped in our policy in the Far East because we are not cooperating with the Soviet Union, whose purposes are like ours, a desire to maintain the territorial integrity of China. The Soviet Union is strong in the Far East, and is informed about it. We are weak. There is nothing more important that could be done for the peace of the world to-day than the recognition of the Soviet Union.

As to the fears of some in the United States that there will be propaganda directed by the U. S. S. R., it is important to quote the following Article V from the Franco-Soviet Non-Aggression Pact, signed in Paris, November 29, 1932, to which reference has already been made. Article V reads as follows:

> Each of the high contracting parties undertakes to respect in all relations the sovereignty or dominion of the other party over all its territories as defined in Article I of the present treaty, in no way to interfere in its internal affairs, and in particular to refrain from any action inclining toward incitement or encouragement of any kind of agitation, propaganda or attempts at intervention which would have the aim of violating the territorial integrity of the other party or of changing by force the political or social structure of all or part of its territory.

There have been instances where charges of communist propaganda by the Soviet Government have been officially investigated; and in every instance official investigation has cleared the Soviet Government of the charge of propaganda in foreign countries.

Senator GORE. You mean in other countries?

Miss VAN KLEECK. And in our own. Our own fish commission undertook to investigate the one charge against any representative of the Government of Moscow, namely, the Amtorg, and failed to find evidence in any way supporting the charge that the Amtorg was guilty of disseminating propaganda in this country. Another famous case is the Arcos, which is a similar organization in England, and which was "raided," if you will. Its offices were in the hands, for several days at least, of the very competent investigating agencies of the British police. They used all the instruments needed to open strong boxes, but they discovered not one bit of evidence.

On the contrary, it has been the policy of the government of the U. S. S. R. to enter into such relationships as are defined in the pact of Paris, and to maintain the agreement in every particular.

Incidentally, of course, it is not Moscow, nor the Third International which endangers our institutions, but the shaking of confidence in the capitalistic system, through the failure to manage wisely its banks and its financial institutions, and through the spread of unemployment. Whatever dangers we have can be met only by our undertaking a thorough-going program of our own in accordance with sound economic principles.

The following table with the succeeding comments gives more in detail the trends in trade between the United States and the Soviet Union since 1923, as compared with the average for the four years preceding the war.

(The table referred to is here printed in the record as follows:)

*Balance of Soviet-American trade for the years 1923–1931*

[In thousands of dollars]

| Year | Exports from United States to Soviet Union | Imports into United States from Soviet Union | Total turnover | Balance in favor of United States |
|---|---|---|---|---|
| 1910–1914 average | $24,604 | $20,865 | $45,469 | $3,739 |
| 1923 | 4,550 | 1,448 | 5,998 | 3,102 |
| 1924 | 42,103 | 8,168 | 50,271 | 33,935 |
| 1925 | 68,906 | 13,120 | 82,026 | 55,786 |
| 1926 | 49,906 | 14,122 | 64,028 | 35,784 |
| 1927 | 64,921 | 12,877 | 77,798 | 52,044 |
| 1928 | 74,091 | 14,025 | 88,116 | 60,066 |
| 1929 | 85,011 | 22,551 | 107,562 | 62,460 |
| 1930 | 114,399 | 24,386 | 138,785 | 90,013 |
| 1931 | 103,669 | 13,206 | 116,875 | 90,463 |
| Total, 1923–1931 | 607,556 | 123,903 | 731,459 | 483,653 |
| 1932 (preliminary) | 12,610 | 9,600 | 22,210 | 3,010 |
| Total, 1923–1932 | 620,166 | 133,503 | 753,669 | 486,663 |

*Share of the U. S. S. R. in exports and imports of the United States*

[In thousands of dollars]

| Year | Total U. S. exports | U. S. exports to U. S. S. R. | Share of the U. S. S. R. in total U. S. exports |
|---|---|---|---|
| | | | *Per cent* |
| 1910-1914 (annual average) | 2,165,818 | 24,604 | 1.1 |
| 1928 | 5,128,357 | 74,091 | 1.4 |
| 1929 | 5,240,995 | 85,011 | 1.6 |
| 1930 | 3,843,181 | 114,399 | 3.0 |
| 1931 | 2,424,289 | 103,669 | 4.3 |
| 1932 (preliminary) | 1,612,306 | 12,610 | .8 |

| Year | Total U. S. imports | U. S. imports from U. S. S. R. | Share of the U. S. S. R. in total U. S. imports |
|---|---|---|---|
| | | | *Per cent* |
| 1910-1914 (annual average) | 1,688,876 | 20,865 | 1.2 |
| 1928 | 4,091,044 | 14,025 | .3 |
| 1929 | 4,399,361 | 22,551 | .5 |
| 1930 | 3,060,098 | 24,077 | .8 |
| 1931 | 2,090,635 | 13,206 | .6 |
| 1932 (preliminary) | 1,322,745 | 9,600 | .7 |

American-Soviet trade increased in volume each year from 1925 to 1930. During this period the Soviet Union purchased $5 in American goods for every dollars' worth of Soviet products sold here. For the six years ending with 1931 the favorable American trade balance in this business was nearly $400,000,000. Most of the American exports to the Soviet Union were sold on credits and there were no delays or defaults on payments.

The peak was reached in this trade in 1930. In 1930, according to the Department of Commerce, American exports to the Soviet Union amounted to $114,400,000. The Soviet Union was America's sixth best foreign customer. It was the leading foreign customer for American agricultural machinery and the second-best customer for American industrial machinery. This was quite a contrast with the situation before the war, when Russia had been a negligible customer and the average annual American exports to that country were about $24,000,000.

In 1930, the United States furnished 25 per cent of the total imports of the Soviet Union. In 1932 it furnished only 4½ per cent of these imports.

In 1932, the Department of Commerce reported about $12,600,000 for American exports to the Soviet Union, as compared with $114,400,000 in 1930.

The Soviet Union imports machinery and equipment from Germany, England and Italy, as well as from the United States. Soviet customs figures for 1932, recently published in this country by the American-Russian Chamber of Commerce, show that as compared with 1930 imports from the United States decreased 88 per cent, while imports from Germany, England, and Italy increased 30 per cent.

The figures for imports from the four countries for the two years are as follows:

| | 1930 | 1932 |
|---|---|---|
| United States | $136,162,000 | $16,466,000 |
| Germany | 129,176,000 | 167,072,000 |
| England | 41,266,000 | 46,830,000 |
| Italy | 5,601,000 | 13,979,000 |

Purchases from the United States decreased from $136,162,000 in 1930, to $16,466,000 in 1932 These are soviet figures of customs entry, and are not exactly identical with our Department of Commerce figures, because there is a lapse of time between export from us and arrival in the Soviet Union, and so forth. But the relative percentages are similar.

The drop of 88 per cent in American exports to the Soviet Union in two years, as compared with a gain of nearly 30 per cent in exports to that country by America's business rivals is the result of conditions implicit in our situation of diplomatic nonintercourse. American manufacturers and exporters, under such conditions, can not successfully compete for such a broad market against foreign competitors who are backed by the usual facilities and protections furnished by Government agents on the spot. Under the present abnormal conditions of American-Soviet trade the establishment of adequate trade credits is impossible. In Germany, England, and Italy the Governments went out of their way to establish a suitable credit base, even going to the extent of guaranteeing from 60 to 70 per cent of the credits extended by their own manufacturers. They got the trade that we were losing.

The logic of events may be expected to lead very soon to recognition of the Union of Soviet Socialist Republics. This step is logical and therefore inevitable on three grounds: (1) As a part of the policy of economic cooperation essential to our national life; (2) as a step forward in leadership in international economic cooperation which we can not neglect without danger to our own civilization; (3) as a safeguard of world peace which is jeopardized by economic insecurity and by international antagonisms arising out of the collapse in world trade.

The Far Eastern situation makes it imperative that it should be without delay There is a tremendous amount of information available. No further information is needed to enable us to make up our minds on this subject.

The CHAIRMAN. Thank you.

Senator GORE I infer, Miss Van Kleeck, that you do not attach as much importance to balancing the Budget as some of the other witnesses?

Miss VAN KLEECK. I think balancing the Budget is always essential, both in the Government and in private life. What I am troubled about is the possibility of balancing the Budget with a decreasing national income.

Senator GORE. That is what I want to come to. Would you balance the Budget by decreasing expenditures, or by increasing taxes?

Miss VAN KLEECK. If I may answer that question by going back of it, I would look toward——

Senator GORE. We are standing face to face with that question, and we have to make a choice.

Miss VAN KLEECK. I would balance the Budget, in the first place, by allowing a longer time than a year for balancing it, which I assume is possible. I would balance the Budget by a very carefully worked out procedure of taxation. We certainly need more sound taxation policies. The income tax certainly appears to be a sound method; and I would maintain Government services which are needed. Now is the time for a thoroughgoing study of Government services, but not for curtailing those things which are imperative.

Senator GORE. Those things that are imperative you would spare. You would limit your curtailment.

Miss VAN KLEECK. I would limit expenditures for armaments.

Senator GORE. That is the point I wanted to bring you to, Miss Van Kleeck. You would use the pruning knife on other departments than the Department of Labor?

Miss VAN KLEECK. Yes. I would maintain the Department of Labor and some other departments.

Senator GORE. In other words, you would spare the one department in which you are interested, and would pare others that you are not interested in. That brings us to this point, Miss Van Kleeck, so that you may see our difficulty——

Miss VAN KLEECK. May I interrupt to say——

Senator GORE. Just a minute. I want to give you this: The Senate struck out a $19,000,000 subsidy—and I will say graft—for air mail contracts. The air mail concerns that were affected lobbied and got it back in. At least, it went back in. You can not cut down anybody's expenditures, because they are concerned in those, and they come here and lobby and protest. I respect your principles in regard to labor—and I say this, Mr. Chairman, as a basis for another question——

Miss VAN KLEECK. May I answer what you say, before you ask me another question? May I answer the first one?

Senator GORE. I thought you had.

Miss VAN KLEECK. May I just say, with reference to this decision to cut down or not to cut down because somebody lobbies for it, that it is high time, of course, that we had a fundamental principle for the working out of our Budgets in the National Government, so that those services of the National Government would be maintained which bear directly upon the standards of living of our people; and that those services should be discontinued which represent destructive forces, or graft, or incompetence in the Government. I think it is high time that it was no longer a matter of who has the greatest power to persuade Congress, but it should be a matter of the principles upon which Congress and the National Government act.

The CHAIRMAN. There is no department of the Government but what comes up to the Appropriations Committee and asks for increases—the Labor Department, and all of them.

Miss VAN KLEECK. I should think decision would be very difficult unless we have a national policy, clearly declared.

The CHAIRMAN. That is what we try to do.

Senator GORE. The friends of this aviation subsidy insist that it is indispensable to national defense. There is always an excuse, whether there is a reason or not.

I agree pretty well with your philosophy against restricting production, and in favor of the use, and even the increase, of our productive capacity until every legitimate human need is satisfied, and every legitimate human want is supplied. I think we ought to attempt that before we go into reverse. For that reason I could not agree with your proposition to cut down the days in the week or the hours in the day until that becomes at least indispensable. You want labor to have a larger share in the joint output of labor and capital. I think you are right about that, in the main. I agree with you in the philosophy of high wages, but I do not see how you can cut down the days and hours and expect labor still to have a larger share in the joint output, which you think is indispensable—and I think it is, too.

Miss VAN KLEECK. Is not that simply a matter of technological development and the production of a surplus, which is well recognized in all industries? There are two ways to cut down a surplus; one is to attempt to do it by "cartels" and international or national agreements. The industries of rubber, sugar, and others have come up against stone walls and have not been able to do it. Another way is to plan production, and to get the hours of work down to the point where our machines will not run away with us. We can not keep them going too long without piling up goods which can not be sold, with the results that we have to-day.

Senator GORE. That is the point I was coming to. You stated—and correctly—that labor's share in the total output of capital and labor is a smaller percentage than it used to be. That was part of your statement.

Miss VAN KLEECK. Yes.

Senator GORE. I believe you also stated that labor's share in the value added to the product is less than it used to be. The increased output of labor and capital, this enormous increase, is mainly due to the increase in machinery, mechanization, and technology, is it not?

Miss VAN KLEECK. Not wholly.

Senator GORE. I didn't say wholly. I said mainly. Is not that true, that the increased mechanization, the increased use of machinery and mass production account for the major part of the increased product of labor and capital combined?

Miss VAN KLEECK. That, with other elements.

Senator GORE. Is it not indispensable, then, that a larger share of the joint product of capital and labor must go to capital, in order to induce it to enter these enterprises?

Miss VAN KLEECK. I think that the industries to-day do not need more capital for equipment. They need purchasers, from whom comes the money with which to run industry.

Let us define what we mean by labor. By "labor," we do not mean simply the industrial workers gainfully employed in this country. I think the percentage of men gainfully employed is something over 90 per cent. What I am talking about is earnings from salaries or wages, as distinct from interest or returns on capital, and I am discussing it not in the least from a social or ethical standpoint, but from the standpoint of the problem of planning production, and balancing production with purchasing power. And when technological development produces goods with such rapidity, if in this revolution from steam to electricity we do not put enough money into purchasing power to buy the increased production, the capital investment becomes worthless. It is simply a problem of economic planning, and I am assuming that it is not a group of people called capitalists, and a group of people called labor. What we are talking about is the distribution as between earnings and purchasing and consuming power, and the amount put into capital investment for increased production to expand industries which are already over-expanded, which is not an economic thing to do. Our labor problem to-day, if you want to put it that way, has become a problem of the survival of technological methods of production, because only by attention to the amount that goes into earnings, and the amount that goes into the purchasing power—and I refer to all salaries and all wages—only by that can we distribute the goods.

Senator GORE. That is largely true in manufacturing lines, but not so much in railroads and building.

Miss VAN KLEECK. Is it not true that the railroads are dependent upon purchasing power par excellence? What has happened to car loadings?

Senator GORE. Everything is dependent upon purchasing power. That is true.

Miss VAN KLEECK. It is not only the purchasing power of their own workers, but of all other workers. What is the matter with the railroads to-day? In my humble opinion they have not enough freight to carry, and they have not the freight to carry because people are not buying goods, and no amount of credit will remedy that situation.

The CHAIRMAN. I suppose if the trucks were off the roads, they would have just as much business as they had before.

Miss VAN KLEECK. But, Mr. Chairman, there actually is not as much production. The figures show that. They have not as much to carry, even if not divided with the trucks.

Senator GORE. I think you can say that no amount of credit can take its place.

You mentioned the fact of the minimum wage for women, and I inferred you favored that?

Miss VAN KLEECK. Yes; distinctly.

Senator GORE. This relates to this general principle of restriction, which you are against in the first instance. One of the Western States has a minimum wage law for women. They are discharging the women in that State because of this depression, when men are willing to work for that wage. So that your effort to protect women with a minimum wage is destroying their wages altogether, because they can not accept less wages, and their employers can not pay less wages. Undoubtedly, they would like to keep these women on the pay roll, and I have no doubt the women would like to accept reduced wages, in view of this depression, but your iron-clad law, ignoring the depression, and ignoring economic necessity, says to the employer, "You have got to pay these women $17 a week," let us say. The concern says, "We can not pay it and run." In this town, they are willing to accept less. The result is that your solicitude for the women has destroyed their jobs, and their employment. They are being discharged, and men are being employed in their places at women's wages.

The important point is that your philosophy against restriction is sound, and very often these restrictions destroy the main purpose they have in view.

Miss VAN KLEECK. May I say that I am not in favor of flat legislation for a given wage. I am in favor, in this field as in many others, of the proper methods of negotiation and investigation as a basis for decision. A minimum wage law of the really justifiable kind is a law which says that when an industry goes below the cost of living for its workers and seems able to survive only becuase of the desperate need of workers to take jobs at any price, that is time, in the interest of public policy, for a commission composed of representatives of labor, of management, and of the general public, to look into the facts as to the cost of living and the ability to pay, and to set the wage rates accordingly.

And may I say, Senator, that if Congress will appropriate the right amount of money to the Women's Bureau in the United States Department of Labor, we shall be currently and accurately informed of all these facts, which otherwise we are in grave danger of misinterpreting, when we speak only of one instance.

Senator GORE. Does not the admission that wages can be too low—which everybody admits—involve the admission that wages can be too high?

Miss VAN KLEECK. Certainly. There can be a maladjustment in wages. I believe in a planned wage system. I do not believe——

Senator GORE. In this town, the carpenters union are insisting on $11 a day, in this depression, for work that has to be paid for by the people of this country—by the farmers, for instance, who are selling their hogs at 3 cents a pound, their cotton at 5 cents a pound, and their corn at 10 cents a bushel. Do you think there is any justification for that?

Miss VAN KLEECK. There is often a justification for $11 a day for a carpenter. I am not familiar with this particular situation. We must bear in mind the insecurity of employment in the building trades and the wastes due to this insecurity.

Senator GORE. There are hundreds of carpenters in this town now receiving public aid, no doubt, and yet some are insisting on $11 a day.

Miss VAN KLEECK. If there are hundreds receiving public aid, it shows that there is something wrong with the building trades not having been able to give security of employment to their workers.

Senator GORE. Undoubtedly there is something wrong if they can give employment to two carpenters at $5.50 a day, and yet they are insisting on $11 a day for one.

Miss VAN KLEECK. I am glad to say a word on this problem of sharing work which you imply in your question, because sharing work is a policy which says to labor, "We are sorry we can not help you in this difficulty, but if you will just get the man on the next machine to share his pay envelope with you all will be well," and the result is a still greater decline in purchasing power. It is not a national policy which should be permanent.

Senator GORE. Is not the purchasing power more widely distributed? The one man who got $11 a day might save half his pay and not spend it at all, whereas if two men were employed on that both would spend more.

Miss VAN KLEECK. But if the first man has not enough now to pay his rent or the mortgage on his house, or to buy clothes and shoes for his children, dividing it with the next man is not a fundamental remedy for the discrepancy between purchasing power and production.

Senator GORE. You would tax the taxpayer to maintain him out of the Government Treasury—the second man?

Miss VAN KLEECK. No. I am insisting that industry shall maintain its workers, not taxation.

Senator GORE. I am glad to hear you say that.

Miss VAN KLEECK. In my opinion, taxation for relief purposes to-day is an evidence of the failures of industry.

The CHAIRMAN. We have an hour, now, Senator, to get through with two witnesses. If you have no further questions to ask, we thank you, Miss Van Kleeck.

(The text of the economic nonaggression pact put forward by the Soviet Union is here printed in full as follows:)

At the request of a member of the committee the following text of the economic nonaggression pact put forward by the Soviet Union, and quoted in the preceding testimony, is hereafter given in full. It was proposed by the People's Commissar for Foreign Affairs of the Soviet Union, Maxim Litvinov, in his address before the League of Nations commission for the study of a European union at Geneva May 18, 1931. The text of this draft protocol is as follows:

"The representatives of the European countries enumerated below, recognizing that mitigation of the economic crisis which has affected national economy of most of the countries of the world, requires in addition to the renunciation of war as a means for the solution of international conflicts the complete cessation of all forms of economic aggression, both avowed and concealed, by separate countries or groups of countries.

"That the cessation of economic aggression is an essential condition for the peaceful cooperation of States in the economic field, irrespective of their systems.

"That such peaceful cooperation is possible and desirable in the interest of mitigating the economic crisis of European countries in the first place.

"Taking into consideration that the cessation of economic aggression will help to put an end to the present atmosphere of mistrust, uncertainty and alarm, which gravely affects the economic position, and hoping that inspired by their example all other countries will join in this protocol, have decided to recommend that their respective governments sign the following protocol:

"1. The contracting parties once more solemnly affirm the principle of the peaceful coexistence of countries irrespective of their social, political and economic systems, proclaimed by the International Economic Conference of 1927.

"2. In accordance with paragraph 1, the contracting parties undertake not to apply any discrimination whatsoever in their relations with each other, and regard the adoption in any of their countries of a special régime directed against one or several countries subscribing to this protocol as incompatible with its principles.

"3. This protocol is to be ratified and will come into force between those of the contracting parties who submit their ratification papers to the president of the commission for the study of a European union. This protocol may be subscribed to by all the States of the world. Notification of adherence is to be submitted to the president of the commission for the study of a European union and the agreement will immediately come into force between the States newly subscribing to it and all other participants. The president of the European commission will notify all adherents of the protocol of each new ratification or adherence immediately upon receipt of the ratification papers."

## STATEMENT OF SIDNEY HILLMAN, NEW YORK CITY

Senator LA FOLLETTE. What is your business, Mr. Hillman?

Mr. HILLMAN. I am president of the Amalgamated Clothing Workers of America; chairman of the Amalgamated Bank of New York City; and president of a cooperative housing corporation, the Amalgamated Dwellers of New York City.

As a representative of thousands of organized workers in the men's clothing industry, I appear before your committee solely for the purpose of stressing the fact that nothing else matters in this country until the millions now totally unemployed and the millions employed on part time are given work at a wage that will enable them to maintain a standard of living to match our productive capacity. Only when this is done can you solve the problems which now trouble us so much.

I have noticed, day by day in the public press, that many of those who have appeared before your committee have stressed the "balancing of the Budget." How can any budget of any government ever be balanced on a daily decreasing revenue? A budget made this month must in the very nature of the thing, be totally out of balance next month, when the total national income day by day continues to decline.

If I am correct, I think Congress balanced its Budget six months ago.

Why does it decline? Because such a large proportion of our population have no jobs. If they had jobs many of the problems which you gentlemen discuss every day in Congress would not exist. I repeat, that nothing else matters for the moment but putting these millions back on their jobs.

A little over a year ago, I appeared before a Senate committee which was holding hearings looking to the establishment of an economic council. Men of affairs from all over the country testified before a Senate committee. It was the general consensus of their opinions that something should be done to plan for industry; that a planned industry would save us form wasting billions of our national income and that such a plan would provide employment for all persons willing to work and at the same time maintain a high standard of living. It was the belief of those in favor of the establishment of such an economic council that it would help to give security and comfort to the country as a whole.

And yet, nothing has been done about it. At the time these hearings were held, our industrial experts told us there were over 8,000,000 people totally unemployed in the country. To-day they tell us that there are between 13,000,000 and 15,000,000 totally unemployed. If that bill had been acted upon, I think you would have had more actual information—not special pleading information—at this time, or long before this.

Our national industrial house is literally falling on our heads and it is pulling down with it the financial structure of the country. It is not necessary for me to cite any evidence before this committee to prove the truth of this statement. The front pages of our newspapers, day by day, should be sufficient and most convincing evidence of this.

The truth is that we are in a vicious circle of declining employment and wages which affects the purchasing power of consumers and causes increasing unemployment. The policy of the present administration, as you well know, has been to wait for something to turn up which will by itself cure the situation. I do not believe that we will make headway by following this kind of policy, especially because of such a new problem as technological unemployment, which was not present in previous depressions.

Senator GORE. We can not wait for the "breaks."

Mr. HILLMAN. No. Any substantial revival in industrial activity will have to be based on a national policy which will inspire confidence in the country and which will promise not only a check to unemployment but the return of a large part of the unemployed to work. The result could only be achieved by checking the forces which make to-day for a continuous contraction in the earnings of labor. Not only are there now over 12,000,000 people totally unemployed, but wages have declined to the lowest levels imaginable. In the clothing industry, which is the picture of the wearing apparel industries, employing several hundred thousands of people, together with the textile industries, employing three-quarters of a million, we are drifting back to a condition of sweated labor as bad as any of which we have any record. A real investigation of the wages prevailing in many factories will show that a very substantial proportion of the labor force is to-day working for less than minimum subsistence wages. Individual employers seem to be helpless. I think if it goes on that way, we will compare pretty soon with the countries abroad that we sympathize with so much when we consider the conditions of labor in those countries. Cutthroat competition makes the most unscrupulous employer the leader in each industry and the rest willingly or otherwise follow.

It, therefore, become necessary, as I have indicated before, for the government to take action to check this progressive deterioration in the working standards of labor. In order to do this, it will be necessary to regulate industries by means of a national effort. During the period of war when the problem confronting the country was the shortage of labor, the Federal Government, through its war labor board established rules to guide industry, subordinating the interest of the group to the welfare of the country. The emergency to-day so far as the welfare of our people is concerned is much greater than during the war and similar action should obviously be taken.

I hear people comparing this emergency to the emergency of the war. During the war employers made profits in the hundreds of millions of dollars. The workers were receiving high wages. There was not a real emergency, as far as the people are concerned, as compared with the emergency of to-day with millions of people actually starving.

There ought to be established by Congress a labor board whose function it shall be to regulate hours in the different industries in a manner that will not only check further lay offs but will replace part of those who are at this time unemployed. In our industry the enforcement of 30 hours a week would give employment to tens of thousands who are without work now and are bound not to have any in the near future. It shall also be the duty of the board to establish minimum wages for men and women in each industry. The establishment of a minimum wage will not only check further decline in earnings, but will raise the standards of workers who are to-day forced to accept remuneration below the barest minima. This will increase the purchasing power in every community where labor is employed.

No industrial program can prove efficient that is not national in scope. And the enforcing agency for such a program must be part of the National Government. I have mentioned the vital importance of maintaining a high standard of living. We should never lose sight of the fact that even during the time of so-called prosperity wages, these wages were not sufficient to purchase the capacity of our production. But we have sent to Europe $12,000,000,000 to $13,000,000,000 that we could not use here.

Senator GORE. They have borrowed from $10,000,000,000 to $15,000,000,000 to buy here.

Mr. HILLMAN. Yes; instead of giving it to labor here we gave it to those people abroad, so that they could purchase from us.

It is my belief that this depression is the direct result of the irresponsible running of industry—the direct result of everyone planning for himself and no one giving a thought to what will happen to the people at large.

As one who has given some thought to these problems and who every day is in contact with them, I earnestly advocate the immediate passage of legislation which will establish an instrumentality to coordinate the industries of this country and with power to put its planning at once into effect, Unless this is done, and the millions put back at work, it is my belief that the chaos which will result from a prolonging of this depression will make any other legislation futile.

Senator GORE. You suggest the reduction of hours. Let me ask you this question, so as to get this clear in my own mind: Take a group that are working eight hours a day for $8 a day, and the hours are reduced to six hours. Would you reduce the pay to $6 a day?

Mr. HILLMAN. I would establish a minimum wage to protect a decent standard of living in the country, and let everything above that represent bargaining between the employer and the workers. I do not believe the Government can establish wages for every group in the country in industry.

Senator GORE. You would vest your board with power to regulate?

Mr. HILLMAN. Just to establish the minimum wage.

Senator GORE. Would you give your board power to raise and lower the minimum wage in accordance with good and bad times?

Mr. HILLMAN. According to the needs of the country.

Senator GORE. That is all.

## STATEMENT OF T. S. HOGAN, MIDLAND, TEX.

The CHAIRMAN. Give your full name to the reporter.

Mr. HOGAN. T. S. Hogan, Midland, Tex.

Permit me to say that I am in total disagreement with the opinions of a large majority of the witnesses who have preceded me both as to the cause of the depression and the proposed cures for the nation's ills.

If we start on a false premise all our conclusions will be wrong.

The World War was not the cause of the depression; instead, it actually delayed the economic collapse.

Senator GORE. Don't you think it aggravated it when it did come?

Mr. HOGAN. No. If you will pardon me, Senator, I will cover that fully in just a few minutes.

Senator GORE. Do you think you can destroy $330,000,000,000 of wealth, and burden people with $200,000,000,000 of debt, in as short a time as four years, and in as small a place as this globe, without some economic loss following?

Mr. HOGAN. I will cover that in just a minute.

What might be called the banking type of mind can see in the consequences of that conflict only what the financial ledger shows—a great destruction of property and an unbalance of the financial set-ups of all the nations of the world.

By them the loss of life is computed in the dollar earnings of each adult male during the years of his prime.

Devastating and appalling as these losses were, the fact still remains that the only way the World War hastened the world depression was through an accelerated development of the mechanization of industry and agriculture throughout the world without any, or at least sufficient, raising of the world standard of living to absorb in times of peace this increased production capacity.

It is to that fact, and not to the direct destruction of the war, that we can trace most of our social ills.

Under the urgency of war we mounted "The Man With the Hoe" on the modern tractor of the fields of Europe, the plains of Morocco, and the hinterlands of Asia and South America.

Recall the tens of thousands of Ford tractors alone which rapidly displaced hand labor with machine labor even in the country estates of England, to say nothing of remote areas whose agricultural possibilities had theretofore received but scant development.

The apex of this hysterical expansion of agriculture is symbolized in the activities of Thomas D. Campbell, now known throughout the world as the wheat king of America.

Backed with millions by some of the leading financiers of America and encouraged by the Government to the extent of turning over to him two great Indian reservations in Montana, in which he was permitted to select the choicest lands for broad-scale wheat farming, he inaugurated the largest wheat farming operation in history up to that time.

It may be cruel to bring that up now, but his Wall Street backers lost all the millions they put into it, despite the high prices of wheat prevailing at that time.

Senator GORE. The scheme failed.

Mr. HOGAN. He produced wheat, all right, but it cost more than the market price.

Having started some hundreds of tractors and combines on these great bench lands of Montana, he was sent to Morocco with Government backing to develop wheat growing on the same broad scale in that nation.

I illustrate with this specific example only for the purpose of demonstrating how rapid the mechanical development of world agriculture became during those hectic days.

Tens of thousands of others, in lesser degree, were hastening the process in every corner of the world.

The predominant incentive was, of course, the personal profit anticipated out of war prices for food.

Industrial development likewise received a world wide impetus with a corresponding displacement of crude hand methods by modern mass production.

Abnormal, selfish, vicious, and stupid as has been the handling of national and world finance during and since that time with the resultant pyramiding of a debt structure impossible for the workers of the world to maintain, it is still true that the sudden mechanization of industry and agriculture without equally rapid improvement in the standard of living of the masses was, and is, the primary cause of this world wide panic.

In the lifetime of those of us who are 60 years old, there has been more mechanical advancement than in all the previous history of mankind.

Inventions, chemical discoveries and highly coordinated production methods revolutionized industry and came to be symbolic in the minds of the people of the world in the mass production of Henry Ford.

Necessarily these rapid changes disorganized long established methods of production and caused great social maladjustments. The life of the whole communities built around what was considered fairly permanent methods of producing consumers goods was totally disorganized by the new methods which centralize in a relatively few places the manufacture of these goods. When modern changes are discussed everyone immediately thinks of the great steel plants and automobile factories but the garment makers of New York and the shoe manufacturers of New England were a greater factor in disorganizing established custom in the homes, villages, and towns of the country.

Shoemakers, tailors, dressmakers, blacksmiths, and so forth, were compelled to seek the means of livelihood in other fields. Enlargement on this subject is unnecessary as it is a matter of common knowledge.

The benefits that came from the new discoveries and new methods were many and enormous and the statistician may be able to prove to you that the mechanization of production actually increased the demands for labor, but that is but poor consolation to the jobless, destitute, and homeless left in the wake of these prodigious changes.

I risk your displeasure in consuming your time in the recital of these trite, well known, and established facts for the purpose of impressing on you that methods of government must change to meet fundamental changes in society, or that government will cease to exist.

Much of the legislation proposed before this Congress might as well be written to lay down the legal methods for hunting buffalos, for no matter how much our political leaders attempt to refute it, rugged individualism in business or government is as extinct as the buffalo.

An ordered, planned, and national program based on the ultimate welfare of all the people must take the place of governmental policies designed to encourage free and unrestricted competition.

The evidence to support this statement is omnipresent and irrefutable. It reaches into the most ancient conceptions of individual prerogatives and, as a matter of urgent necessity, seeks to regulate what the farmer must grow on his own farm. His failure to conform to an agricultural program national in scope would only bring him further and more complete bankruptcy. Attempts to evade the direct application of a planned agricultural economy through the adoption of palliatives and half-baked theories is evidenced in a score or more of proposed laws pending before this Congress, the most grotesque and absurd of which is the Smith cotton bill which proposes to reward farmers for incompetency by penalizing the fertilization of their lands and undertakes to convert cotton growers into cotton brokers by forcing them to gamble on the Cotton Exchange on the future price of cotton.

Everywhere the initiative and courage is lacking to reorganize fundamental facts and take the consequences of a legislative program bold enough to meet the needs of the times.

Faced with the alternative of complete collapse the oil business swept aside all precedent and usages and, except for one fatal defect, established a planned economy in production which might well be used as a national model.

The defect was that the fixing of the price of crude oil was left to the manipulation of powerful groups instead of being fixed by the Government.

In the face of an overproduction so great that high quality crude oil sold for as low as 8 cents per barrel, which was less than one-tenth of production cost, the oil industry, backed by governmental support, established a system of proration under which production was reduced by an amount equal to, or less than the daily consumption. Many injustices and harsh invasions of the rights of individuals and small producers accompanied the inauguration of this proration system most of which could have been avoided if the Government had assumed direct control instead of forcing the issue through indirection and evasion of responsibility.

But with all its faults the proration of oil production saved the Nation from an even more severe financial collapse than now exists.

I doubt if more than a small minority of our law makers realize how large a part the oil business plays in the whole economic life of the Nation.

The approximate 2,200,000 barrels of oil consumed each day, including Sundays represents at the wells where produced a market price three times as great as the total price received by the farmers for the wheat crop of the United States.

The number of barrels of crude oil and bushels of wheat produced in the year 1932 were almost identical.

When ultimately purchased as gasoline, kerosene, lubricants, and by-products, the consuming public pays nearly as much for oil products as the entire agricultural crops and livestock brought the farmers in 1932.

So if an industry of this magnitude can balance its production with its consumption, others can do likewise.

To summarize the state of the Nation, we have:

First. A tottering financial structure controlled by the same men whose unsound policies precipitated the depression.

Second. A farming situation bordering on open, organized revolt against the Government.

Third. A labor situation in which the opposing forces are preparing for a titanic struggle which will almost inevitably shake the whole social structure.

Fourth. An unemployment situation that has already cost more lives than we lost in the American forces during the World War, set us back a full generation in the dearly won social progress of the past, and which if not corrected quickly may conceivably bring on another era comparable with the Dark Ages of past history.

Fifth. Capitalism as a system of industry and government is a demonstrated failure in the face of national crisis and has been destroyed by the practice of its adherents as evidenced in testimony taken before the Banking Committee.

It will take more than the vision of moles and the courage of rabbits to correct a situation as desperate as this. Temporary expedients are foredoomed to failure. The diagnosis indicates the imperative need of major surgery.

The question to be decided, and that promptly, is what measures should be enacted to meet the situation.

I beg leave to respectfully suggest as measures necessary and attainable by congressional action the following:

First. Immediate government control of the entire transportation system, including railroads, waterways, pipe lines, aviation, and truck and bus lines.

Second. The establishment of a 6-hour day and 5-day week in all industry accompanied with the right of employees of collective bargaining.

Third. The establishment of a national monetary system based on bimetallism, and as a collateral proposition use all the power and prestige of the nation to secure a voluntary international agreement for the use of both gold and silver as equal basic money in world commerce. The bank of international settlements or a world exchange band should be set up as an international agency whose certificates, based on gold or silver in approved depositories of the several nations, would be accepted in lieu of the actual transfers of the metal itself.

Fourth. Arbitrarily fix by law the price of all basic farm products and fix that price high enough to cover production costs in which are figured the maintenance of a standard of life on the farm commensurate with the resources and mechanical development of the nation and energy and intelligence of the people. This price could, of course, only apply to products used within the nation.

Senator GORE. Would you have this country do it alone, or do it in concert with other nations?

Mr. HOGAN. Alone.

Fifth. Readjust international debts on the best practical basis obtainable on the broad principle that concession should, where feasible, be compensated by increased international trade.

Sixth. Provide the machinery for a readjustment of debts and interest but not through omnibus bankruptcy laws or moratoria unsupported by the means of increasing earnings and income. Coupled with the program above set forth a temporary moratorium on mortgages would give the debts time to rehabilitate themselves under the increased price of their products and would not pull down the whole financial structure of banks and insurance companies as general bankruptcy and moratoria laws inevitably will do.

I admit these proposals are sweeping and revolutionary but they are not one-tenth as sweeping and revolutionary as the changes will be if you permit the rapid deterioration of business and even of the people themselves to continue. Unless you recognize that a crisis of wartime emergency confronts us it is, of course, futile and useless to consider the suggestions here made.

Considering these proposed measures in the order named, we begin with the transportation problem and I place that first, not because it is first in importance, but because you who are members of this Congress are compelled without any respite or delay to either continue your support of the existing railroad organizations through the Reconstruction Finance Corporation or by abandoning that policy without devising another method of control assume the responsibility for the financial disasters which are certain to follow the latter course.

Briefly summarized here are the essential high spots of the facts in the railroad situation as it stands to-day:

First. The people, through investments in bonds, stock, and securities, own the railroads.

Let us not forget that the railroad companies, as such, have practically no ownership left as the bonds and debentures held by insurance companies, savings banks, trust companies, and individual investors cover the full present value of the railroads and much more than covers it. These insurance, trust, and savings bank companies used, not their money, but the people's money in acquiring these bonds.

Also rest assured that even if the executive officers of railroads do not know enough to successfully operate the roads they at least know enough not to be caught holding the stocks and bonds of their own companies.

It is therefore fundamentally important that the people and the lawmakers clear their minds of that habit of thought in which they look on the railroad problem as a matter primarily affecting railroad companies.

When you talk of letting them collapse, you are talking about your own, or your neighbor's life insurance, savings bank accounts, and even bank deposits, for if the railroads collapse the whole financial structure falls.

Second. The funded indebtedness of the railroads at the end of the year 1932 amounted to not less than $13,000,000,000.

Default on the quarterly or semiannual interest on this indebtedness under the terms of the bonds gives the bondholders the right to force the railroads into receiverships.

To obviate, or at least delay, these receiverships the Reconstruction Finance Corporation loaned the railroads in 1932 the sum of $359,000,000.

Practically all of this money went to the payment of interest on indebtedness or for some manner of purely temporary readjustment of existing indebtedness.

By June 1, 1933, further immense sums must be advanced by the Reconstruction Finance Corporation to meet interest payments due on that date or again the railroads will be subject to receiverships.

It is self-evident that this futile and repetitious process solves no problem and carried to its logical conclusion will bankrupt the credit of the Government.

Third. From 1929 to the end of 1932 the net operating income of the railroads dropped 75 per cent.

In 1929 the net operating income was $1,274,000,000.

In 1932 the net operating income was $324,000,000.

That this merry-go-round of the Government loaning new money to meet each recurring interest period will continue until radical changes are made is proven beyond controversy by the fact that of 138 class I railroads, only 38 finished the year 1932 without a deficit.

One hundred of them did not earn enough above operating cost to meet the interest on their bonds and other fixed charges, and 45 of them did not even cover operating expenses.

The financial situation of the class II railroads is, of course, even much worse. To waste time talking about a possible upturn in general business rapid enough to meet this desperate situation is sheer stupidity.

Fourth. There is no power in the management of any one railroad, or one group of railroads, to make the basic changes necessary in the whole problem of transportation.

Fifth. Despite the intrusion into the field of transportation heretofore held exclusively by the railroads of busses, trucks, automobiles, inland waterways, oil and gasoline pipelines and aviation, there still remains, and will continue to remain, a wide and important field in which no other transportation system or all of them combined can take the place of the railroads.

If the railroads are losing out to other agencies it is, in a large part at least, due to the fact that they have not been and are not now financially in a position to inaugurate the improvements in methods and service so necessary to meet the competition of this day. Their present position is about comparable to what the position of Henry Ford would be if he were trying to sell his ancient Model T Ford in competition with 1933 models of other makes.

To even suggest the needed changes is beyond the scope of this article, but every railroad technologist knows that 24 hours could be removed from the running time between Los Angeles and New York with no more complicated process than straightening of curves, double tracking, and other entirely practical changes in the roadbed and yardage facilities.

The locomotive already has the required speed capacity for that improvement in time. The speed of freight trains is even more important than in passenger trains in meeting competition. With a night and day average speed of 75 miles per hour not even aviation could seriously compete.

Sixth. Any market value left in the stocks of railroad companies can not be based on earnings or prospective dividends but is solely dependent on stock-market manipulation or the incurable optimism of an ill-informed people.

It is fundamental that the bonds of any company have first call on its net earnings and if it is established that the bond requirements can not be met now or in the future, then the stock is valueless.

The frantic attempts of powerful financial interests to becloud this simple fact render the solution of the railroad problem more difficult.

Every one of these facts were as manifest one year ago as they are today except that today large sums of the people's money have been poured into the bottomless coffers of railroad corporations. Nearly a year ago I submitted to a member of this committee a proposed solution of this problem, and I still believe that no other solution short of immediate and complete government ownership will solve the intricate and complex question:

Briefly the proposed plan is—

First. Congress shall declare a national emergency of such threatening proportions as to require and justify the assumption temporarily of such extraordinary powers as are usually exercised in war time by the executive and legislative branches of the government. The only purpose of this declaration is to cut through the technicalities and legalistic objections with which any comprehensive plan would otherwise be met.

Second. Organize the transportation corporation of America.

Third. Transfer to that corporation all of the railroads, inland waterways, pipe lines, interstate bus lines, truck lines, aviation, and such other transportation agencies as the administrative authority established by this Act of Congress shall deem advisable to include in its operation.

Fourth. Establish a maximum work day of six hours in order not to add to the distress of the unemployment through the economics in operation which are to be inauguarted under this law. Provide in said law that reduced hours per day shall not operate to reduce the daily wage scale.

Fifth. Cause to be transferred to said corporation all of the outstanding bonds of these several transportation agencies if it can be shown that the proceeds from the sale of these bonds had been used in the construction, equipment or necessary operation of said transportation facilities.

Issue in lieu of said bonds in like amount the bonds of the transportation corporation of America back of which would be the credit of the United States.

As to stocks of railroads companies, pipe lines, and so forth, no bonds of the corporation would be issued therefor unless it could be affirmatively shown that the corporation issuing said stock was earning enough to accumulate surplus, above operating cost and fixed charges, to the credit of said stock.

The extensive surveys recently completed by the National Transportation Committee on which there are such able citizens as Bernard M. Baruch, Alfred E. Smith, Alexander Legge, and a corps of learned technological experts headed by Dr. H. G. Moulton, furnishes the information on which a just nad equitable adjustment with the several interests involved can be made.

Sixth. In the management of the acquired transportation facilities disturb as little as consistent with efficient operation the present managements but cut out all needless competition whether between one railroad with another or with other agencies.

Organize the whole transportation system with the primary view of adequate and reasonable service to the public and make due allowance in the program for inventive and technological improvement in the several fields of transportation. Under such a plan, for instance, all letter mail, except for remote places and short distances would be carried by aviation.

Certain fields would be assigned to trucks where there is a demonstrated advantage in that method over rail transportation.

Seventh. A schedule of freight, mail and passenger rates should be established. These rates to cover all operating cost and the interest on the bonds of the Transportation Corporation. This of course, would include all proper charges of maintenance, improvements, and so forth.

I concede that this is a tremendous and daring program but it is not more tremendous than the problem we have to meet. This is no time for men with weak hearts and timid souls to be in the public service. The only alternative to this or some equally drastic program is national financial disaster.

This one bold step will inspire the confidence of the people in the virility of their government and remove a crushing burden from the banks and insurance companies of the nation.

The next proposal—a 6-hour day and 5-day week is an imperative necessity to overcome present and prevent future social maladjustments in the progress of improved processes in industry.

Having listened for three weeks to testimony offered before this committee and the questions asked by its members, I will try to answer in advance the objections that will be raised by some of your members.

I agree at once that there is no over-production except within relatively narrow bounds, in our industrial machine. But I submit invention goes on apace even with more rapidity in this depression than in normal times.

I repeat that the last 60 years saw more mechanical advancement than all the previous history of mankind.

In all human probability the next 20 years will far transcend the past 60 in that advancement.

The emphasis of proof is often best illustrated by personal example. Since I was a boy on a Wisconsin farm the effectiveness of a man's labor has increased in that occupation at least twenty-seven-fold. What it took our large hard working family 12 years to do in clearing 320 acres of timber I have seen a half dozen men with two 110 Holt caterpillars do in a few days and the same two machines cleared of brush and trees, leveled and prepared for seeding 8,000 acres in a single year.

It may be well to say in passing that this wonderfully fertile 8,000-acre farm of irrigated land on the Rio Grande River, near El Paso, Tex., lost its highly competent owner over $1,000,000 in the last three years due to ruinous cotton prices.

As a very young man I worked on building railroad grades and laying railroad tracks in Washington and Montana. What it took hundreds of us to do with picks, shovels and spike hammers a single machine now does with ease. A few years ago before the railroads were stricken with creeping paralysis they had in use a machine that set the ties, laid the rails, screwed the bolts in the fish plates, drove the spikes and smoothed the roadbed at the rate of 10 miles per day.

In the copper smelters at Anaconda it took 3,000 of us working 12 hours a day to do what a few hundred working 8 hours can do with ease to-day.

Thirty years ago when I first became interested in the oil business we thought it good speed to drill a 3,000-foot well in a year. Now they can drill a 4,000-foot well in a week.

And so in greater or less degree the process of increased efficiency of labor goes on in all varied activities of modern life.

Forty years ago many of us foresaw the wreckage and ruin of human lives that would accompany the coming industrialization of industry and agriculture unless an intelligent citizenry would adjust the hours of labor and the social life of the people to the changing tempo of production.

A great railroad magnate and several other witnesses stressed before this committee the doctrine that our present distress is due to the fact that labor received too much and lived too high a few years ago. That ossified doctrine was abandoned by all thinking men before those witnesses were born.

If we had set our standard of living high enough, we never would have had a depression. They say men bought automobiles and radios who had no business to buy them.

Why shouldn't they buy them? Who built them but the men who labored. How could men busy with their daily toil know that men they were led to believe were great financiers and industrialists had ceased to function in their legitimate occupations and become mere gamblers in a game that would presently destroy the whole business structure of the country?

These men come to you now and tell you if you balance the Budget all will be well. Unless this poverty that stalks in a land of plenty is a ghastly dream we are faced with a war-time crisis.

If a citizen of Japan or China insisted on attempting to balance the budget in the crisis of war, he would be promptly and properly shot.

There are 10 men in America out of whose private fortunes your Budget could be balanced and they would probably be happier men than they are to-day.

If you must balance the Budget, you know where to find the money to balance it with, and it is not on the farms or in the homes of workingmen.

With six hours' labor per day and all our people employed, we can supply every table in America with an abundant and balanced food ration from soup to nuts. The New York garment makers can put a new suit on every man in America once a month and a new dress on every woman once a week and have lots of time and material left.

Our manufacturing plants working in 6-hour shifts can supply every family in America with a good automobile, radio, furniture, and a thousand incidentals to add to the joy of life.

There will still be left abundant labor and material to remove 10,000,000 obsolete, unfit, and unsatisfactory, insanitary human habitations and substitute for them modern, sanitary homes in which to raise a generation of healthy, happy children.

Having thus raised the standard of living to something like the possibilities of the Nation, the inventors, chemists and technologists will still be a full generation ahead of us with new vistas of glorious achievements to come.

Of course such a program presupposes the elimination of economic waste and senseless competition.

The most simple, direct, and immediately effective piece of legislation which this Congress could pass is the Wheeler bill for the establishment of bimetallism. Giving due weight to all that has been said before your committee about the relative unimportance of changing the monetary system, and with proper deference to those scientific minds that waste their mental efforts in devising plans for the introduction of scientific money, there yet remains the immediate pressing problem of establishing a workable medium of exchange with which the world's business can be done in a manner which does not destroy international trade and relegate a large part of the population of the world to economic dependency.

By no edict of this Government can we compel 1,000,000,000 of the people of the world to substitute their silver money for strips of paper no matter how beautifully engraved. Fifty centuries have taught them that governments come and go, but a silver coin lost in the days of the Pharoahs if found again retains its value as a medium of exchange.

Neither have the international bankers after 100 years of effort succeeded in forcing a gold standard on them.

Our farm population are especially dependent on these silver-using countries for their market.

The figures for the 1932 crop are not yet available, but in 1931 Japan purchased 1,233,000 bales of American cotton and has for years taken about one-sixth of our cotton exports.

Without a rehabilitation of silver, practically all of our oriental export markets are now closed to us, as they can not afford to buy our gold dollars with 25 cents per ounce silver with which to buy our goods.

Senator GORE. You realize that our trade with China has declined less than our world trade in general?

Mr. HOGAN. Yes; but I also realize, Senator, that there is a special situation in China that is accountable for that, instead of this matter of the silver alone.

I believe there is more misinformation accumulated in the banking houses of Wall Street than in any other like area on earth.

They talk of floods of silver that would be dumped on us under free, unlimited coinage.

These are established facts on silver supplies available to anyone with the energy to look them up.

My fear is that sufficient silver might not reach our mints to properly expand our basic money.

Little of the 7,000,000,000 ounces of silver coins and bullion now used as money can be spared by the peoples dependent on that supply for a sufficient medium of exchange.

Incidentally, the war in the Orient makes the urgency of silver money over there more than ordinarily pressing.

Even the best-informed opponents of bimetallism estimate that the maximum amount of silver likely to be offered for coinage under the Wheeler bill would be 650,000,000 ounces, and that some two or three years would be required in which to make full delivery of that amount.

As to silver in ornaments and commercial uses which may be offered for coinage the facts are that even at $1.29 per ounce an insignificant percentage of silver so used would bring large enough a price to justify remelting for coinage purposes.

It would be something of a shock to the housewife to discover how few silver dollars could be coined out of her prized silver sets. But with restored silver coinage the trend will be to the purchase, not the sale, of silver ornaments and utensils. That is the proven course in all history.

Having covered this subject at length in a statement before the Coinage Committee of the House, which statement is available to any one who might consider it of enough importance to read, I will pass to the next proposal.

Senator GORE. When did you make your statement before the House committee?

Mr. HOGAN. Just a short time ago; and I have copies of it here for any of you who care to have it.

Senator GORE. I would like to have it.

Mr. HOGAN. With respect to farm prices, a statement made by me before the Senate Committee on Agriculture embodies my views on that subject.

Every objection to price fixing is overbalanced by a situation that menaces the stability of every institution in this country.

What good are moratoria and bankruptcy laws unless the debtor can find a market in which his products will bring high enough a price to meet his postponed obligations?

Again our scientific economists can learnedly demonstrate theoretic objections to such a course but if we are forced to a dictatorship, as so many people anticipate, the first act of an intelligent dictator would be the fixing of a living price for the farmers' products.

The dairy products of this country now exceed in value any other farm commodity. That industry has as efficient a business set-up and is more intelligently managed than any industrial enterprise of anything like its proportionate size. The dairy farms of Wisconsin, Minnesota, Illinois, and other States are well conducted manufacturing enterprises in which hay, corn, mill feeds and other stock feeds are converted into milk with the least possible waste.

Scientific study by State agencies has established the best possible methods. Each dairy farm represents an average investment of perhaps $30,000 and yet these intelligent, thrifty farmers are being rapidly forced into bankruptcy.

Why shouldn't the consuming public pay an honest price for an honest product?

Every consumer must know that he can not enjoy anything but the most temporary prosperity unless the producer receives at least the cost of production for his goods.

These indirect and elusive proposals like leasing of excess acreage by the Government and retirement of marginal lands have no basis in sound economics and could not possibly become effective in time to prevent the loss of the farms through foreclosure.

A fixed price on butter fat is a simple and direct way of restoring prosperity to that great group of farmers engaged in dairying.

We hear much talk of careful, limited experiments to test out methods of aiding the farmer. The trouble with the proposed experiments is that the patient will die before the experiment is completed.

As to the foreign debts it's time to substitute common sense for hysteria and spurious patriotism.

Every man in this room knows that these debts are not going to be paid so why not admit and proceed accordingly?

As to the domestic debts, you listened to the president of an insurance company which holds $1,100,000,000 in mortgages on farms and small homes. You will recall his statement that the fulfillment of the insurance companies' contracts with the holders of $103,000,000,000 of life insurance is dependent on the collection of the face value of the mortgages and the agreed rate of interest thereon.

That is why any necessary legislation however drastic must be resorted to to increase earnings so that those obligations can be paid.

Nothing herein suggested calls for a drain on the Federal Treasury. Each suggested proposal contemplates the exercise of governmental mandate to put in motion the fundamental processes of agriculture and industry.

The Government can make the transportation system pay. No other agency has the power to do so.

The Government can establish a work day and a work week suitable to modern life. No other authority can.

The Government can coin money. No other agency can even if we do see communities trying to usurp that governmental function.

No power short of the Federal Government can establish a just price on farm products.

For three years we have drifted in indecision waiting for some mysterious force to save us from our incompetency.

For the past year we have been pouring Government money into railroads, banks, and insurance companies and have taken no constructive step to increase the earnings of the people without which there is no prospect for the repayment of these loans.

Great programs of public developments such as President Roosevelt proposes in the Tennessee Valley are in line with the spirit of the times and the economic evolution of the world, but the necessary preliminaries to their beginning eliminates them as a solution to our immediate problems.

A hungry man, a starving family can not be nourished with dreams of future plenty.

In conclusion, candor compels me to say that in common with millions of other citizens, I have about abandoned hope of congressional action in time to prevent violence and bloodshed.

The turbulent, desperate, but as yet, inarticulate one-third of our population have nothing further to lose and await only a courageous leadership to grasp the power from those who appear to have neither the wisdom nor the courage to use it.

In their confused thinking the conservative element in government and society delegate to themselves the virtue of patriotism. In a desperate time like this excessive conservatism may become treason.

I am grateful for the opportunity of appearing before this committee. I have a large family of children and grandchildren, and I want to escape the judgment of posterity that will be passed on those who, in a land equipped to produce every material need of men, and with resources in profligate abundance, permitted misery, poverty, and degredation to become the lot of a large percentage of our people.

Senator GORE. I would like to ask one or two questions. Did you hear Governor Smith's statement this morning?

Mr. HOGAN. Yes.

Senator GORE. Did you hear him say that it took three times as long for the Government to construct a building as it did for private contractors?

Mr. HOGAN. I did.

Senator GORE. Do you think that is true, or not?

Mr. HOGAN. No; I do not think it is true.

Senator GORE. You said in your paper, in express terms, that the Government was a demonstrated failure in the face of this depression.

Mr. HOGAN. I said the capitalistic form of industry and government was a demonstrated failure.

Senator GORE. In the face of this depression?

Mr. HOGAN. Yes.

Senator GORE. Yet you would enormously increase both the powers and functions of the Government?

Mr. HOGAN. Yes; but I would change its character in the process.

Senator GORE. How would you change the character?

Mr. HOGAN. Governments are always changing. Senator, do not overlook the fact that one-third of the area of the earth has changed entirely its governmental set-up in the last few years.

Senator GORE. In view of the fact that government is a demonstrated failure, you would transfer the entire railroad system of the United States to the Government?

Mr. HOGAN. Yes; I certainly would.

Senator GORE. Now, then, you say that industry—and I think you are right about it—lies prostrate in this depression; that capital is not earning a profit, and labor is not employed and not earning reasonable wages.

Mr. HOGAN. Senator, would you let me tell you why I would transfer the railroads to the Government instead of to private enterprise? I can appreciate, I think, as well as you or anyone else the difficulties that have been experienced in what you might call government inefficiency and operation. I have operated in several businesses myself. I have mined in Idaho. I have drilled oil wells from the Canadian border down into Old Mexico, and I have farmed and raised cattle on a really large scale. But you have to figure on the alternative proposition when you talk about the railroads. What group is there in the railroad set-up that can finance the necessary readjustments? They simply do not exist. We try to reach it in some of the States—

Senator GORE. Mr. Hogan, if the Government undertook to finance it, it would do it through taxing the people of this country, the same people and the same victims, you might say, that could, if they would, finance these railroad concerns.

Mr. HOGAN. Senator, if there had been time to complete the reading of my statement, I would have pointed out that no one of the suggestions made by me imposes any tax on the government.

Senator GORE. To begin with.

Mr. HOGAN. Or at any time. What agency is there in America that can make the transportation system pay? Only one, the Government. They can fix a rate that will cover the charges.

Senator GORE. The Government, Mr. Hogan, is running behind $143,000,000 now in its postal returns.

Mr. HOGAN. Incidentally, I think the Postal Service of the United States is the best evidence anywhere on earth of the competency of government. No private agency can even approach it in competency. We get terribly fed up with hearing about the charges against the Post Office Department of the United States. They give us service that no enterprise could.

Senator GORE. Don't you think private enterprise could run it for a third less?

Mr. HOGAN. Not at all.

Senator GORE. And with a third less employees?

Mr. HOGAN. Private industry would cost the American people three times as much as the present post-office service. Have you any idea, Senator, that you could mail a letter for 3 cents across this continent under private enterprise? If you have, you have not a very definite idea how it does business.

Senator GORE. I do not doubt at all that private enterprise could run it for a third less money, with a third less employees. Private enterprise is undertaking to carry the air mail, through a subsidy, and it has cost as high as two or three or four or five dollars a pound—even a letter. This private enterprise is subsidized by the Government.

We are pay'ng one concern now $24,000 a day to carry mail, and it sometimes carries a handful; and, when they based it on poundage, instead of mileage, they caught them carrying bricks in the mail, to get the pay. But we will not pursue that.

Mr. HOGAN. Senator, I would like to pursue that.

Senator GORE. I look on it as a human institution, with human limitations. Do you think any government, except a dictatorship, could administer the railroad system of this country?

Mr. HOGAN. Yes.

Senator GORE. Do you think a democracy could do it?

Mr. HOGAN. Very much better.

Senator GORE. Don't you know that one of the main causes of the breakdown of parliamentary government in Italy was the government ownership of railroads?

Mr. HOGAN. I think the breakdown of governmental agencies in Italy was exactly what is happening here, the failure of those in authority to act and assume broad powers for an existing condition. They hesitated, and they failed to act in the face of a great crisis, and the result was that the people rose up and destroyed them. That is exactly what will happen here.

Senator GORE. It was a policy that loaded the railroad systems down with railroad employees. Everyone who wanted a job would appeal to somebody with parliamentary influence, and he would say, "Here, put this man on." They had to do it, and the scheme broke down.

Reverting to the fact that industry is prostrate under the existing system, and that government is an admitted failure, you would institute a planning board, or system, at least, for industry, as I understood it?

Mr. HOGAN. I did not complete my statement.

Senator GORE. You said in the beginning that you would have some sort of planning power.

Mr. HOGAN. Yes.

Senator GORE. Our industry has been planned, in a way, by people who have their earnings of a lifetime invested in it, all their capital, all their past earnings, and all their hopes for the future And yet, under their planning and leadership, we have prostration, as you say. Where would you get somebody to plan our industry that would have more interest in it or more experience than the people who have had charge of it?

Mr. HOGAN. Senator, if you will permit me to answer your question——

Senator GORE. I will be glad if you will.

Mr. HOGAN I will say that the difficulty is that the man planning his own individual enterprise must deal with factors entirely beyond his control—the rapid technological changes that are being made in industry. How many industries have failed because they were producing a product that was very presently displaced by something more desirable to the people? All those things are beyond the power of the individual to anticipate or plan for.

Senator Gore. And you would substitute the government?

Mr. HOGAN. Yes.

Senator GORE. And government is a demonstrated failure now?

Mr. HOGAN. Well, you are trying to put words into my mouth that I did not say.

Senator GORE. You said, in express terms, that the government was a demonstrated failure in the face of this depression, and I am not trying to put words in your mouth. I repeat what you said.

Mr. HOGAN. Parden me, Senator, but the exact words are here in black and white.

Senator GORE. Read them.

Mr. HOGAN. Yes, sir. I will be glad to read them. I think we would have saved time if I had read it all, to begin with.

Senator GORE. This is not in the part you read?

Mr. HOGAN. Yes; I read this. [Reading:]

> Capitalism as a system of industry and government is a demonstrated failure in the face of national crisis—

And so forth. I did not say government was a failure. I said:

> Capitalism as a system of industry and government is a demonstrated failure in the face of national crisis and has been destroyed by the practice of its adherents as evidenced in testimony taken before the Banking Committee.

Personally, I want to say that I never subscribed to the theory so recently and so universally applied throughout this country, that capitalism and government were one. They never should have been one. It is true in the last few years they tried to make them one, but, nevertheless, Government ought to be independent of capitalism and function for the people, instead of for special industries and special interests.

Senator GORE. I have no doubt of that.

Mr. HOGAN. So, you see, Senator, what I said was that capitalism was a failure, but not government.

Senator GORE. Under government.

Mr. HOGAN. Capitalism running the government is a failure, yes

Senator GORE. In view of that fact, you would have the government take over the railroads. Would you have it take over other enterprises?

Mr. HOGAN. No. I do not propose any other enterprise except the railroads, and there is a very specific and definite and pressing reason for that.

A year ago, when I wrote a Senator who is a member of this committee, Senator Costigan, and suggested the changes that I indicate here, I wrote from New York. I am not a stranger among those big buildings in New York. I have done millions of dollars of business up there, and I found, in my investigation up there, that $5,760,000,000 of railroad bonds were held by insurance companies, and savings banks.

And that if they undertook to sell them it would totally and utterly demolish the price of those bonds. Now in what position is a company, any of those good companies, railroad companies, in to obtain credit to match the improvements that are going on with their competitors?

I have traveled a great deal through this country. I have gone out of El Paso, Tex., with four trains leaving on a 900-mile trip within a half an hour of each other, and I would have a whole Pullman car to myself. Now, there is a senseless competition all down the line that has got to be eliminated, and no other agency short of the Government could do it.

Senator GORE. Coming back to that question. Where would the Government get the managerial skill to supervise and direct this vast and complimented system, outside of the men who have been connected with it in the past and have accumulated to-day some little experience?

Mr. HOGAN. I suggested right in this article not to disturb the existing organization, but to the lowest possible maximum let those that are in charge continue in charge.

Senator GORE. But you say capitalism under the Government is a demonstrated failure.

Mr. HOGAN. Yes. I say in my statement:

> Capitalism as a system of industry and government is a demonstrated failure in the face of national crisis and has been destroyed by the practice of its adherence as evidenced in testimony taken before the Banking Committee.

Senator GORE. Would you not make it worse by more governmental interference? I think we have had too much of that. And I do not know yet where the Government would get the managerial skill to supervise these industries and prevent them from becoming prostrate.

Mr. HOGAN. Senator, do you think there is any man working for any railroad company that would not gladly give his skill and ability to the Government if they took it over to-morrow?

Senator GORE. I think there is coming a time when they would be glad to come under the wing of the United States and find themselves in the lap of the Government.

Now, you say that rugged individualism is gone, and in the light of machinization and technology and mass production we have got to abandon it, modify it, and substitute a different system in its place.

Mr. HOGAN. That is true. I did not create the facts, but they are there.

Senator GORE. In other words, then, the world has evoluted out of these old methods and machinery?

Mr. HOGAN. Yes, exactly.

Senator GORE. A great many people seem to think that the world has evoluted out of a system of bimetallism which it tried for five centuries and could not make it work; the world has outgrown that, according to some of these economists. Yet you would have it come back to an abandoned and antiquated system of bimetallism.

Mr. HOGAN. Senator, 60 per cent of all the people of the world never abandoned bimetallism, and I propose to go back——

Senator GORE. Just how does that 60 per cent compare in point of advancement and ordinary prosperity with the 40 per cent that did adopt the gold standard? Now if the silver standard makes for established and better system of civilization, and if the people have achieved more progress under the silver standard, then there is a point in your argument.

Mr. HOGAN. Senator, I can not believe that you are seriously contending that any other kind of a monetary system, gold, for instance, would have advanced those countries more rapidly than they have advanced.

Senator GORE. They have adopted a system, I assume, generally speaking, adapted to their own conditions and environment, industry, progress, and I am not disposed to meddle with it. Some people want us to buy enough silver to double the price of silver in China, which would give them dear money and cheap things—what we have got now—that say we want cheap money and dear things in the

United States. Yet the bimetallists and the silver people want to reverse that situation. They think dear money would be a good thing for China although it is a bad thing for us, and that cheap things would be a good thing for China although it is a bad thing for us. The principle does not seem to work in both cases, is the point I make here.

Mr. HOGAN. Well, Senator, I am a good deal more familiar with Mexico than I am with China. And I know that dear money would be a very, very great help to Mexico.

Senator GORE. And cheap money a good thing for us?

Mr. HOGAN. Dear silver would give them a greater purchasing power.

Senator GORE. It would. And if you did what you have suggested, the man who was so fortunate as to have a $10 gold piece in his pocket would have the purchasing power in proportion. And how many people do you think have a $10 gold piece in their pocket?

Mr. HOGAN. Not many. And I am afraid there will be less.

Senator GORE. I am afraid so, too. If you bring silver in here, it will be less. That will be all. Thank you, Mr. Hogan.

Mr. HOGAN. Thank you.

Senator GORE (presiding). The committee is adjourned without day.

(Thereupon, at 1.05 p. m., Tuesday, February 28, 1933, the committee adjourned without day.)

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(A letter and brief submitted by Mr. Frederick W. Beinecke are here printed in full, as follows:)

NEW YORK, N. Y., *February 15, 1933.*

Senator REED SMOOT,
*Chairman Senate Finance Committee,*
*Senate Building, Washington, D. C.*

MY DEAR SENATOR: I am inclosing herewith an article that I have written on the economic situation, and a suggested way out.

This has been read by a great many of my friends who are bankers, lawyers, business men, etc., and their comments have been very flattering indeed.

It will take only a very short time to read, and perhaps it may assist somewhat in the investigation which you are now conducting.

Respectfully yours,

FREDERICK W. BEINECKE.

## THE ECONOMIC SITUATION, THE UNDERLYING CAUSES, AND A SUGGESTED SOLUTION

Modern society has become so complex that we lose sight of the fundamentals upon which the modern edifice of industry and commerce rests. We talk of foreign exchanges, bank reserves, balancing budgets, gold standard, war debts, etc., and we little know what these things actually are and how closely one is interlocked with the other. Plans are proposed which will ameliorate conditions in one particular field, and these in their application seriously aggravate conditions in other fields. Arguments, statistics, analyses may conclusively demonstrate that a certain plan will materially assist and almost save a particular industry, and therefore, it must be satisfactory and can not be refuted. Yet this very plan may save one situation and positively cripple another. So it is vitally important that we view these fundamentals, that we learn what is the basis of all this mechanism, and that we realize what are the prime objectives of civilization.

The first great urge of man is the preservation of life, and man must use enough of his efforts in order to produce the means of existence, or else he will starve and his race will disappear. We often confuse this paramount necessity and consider that our desire is making money; that this latter is the supreme impulse that spurs on and drives us continually. Our coal mines operate, we say, primarily to make money, whereas they operate primarily for the purpose of producing the substance that will release heat, power, energy. Our railroads, we say, exist to make money, whereas they primarily exist to bring production to consumption. So it is with the endless articles of commerce. A shoe manufacturer exists primarily to supply people with shoes, and a clothing manufacturer to supply people with clothes. These are the fundamentals, these are after all the foundations upon which our economic machinery must be erected. We mine coal to turn it into heat, we grow wheat to turn it into bread, we raise cattle to turn them into meat, and we grown cotton and wool to turn them into clothes. Those are the primary opjects, and we do not fundamentally do any of these things to turn them into money; that last process is secondary. Yet we have so confused our thoughts that we believe that that last process is primary, and we endeavor to conduct our civilization by making our economic mechanism rest on a foundation which does not exist.

It is like saying that the elevators in a department store are more important than the merchandise the store displays. To-day our shelves are full of merchandise, our elevators are of ample capacity, but the customers are lacking. The elevators are the financial machinery, the merchandise represents the producers and the customers represent the consumers. The producer and consumer can not be brought together by increasing the speed or changing the capacity of the elevator, that may assist, but we must look deeper. We must find out definitely and conclusively why these two groups do not get together. Why I, who am a producer and consumer at one and the same time, am held powerless? Is it this machine age? Is it the gold standard? Is it the war debts? Is it the burden of taxation? Is it the system of Government? Are these the underlying causes of our difficulties, or is there something deeper, something that we have permitted to permeate our civilization to such an extent that we believe it is as necessary to us as the air we breathe or food we consume?

This study that has been written, is a sincere effort to endeavor to trace the real causes, and to offer a solution that can be controlled and that will permit the ingenuity and productivity of man, a broader and wider scope than now exists.

In order to view clearly the functioning of society, it is absolutely necessary that the reader grasps the conception of the divisibility of society into its four fundamental groups. Furthermore, he must understand definitely that it is the surplus energy of man and his machines which determines whether or not a country is advancing or declining and lastly he must be willing to delve somewhat deeply into our financial mechanism, and learn what kind of a system we have created, where its limitations are and how dangerous it can become.

In these few pages, it has been shown what has caused the conditions under which we to-day live. It has been shown that it is not necessary to have Socialism, Fascism or dictators. The truth is so simple, that due to its very simplicity, it has been overlooked. First we must arrange our society to utilize the surplus energy created; second, we must design our financial machinery so that this can be accomplished; and third, we must so design this mechanism that never through the functioning of this mechanism, demand can be made to turn this surplus into the medium of exchange. To-day we can not see the woods because of the trees, and we close our eyes and intelligence to the facts, with sorry excuses and foolish platitudes. "None are so blind as those who will not see," and by far the major task is to open those eyes and let them see the grandeur of the spectacle, the great Republic of the West, ready and willing to banish hunger and poverty from its people, and able and anxious to bring security, comfort and contentment to its citizens.

## Chapter I

### THE RISE OF BARTER AND EXCHANGE

In the consideration of modern economics, it is necessary to distinguish the ripples and waves from the tides which are the underlying conditions that cause the tremendous upheavals in our present civilization. The movements of gold, the erection of tariff walls, the balance of trade, the reduction of armaments, and the prices of securities and commodities are only the backing and filling of the waves which ride on the ebb and flow of the tides. These are man-made effects on the major phenomena.

In order to clarify the intricate system of civilization we must examine critically the stage, the scenery, the actors which make up the theater where commerce is carried on, and upon which modern society rests.

As man slowly evolved from barbarism, his means of intercourse through the ages followed various expedients. At first these means were extremely modest and consisted of very simple methods of bartering and trading, as to-day, for example, boys swap three small marbles for one large one. The transactions in our early civilization were hardly more complex. They carried on in some such manner, naturally, a very limited trade and even in these early processes certain standards were adopted. A single ox might have been acceptable in trade for 4 sheep, 10 chickens for 1 sheep, and a handful of salt for 1 chicken. Clumsy expedients at best, but yet no brain had conceived anything better. As long as tribes were more or less self-contained, this method served its purpose. As two tribes had commercial transactions with each other, this method of barter and exchange became difficult and cumbersome. In order to handle more extensive commerce, where divisibility and transportability were desired some other method was evolved what to-day we call a medium of exchange. It was not a spontaneous result, nor was it adopted over night by all existing civilization. It came about through desire, through covetousness.

A beautiful shell or a handsome tusk of some wild animal was a thing to be desired and its desirability was represented by a few handfuls of grain, or by so many skins of a particular animal. A semiprecious stone, a piece of shiny metal, was more desirable than the common things at hand, and these served as the first media of exchange. At one time or another the media was represented by each of the different metals we know,—precious, semiprecious, and others. Even such things as shells, arrowheads, and animals' teeth were once employed. These media had transportability and divisibility. They were not evolved and adopted by a group convening together and after long deliberation finding that such a thing was required, and choosing one that had these two features. Covetousness made certain things more desirable than others, and these were the things that served as the earliest media. In this manner, the real value of the article itself was lost sight of and vanity, possession, ownership, became the paramount urge.

So, through the ages as man discovered more of nature's secrets, desirability changed. What was to-day desirable, to-morrow became commonplace. Iron had its place, copper, tin, silver, and finally gold. These all had the two factors of transportability and divisibility. But as more iron, copper, and tin were discovered and mined, each lost the desirability value, and consequently were abandoned as a permanent medium of exchange. Gold and silver remained. These two still possessed that additional factor, in that they were relatively scarce, and these two metals consequently have become the present media of exchange throughout the world. Gold, in addition to the transportability, divisibility and scarcity value has still a fourth value, a great superiority over other metals as a medium in that it does not deteriorate due to the action of time and the elements. Consequently its weight to-day will differ very slightly from its weight in 20 or even a hundred years. A perfect medium should have these factors, unchanging, fixed and unvarying. In three of these factors gold is ideal, but in one factor it is not stable. Its desirability value or as we know it to-day its scarcity value, fluctuates due to an increase or decrease in the amount mined, and the varying amounts used in the arts and sciences. Gold, however, is the best medium, as yet, evolved, and without doubt, its scarcity fluctuates the least of all the metals so far employed.

Gold has, therefore, become the measuring stick of commerce and relative values are arrived at by a reference to and comparison with this measuring stick.

It must be borne in mind that this measuring stick fluctuates and many of the ills of modern society are caused by these fluctuations. Congress has enacted a law whereby it is fixed that a dollar shall be a coin consisting of 25.8 grains of gold, nine-tenths fine. It would therefore seem that by such an enactment the value of gold was fixed—could not fluctuate. If in the world due to the discovery of new mines, there is a greater abundance of grains of gold, the scarcity value naturally becomes less, and gold is, therefore, cheap. Whereas if there is a great scarcity of grains of gold, due to hoarding or other causes, this factor increases and gold becomes dear. The measuring stick, consequently, moves up and down, lengthens and contracts; and therefore, measures relatively inaccurately.

By act of Congress it has been enacted that 1 standard foot is equal to 12 inches. So carefully is modern society erected on this standard that there is treasured by the Bureau of Standards in Washington a bar of metal that is called the standard foot and this particular piece of metal determines the standard foot and is the basis of all measurements in this country. It is to-day the final reference for all linear measurements. It is, therefore, a standard. It is fixed. It can not vary. A bridge is built in California. The concrete piers and foundations are erected at the site. The steel superstructure is fabricated in Pittsburgh. The finished steel beams, trusses, plates arrive at the bridge site. These finished steel pieces invariably fit the substructure almost perfectly, even though they have been constructed at opposite ends of this vast continent. That little standard foot at Washington has made such a remarkable achievement possible, though, we, in our daily routine of life hardly realize such a stupendous accomplishment of civilized man.

The engineer, the architect, the builder, and finally the artisan, himself, could not create these structures, these machines, and the endless articles of society, unless a fixed, permanent, absolutely unvarying standard was maintained. Man has fixed his standard foot, his standard gallon, his standard meter, his standard degrees of latitude and longitude, and yet his standard unit of commerce on which the bloodstreams of civilization depend, varies with the vagaries of discovery and the daily customs of society. This is the unit with which the international banker, and the business man must work. Is it any wonder, occasionally, that the entire machinery goes awry, and the market places of the world become upset? Is it any wonder that commerce and trade are bewildered when their measuring unit expands and contracts so elastically? Gold! Gold! The cry is for gold and has been so since earliest recorded history. It has become so ingrained in the minds and consciences of man, as to become a sacred idol to be venerated and adored beyond all other things.

This, then, is one part, an important part, upon which society plays its drama. We know its weakness. We know its drawbacks. Nevertheless it is there and as it is the best tool we have so far created for the purpose, we must continue with it until such time as a better instrument of commerce is evolved. As long, therefore, as the drama of society must be staged with an orchestra out of tune, just so long must we play our parts upon this stage and hope that eventually this orchestra, finally through education, through knowledge, through experience and invention will approach a more perfect and efficient state.

## Chapter II

### THE DIVISION OF LABOR AND THE RISE OF CREDIT

In primitive society hunting was the first means of livelihood. A single hunter matched his own skill and ingenuity against the wild animal, and it was the invention of the sling-shot, bow and arrow, and spear that gave him a marked superiority over his prey. However, he soon learned that his own single skill was augmented greatly if with other savages the beast was surrounded and not permitted to escape. Man discovered in some such manner that more could be accomplished by a group than by an individual. It was easier and more certain to employ such a group, and man learned the great advantages gained in this cooperation.

Evolution and experience opened other paths. It was quite apparent that one individual could make the sling shot a little better thanan other. Without doubt, here, a savage was more proficient in the use of the sling shot and used it with more deadly accuracy than another. So, gradually, through the limited accomplishments of the tribe, a division was made, specialists appeared. The tribe or clan had its hunters, arrowhead makers, fighters, hut builders, and whatever other primitive divisions existed. The group as a whole functioned better under this system than as formerly when each individual performed all functions.

At times there was required the united efforts of two or more specialists to complete one task. It was a simple transition from individuals within the group to more elaborate organizations. In this society one particular savage was expert at making the arrowhead, and another, the shaft. Their combined efforts manufactured the finished arrow. A partnership here existed, and under this method they became more efficient and productive. Their value to the tribe was in this way greater, and the return from their fellow tribesmen was increased. Here, then, existed a very primitive state, and as civilization advanced further divisions in labor were created until to-day thousands of specialists are required in producing the most simple article. A fundamental setting on the state of civilization in some such manner made its appearance.

As this crude society expanded, we also begin to see the first glimmerings of credit. Some tribesmen found a few flints suitable for arrowheads and went to the arrowhead maker with these flints, loaning them to him and eventually receiving in exchange the finished arrowheads. Credit had been established. A credit of a handful of many flints against the future delivery of several arrowheads. The artisan was a man to be trusted. He was a man one could place some confidence in. Faith was there that the raw material would be fabricated into the finished article. A new force had entered into the machinery of society. Credit. Trust. Faith. Confidence. Something revolutionary. A tremendous step up from savagery. A stupendous advantage that thinking man gained over other animals.

As credit evolved, so also exchange, barter, trade broadened. The discoverer of the raw flints found one day that he had plenty of finished arrowheads. It was of no immediate advantage to have any more. His supply was sufficient. Yet what could he do with this raw material? The arrowhead maker desired raw stock and offered in exchange finished arrowheads, suggesting that for a handful of finished arrowheads, he could go to the hunter and receive in exchange a part of the carcass that this hunter had just killed.

These dim, first struggles of credit, or barter and of exchange gradually expanded, until what first only existed within the small circle of the tribe itself, reached out further and included other tribes. Some due to their environment were better hunters, better herdsmen, better farmers, and these exchanged between them articles of one kind for another, whatever each group desired that the other had. These transactions at first took place instantaneously, that is, they were evolved, haggled over, and consummated at one and the same time. It soon developed that time often entered into a particular trade. There was a lapse between the delivery of the raw material and the receipt of the finished product. In other instances, one man went on a visit to a neighboring tribe, entrusted with commissions from several of his fellow tribesmen. He had with him goods to exchange, loaned to him with the understanding that he would return with other goods. The idea of loaning had occurred here. A further ramification of credit.

As the clans and tribes became more amalgamated, credit became more of a factor. A canoe had to be built. This was a large undertaking. It required a variety of skill, as well as the strength of many individuals. The tree had to be cut, the branches trimmed, the log peeled, the wood hollowed out and shaped, and finally transported to the river. All the united labor of many men. It took, furthermore, time to build this and naturally, during its construction the workmen had to be fed and provided for. This construction required financing and this financing had to be done by the tribe. Somewhere the food had to be procured. A credit of food against a future delivery of a finished canoe. These credits were transient credits, extinguishing credits. For as soon as the canoe was completed, the debt of food was canceled or transferred into a credit of the canoe. For each advance in this instance something tangible resulted. So were built the shacks, the rude huts, and the dozens of other things that made up the habitations and equipment of these early primitive peoples. Often, however, a transient credit extinquished itself without any material gain. The farmer desiring some fresh meat, loaned some wheat to the hunter, and upon the delivery of the meat, the credit so advanced was canceled, it disappeared. In order to build canoes, the shacks and the implements of the hunters, it was necessary for the tribe to advance transient credits that extinguished themselves without any tangible gain, and also transient credits that were ultimately transferred into these tangible objects. Therefore, it is evident that those engaged in producing the necessities of life had to furnish a little more than their particular requirements in order to support those engaged in producing the more permanent articles required in this society.

When the productivity of the farmer and the hunter was barely sufficient to support the community no gain was made in the permanent fixtures of the tribe, and the people remained poorly fed, poorly housed, and poorly clothed. The credit advanced by the hunter was extinguished in its entirety by the wheat of the farmer, and as there was not any surplus of the necessities of life, consequently all were compelled to devote *all* their time and energy to produce these. A society where all transient credits extinguish themselves in this manner is static, impoverished, and unable to furnish itself with even the most primitive forms of improvements. A society that produces transient credits, some of which are extinguished and some of which are transformed into fixed credits, advances, becomes richer, and supplies itself with the permanent forms of wealth, unless artificial barriers are erected which restrict and retard the transfer of a transient credit into a fixed credit.

## Chapter III

### THE RISE OF CAPITAL

The transfer of a transient credit into a fixed credit produces capital. The canoes, the huts, the hunters' weapons and the implements of war were all produced by the united efforts of the tribe, and as they were produced by the tribe they no doubt belonged to the tribe. A strictly communistic society where all created and capital assets belonged to the people as a whole. Even in this rude state there existed some hunter a little more skilled than his neighbor. Due to his excess prowess or energy he accumulated more skins in his hut. These were his rugs, his mats, his clothes, and made him a little more cheerful and a little more comfortable than those about him. They were his in their entirety. Private ownership. Private capital.

It was not a very long step from private ownership to group ownership within the tribe. Four or five hunters grouped their efforts, united their skill, and the result of their combined prowess belonged to them exclusively. The trap or pit they built to ensnare their prey belonged to them as a group and became a capital asset owned collectively. Each man devoted his time and labor to the construction of this trap and upon its completion had his share of the spoils derived from the successful manipulation of the device.

This trap, as in all undertakings, that required time in their accomplishment, was built on transient credits. Each man loaned his labor to the enterprise, knowing full well that he would be repaid in part ownership relatively to his contributions. A partnership had in this manner been formed, and credit, mutual trust, faith, confidence had made the enterprise successful.

Another element also entered into this crude transaction, for at the time of the building of this trap, some hunter either was delegated, or perhaps, volunteered to keep the workmen fed, provided that for his labor he also would have some share in the finished products. Another evolution of society made its appearance. A share in an enterprise where that share did not directly construct or labor at the machine itself. A loan of labor, of food, of meat, had been made in order to participate in a future capital asset.

Money, shells, wampum, teeth, iron or whatsoever medium was later evolved did not enter into these various transactions. The fundamental idea was faith, belief that the participation in an endeavor having been agreed upon, that the contract would be lived up to, and that the shares would be proportioned in accordance with some prearranged scale. The later evolution of the measuring stick, the medium of exchange, did not change the fundamentals. It served simply the purpose of comparing one man's canoe against another's pile of skins. The ownership remained the same. The relative participations remained the same. This great invention of money basically did not change common property or private property. This existed before the invention and after the invention, in the same form and in the same quantity. The pile of skins had not changed, the number and size of the canoes were the same, and the relative ownership in these were the same. The medium of exchange was simply a different method whereby each share was translatable into some other form.

Fixed capital, then, is produced by the excess production of the necessities of life, and this excess production permits some of the labor and time of the community to be devoted to creating these permanent improvements. Transient credits are either totally extinguished by consumption or transferred into fixed capital.

The medium of exchange, the tool, whereby barter and exchange can be handled in an easier manner, whereby ownership can be changed from one individual to another, has not created anything. Man's hands, with nature's bounty, do the creating. The results, however, are translatable into money. In modern times this is often lost sight of. We look at money, at gold, at any medium, as the thing itself, whereas we must remember that in itself the medium has no value. It must be translated into goods, into food, before value actually exists.

Centuries after centuries moved through the calendar of human events, and slowly, painfully, man increased out of the necessities of life, his capital goods. War, famine, drought, pestilence, earthquakes, hurricanes, all the adverse forces of nature and man destroyed them, but the indomitable spirit of man replaced them again and again and added to the store.

The sailing ship replaced the canoe, the road the trail, and the town the group of mud huts of our early savage forebears. The system of ownership had not changed through this long evolution. The sailing ship was owned in the same manner as the savage canoe, in shares, in certain parts, by certain percentages, these shares translatable into money, into the medium of exchange. Fundamentally the ship itself existed; that was the thing of value.

This early sailing ship, a large enterprise, was owned by a group as partners, each of whom shared in certain fixed ratios, the success or failure of the venture. So came into existence other partnerships, and finally, early in the Middle Ages, the modern corporation was evolved, an unlimited number of partners, a tool whereby hundreds and to-day thousands of individuals can particpate in one common enterprise. In all these schemes, in all these systems of commerce, with all these tools of trade ownership still remained the same. Money simply the translatable medium whereby ownership shifted from one individual to another, money only the emblem of ownership, a method whereby the relative shares could be more easily computed and compared.

In modern society the emblems of ownership consist of partnership shares, corporate shares, bonds, deeds, mortgages, notes, and other instruments, all translatable into money, but fundamentally the tokens themselves indicate simply a participation in the capital asset itself.

This complex and vast society was builded up on these instruments of ownership, and credits, money were advanced against them. The railroad first issued its direct ownership certificates, which we know as stock certificates, then its indebtedness certificates, which we know as bonds, and these were issued in order to procure credits against future participation in the enterprise. The individual industrialist issued his securities in much the same manner to procure credits to finance his particular business. These pieces of paper represented shares in fixed credits. They were issued on faith, on trust, and on confidence. Confidence that he who first advanced the credit would ultimately share in the final venture. They consequently became the capital structure itself, translatable into money, and transferable from one enterprise to another. The ebb and flow of commerce, the slow increment to this capital structure, moved more or less smoothly. Spasmodic drifts and changes in the shifts of prosperity occurred and usually what was one localities gain became anothers loss. This was and is to-day the capital structure on which credit rests. The transients credits over and above those necessary for the necessities of life, were transformed into these fixed, capital assets.

The transient credit that is extinguished is temporary, short lived. It is extinguished when the goods or commodities on which the credit is based are consumed. In modern times the financing of the wheat crop is an example of this. Credit is advanced to the farmer in order to finance his crop and as he sells it to the elevators, the proceeds from this sale extinguish the credit he incurred. The elevator man finances the wheat in his bins in a similar manner and has recourse to credit. As he sells his wheat to the mill, his temporary credit is discharged and extinguished. So these credits are passed along, each one extinguishing a former one, until finally as a barrel of flour, or a loaf of bread it reaches the ultimate consumer. Out of his wages the consumer buys the bread and the credit disappears. His wages may have originated from labor performed in producing other necessities of life, when a new transient credit originates or else his labor may have been employed in erecting some fixed capital credit, and in that manner the transient credit was transferred into a fixed credit. The circle is then completed and this particular credit is then totally extinguished. The iron ore from the mine, the cotton from the plantation, the oil from the oil well, all pass through this cycle. The consumer liquidates the last temporary credit. He may have turned it into a new transient credit or transofrmed it into a fixed credit, but the main thing to consider is that this temporary credit has served its purpose, brought the raw material from the farm, the mine, the oil well, and that upon reaching the consumer, the credit is liquidated.

Capital credits do not extinguish, but exist on a very permanent basis. The railroad pledges its right of way, the manufacturer his plants and machinery, the real estate operator his land and buildings, the oil producer his wells, pipe lines, ships, and terminals, the steamship operator his ships and wharves and so through the whole structure of civilization. Credit has built the world and civilization would still be in a barbaric state, if this wonderful instrument of commerce had not been evolved and expanded.

The actual extinguishing of a capital credit is a complete loss to the entire credit structure if that capital credit is extinguished through destruction. The loss of a building through fire, the destruction of cities through earthquakes, the wanton devastation of war, the wear and tear of time and the elements, all remorselessly tend to wear down and destroy capital credits. Man in his system has set up reserves against some of these losses. He has devised a scheme of insurance and out of his daily labors has set aside a part into a fund to replace into the credit structure that which by fire has been destroyed. He attempts in all forms of insurance to rehabilitate the structure when through calamity it has suffered. In case of tremendous conflagrations, enormous destructions by earthquakes, the insurance fund is inadequate, can not fill the breach, and the credit structure shrinks accordingly. Man has used every expedient possible to protect this structure, realizing, unconsciously, that its collapse is worse than any disaster that can overtake the world.

Credits, then, exist in those two fundamental forms, capital or fixed credit, and transient or extinguishing credit. The former is the bedrock of civilization, the latter simply a means for bringing production to consumption. When production is consumed that particular credit has served its purpose and usefulness and disappears. Capital credit is permanent and every means is used by man to keep it permanent and to replenish any loss which that structure may suffer.

## Chapter IV

### THE EFFECT OF THE WAR ON THIS CAPITAL STRUCTURE

Prior to the war the credit structure existed in the manner described before. The purpose of this chapter is to endeavor to describe how that cataclysm, that foolish destruction of the world's goods affected the structure, this carefully created, this zealously guarded mechanism that man laboriously reared out of the darkness of the past.

Immediately after war was declared credits on capital still existed, though the immediate shifts and changes caused terrific upheavals. The actual credits, however, still were there. Their particular ownership simply changed. The actual destruction came about in two general ways.

In times of peace the capital structure is maintained and increased by the excess production of the necessities of life, this excess production of a certain group, permitting others to devote their time and energy in the production of fixed, permanent goods. The capital structure of itself depreciates, wears out. Parts of it become antiquated, due to new inventions, changes in the modes and styles of living, and the general improvements in the advancement of civilization. Other parts due to wear and tear, use, and the action of the elements, continually are depreciating. During the progress of the war these replacements and capital increases were lacking, thus causing in one major way the actual shrinkage of the capital structure.

The more obvious destruction was caused directly by war. The burning of villages, the tearing up of railroads, the dynamiting of bridges, the wanton destruction of all things created by man, were direct losses to the capital structure.

Here, then, was a structure that was rapidly being destroyed and allowed to decay. On this structure had been erected all the credit instruments of a past civilization. These instruments still existed though the capital back of them was disappearing. In order to prosecute the war the governments of the belligerents borrowed vast sums on credit from each other and from the Government and the people of the United States. These sums originated as transient credits, credits used in bringing raw materials to the consumer, and should have been extinguished either by transfer into other transient credits or by exchange into fixed or capital credits. It might at first appear that these credits did extinguish themselves, because upon consumption of the war supplies, the necessary products were consumed. However, the vast armies were consumers only, and the surplus production of the necessities of life by the noncombatants was insufficient to maintain this tremendous drain.

There was, therefore, created enormous debts, which though the goods were extinguished, still remained. In addition thereto, there was, as has been shown, the old credits resting on a structure which through direct destruction, obsolescence and decay was shrinkage rapidly. Such was the condition at the conclusion of the war.

Immediately upon the peace of Versailles came hysteria. The victors demanded that the vanquished pay this enormous depletion, and by force of arms imposed staggering burdens. Believing that this war was similar to other wars, and not realizing that in this conflict the entire world had engaged. The damages were so enormous, that no one nation, nor small group of nations could replace the destruction wrought. Even if the defeated foe were willing to restore these capital losses, no reasoning man could for one moment imagine that this were within the remotest possibility. Hysteria, still, had its way, and panaceas were elaborately improvised whereby, by words and phrases, destruction would be rebuilt. It savored of Aladdin's lamp, and it was hoped that by ponderous words and complicated formulas, some genie could be aroused who would rebuild the cities, restore the farm lands, and by the magic of words obliterate the colossal damage caused by that Armageddon.

The plans and schemes became a fact, and they served simply to make the channels smoother and the route shorter toward the day when the liquid assets of the debtor nations disappeared. One nation, only, either through foresight, or as I more firmly believe, through necessity, realized that credit impairments caused by the war, could only be replaced through one source. That source, a levy on capital, an out and out confiscation of property. France, whether through necessity or otherwise, reduced its obligations by 80 per cent, when it revalorized the franc, and levied on all its citizens and creditors a tax of 80 per cent of its obligations. She practically tore up tokens where the property no longer exited.

The major portion of obligations within a nation are based on the legal tender of that nation. Only a small fraction of obligations are gold obligations. In one move, France paid its internal obligations for, as we term it, 20 cents on the dollar. Any instrument of indebtedness, bond, mortgage, note, etc., that was payable in gold or could be exchanged into gold canceled and at least five times as much as its face value indicated. By one stupendous stroke there was squeezed out of the credit structure a large amount of the shrinkage that had been caused by the war.

Germany endeavored to accomplish the same results, but went about it in a different manner. Necessity did not offer her the same opportunity. Inflation was the only means she had at her disposal for levying on capital, and squeezing the water out of the credit structure. An enormous amount of internal debt was thereby canceled. The enormous wastage of the war left Germany with barely sufficient production capacity to supply the necessities of life. By dint of utmost economy and frugality, some excess was produced, which was turned into fixed capital. The reparation payments were, until recently, financed by the credit extended by the people of the United States. In fact, these payments practically equaled the credits extended. When the credits stopped, reparation ceased, and Germany to-day has simply added again to her credit structure. It is again out of balance. Cancellation of these credits, inflation, or the slow accumulation of surpluses will once again balance her credit structure. Payments of reparation will simply distort it further.

France and Germany have each taken out of their citizens a great share of the impairment of the credit structure caused by the war. Russia, the smaller nations of Europe, have each in some such manner, voluntarily or involuntarily, contributed their share. What of Great Britain, and what of the United States? Sentiment plays no part, patriotism has little say, and Christianity, unfortunately, can not meet the situation. Cold, hard facts must be met. The damages caused by the peoples of the world must be paid for by the world. In the United States we may avoid our share for a time. Great Britain may have hoped to evade, or at best, postpone her share, but the inexorable forces of economics can not be gainsaid.

England, through pride in her institutions, through the desire to maintain her good name, through her almost holy reverence for the spirit of a contract has bled herself white. The task was too great. The damages to the world too colossal for even her indomitable spirit to win through. England was at last forced to make her capital levy the same as all the nations of Europe. The abandonment of the gold standard, depreciated sterling, and England's capital has paid by capital its share.

Whether it will be necessary for England to revalorize the pound remains to be seen. Probably its revalorization will make England's recovery more rapid than the present process. If surpluses of centuries that England has accumulated are sufficient to deflate her share of the credit structure, then the pound will stabilize without revalorization, but if they are not sufficient that step will have to be taken.

In the United States we are also paying our share, because of the inability of the debtor nations to pay their debts to us. England has sold its long accumulations of capital in the only market where gold is still available. The French market is still open, but England's investments in the securities listed in France are small as compared to her investments here. When, either by statute, as has happened in England; or by repudiation, as is happening in Germany, no more gold flows to the United States, then we shall realize that these vast sums we loaned to the warring nations will not be paid in gold, because the debtors who have it will not part with it, and we can not be paid in goods, for our tariff walls shut them out. We in turn shall pay our contribution to the credit structure so terribly impaired by the war, by finally cancelling completely the last penny of war debts.

## Chapter V

### THE EFFECT OF THE CANCELLATION OF THE WAR DEBTS ON THE UNITED STATES

In the analysis of the effect of the cancellation of the war debts, it will be necessary to digress somewhat, and review in a general way the banking system of this country as it exists to-day.

The function of a banking system is to facilitate the exchange of commodities of one kind for another. Fundamentally, the ability of banks to perform this service rests on bank deposits. A depositor in one bank, having arranged to purchase goods, takes payment by drawing a check against his deposit and by a bookkeeping entry; the amount so drawn is transferred to the account or deposit of the seller. If the buyer and seller were both depositors in the same institution, the transaction would be simplicity itself. However, in order to expand such a system so that deposits of one bank can readily be transferred to deposits of other banks, the "clearing system" has been evolved. In reality the members of such a system, which of course, are the banks, are in a similar position as the buyer and seller in the one bank. In this case they become debtors or creditors of the clearing house association. For example, one bank may have $10,000 worth of checks drawn against it by other member banks; and it must, therefore, transfer $10,000 worth of its deposits to these other banks. This is accomplished by the exchange of cash. In actual practice, on the average, the total amount of checks drawn against any one bank, are offset by the total amount of checks this one bank has, drawn against the other member banks, so that, in reality, there in very little exchange of cash. This clearing process is now extended by use of the Federal reserve system, and the respective debit or credit balances of the several reserve banks are adjusted by gold fund in Washington.

By the use of the clearing house method, the transfer of checks or credits and, therefore, the exchange of goods is facilitated tremendously, and by comparatively simple bookkeeping entries, exchange facilities are handled expeditiously and economically. The deposits in the various banks shift from day to day. The cash holdings are transferred from day to day. As a whole, however, in this process of clearing, bank deposits do not change, nor to the cash holdings. Cash holdings are only increased by the production of the mines or by the purchase of gold from foreign countries.

Bank deposits, as a whole, are increased by actual deposits of gold, and by loans. In general, the fact that a borrower increases deposits is not understood. At first it would seem that this borrower has taken the funds of the lending bank, and consequently, these funds are reduced. In this particular bank, they are reduced, but the funds of the borrower eventually find themselves into the deposits of other banks. The deposits of the lending bank have not been reduced, for the borrower has not drawn against them. This leading bank has purchased a promissory note and it has by illustration, substituted in place of the cash of one of its depositors, a promissory note. The deposits of the whole system have been increased. Deposits increase when loans increase and deposits decrease when loans are reduced.

There was published in 1927 an article by the Standard Statistics Co. (Inc.) entitled "The Banking Process". It very clearly explained the manner by which banks expended their loans and investment accounts. The graphic illustrations of the results have been so well shown, that I doubt if a better explanation can be made, and there has been added an Appendix "A" reprinting this in full.

This system, though it may appear involved, is comparatively simple, and a grasp of it is necessary in order to view the effect of the cancellation, repudiation or repayment of loans. The great bulk of deposits are derived from loans. We often consider as loans only those directly made by a bank. In fact, on most bank statements appears the item of loans receivable and an additional item of securities purchased or held. These securities are in reality loans receivable and when a bank purchases a government obligation, or a railroad's obligations, even though the bank did not directly loan that amount, it is actually a loan receivable, and therefore, the issue and purchase of these securities also increases bank deposits. In the same manner the retirement or repudiation of a security reduces bank deposits. It has been shown that the deposits of this country originate, in the main, through loans and through securities, and these are kept within bounds by the gold reserve requirement of this bank.

The repudiation of securities reduces bank deposits in a more direct way, than the actual repayment of securities. For example, a bank has purchased or loaned to a railroad $10,000 in the form of a railroad bond. Deposits have, therefore, increased $10,000 somewhere in the system. The bank carries this item in its investment account at that figure. Due to bankruptcy the $10,000 bond is worthless. The bank has suffered a loss of that amount and takes that loss out of its profits or surplus. The amount of deposits have not as yet been reduced. The bank simply replacing the $10,000 deficiency of the railroad's by $10,000 of its surplus. Unfortunately in the case of tremendous depressions, the surpluses of the banks are not sufficient to absorb all these losses. Consequently banks are forced to close their doors, and in the liquidation, or readjustment of the closed bank, these losses eventually are charged to the depositor, causing a shrinkage in deposits.

Loans are the basis of deposits and deposits are the basis of credits. When one shrinks, the other shrinks. This digression on the money system has been necessary in order to make clear the mechanics involved in the cancellation of loans. The loans of the Federal Government to the allied nations were financed by loans to the Federal Government from its people. As has been shown these loans originated deposits and as long as the allied governments used their credits in this country, deposits did not shrink. At the conclusion of the war, some of these allied debts were paid in gold, cancelling some of the loans. Gold, being the only other source of deposits, the deposits were only theoretically decreased in the repayment of the loans, for the influx of gold brought them back to their former figures. In fact, as gold through its reserve function is the basis for further credit, domestic credits expanded enormously.

The repayment of these debts by gold has ended. For the debtor nations either can not or will not pay in gold. The only other recourse is their repayment in goods. If repaid in goods, there would be an influx of goods which to-day seemingly we do not need. Cancellation of the war debts would not reduce deposits, or credits, for these credits were advanced by the Federal Government. Fortunately the credit of the Government is strong enough to absorb such losses.

In addition to the war debts, there are also the loans made after the war to Germany and other foreign countries. These can not be repaid in gold, for the obvious reason that there is no gold. They can not be paid in merchandise, for as yet, we can not use this merchandise. They should not be canceled, because the private creditor can not absorb the loss. His credit is not sufficient to absorb it. They, therefore, must be held in abeyance until as in the case of the war debts we can discover the means whereby we can use them. Furthermore the debtor in most cases does not wish them canceled, for he considers them an honorable debt, but during this period is simply unable to pay.

It is often claimed that the European governments by a reduction in the amounts spent for war armaments, could pay us the sums so saved, and thereby reduce their indebtedness to us. Suppose that in this manner five hundred millions were saved per annum. How could it be paid to the United States? It could only reach us in two ways, either by gold or by goods. Gold can only be sent us by France, the other nations have not even sufficient gold to maintain the gold standard. If France sent us her gold in payment, eventually she also would be forced off of the gold standard, and we here, would be the only nation on a gold basis. Without doubt the European countries would of necessity contrive some new medium for exchange purposes, and gold as an international standard would disappear, for the only manner by which gold could return to Europe would be through the purchase of goods or services from Europe by the United States. It, therefore, resolves itself, in the final analysis that payment to us by a reduction in the amounts spent by the European governments in armaments, can only be made in goods and at the present time we appear to have more than we need.

These war debts were incurred through the purchase of goods from us by Europe, and they can only be paid off by our receiving goods from Europe. Even the item of interest on these war debts must be paid in goods, in the same manner as any savings effected by a reduction in armaments. For example, England in order to pay interest to us must tax her people. Her people do not pay their taxes in gold, for they have no gold. They simply transfer certain credits they have over to the credit of England. How, then, can these credits of England be transferred here? She has no gold. Only through the purchase of dollar exchange and dollar exchange can only originate through the purchase by our people of goods or services from England. It must be apparent to all thinking people, that the war debts should only be paid to us, when our own consumption far exceeds our productive capacity.

## CHAPTER VI

### ARTIFICIAL SURPLUSES

It would appear that surpluses exist in this country to-day. There are automobile factories, seemingly of unlimited capacity; farms, which produce more wheat, corn and cotton than we know what to do with; apartment houses crowd the cities, office buildings fill the business centers, stores line the market places. These all seem to be the visible signs of surpluses. We seem to have too much. In fact, the cry is raised, "Let us produce less, let us even have scarcity". How seemingly ridiculous is the argument to produce more. In all appearances we would simply be in deeper than we are now. Yet bread lines exist in every city, clothing is distributed by every charitable organization, and shelter is provided in every municipal lodging house. Surplus is on my right hand; and want, privation, and even starvation, are on my left. We have artifically fenced in our stores of goods, wheat, cotton, provisions, shelter, manufactured articles, transportation, and all the articles of commerce. The "Open sesame" to this barrier is gold, and he who does not possess gold or its equivalents, money or credit, can not pass that barrier and can not share in the goods there waiting for him. This is the ridiculous situation; this is the result of a man-made piece of machinery that has enmeshed us in its cogs. How can that machine be started again? Who can remove the worthless cogs? Where is the solution? The cause was engendered by the war, as has been outlined. A credit structure exists, which is imposed on a capital structure that has shrunk. Bankruptcies, insolvencies, receiverships, are slowly bringing this credit structure into line. A slow and very painful process and a process that may lead to pillage, riot, and perhaps revolution.

There is a surer, saner and safer way than this drastic method. We must revive the transient credits. We must make it possible for the farmer to sell his wheat to the elevators and the elevators in turn to the millers and so on to the consumer. Each credit transaction extinguished by the succeeding one, until finally the consumer is reached. Here, at the present time, it can not be extinguished because the consumer is unemployed or is barely receiving wages enough to exist. It can not be turned or transformed into a fixed or capital credit because the private entrepreneur can not obtain credit for his venture. Consequently the excess production of the necessities of life pile up in seeming surpluses. Consequently the shoe factories, the cotton mills, the automobile plants, shut down because of their excess production which can not be consumed, because the group that would normally consume this excess production is unemployed, and finally because those who would normally employ that group have lost confidence or can not obtain the credit necessary to replace the transient credit, and turn it into fixed capital.

In all periods of stress and strain, there immediately starts a mad scramble by every individual and bank to become as liquid as possible and consequently, loans are paid off, either voluntarily or through necessity. Consequently, deposits shrink and in turn credit further shrinks. In fact, the only credit satisfactory in such circumstances is transient credit, credit that will liquidate itself as it comes to the ultimate consumer. The productivity of this country is greater than its immediate consuming needs, and if only these consuming needs are financed, the excess assumes terrific proportions. In spite of repetition, it must be emphasized again that credit originates as transient credit. The farmer grows his wheat, the miner mines his coal, his iron, his copper, the oil producer produces his oil, the cotton planter his cotton, and so through the production of all raw materials. These processes are financed by the bank or individual and as the processes of turning raw materials into finished products advance, step by step, each former step is liquidated. In a rich, industrious country a certain percentage of the people are employed in originating these credits, another percentage are employed in transferring these credits in the process of manufacture, another percentage in transforming these credits into capital credits and finally a last group employed in protecting, housing, entertaining and governing the entire people. These are all consumers. Consequently, when the group occupied in turning transient credits into fixed credits is unoccupied, the ranks of the consumer thin. Not only, therefore, are surpluses created due to the inability to turn these credits, but further surpluses build up due to the inability of this group to consume.

We see, then, an overproduction of everything, too much wheat, too much corn, too many automobiles, too many miles of railroad, too many freight cars, too much cotton, so through the thousands of products of civilization. All manner of panaceas are suggested and attempted. The wheat is burned, the cotton is sold for little or nothing to foreign lands, the crops are allowed to rot in the fields and the universal cry is overproduction. Destroy in some manner these surpluses and we can start afresh. In Brazil, coffee is burned on the beaches or taken out to sea and dumped, because somehow too much coffee appears to exist in the world. The rubber plantations are allowed to serge back into the jungle. Was there ever a greater misconception?

We have here a country rich in all natural resources, populated by an energetic, industrious people, equipped with all manner of plants, and yet somewhere the mechanism is upset. Each automobile plant, each shoe factory, every farmer, every cotton planter, every cement mill, all the steel plants, are able and willing to run to capacity and produce enough to give each of us aplenty of everything. We should have all the concrete highways, all harbor improvements, all the irrigation systems, all the dwellings we desire, paid for in corn or wheat, or automobiles, and yet the nation as a whole is impotent, unable to function.

## Chapter VII

### GOLD AND MAN'S ENERGY

Through the ages we have built up a medium of exchange, a measuring stick to determine relative values, and to-day we hold in higher esteem the measuring stick than we do the article it measures. If all the gold should disappear to-morrow, the field would not be less fertile, the railroads would not be a railroad tie poorer, and the cotton mills would not suffer the loss of a single spindle. Of all the metals discovered by man, gold is perhaps the most useless. In the arts it has some value, but industrially it does not compare with iron or steel, copper or bronze, zinc or brass.

If to-morrow, stealthily and unobserved, all the gold in the Federal reserve system were stolen, put on shipboard and the ship scuttled in the mid-Atlantic, so long as no one knew that this had been done, commerce and industry would proceed as heretofore. If gilded blocks were substituted for each brick in the subterranean vaults, as long as this substitution remained undetected, just so long would business continue, undisturbed and unafraid.

Gold, within the confines of this, country, has simply a psychological effect. It is something tangible, something on which man can rest his confidence, and something that, if necessary, we can see and feel. Gold is useless, and in these subterranean vaults it is even worse than useless. It requires man's time to count it, to guard it, to move it, and to store it. Gold, however, has been venerated through the ages, and in its psychological effect it inspires that confidence, that source of security, that is so necessary where credit is considered. Where gold is, there is financial security. We speak with fear and trembling of leaving the gold standard. We have visions of all manner of dire disasters that may befall us, and we trust and hope that our golden anchor will stop us from soaring up to the clouds in a wild orgy of inflation. We seldom realize that that same golden anchor may plunge us into the depths of despair and hold us there. No matter what briefs may be held for it, no matter what learned theories may be advanced, results speak for themselves. It has failed woefully. It has not brought together the fertile fields, the marvelous factories, the modern dwellings, the great transportation systems, and the endless variety of other useful, efficient, and pleasant things that this great Republic can produce. We have erected a golden idol, we have created a terrible juggernaut, which has turned on us and instead of facilitating the interchange of goods, actually, to-day, restricts it. The gold standard, as it functions to-day, will be a thing of the past, and it may take many years before an enlightened civilization realizes it.

The credit of this country, based upon its vast fields, its countless rivers, its tremendous cities, and above all its energetic, industrious, and resourceful people, is the soundest, safest, and surest rock on which to build confidence and on which to rear our financial edifice. We think of a Government bond as an obligation of the Government. It says "payable at maturity in gold," with interest at a certain rate. It is, in fact, a certificate of ownership in the wealth of the United States, backed by the resources and capital of its citizens. It is certainly of more real value than any quantity of gold. Long ago the British Government realized that a Government bond is not an obligation of the Government's and the British consols, therefore, do not mature, have no maturity date. They are the foundation of the country, and were England independent of foreign exchange, a gold standard would not be necessary.

Evolution, we fondly hope, will bring us back to first principles, and we shall redeem the medium of exchange into the tangible thing itself rather than what the world and we are to-day doing, changing the substance into the medium.

James Watt harnessed a pair of draught horses to a system of ropes and pulleys and found that one horse could raise 33,000 pounds 1 foot in one minute. He, therefore, in this crude manner, defined one horsepower. Volta found that in a certain electrical cell an electrical pressure was produced, and this unit has since been called the Volt. It is a basic measuring unit of the electrical world. So Ampere determined the ampere, Ohm, the ohm, all measuring units, fixed, unvarying on which industry to-day exists. How can we then determine or fix a unit of real value?

In order to determine this value, we must first analyze what real value is. The iron ore in the mine has no real value until it is brought to the surface. Then it has real value. Its value further increases when it arrives at the blast furnace, and so as it changes into different forms, its real value increases, until it becomes a finished steel beam in a bridge. What has this brought about? Man's energy, supplemented by harnessing nature's aids to his assistance, has brought a piece of useless ore from the bowels of the earth and transformed it into a tremendous bridge, spanning a wide river. Man's energy has again taken this iron ore, the copper ore, the rubber from the jungle, the cotton from the plantation, and the raw materials from the corners of the earth and transformed and woven them together to produce the modern miracle, the automobile. It is man's energy that determines the real value of anything; and in the last analysis, this is the real measuring unit of value.

We have to-day translated this into gold money, and we think and believe that it is gold that is the determining factor. A pound of iron has less value than a pound of steel, because in the market place a pound of iron is worth a fraction of the value of a pound of steel. The real value has been changed because energy has been expended on the iron and that energy has been translated in terms of gold. The unit of value is man's energy.

In the barbarian, uncivilized times it was man's energy that changed the tree in the forest into the hollowed out canoe and the grass of the fields into the rude thatched huts. Advancing civilization has used more efficiently man's energy, has found that this energy can be multiplied many fold by harnessing it with nature's power house. We have hidden this unit under a golden blanket, and we have refused to recognize it, because it is all about us, commonplace. We have been unable to value it because it varies with the energy, ability, and enterprise of each individual. Its average value can be arbitrarily fixed, just as Watt fixed the horsepower, Volta, the volt, and so forth.

If, for example, we valued at to-day's prices one unit of man's energy at $10 and said that this unit is 2,000 bricks laid in a row, by one man in eight hours, the unit would be arbitrary, for no two men would do exactly the same amount in exactly the same length of time. However, the unit of horsepower is just as arbitrary, as undoubtedly it would be impossible to find two horses that would do exactly the same amount of work in exactly the same length of time. Nevertheless, it would establish a unit, man's unit of work. For purposes of this discussion, let us assume this unit of man's energy and let us say that at to-day's prices, it is exchangeable for $10 in money. Let us give it a name so that our illustrations may be simplified. Let us call it one "Adam," he was the first man.

It is then an easy arithmetical calculation to turn dollars into "Adams." The Federal debt, instead of being $19,000,000,000, is now 1,900,000,000, "Adams," and so on through all industry. My $25,000 house has now a value of 2,500 "Adams" and the office building across the way which has a dollar value of ten millions has now a value of 1,000,000 "Adams." There seems to be no practical change in the procedure. It is simply calling the rose by another name.

If a railroad wishes to electrify its system, it will offer securities to cover this expenditure. If an investor has $10,000 on deposit he may purchase that amount of these securities. Prior to his actual transfer of his deposit, he indirectly owns a a proportionate share in his bank's assets. As soon as he pays for these securities, his credit or deposit is transferred, and as this deposit is drawn out by the railroad, through a readjustment his former proportionate share in the bank's assets finds new owners. Now, if there were only one bank, and if the entire transaction were consumated in the one community, the result would be that the bank would get back the $10,000 in the shape of deposits, through the individuals that the railroad had paid. In the process the electrification has been completed and man's energy has created something new. The bank is in the same financial position as when it started, but in addition there now exist the securities of the railroad, represented by the completed enterprise.

If, now, we translate this into our new medium, we find that our investor has now acquired 1,000 "Adams," that did not exist before, and if the electrification cost $10,000,000, or 1,000,000 "Adams," we find that there has been added to our wealth, to our store of capital, 1,000,000 "Adams." If we consider this as a productive enterprise and if we assume that the amortization and interest on this expenditure is, say, 6 per cent, this electrification must annually, during its useful life, pay 60,000 "Adams," or, in other words, release 60,000 "Adams," for other pursuits. It must replace 60,000 "Adams" annually or, otherwise, it is not a productive enterprise. If, again, the Government builds an irrigation system, at a cost of 10,000,000 "Adams," and the amortization and interest, say, amounts to 5 per cent, in order to consider it as a strictly productive enterprise it must replace annually 500,000 "Adams." If a great city constructs new subways at a cost of 20,000,000 "Adams" and calculates that interest and amortization is 5 per cent, in order to consider it productive, it must release annually 1,000,000 "Adams." The productivity of an enterprise is then measured by the number of "Adams" that it annually replaces and which can be transferred to other endeavors.

In a previous chapter I have divided the citizens of a country into four general groups.

1. Those employed in originating credit or producing raw materials.
2. Those employed in transferring these credits in the process of manufacture.
3. Those employed in transferring these credits into capital or fixed credits.
4. Those employed in protecting, housing, ministering to, and entertaining the entire people.

In group 3 there is a further subdivision into two groups: (*a*) Those employed in transferring these credits into fixed productive capital and (*b*) those employed in transferring these credits into fixed nonproductive capital.

I have shown that the productivity of an enterprise is measured by the number of "Adams" that it annually replaces, and which can be transferred to other endeavors. Now let us substitute in those groups the term "Adams" for credits. Groups 1 and 2 originate the "Adams" that support Groups 3 and 4, and by their excess production of these "Adams" permit Group 3 and 4 to function. Group 4, in fact, is strictly non-productive, giving no productive "Adams" in exchange for the productive ones. Though a doctor, a lawyer, a policeman, or a fireman are absolutely necessary, they produce not one productive "Adam," but must obtain their livelihood from the excess production of groups 1 and 2.

Group 3 is engaged in turning these transient "Adams" into fixed "Adams." If all the energy of Group 3 is in the subgroup (*a*), namely, transferring transient "Adams" into fixed "Adams" that continually release more "Adams" for still greater productivity, we would have a country of boundless productivity, a land of plenty, everywhere produced by man and his machines. Unfortunately these labor-saving machines are continually wearing out, need repairs and replacements, and a great proportion of Group 3 is engaged in those pursuits.

In Group 3 (*b*) are the infinite number of capital "Adams" which are non-productive—the dwelling, the store, the hotel, the theater, the apartment house, all the dwellings of a city, the radio, the automobile used strictly for pleasure, the furniture in the house, the clothes we wear, the thousands and thousands of articles that we daily purchase. None of these release on single "Adam," but all have been exchanged for transient "Adams."

I fear that the reader has, perhaps, become confused by this discussion of "Adams" and dollars. If I have been successful in dismissing from the reader's mind the idea of the dollar, and if I have demonstrated clearly that the economic process is an exchange of man's energy from one activity to another and that finally the excess of man's energy not directly used up in supplying the necessities of life, must be turned into productive and nonproductive capital, then I feel that the rather prolix discussion has not been in vain.

I have included in Group 3 (*b*) the apartment house, the theater, the hotel and so forth. At first these may seem to be prooductive in that they produce income. They do not, however, release one single "Adam" for further productivity, but act simply as a reservoir, or clearing house, where many streams of transient "Adams," in the shape of rent and admissions, merge to be again dispersed as interest, profit, and taxes into the hands of others.

Man's energy or this "Adam" can be and is continually being translated into gold, into money, into credit. We built in this country a beautiful, wonderful machine. It produced all we required, but its productions became so gigantic that it staggered us. We still believed in the old adages when production was limited. We still had the old fears that were engendered by famine, drought, pestilence, and war. We little realized that actually we stood on the threshold of a new era. We were years ahead of our time and were unable to drive from us the fears and superstitions of the past. Furthermore, our productivity strained to the breaking point the old system of exchange. Our "Adams" or man's energy grew faster than our stores of gold, and the old system collapsed. Panic and fear seized everyone, and at once a mad rush started to turn the certificates of ownership, their bonds, their stocks, into gold. The banks strengthened their reserves, attempting to have almost one gold dollar for each dollar of deposit. Industry stopped, commerce faltered, and slowly the hoarder made further drain on our gold. The ranks of the hoarder included not only the individual but even the bank and the corporation. Liquidity became the cry and naturally you could turn the electrification of a railroad, the wires, the towers, the generating stations into gold. Yes, we could keep on pumping more gold into this sytem until all the capital created by man's energy was represented in gold. But the gold mines of the world are not plentiful enough, and the stores of gold in the world would not be large enough. These are limited, whereas the world's productivity is unlimited, and we attempt to rear a continually expanding edifice produced by the daily output of man's energy on a foundation whose extent is woefully inadequate.

## Chapter VIII

### FOREIGN EXCHANGE AND ITS INFLUENCE ON PRODUCTION

So far in this discussion we have considered each nation or country as a self-contained unit, independent of the productivity or scarcity in other countries. However, the peoples of the world divide themselves into the same four groups that exist within the units of each individual country. There are the producers of the raw materials, there are those engaged in turning these raw materials into finished articles, there are those employed in transferring these finished articles into capital credits, and then there are those who watch over, entertain, and minister to the wants of the entire population.

In a nation where, due to the lack of fertility of the soil, or due to the density of the population, or due to the lack of industry among the people, all the effort and energy of the nation is required to produce the necessities of life, there is no surplus.

Consequently, no portion of the population can be engaged in any other pursuits. Only such raw material can be produced as is required for the necessities of life. The instruments of agriculture will be of the crudest form. The habitations will be of the simplest kind, and the clothes of the people will barely suffice to protect them from the action of the elements. Such a nation will be static, will be in a barbaric state.

When, however, just enough of the necessities of life are produced so that a certain percentage of the people can be employed in Group 2 (the group that is transferring raw materials into finished product), part of Group 1 will produce the absolute necessities of life for the remainder of the population and another portion of Group 1 will produce raw materials other than those simply required for sustenance. Such a nation will have improved agricultural instruments, better habitations, better clothing, but yet will be unable to accumulate fixed, permanent capital, because there are not sufficient of the necessities of life to permit any portion of the population to be engaged in turning the finished products into permanent capital.

Finally, that nation that produces a great abundance of the necessities of life, permits certain percentages of its people to be employed in Group 2, in Group 3, and in Group 4. Such a nation is continually progressing, adding to its store of wealth, and enjoying all the benefits and improvements of an advancing civilization.

If there were no artificial barriers erected by man, if man were not as firmly rooted to his native land as the staunchest oak, and if language and custom did not forbid, the peoples of the world would gravitate into these groups and there would be a sufficiency of the necessities of life, just so long as the fertility of the world was sufficient to support its entire population. We are confronted, however, with the fact that there are certain nations known as agricultrual nations, producing the necessities of life; others as mining nations, producing raw materials other than the necessities of life; others as manufacturing nations, employed solely in turning raw materials into finished products. In each nation there are employed a certain percentage in Group 3 and 4. Very seldom do we find one nation that combines all these groups in perfect balance. The United States approaches that balance as nearly as any nation.

For example, we may consider the Argentine Republic as an agricultural nation. The great percentage of her people are engaged in Group 1, practically none in Group 2, some in Group 3, and a normal percentage on Group 4. Her agricultural products, therefore, find the nation that has a preponderance of people in Group 2, and she receives in return finished articles. If all the excess production of the necessities of life were exported, so that there was not sufficient remaining to support Group 3, the Argentine Republic could not create any capital assets. Unless some artificial barrier was erected by man, the excess production of these necessities of life would be replaced by articles produced by Group 2.

In a mining nation, such for instance, as Chile, where most of the population, we shall assume, is engaged in producing copper or nitrates, raw materials of Group 1, hardly any in Group 2, some in Group 3, and a nominal number in Group 4, we find that this raw material must be replaced with a sufficiency of the necessities of life to support the remaining groups and in addition must be able to command enough of these necessities so that these additional necessities can be exchangeable for the products of Group 2. If this additional production is not sufficient, we have, consequently, a nation that is obtaining just enough of these necessities to maintain its population and can not spare any of its people for other pursuits than those in Group 1.

In a manufacturing nation such as England very few are employed in Group 1, many in Group 2, some in Group 3, and a nominal number in Group 4. England, therefore, must contrive to exchange the products in Group 2 for the necessities of life. Otherwise, Group 1 must be recruited out of the other groups, and if the soil of England is not fertile enough to produce the necessities of life required by all her population, the population will be reduced either by emigration or starvation. There is no other alternative.

I have described the processes existing in the three general type of nations—agricultural, mining, and manufacturing. It must be understood that they are not each exclusively devoted to these pursuits, but for purposes of illustration, they have simply been used as examples. What is true of these illustrations can be extended and expanded so as to include every nation in the world. To-day a paradoxical situation has arisen which embraces every nation on this earth. England desires Argentine wheat and cattle, Brazilian coffee, Chilean copper; and each of these nations desire what England can produce, yet a barrier exists which seemingly can not be surmounted. Fortunately, and I say it advisedly, this barrier is only a man-made barrier. The productivity and fertility of the world still exists.

If, to-morrow, Chile, for example, should suddenly discover a vast store of gold, what would almost immediately take place? Without doubt, the people and Government of Chile would become purchasers of the products of the necessities of life and also at once the products of Group 2, giving in exchange this gold recently discovered. If Chile bought its wheat and cattle from the Argentine, the latter would at once have gold and proceed to purchase products of Group 2 from, say, England. England, in her turn, having received gold for its products, would in turn repurchase the products of Group 1 from the Argentine and Chile, and gold would flow back again. England is disposing of its products of Group 2 has added to the raw material man's energy and consequently will be reimbursed in gold for this man's energy sent back in the shape of finished goods to Argentine and Chile. In other words, there will be a slow pumping of the gold in Chile into the treasury of England. If the supply of gold in Chile is enormous, an equilibrium will be established long before that store is exhausted. The competition of other nations for Chile's gold will keep relative exchange values in line until the treasuries of other nations are in such shape as to secure their credit structure. In fact, as Mill says, "The efflux would continue until the currencies of all countries had come to a level; by which I do not mean until money became of the same value everywhere, but until the differences were only those which existed before, and which correspond to permanent differences in the cost of obtaining it."

Then, if through some such process gold were in equilibrium throughout the world, the relative exchange values of articles would fix themselves on the relative values of man's energy in the respective countries. If in England, due, perhaps, to the climate or the state of civilization, three units of the necessities of life are required to produce one man's energy, and if in Chile only one unit of the necessities of life is required to produce one man's energy, then, in general, in order to trade, articles would have to be exchanged between them on some such ratio. But due to the use and invention of machinery, the Englishman has multiplied many fold his unit of man's energy. Without this use of machinery the Englishman would be compelled to trade three units of these necessities for one of the Chilean's. Interchange could, therefore, not take place. But by the use of machinery, in this example, the Englishman must produce out of three units of the necessities of life, three units of man's energy, in order to trade with the Chilean. If it were increased by more, the Chilean could not trade.

I have omitted from this discussion the effect of tariffs and other man-made devices that attempt to direct the flow of goods to the particular advantage of any one country. These effects are transient, and though they may change the map of the world, they can not change the physical characteristics of the world. Fortunately, the life principle that instinct or force with which nature has endowed all living things will somehow contrive to circumvent all interference with its progress and its relentless pressure will ultimately break down any barriers which may have been erected and which momentarily confine it.

The important fact to consider is that in trade between nations it is man's energy, the "Adam" as we have called it, that after all measures the relative values of commodities. In different countries the "Adam" may be produced by different amounts of the necessities of life, but it is the "Adam" in foreign exchange relationship just as it is the "Adam" in domestic relationship that finally determines real value.

## Chapter IX

### THE ACCUMULATION OF CAPITAL

It is, as I have shown, the excess production of the necessities of life by one group, which permits other groups to exist. If this excess is sufficient to permit the group engaged in producing capital goods to function, then a country so organized is progressing and accumulating wealth, and it is rich in that it is producing all "The necessaries, conveniences, and amusements of human life." The proper distribution of these may, however, be effected by an unbalance in the relative labor engaged in each group, and also by particular advantages of labor within each respective group.

In all endeavors to arrive at an ideal medium of exchange, it has been impossible to obtain one that did not vary. However, for the purpose of our argument, we can assume one. We have adopted in the discussion here an "Adam," as measuring the unit of man's energy. In order to further attempt to analyze the economics of our social structure, it is necessary to adopt one further unit, and though I have used a unit of the necessities of life, let us assume that this unit is the least amount upon which a civilized man can exist. The Chinaman, we understand, lives on a handful of rice per day. This, therefore, let us take as our unit of the necessities of life and let us call this unit one "chin." There is then, some ratio between the amount of those required by the Chinaman and by the average citizen of the United States. Again, this ratio does not necessarily have to be absolutely determined, but can be also assumed. Let us say that this ratio is 10 for 1. The American, therefore, will require 10 "chins" to produce 1 unit of man's energy, without the use of machinery, or without the advantages of the soil, etc.

We can now return to our discussion of the proper distribution of these, among the different groups.

If in Group 1 it takes 5 units to produce one "Adam," and in Group 2 it takes 10 units to produce one "Adam," Group 2 of necessity would be forced to exchange two of its "Adams" for each of Group 1 "Adams" to gain the proper number of units and unless its production of "Adams" per unit of the necessities of life were increased either by the use of machinery or other force, ulitmately Group 2 could not continue to interchange with Group 1. The reverse procedure might equally well take place. There is, therefore, a continual shifting in the production of "Adams" by each group. The invention of some machine that will increase the production of "Adams" in Group 2 will for a time throw out of balance the relationship of these two groups, but finally, an adjustment will be reached that will balance the necessities of life of each group. It must be so, as otherwise, there would be a continual draining of the necessities of life out of Group 1, until the point was reached where farms were abandoned, or rendered less productive. It is as true in domestic exchange as it is in international exchange. Where there are exports, there must be imports, and each must be offset in the long run by the other.

With these units clearly understood in our minds, the unit of the necessities of life, and the unit of man's energy, the "Adams," we can understand how capital is accumulated. A farmer produces 1,000 "Adams." He will use, for the purpose of this illustration, 200 "Adams" for his own use, 200 for the products of Group 2, 200 for the services of Group 4 and have left 400 for the products of Group 3. The products of all except Group 3 are transient, are extinguished, are consumed. Therefore, there have been created 400 new "Adams" of fixed capital. What is true of those engaged in Group 1 is also true of those engaged in the other groups. Each will have left some "Adams" available for the products of Group 3, even Group 3, itself.

Let us imagine that there exists an ideal medium of exchange, one that always remains constant in value. Let us further imagine that each group is supplied with the proper quantity of this medium required for exchange purposes. In addition, we assume that the relative productive capacities and requirements are in perfect balance. If we stretched our imagination and considered that this mechanism of commerce all started simultaneously, and made one complete cycle, what would be the result? The medium of exchange would have permitted the perfect interchange of commodities between the respective groups, and each group at the conclusion of the cycle would have on hand the exact amount of the medium of exchange it started with. The necessities of life would have spread to the respective groups and been consumed. The raw materials would have spread through the respective groups and most of them returned through Group 3 as fixed capital. The products of Group 2, such as transportation, flour, electricity and power would have been consumed. The products of Group 2, such as wire, cotton cloth, railroad rails, glass, plaster, cement, etc. would have passed to Group 3, to be turned into fixed capital. The services of Group 4, such as the doctor, the lawyer, the banker, the policeman would also have been consumed. There would then be left all the products of Group 3, distributed to the various other groups and the country as a whole would be that much richer in its capital goods.

Though there never could be any such perfect mechanism, still that is what is actually transpiring day to day. The farmer as a result of his exchange with group 3 might have built a new silo or erected a new barn. The copper miner could have turned his exchange from Group 3 into a new smelter or sunk a new shaft. The steel mill could have turned its share into a new rolling mill or blast furnace, the doctor his share into a new X-ray apparatus and the hotel owner his share into a new wing to his property. Then, again, indirectly, they might have pooled their shares and constructed a new subway system in some large city. Such a pooling might have been brought about through the many avenues of investment that exist to-day. The payment of a life insurance or fire insurance premium by the farmer might be a channel whereby his share of Group 3, participated in the purchase of a municipal bond that built the subway.

From this simple example it must be apparent that the quantity of the medium of exchange has no effect on the exchange of the commodities nor on the creation of capital goods. Double the quantity of exchange in each group and no more nor less of the commodities will interchange. Multiply or divide the unit itself, and the interchange of commodities will not be affected. Prosperity will not return by injecting more currency into the system. The solution must be found in some other direction.

There is also a prevailing misconception that capital is accumulated at the expense of the farmer or by grinding down the factory worker, so that the working man can scarcely exist. The rich and powerful do not rise through the want and misery of the poor. Capital goods may gravitate into the hands of a few, but this capital is actually created by those who can be spared from producing the necessities of life and who can devote their time and energy into turning transient goods into capital goods. Society must, however, keep in balance the relative interchange between the various groups. Unbalance will cause readjustments and if this unbalance assumes large proportions, the process of readjustment may cause pillage, riot, and even revolution.

## Chapter X

### THE PRICE LEVEL

Prior to the war, the products of Group 1, the necessities of life, went abroad in great quantities, and we received, in exchange, the products of the other three groups. In some instances, such as the importation of sugar, we also received, in return, products of Group 1. In this interchange, the adjustments between the various groups took place continually and the general machinery of commerce functioned so as to produce as a surplus of this machine the products of Group 3, wealth. Our production of the necessities of life was not only sufficient to support adequately the entire population, but also through the export of the necessities of life, permitted the peoples of Europe to align themselves into Groups 2, 3, and 4. For example, we received in exchange from Germany, toys and dyes; from Holland, bulbs and cheese; from Canada, wood pulp; from China and Japan, silk; from England, woolens; from France, dresses and perfumes; and so on through the commerce of the world. Our organization, therefore, had aligned itself to function normally in this general machine, and industry had so adjusted itself that commerce moved more or less smoothly.

In a new nation, such as ours, while it is in the process of accumulating capital, its exports, measured in price, are usually less than its imports. The effects of price on this structure need not here be discussed. Price, through the medium of profits acts simply in changing the ownership of the products of Group 3, but does not in the general sense increase or decrease production of the various groups.

Through the action of price and profits, ownership of capital is acquired. The ownership of much of the fixed capital accumulated here was vested in Europe prior to the war. In the early stages of the war the armies of Europe immediately were enrolled in Group 4, drawing an enormous number of people from the other groups. In addition, Group 2 drew many people from other groups for the purpose of manufacturing war materials. There was, therefore, a terrific readjustment in the alignment of the machinery of commerce, which reacted upon this country and caused a realignment in the various groups here. In fact, as the demand of Europe increased, and drew more and more of the necessities of life from this country, it naturally created a tremendous expansion in Group 1, which in turn affected the other groups. The United States also finally entered the war, which again caused a further tremendous realignment.

The war ended, and for a time the realignment functioned much the same as it did during the war. The demands for the products of Group 1 still continued at a large rate, until such time as the belligerent countries were able to produce their own products of this group. During all this period profits through the action of price were so large that ownership of capital in this country, vested in the European countries returned here, and furthermore, the ownership of capital in the European countries was also sent over here. It took about three years for the armies of the world to demobilize and reenter the various groups of industry. During that period the necessities of life were still in great demand and were hardly sufficient to supply the population of the world. We had shortages of sugar, of wheat, of all manner of products, and then in 1921 we felt the first tremor of readjustment. Almost overnight we discovered that this great demand was slackening in its proportions. Group 1 was beginning to re-form itself in Europe; the first group that must establish itself in any community. For two or three years we felt, in our slackening demand for the necessities of life, the establishment of this group; and then in Europe Groups 2, 3, and 4 began to function and separate themselves into their respective organizations. These again began to draw on the products of our Group 1, and we received in exchange the manufactured goods of Europe. Europe had in a general way reestablished her groups, not in perfect balance, but at least functioning. A table might more clearly demonstrate what took place:

| Date | Europe | United States |
|---|---|---|
| 1914 | In balance: Groups 1, 2, 3, and 4 | In balance: Groups 1, 2, 3, and 4. |
| War | Unbalance: | Unbalance: |
| | All in Group 4 | Groups 1 and 2 increased. |
| End of war, 1921 | All in Group 1 | Groups 1 and 2 decreased. |
| 1921–1923 | Groups 2, 3, and 4 forming at expense of Group 1. | Groups 1 and 2 increase again. |
| 1925–1929 | Groups 1, 2, 3, and 4 reviving | Groups 1 and 2 used to revive all Europe. |
| 1929 | Slowly balancing: Groups 1, 2, 3, and 4. | Slowly balancing: Groups 1, 2, 3, and 4. |

From this table, it is apparent that there have been six stages which have caused the upheavals through which we are passing. The first stage, prior to the war, when industry throughout the world was in balance and civilization was formed into its respective groups, and properly functioning. The second stage, terrific unbalance caused by the war, when all Europe went into Group 4, and a consequent readjustment took place in this country. The third stage, the end of the war, when all Group 4 in Europe went into Group 1, resulting in a readjustment here, the fourth stage when Europe began to realign itself into the four groups of commerce, again affecting conditions here. The fifth stage, when the four groups in Europe began to function, resulting in a further readjustment, and to-day the sixth and last stage, balancing the various relationships between the groups in this country. Continually, as will be observed, Group 1 contracted or expanded, depending upon the processes occurring in Europe. The consequence has been that during the vast expansion of Group 1, capital assets were created for the purpose of continuing the production of this group.

We have in this discussion considered the economic situation, when the production of the necessities of life were insufficient or just sufficient to permit the functioning of the other groups of society. The war, with its upheavals and the reconstruction period with its convulsions, has upset the machinery of civilization so that unbalance is particularly apparent in the products of Group 1. We are confronted to-day with the condition that there is too much produced in this particular group in its relationship with all other groups. The cause of this, I have endeavored to explain above. If this analysis is correct, and if it is the necessities of life that control the prosperity and finally account for the accumulation of wealth within a country, we must then determine the method or methods whereby these necessities of life can again be reestablished in balance with the other groups of industry.

In the consideration of price, economists have determined its causes and its effects. Price that is established on a gold basis, in general, is determined by the amount of the necessities of life required to produce gold. Gold may be plentiful or scarce, and consequently, it will, therefore, effect price from that score. The actual fluctuations in the price of gold have not been violent enough to effect the general price structure. The fluctuations of price are caused by the variation in the price of the necessities of life. When this price is high, the price of labor must be higher, as otherwise the laborer can not exist. When this price is low, competition will force the price of labor down to conform with it. Therefore, in industry price will have little effect on production or on the accumulation of capital, provided that price is relative through all industry. Again we must examine the effect of price, during the period when the products of group one were in great demand by Europe. It is quite obvious that in this period the demand exceeded the supply, and naturally the price advanced, causing as has been shown a general advance in all prices. During this period the accumulation of capital continued, and the farmer created his silo, the railroad expanded its facilities, the utility its transmission lines. Profits of the various industries were in turn translated into these accumulation of capital. However, these accumulations were translated at prices determined by the existing price for the necessities of life. Furthermore the interest rate, or we may call it the charge for the use of this accumulated wealth, was also based on the existing price for the necessities of life. In other words if a railroad electrified its system when wheat was selling at $1.50 per bushel, it paid for this improvement on the basis of $1.50 wheat. If this cost $15,000,000, it represented 10,000,000 bushels of wheat. If the interest rate was 5 per cent, the charge would be $750,000; represented again by 500,000 bushels of wheat. Wheat, due to conditions outlined above falls to 50 cents a bushel. What then happens to this particular investment? It now can be replaced for one-third its cost and, furthermore, the interest charge being $750,000 requires now 1,500,000 bushels of wheat instead of 500,000 bushels when it was first completed. If we expend this further and assume that it takes 5 bushels of wheat to produce one unit of man's energy, at the time of the electrification, it would have released in interest charge alone, 100,000 units of man's energy per annum. At a price of 50 cents a bushel to-day for wheat it must release 300,000 units of man's energy per annum to justify its existence.

What is true in this instance is true of all capital accumulated during the high prices of the necessities of life, and of course, we see to-day the result. Security prices fall, interest and dividends disappear. If we broaden our viewpoint and include the whole world in our horizon, we find the identical conditions existing. Our productive machinery, which was originally designed to release a certain number of units of man's energy when prices were high, to-day is releasing the same number, but, due to the low prices of the necessities of life it should to-day release three times that amount to warrant its existence. Consequently, factories are shut down and men are unemployed.

We have come a long way to reach this conclusion. We have traced the effects of the disturbances created by the war. We have found that panaceas and complicated formulae have little constructive result. If we are to compete in the world markets, the price of the necessities of life will be givenned by the world market. The price of the necessities of life determines our price level. We can not hope that the world will pay us higher prices when lower prices can be obtained elsewhere. If we wish to raise prices here alone, we must relinquish world competition and if we wish to relinquish world competition we must restrict the production of the necessities of life to conform with our own requirements. We have geared our facilities to supply Europe as a customer and, in the process, we have thrown out of balance our domestic economic organization. We have lost Europe as a customer and must, therefore, either realign our machinery for our own purposes, or else we must realign it so that we can offer our products on a competitive basis with Europe. The value of the fixed and capital assets acquired during high prices will still be here, but their price will be reappraised. Every bankruptcy, every insolvency, every repudiation, is a process of reappraisal and, though the anguish is severe, we must pass through it. Price level has little effect on the prosperity or the accumulation of wealth of a country. The readjustment of the price level causes the havoc and this havoc is accentuated due to our carrying over capital assets created at a high price level and endeavoring to function with them at a lower price level.

## Chapter XI

### THE SOLUTION

The creating of a capital asset produces profit to the Nation. In fact the entire asset results in profit. This is true whether the asset is a vast bridge, an office building, a modest home, or such a simple thing as the inkwell before me. These are the tangible results of the surpluses of society. These measure the wealth of a country. These determine whether or not a country is rich or poor.

The proper distribution of this potential wealth is to-day the great problem that confronts society. Society, with its machines, can produce plenty for each man, woman, and child. But society has no adequate mechanism whereby this production can be properly distributed to its peoples.

In the past, before the machine age was so developed that it multiplied man's efforts manifold, the problem of civilization was the production of surpluses, and these were so slowly and painfully produced that they were comparatively easily absorbed by the financial structure as it then existed. To-day the surpluses are produced in vast abundance and the financial structure has not yet kept pace with this tremendous expansion. We are still confusing the golden measuring stick with the object measured. The wealth of an individual or a nation is represented by the ownership of certain tangibles. Among these tangibles is a call or demand on gold. A large corporation owns its buildings and machines, and has, in proportion, a relatively small cash balance—i. e., a demand on gold. Even the artisan has his outfit of hand tools and also has a relative cash balance. Now, when in adverse times this cash balance is consumed—due to lack of trade and industry—the real wealth still exists but can not be turned into gold. Loans, of necessity, are called and paid off, deposits shrink, and the vast storehouse of credit dries up, leaving only a small amount of credit resting on a solid base of gold. It is as if a large watershed had been controlled by man, and the waters from the watershed impounded in a great reservoir, for the purpose of operating a vast generating system. As long as the brooks, the streams, and the rivers flowed into the reservoir, the turbines generated the power that spread to the countryside. But, due to drought, these tributaries dried up, and the flow became less and less, until there was barely sufficient water flowing into this reservoir to turn over the generators. This small amount of flow can be compared to the small credit structure existing to-day. Our cry has been liquidity; and, in our anxiety to have our affairs in such condition so that at a moment's notice we can turn our wealth into gold, we have dried up these tributary streams of credit.

We erected, in our prosperity, a tremendous reservoir and, from this reservoir, we generated an enormous output of energy. The waterways of commerce feeding this reservoir were flowing full from bank to bank, when suddenly the drought of fear descended upon us, drying these waterways, and crippling the generators of prosperity. We attempt to-day to operate this vast system with rivers of gold only, when we know full well that there is not possibly enough gold in the entire world to operate this structure.

Economic problems, as they exist today, are confused and involved. There must be a solution. There must be a way out of this labyrinth. Science, industry, invention, and all the manifold activities of man have advanced in the past 100 years at an incredible rate. The telephone, the automobile, the aeroplane, the radio and the many hundreds of other inventions have annihilated space and distance. All about us man's ingenuity is apparent. But with all this plenty we have not found the method of distributing it properly among ourselves. Why? Because the financial machinery that controls it is antiquated, inadequate and, furthermore, terribly dangerous. We issue our currency, we erect our credit edifice on a store of gold, and we are so zealous in our endeavors, and so painstakingly honest in our undertakings, that we promise to redeem this currency and credit in gold on a moment's notice, knowing, in our hearts and consciences, that all the gold in the world can not meet one thousandth part of the demands that might be made for it. We have learned through experience that in normal times, when man is fearless. the maximum demands for gold that may be made are relatively small. But we live in fear and trembling when disaster threatens, then mob psychology has full sway, and reason is forsaken. We do not know how far the demand for gold may go, and each one of us hurries and scurries in the mad scramble for gold to be a little quicker, and perhaps more nimble than his neighbor, so that he, at least may be safe. The harm he does is secondary as long as he feels secure. The vicious machine turns him into a selfish, thoughless brute, and the misfortune of one man is augmented by the thoughtlessness, and selffishness of his neighbor. Securities topple, real values disappear, for, man in his wild anxiety, will sell at any price so long as he can get gold. This is true of the individual, the bank, and even the Nation.

When the hysteria is over, we awaken to a sorry realization of the terrific devastation wrought by this juggernaut. Patiently, and laboriously, we start again to rear our edifice on gold, destined for another calamitous fall. It is the financial house builded on sand, the inverted pyramid of credit balanced on a small pot of gold that always must fall, and, in its crash, tear down the industry of man with it.

Why will not our leaders of industry see, why will not our able statesmen perceive, and, why can not our eminent thinkers understand that the shame of the world and the misery of mankind is caused by a financial mechanism terribly inefficient, woefully inadequate and horribly cruel? Where are our leaders? Where is our courage? We must, and shall, change this mechanism, for it is the curse and scourge of mankind.

Doctor Robert Eisler in his analysis of the causes and effects of the unbalance in production and consumption, has presented a picture of the economic situation to-day. In his book entitled "The Money Maze," he stated: "Nothing but the borrowing and spending power of the community can start the wheels of industry whirling again after such prolonged lethargy and continual fall of prices." Furthermore, he stated: "All expenditure commensurate with the magnitude of the task must unavoidably create in the actual state of our monetary system, a credit and even a currency inflation," and "Such an inflation would mean considerable rise of the general price-level and therefore of the cost of living. After a time this, in turn, would produce the inevitable falling away of the consumers' purchasing power and precipitate a new crisis." He sums up the situation in one question: "Is it possible to organize an expansible currency with a constant unalterable stable purchase power of the monetary unit?"

In order to put to work again the vast army of unemployed in the world, it is necessary to create currency and credit inflation, but this very procedure will so affect the price level that this will again throw out of employment a great number of men, and result in a more serious situation than to-day exists. Doctor Eisler has viewed this problem from the world standpoint, and his solution is, without doubt, an idealistic one. Eventually, when animosity is replaced by friendship, when nationalism is replaced by internationalism, and when nations—such as the United States and France—discard their policy of "splendid isolation," an international accord can be attained. Meantime, here in the United States, as long as we are unwilling to assist in solving the difficulties of the world while we are solving our own, we must continue in this "splendid isolation" and endeavor, through our own efforts and resourcefulness, to work out a solution.

I have shown that our society is divided into four fundamental groups, these groups depending for their existence on the production of the necessities of life by one particular group. I have also shown that, as this production increases, more and more of the people are drawn from the first group, and that finally the combined production of all the groups over and above what is consumed, results in fixed capital. If, therefore, the productivity of Group 3 (those who produce capital assets) were increased, it would immediately recruit men from other groups and increase the purchasing power of all groups, rapidly exhausting the apparent surpluses which to-day exist. This would increase the general price level and "Everywhere the prices of bread, meat, potatoes, butter, shoes, clothes, and underwear, etc., would rise at once and the outcry against the high cost of living would again be in full swing," unless during this process, "It is possible to organize an expansible currency with a constant unalterable stable purchase power of the monetary unit."

In an ideal socialistic system we would have long ago mobilized our army of peace and recruited its ranks from the unemployed, turning this army into the production of national improvements, roads, reforestation, abolition of slums, flood control, dams, power sites, etc. The same energy expended by us in the late war, if devoted to peace-time endeavors, would create for each of us wealtn, prosperity, and happiness undreamed of. Why can not this be done to-day? Because we find that just as in the war, the Government must pay for these improvements, and, in order to obtain the funds for these, it must borrow the money from its people. Let us see what happens when the Government borrows money. If a bank buys $1,000,000 of Government bonds, the effect is the same as if a regular loan were made. Somewhere in the banking system deposits have increased by $1,000,000. Now, if this money is spent by the Government in building, for example, a bridge, there has been created through man's energy a new capital asset. New wealth has been added to the store of this country's goods, and it will be distributed as profit through an infinite number of channels to a countless number of people. The entire amount expended is profit. It could not be otherwise, for the bridge is there. It exists where something did not exist before.

If an individual had bought this $1,000,000 bond issue, deposits would not have increased or decreased, the credit of the individual simply being passed to the Government. The Government expending this sum for the bridge would pass this deposit to others and the deposits of others would increase, whereas, naturally the Government's would decrease. The increase in wealth or profits of a country are represented by its increase of capital goods, and the more capital goods it produces the more profits will accrue. In order, therefore, for a community to make profit, it must produce capital goods.

The same effect occurs when a private enterprise, such as a railroad, manufacturing business, or utility borrows money through the sale of securities, when the funds so obtained are used for productive purposes.

In a previous chapter it was shown that the electrification of a railroad, or similar enterprise, in order to justify the expenditure for the improvement, must release a certain number of units of man's energy for other pursuits. The electrification may result in the railroad consuming less coal, and consequently, it may affect the coal miner and actually throw him out of a job, requiring him to go into some other endeavor. So, it is true of capital expenditures which release man's energy. It affects the production of raw materials and requires a realignment of society. Most of these processes are gradual, and, consequently, in most instances, the resorting is not attended with a great deal of suffering. But, when, as in the present time, due to the upheaval caused by the war, the realignment is sudden, tremendous hardship—and even disaster—occurs. It is then, as has been said, the part of society to assist in this realigning—not by aiding the miner, or the farmer, but by making it possible to consume the excess productions of these groups which excess has been effected by the construction of capital goods which, in themselves. replace and release man's energy

We must. at once, draft more men into the group that produces nonproductive capital, such things as the elimination of slums, construction of highways, bridges, flood control, reforestation, irrigation systems, dams, power sites, buildings, furniture, automobiles, ice machines, radios, dwellings, etc. The Federal Government, the various States, and municipalities can, through the sale of their securities, finance such enterprises as come within the province of public works. Private capital must finance the consumer of other things. What if a great part of this were wasted? Is there any greater wastage than that caused by war?

If, to-morrow, the United States were engaged in war, the funds would be found to prosecute that war. The channels of finance would at once clear for the destructive engines of war, whereas to-day they are closed to the constructive enterprises of peace. We must mobilize our army of peace. Consumption by the armies during the war quickly speeded up private enterprise, and if, as has been shown, capital expenditures by Government or individual, ultimately results in profits, a dollar spent in such expenditure multiplies itself many times before the effect of this expenditure ceases.

Let us examine what takes place when a million dollar bridge is built. The contractor receives $1,000,000. He is able to make a profit of, we will say, 5 per cent—$50,000. This leaves $950,000 which he pays for labor, material, etc. Let us say $500,000 is spent for direct labor, and that this labor's profit over and above the necessities of life is also 5 per cent, i. e.—$25,000. There is, then, left of this direct labor item $475,000. That is expended with the landlord, the butcher, the baker, etc. Again, let us say, their profit is 5 per cent, or $23,750. This leaves $451,250, and it, in turn, is disposed of by the landlord, the butcher and the baker. So on through the myriads of channels of commerce. If the average rate of profit per transaction was 5 per cent, before the total $500,000 was entirely extinguished, it would have created exchange of very nearly twenty times that amount. The same is true of the $500,000 spent for materials. This, in turn, is disbursed through the subcontractors, in the same manner, and, before its effect is entirely extinguished, it will have increased exchanges by twenty times that amount. It is, therefore, apparent that expenditures for capital improvements will multiply themselves by the reciprocal of the average amount of profit per exchange. Immediately after the panic of 1929, this was attempted and the policy of the administration encouraged all to keep spending, railroads, industrials, individuals, etc. Due to our mistaken policy of war debts payments and tariffs, we suddenly lost our foreign customers, and all this spending had slight effect as it could not fill the void left in our foreign trade. To-day, the situation is different. Europe and this country have adjusted themselves to meet the tariffs, and the war debts have been—to all intents and purposes—canceled as far as their effect is concerned. To-day, we must spend to produce capital goods. We must use every endeavor to encourage the purchase of capital goods as that produces wealth, profit. If government starts, private capital will quickly follow.

Inflation will occur only when the purchasing power becomes available faster than the productive facilities of the country can keep up with it.

Mr. R. C. Hawlsey is quoted by Doctor Eisler as saying that: "The large loans involved, if they are *not to involve inflation*, must draw on existing capital resources." We, however, here must have expansion, and we confuse in our reasoning the two terms, inflation and expansion. Government borrowing, for the purpose of public works, the construction of capital goods, revives and speeds up the productive facilities of the country, and, if the purchasing power of Government, or—in other words—credit expansion, does not exceed these productive facilities, we can not have inflation. The natural tendency for this influence is to raise the price level, and in our foreign relationship to face the danger of losing our gold reserves.

The first problem, and, for the time, the major problem, that of returning to work those unemployed, can be solved by government through its credit expansion, proceeding on expenditures which will not increase productive facilities. All have viewed with great trepidation this expansion of government credit, fearing the threat of inflation and its consequent disastrous results. We, therefore, must contrive by some limiting mechanism to prevent the purchasing power of the country expanding at a faster rate than the productive facilities of the country. Let us then endeavor to erect an ideal mechanism, which will suit the requirements that Doctor Eisler has so ably expressed: "An expansible currency with a constant, unalterable, stable purchasing power of the monetary unit," and let us see what steps must be taken in order to adopt that mechanism to the system under which we now operate.

Under the existing system, with bank deposits payable in gold, the purchase of securities by a bank results in the increase of deposits. The securities purchased may be payable at maturity in gold, but, due to the fact that the bank has purchased these—and, consequently, established credits, or deposits, on its books—the process has turned a future demand for gold into an immediate demand for gold. If an individual had purchased these bonds, the procedure would simple be a transfer of the individual's bank credit to the borrower.

However, if this individual hypothecated his bonds with the bank and disbursed the moneys received, the result would be the same as if the bank itself had loaned this money or credit. As soon as a demand credit is established by the bank by a loan on a long-term obligation, it results at once in turning a future demand for gold into an immediate demand for gold. As there never was any gold in these entire transactions, how fundamentally unsound is such a situation! If we quietly, soberly sat down and examined such a transaction, would we not most severely criticize any manager who permitted himself to get into such a muddle, promising to deliver something which he knew he could not possibly get?

It might be said that the bank could take these securities and sell them to some, one who has gold, but, as the stores of gold are not inexhaustible, eventually the supply of gold will run out, depending simply upon the size of the credits advanced by the banks and the desire of the depositors for gold.

We have erected a mechanism which, at times, rushes impetuously on to its day of reckoning. A mechanism which, in itself, is very hazardous, and upon which we blindly pin the hopes, happiness, wealth and very existence of the people. That civilized man has allowed this to function so long, and permitted himself to become helplessly enmeshed in its cogs, seems almost unbelievable.

The ideal system must incorporate three necessary factors. There must, first, be an expansible currency and credit structure that will increase with the advance in civilization, the growth of industry and the accumulation of wealth; second, this structure must maintain a price level that is not subject to wide fluctuations and must be based on a monetary unit with a constant, unalterable, stable purchasing power; and, third, there must be a proper protection for those who now have gold or claims on gold.

The wealth of a nation consists of the products produced by man's energy, and the capital structure must, in some manner, rest upon the production of man. It should not be subject to the variations in the plenty or scarcity of gold. It should not be subject to the buoyancy or despondency of the mob. It should be subject to the initiative, resourcefulness, and energy of man. It should increase as the profits, or wealth, of the nation increases, and it should decrease as wealth is destroyed, either by war, famine, pestilence, or the wear and tear of time and the elements. The introduction of such a mechanism may seem impossible, and, even after its introduction its operation may seem beyond the control of man, unless a simple mechanism can be established that will to-day function with the financial structure that exists. I firmly believe that there can be, to-day, established such a mechanism: A structure that will continually and automatically absorb the surpluses of society as they are produced—will permit credit and capital to expand. Furthermore, a structure that will increase the medium of exchange as industry and commerce increase, will provide an expansible credit and currency. Lastly, a structure that will control the expansion, or contraction, of the credit and currency, will exercise a close control on the fluctuations of the price level.

The profits of society are the surpluses of society, and these are to-day in most instances disbursed as dividends. These dividends, under the present method, therefore at once become demands on gold. These profits, in turn, are, through the channels of finance, gathered together and used to produce a capital asset. These capital assets are represented by stocks, bonds, mortgages, deeds, and other financial forms of ownership or debt. A mechanism that will turn these profits directly into a capital asset, without the intermediate demand for gold, will eliminate that haunting specter, and will absorb the surpluses of society as they are produced. Unfortunately, profits are not entirely created from the surpluses of society. A certain proportion are obtained at the expense of a competitor, or the misfortune of an individual, or by the oppression of management. There is no definite method to determine the proper ratio between profits created by surpluses and profits created by other forms.

We can not, therefore, require that all dividends be turned into capital assets. A certain percentage only can be so absorbed. The balance must be returned into the streams of industry. The relative amount returned into the streams of industry will increase or decrease the medium of exchange, and will, consequently, "provide an expansible credit and currency." In fact, a proper control of the ratio between the amount devoted to capital absorption, and the amount returned to commerce, will have a powerful effect upon the price level. As the price level advances, more and more of the profits should be turned into capital assets, and, conversely, as the price level declines, more and more of the profits should be returned to commerce. However, as these profits returned-to-commerce originated in goods, they should be returned as demands on goods, and not as to-day, in the form of demands on gold. In this manner we shall create an expansible currency that will expand as profits increase and grow with the advance of civilization.

A corporation can be formed in the United States which will have two functions. (1) That of purchasing, or absorbing, instruments representing capital assets; and, (2) that of issuing certificates redeemable in goods. At its inception this will be formed with about 100 of the largest corporations (banks, insurance companies, industrials, etc.) as members. The members will deposit with this corporation a very small amount of cash, as the expenses of operating this corporation will be nominal. It will be agreed among the members, that all dividends declared will be payable in cash or bank credits into the treasury of the corporation. The corporation will disburse these dividends to the stockholders of the declaring company either in the form of certificates redeemable in goods, service, etc., of all the members, or in participation certificates in all the assets of the new corporation. The governing board will from time to time determine the ratio to be maintained between its two functions. For example: If a company declared a dividend, this would be paid into the treasury of the new corporation. If, at the time, the ratio established was—we shall assume—80 per cent, then 20 per cent would at once be used to purchase capital assets, and 80 per cent would be disbursed in demand for goods to the stockholders of the declaring company. At the same time, the 20 per cent would be disbursed to the same stockholders in the form of participation certificates in the new corporation.

All dividends payable in goods will be guaranteed by the corporation and each of its members. Since the actual cash for these is in the treasury of the corporation, the guarantee will be a matter of form only. Furthermore, membership will not be restricted. Anyone can become a member provided he will agree to disburse his profits, or dividends, into the treasury of the corporation. At the start of such an enterprise it, no doubt, will be advisable to have the certificates of the corporation redeamable at some premium over gold, an article selling at, say, one dollar in gold, purchasable for 98 cents worth of certificates. The object in setting such a premium is to create a desire so that at all times there will be an inducement to exchange these certificates for goods of the members.

Is such a mechanism sound? Will it accomplish the results so ardently desired by mankind? Will it tend to keep in balance the production of the four groups of society? Will it absorb the surpluses of each group, and will it continually expand as more capital, or wealth, is produced by the Nation?

The mechanism is sound because it concentrates the profits, or surpluses, of all groups into one system. And these surpluses are then turned into capital assets. As soon as they are devoted to these capital assets, they are at once disbursed to the people in the form of participation certificates in these assets. If these profits are not all created by surpluses, but are accumulated at the expense of any particular group, they will be automatically returned to the people in the form of certificates for demands on goods. It will tend to keep in balance the production of the four groups of society, because it will recruit more and more men into the group that produces capital assets, as conditions warrant.

As the price level advances, the corporation will divert more and more of the dividends received, into the purchase of capital assets, which represent the products of the group that produces capital goods.

It will continually expand as more capital, or wealth, is produced, because it is continually disbursing the capital accumulated in the form of participation certificates. These certificates are not demands on gold, and, consequently, our capital structure will expand as the wealth of the Nation increases, and will not be a structure resting on a relatively small base of gold. It must be borne in mind that it is the production of capital goods that determines whether or not a nation is advancing or declining.

A nation, or economic system, that can spare a great percentage of its people from the production of the necessities of life, and can turn these people into the production of capital goods, will be rich, will be prosperous, and will continually advance its civilization. The mechanism advocated can be operated to keep the proper balance between the people engaged in the production of the necessities of life and between the people devoted to the production of capital goods.

The transition is simple. The operation will not conflict with the present medium. Gold will land in its proper niche, and it will be the measuring stick of relative values, between the goods offered by the members. The scope of the plan is tremendous. It possibilities unlimited. And, if we allow our imagination full sway, its ultimate results will be a godsend to humanity. We shall eliminate the spectre of demand for gold, for the demand will be for goods; and man will be able to meet his obligations by his industry and enterprise, that is by his productivity. Our capital structure will expand as industry and profits expand. Each profit distribution will be either a share in the country's wealth, or at once call for more production. And, when all industry eventually becomes a member of this corporation, a capital structure will exist that has no limit to its power to expand, save only the productivity of man and his machines.

In reality, instead of, as to-day, profits being exchanged into cash and then declared as dividends, profits will be exchanged into demands for merchandise and then declared as dividends. The same safeguards, the same mechanism, in fact the identical financial structure will operate as heretofore.

The mechanism established for exchanging goods certificates of this corporation for currency, can be extremely simple. Exchanges can be formed which will buy these certificates for cash, and as these credits originate in dividends which are represented by cash deposited in the treasury of the corporation, and are guaranteed by the members of the corporation, they are practically cash. Furthermore, since they are issued at a premium over gold or currency, they will be in demand for the payment of merchandise of member organizations.

They will not be subject to inflation, because they originate as profits. If the productive facilities of the member organizations increase at a faster rate than their profits are disbursed, we can not have inflation. In fact, since they are profits, the productive facilities originated these profits, and the capital expansion based on these profits will keep pace with the increase in profits or wealth of the country.

It may, perhaps, be argued that the distribution of profits play a small part in the total commerce of the country. That is true. It is, however, the profits that are being continually turned into the wealth of the country. Stimulate profits and we increase wealth. Increase profits and we have a country that is advancing its civilization, increasing its prosperity and accumulating wealth. Profits are, in reality, the surpluses, and if we can turn these surpluses into the products of man's energy, the wealth of each individual will only be limited by the productive capacity of the nation.

Later, if it ever comes about, that all corporations are members of such a system, then these certificates will be universally exchangeable for goods. The certificates, from time to time, will buy varying quantities of gold, depending upon the scarcity or plenty of gold, and, consequently, inflation cannot occur as the holder of $1,000 worth of certificates will very reluctantly sell these for gold, at a large discount, when gold, or gold demand currency, can only procure the same or less goods of the country. Gold demand currency will simply be used for pay rolls, pocket money and the settlement of international balances.

An organization of such magnitude must necessarily be subject to the control of government. In fact, it should be originated by the Government. It might well become in character an adjunct of the Federal reserve system itself, controlled by a similar mechanism as today exists.

In the discussion of this plan, the arguments are presented: First, that no man will willingly receive as a return on his savings or investments, a medium of exchange that is not exchangeable universally for whatsoever he may desire, and he is therefore limited to the purchase of goods supplied by a selected few; second, that no man will willingly permit another group of individuals to determine for him in what kind of securities or enterprises, he shall invest his savings.

The pertinent fact that the dividends of each company are paid into the treasury of the corporation in cash or bank credit, at once makes these goods-certificates convertible into cash. In fact in order to strengthen the fact that they are convertible, they can read that they are redeemable in cash upon presentation to the corporation; or are redeemable in merchandise, goods or services of the members at some premium over cash. Most certainly, as they are redeemable in cash, they simply replace the customary dividend checks and can be handled as such. There is very little fundamental change under this method when compared with that which to-day exists.

We find to-day, that people are anxious to have others invest their savings for them. Otherwise we would not have the savings banks, the insurance companies, the mortgage companies, the investment trusts, etc. Even, at the present time, many corporations are declaring their dividends by two methods: a certain percentage in cash, and the remaining percentage in stock of the corporation. The stock dividend declared by the company is only a participation in one company, whereas under the method advocated, reinvesting a part of the dividend in a diversified group of industries, a much broader participation is obtained. In fact the stock dividend to-day very often increases the desirability of a corporation's securities.

Furthermore, the plan as here outlined may be still further amplified in some such manner as Doctor Eisler has presented in his article. Goods-certificates will be issued as has been suggested at a premium over cash. If this premium is adjusted weekly, by using the cost of living index as a multiplier, "the two functions of money—to serve as a medium of exchange (legal tender) and as a means of accumulating capital (purchasing power) or contractual income for future use—will henceforward be separated still more completely than now."

All bank deposits will be represented by goods-certificates and current money "will be exclusively used for small transactions between persons not sufficiently known to one another or not in possession of a bank account, especially for the payment of wages, transport fares and occasional retail purchases, while all other payments will be effected by means of bank-money, that is checks or traveler's checks or transfers of money banco" (that is good certificates).

The operation of such a system has been clearly presented by Doctor Eisler, and it is not necessary to present further discussions of its feasibility. The objection raised, "that the use of a money of account alongside current money is not a new invention, and that all previous attempts to introduce such a double standard have been failures, as is proved by the fact that it has always disappeared again after a short time," is overcome by the argument, that in the past, "moneys of account were and are, however, entirely dependent on the variable purchase power of gold and quite independent of the commodity price level of the country," whereas under this method money of account bears a definite relationship with any variation of the commodity price level.

If the reader will refer to Doctor Eisler's able presentation of this mechanism, any questions that might arise in his mind, will, I am sure, be satisfactorily answered.

In conclusion, it is only necessary to consider the part gold will play in the picture. It will be necessary to protect to the same degree as others, those who have "monetary claims in the shape of coined or uncoined gold."

"The depreciation of gold in terms of commodities through a rise in the general price level which is caused by any large scale addition to the world's fiduciary circulation is obviously due to the artificial legal fixation of a maximum gold price in terms of pounds sterling, dollars, French francs, and other freely convertible notes. Because the Bank of England was obliged by statute always to deliver standard ingots of gold at the price of £3 17s. 10½d. per ounce of fine gold, because the American Treasury is bound to sell for $1 gold certificate 23.22 grains of fine gold, etc., the purchase power of gold must be diminished as soon as the purchase power of the pound, dollar, or franc note is diminished through an additional issue of bank notes or an expansion of gold credits."

It is only necessary, then, to abolish the legal maximum price for gold, in order to protect properly those who have gold claims to-day. The Government bond or bank note issued as the basis for currency, as well as all other obligations of the United States, will promise to exchange these obligations against gold coin of 23.22 grains standard fineness at the gold market price of the day. The Treasury of the United States will buy gold at any time and in any quantity at the legal price of the ——— day, ——— month, ——— year (that is, the date on which such a statute went into effect), at $1 for 23.22 grains of gold.

Under the method advocated here, the price level stabilized within narrow limits, the scarcity or abundance of gold would have no effect on the domestic price level. A Government obligation "would henceforth buy variable weights of gold." It is not a distant step, then, for other governments to follow our procedure here and to stabilize their respective price levels in a similar manner.

The transition from the existing conditions to those outlined above naturally will be attended with some difficulty. Those who have claims on gold, realizing that gold will increase in value, will endeavor to procure all gold possible and convert their claims into the metal itself. However, the difficulties are not insurmountable, for if such a plan were adopted, the Government, itself, could easily become a big buyer of gold, accumulating this metal for its own account.

It would appear, therefore, that in order to rise from this present depression and in order to prevent a recurrence of a similar one, four major steps must be taken.

First, finding work for the vast army of unemployed; second, creating an expanding credit structure based on man's energy; third, stabilizing the price level; and fourth, adopting a plan whereby the fluctuations in the relative scarcity or plenty of gold will not affect the price level.

The first step can be taken by the Government borrowing and at once spending.

The second step can be taken by the formation of a corporation such as has been described.

The third step can be taken by varying the ratio of the amounts disbursed as dividends, and the amounts used to absorb or purchase capital assets.

The fourth step is the last step, and that can be taken by treating gold as any other commodity, its uses confined to the arts and international exchange.

A thorough examination of these plans will show that all are protected, the landlord, those living on income, the farmer, the producer, and the workingman. Capital will be safeguarded and the investments of the people will not be subject to the tremendous gyrations which now take place. The main desires of the

American citizen are: First, work, and second, security. Give the people work so that they can produce and then out of the savings of their industry give them security of those savings. Under the present system a rising or falling price level jeopardizes the security of all; and, furthermore, unbalance in the respective groups of civilization cause insecurity in the whole people. Control the price level and unbalanced production, and security will follow. Eliminate once and for all the variations in the accepted international medium of exchange, and the price levels throughout the world will be stabilized. Permit, under this method, other countries to participate and world-wide commerce will again open up, returning thousands to work, with the attending results of prosperity, contentment and security. It is not a distant dream to visualize, even without communism, socialism, or fascism, an enlightened civilization producing all that can be wished for, and replacing, in each man's heart and mind, the present great desire for gold, by a still greater desire, a desire for fertile fields, thriving cities, broad highways, pleasant dwellings, ample food and all the further amenities of life, with a sure knowledge tnat these things will continue for him in his old age and that his dependents and descendants will be secure in their enjoyment of these products of man's energy, at last devoted to the "pursuit of happiness," and peace.

A letter received from Mr. Robert H. Sexton is here printed in full as follows:

INTERNATIONAL ASSEMBLY OF TRADE, ART, TRAVEL,
*New York City, February 28, 1933.*

Hon. REED SMOOT,
*Chairman Senate Finance Committee, Washington, D. C.*

MY DEAR SENATOR SMOOT: In response to the invitation of the Senate Finance Committee to testify in connection with its economic investigation, I find that it will not be convenient for me to come to Washington after the recess of the committee and in the hope that it will save the time of the committee, I am submitting herewith my views and suggestions concerning the subjects under consideration.

A horizontal slash of 10 per cent in our duties on goods from countries similarly favoring us as proposed by Senator Cordell Hull, would be one of the ways to benefit quickly under a reciprocal tariff policy.

Let all nations jointly start in a spirit of "give and take" to remove the top layers of their tariff walls and it will not be long before goods of all kinds are again brought within buying reach of the masses everywhere.

The World Economic Conference is ideally suited for consideration of such a proposal if presented as an initial step in liberation of trade relations by the delegates from the United States.

Such a flat cut, once generally accepted at the conference, could be put into effect quickly to meet the emergency of to-day and aid in circulation of trade which is so necessary if jobs are to be restored on a large scale.

This step can readily be taken on the assumption that tariffs in all countries are too high and that a general reduction is warranted for the good of all.

To make the horizontal cut truly effective in stimulating a flow of commerce, it could be accompanied by an understanding for removal of quotas, embargoes, import, export, exchange, and other restrictions of an artificial character.

It would also be understood that any country now having most-favored-nation treaties and not ready or able to participate in this proposed horizontal cut, consent to forego its right to equal treatment as regards the particular concession of 10 per cent established in this manner.

It is further believed the proposal could be presented along this line without requiring termination of any existing treaties of the United States.

The directors of the World Trade League of which Mr. George F. Bauer is general chairman, and of which I am also a director, felt that such a horizontal cut could be made to serve as a preliminary step to a series of reciprocal tariff treaties progressively reducing the barriers to international trade and definitely helping to solve the world's debt and monetary problems.

It is in my opinion, of the utmost importance that immediate steps be taken to negotiate agreements to promote trade with other countries based on mutual tariff concessions, with a view of encouraging a maximum flow of 2-way traffic. I am also convinced that the United States delegates to the World Economic Conference should not be restricted or limited as to the discussions in which they may be called upon to take part for the relief of the menace and repression to which international trade has been subjected.

All previous prejudices should be set aside and every economic truth consistently pursued to its logical conclusion.

A revival of international trade in larger unit volume is the paramount world issue if unemployment and its attendant distressing economic and social consequences are to be minimized in every country including very importantly our own.

The stabilization of exchanges, the methods of effecting payments of international obligations, and the reestablishment of the gold standard internationally on a workable basis all as they are affected by existing impediments to international trade and for the bearing they have in themselves upon a freer interchange of goods and services, are the fundamental issues upon the solution of which world economical recovery is dependent.

Yours very truly,

ROBERT H. SEXTON.

Letter and brief submitted by Mr. Edward F. Harvey are here printed in full as follows:

RETAIL DISCOUNT ORGANIZATION,
*Gwynedd Valley, Pa., February 25, 1933.*

Hon. REED SMOOT,
*Chairman Committee on Finance, United States Senate,*
*Washington, D. C.*

MY DEAR SENATOR SMOOT: Confirming the receipt of your letter of the 8th instant and my reply of acceptance thereto, I now have the honor to inclose a brief digest of the subject matter I desire to lay before your committee.

May I add that the rapidly moving monetary situation seems undoubtedly to call for some very immediate and definite action to stall for time. In view of the fact that the development of a permanent policy must take time, as the problem is a fundamental one and requires far-reaching action, it seems clear from the actual course of events that temporary measures are now immediately necessary. These are made more urgent because of the lack of coordination and cooperative effort among the banks.

If the national bankers could be brought to examine the statistics of all loans and debts in their relation to the gross means of repayment, it would become plain to them that the constantly accruing debt charges and maturities far exceed any marginal of national income available to meet them

So that pending the general readjustment and revival of national activities that produce income, a general standstill agreement on certain types of debts and maturities would provide a breathing spell in which to develop and inaugurate the necessarily far-reaching policies which the situation calls for.

In 1931, I made an effort to get some local coordination of banking policy through the Philadelphia clearing house, without success because I was informed that no agreement could be reached. I attribute this to the fact that bankers do not view their profession from a fundamental standpoint.

The situation is now one of national concern, and in view of the financial forces working against recovery it can not be doubted that unless the flow of forced liquidation is held up, much worse things are in store for us.

If the national-bank leaders had realized in 1931 the avalanche that was impending and had then analyzed and coordinated their debt-credit policy, it is safe to say that the national Government would have been saved a great deal of serious commitment.

With the backing of the Reconstruction Finance Corporation, there is till time to meet the immediate situation in a constructive way, but it entails coordinated policy in regard to liquidation of debts, the first step of which should be a standstill agreement in regard to certain types of debts. Without this the internal dry rot must continue, and the national money destroyed.

Such a standstill agreement does not contemplate an official moratorium; which it would be designed to forestall. Sporadic efforts to bring it about locally are noticeable, but these can not be effective without quick and universal action.

This would save the gold standard from which it appears we are now being inevitable driven.

Faithfully yours,

EDWARD F. HARVEY.

## Brief Outlining Certain Financial Proposals Submitted to the Committee on Finance of the United States Senate

By Edward F. Harvey, Philadelphia, and Herbert Bruce Brougham, White Plains, N. Y.

This brief supports the definite claim that a monetary system which permits a variation, measured by months, in the negotiable or dollar wealth of the country amounting to billions of dollars entirely out of relation to the physical productive wealth of the Nation is an anomally and has created a situation that has become impossible.

A basic distinction is drawn between negotiable or dollar wealth, as now existing in the banking system and representing the medium of finance, and true physical productive wealth.

It is pointed out that while productive wealth has remained relatively stable on a moderately rising scale, negotiable or dollar wealth has fluctuated in the last 15 years upward and downward by hundreds of billions of dollars. It has created on the upswing a rigid debt structure which approaches, if it does not now actually equal, the capitalized productive value of all physical wealth.

In point of fact from 1915 to 1920 money wealth was inflated two and one-half times the value of all physical wealth in the country and was deflated by upwards of fifty per cent or to the extent of over two hundred billions of current dollars in the years following, leaving in its wake an intolerable debt structure which can only be ultimately liquidated by the most intense industrial activity.

It is submitted as self-evident that individual capitalism will not continue to exist under such conditions. Its influence on industrial and social life is destructive.

In the discussion and proposals which follow, the authors keep before them both the political and financial aspects of the existing national dilemna, and suggest means of meeting them.

They are based upon fundamental postulates which are expressed in the Constitution and take into account the following changes, which have accrued to the national life in recent years:

(1) The mechanization of industry and the incidence of mass production require for their success primarily a wide and dependable domestic market.

(2) Our population has learned to expect progress and to benefit individually therefrom. Failure to provide the means to this end is becoming a menace to our valued privileges as an individualistic, capitalistic state.

We recommend to the Finance Committee an exhaustive examination of

1. The principle of consumer credits (sometimes called social credits) as outlined by Maj. C. H. Douglas; their relation to the monetary system of the United States, in accordance with the implication of the Douglas A plus B theorem upon the future relation of finance to industry. (N. B.—For a short exposé of the A plus B theorem see appendix page 928 of this brief).

2. The potentiality inherent in this form of credit to meet the economic problems now existing, and its application in a form which will fit the present banking and competitive systems of business.

3. The opportunity it offers for reestablishing the issuance and flow of the Nation's money, consisting chiefly of circulating deposits, in harmony with the requirements of trade, and without any semblance of inflation. This may be done without interference with the currency, by the creation of a national commercial-credit account in strict relation of productive capacity to consumer demand.

4. The opportunity to couple with this system of reviving the much needed volume and speed of movement of commercial credits through the banking structure as the only continual source of debt liquidation, a definite control of the issuance of long-term investment credits and maintaining them in justifiable ratio to the flow of commercial credits.

5. The regulation of the issuance of new investment credits in harmony with the needs of technological advance, and a mitigating of the great swings of security and commodity prices on the exchange, which arise from the use of bank deposits as the base for loans on collateral, at prices far beyond the productive worth behind them

In short, we recommend a realignment of the money system to meet the constitutional requirement that the "Congress shall have power to coin money, regulate the value thereof, and of foreign coin, and fix the standard of weights and measures" (Art. I, sec. 8), together with the furrther provision that "No State shall coin money, emit bills of credit, make anything but gold and silver coin a tender in payment of debts"(Art. I, sec. 10). By these articles the States were deprived of power to issue or "regulate the value" of money, as interpreted by the Federal Supreme Court, so that perforce all private banking or other agencies were precluded from wielding such power. In this respect it seems evident that the issues of bank money by the private banking system, with their inevitable regulation of the value of all money, transcends its constitutional powers. It is distinctly understood that circulating deposits subject to check and at present within the control of private banks, constitute the major portion of the money used in the Nation's business.

The authors have worked out an adjustment of the various elements involved in the foregoing statement for the purpose of establishing a reasonably stable price structure and perpetuating a sound money and banking structure, suitable to the economic conditions imposed upon the Nation by the progressive power mechanization in which it is now involved.

Our method covers the establishment of a public discount on the sale of goods at retail, granted and financed by the Federal Government, and governed by the Douglas formula based on the indexes of retail volume, price and productive capacity. The result is a flow of money in complete harmony with the flow of goods.

It supplements this with a provision to limit the use of private bank deposits to a base for the issuance of credit to commercial loans; loans on industrial and public-utility investment securities to be limited in the same way that loans to private business concerns are limited, namely, by the earnings-physical assets ratios instead of the market price, which is very rarely a true reflection of intrinsic value on which to base the lending of money by expanding credit upon the reserve deposits of the public. It should be noted that monetary inflation under modern conditions is the result of inflation of security issues based on industrial expansions and consolidations too frequently unwarrnated by industrial needs.

We now summarize the general considerations on which we base the foregoing recommendations.

"Oscillations in the production rate," Dr. Walter Rautenstrauch observes, "as a consequence of the maladjustment of credit as one factor, appear with ever-increasing amplitude; the man-hours per units of production are rapidly decreasing," he continues, "and kilowatt-hours are being substituted for man-hours in many industrials at a very rapid rate," leading to "disorders of ever increasing magnitude and force." While total man-hours in manufacture are decreasing inversely with time, "debt is increasing faster than production and directly as the time," and "debt per capita * * * is increasing as the square of time."

The paradox of a ruinous increase of debt at a rate faster, even, than the enormous recent increase in capital assets, as evidenced by productive capacity, Doctor Rautenstrauch links with the failure of diminishing man-hours to win purchasing power in the form of wages sufficient to take away and consume the product that industry would pour out, if it had the orders, with increasing profusion.

That is, as the trend of employment goes downward the rate of potential production rises, while industry fails to get back its costs from the lessened purchasing power distributed through a relatively shrinking man-hour wage system. As the nation grows in physical wealth, therefore, industry borrows, and the whole body of consumers borrows as much as it can to fill the widening gap between purchasing power and price.

It is now generally admitted—

1. That the prime need is expansion of *ultimate* consumption for the purpose of—

(*a*) Restoring national income from the present level of about forty billions to a level of health and decency, say eighty to ninety billions of dollars (1927–1929 level).

(*b*) Restoring national revenue. A national revenue of four billions requires a tax rate of 10 per cent on the current income of forty billions, and only 5 per cent on the health-and-decency income of eighty billions.

(*c*) Restoring the flow of commercial credits (as distinct from investment credits) for consumption goods throughout the banking structure: and through the resulting profit margin of trade, which is the only source from which to liquidate the inflated debt-credit structure now existing; a process which is merely being postponed by the policy of the R. F. C. and other government agencies.

2. The establishment of a sound and freely circulating but noninflatable national-bank money system which will resist the impact of speculative impluses unduly to reexpand the debt-credit structure.

3. The governing of investment credits so as to avoid overbuilding for productive purposes and the overinflation of the current value of marketable securities.

4. Restoring the whole monetary system to its proper function as a medium of exchange, and curtailing the trading in money values, which does not add to productive wealth, but which, in its essence, is a glorified form of ticket scalping.

The money system now existing puts a premium on overexpansion of and speculation in money values and for buildings and equipment, the creation of which is not now coordinated with the reasonably expanding requirements of the population for consumption of goods.

The history of money shows that we have now reached a point in the credit and debt system requiring its revision. It is pointed out that money was orignially issued through private sources, such as private banks, private companies and individual business. The chaos resulting forced government to step in and take control of the medium of exchange and brought about the establishment of legal-tender national currency; this formed the chief medium of exchange, as distinguished from our modern privately controlled system of circulating deposits subject to check.

The expansion of population and industry has gradually necessitated the replacement of the major use of currency with bank credit in commercial processes; the circulating deposits subject to check being more convenient, rapid, and safe. But the important difficulty behind this needed change, a difficulty that may be removed by a reassertion of the Federal power, is that the major circulation of money and creation of that money (bank money) has now again reverted to private hands, and is being issued without proper relation to the production and circulation of goods.

Clearly, so long as the enormous overbuilt investment banking organization of this country can use the credit facilities of our private-credit system for underwriting and security manipulation, playing upon our ignorant and optimistic public, the monetary scalping process will continue, and the unsound ratio of long-term credits to short-term credits based upon the flow of trade will hold our banking system in a rigid grip.

Hence, in effect, the Nation is again back to a point which parallels that of the first national currency act. It must now take account of the fact that commerce has outgrown the use of currency money, and is again using privately created bank money with the same disastrous results.

National income should be restored by the control of both currency and credit through consumer demand, thus restoring income to a point where the margin of profit will suffice to meet the accruing charges on the great fixed-debt structure which has been erected during the past two decades, and thus lead to its eventual liquidation. This remedial measure must be taken, in addition to any step toward centralizing banking policy after the pattern of Great Britain and Canada, which might result merely in a narrow readjustment of the ratio of commercial to investment credits. In the circumstances this would be insufficient. The more comprehensive measure becomes increasingly essential with the constantly advancing volume of overhead charges and the decreasing volume of consumer purchasing power in the form of wages, salaries, and dividends on which industry relies to get back currently its total costs (as exemplified in the A plus B theorem). Because this stream of purchasing power is constantly shrinking in comparison to the rising volume of lagging overhead charges with the mechanization of industry, the rectifying measure must be applied directly at the point where the accumulated costs of industry are paid, namely, at retail.

It is worthy of note that all proposals to liquidate the debt credit structure heretofore advanced follow the ineffective idea of expanding private credits (and consequently debts) to stimulate consumption and raise prices. This method ignores two undeniable facts. One is that when production is stimulated, inventories must be built up before even the wages and salaries paid for them get into circulation. As these inventories amount in value to double the immediate purchasing power released in their production, an expansion of bank credit and carrying charges result, which are secured by stocks of merchandise, the outlet for which is not assured. This is an important factor in explaining the hesitation the banks now have in loaning money to their industrial customers. C. H. Douglas has reduced it to a concrete expression in his A plus B theorem.

The other fact is that rising prices curtail the potential purchasing power of the masses. Volume production should decresae costs and prices, rather than expand them, while still leaving the necessary profit margin.

In proceeding with the more comprehensive step, viz, by issuing credits through Government edict to consumers through a public discount to all buyer of goods at retail, our proposal adapts this principle to our present banking and individualistic, competitive system of business.

In fact, we make it the base of the money system of the country, so that the abuses previously enumerated are abolished, and by using circulating deposits in the manner outlined above, solely in accordance with the indexes of trade, we achieve a price structure in harmony with production-consumption costs. Instead of issuing inflated currency, we propose the issue of controlled credit, at the retail end of the costing cycle. In actuality, we propose the expansion of trade through consumption, instead of through monetary inflation of the channels of production. It is not a proposal to inflate, but to expand credits in step with expanding production and consumption.

In the long run the system we are proposing, with its support of our present democratic institution, offers a foundation on which to build a progressive State. Some points in relation to the general thesis may now be touched upon.

*Administration.*—At first sight the administration of discounts at retail appears colossal. If carefully studied it will appear that it does not entail as great or complex an organization or as much espionage as the collection of the income and nuisance taxes. It is, in effect, a reversal of this process, but as the bulk of the administration would be done through the banking system and as it is chiefly a matter of bookkeeping, it belongs in the same category as the usual handling of checks.

*Financing.*—The provision of Government debentures for use of trade discounts is in reality far sounder than the providing of funds for the Reconstruction Finance Corporation and like agencies. We base our claim in this respect on the ground that the financing of production primarily by means of consumer purchasing power in the form of the discount is the main source of sound bank credit. The liquidation of the credits issued to consumers comes about automatically from the increased revenues derived from restored national income.

We stress the importance of the periodical preparation of a national consolidated financial statement, summarizing all industrial activity and showing the relation of gross capital assets to gross indebtedness, following the form of the consolidated statements of the great corporations. If such statements had been in existence covering 20 years back, they would have furnished a warning against the present debt-credit impassé.

We also require that a clear-cut distinction be drawn between the national wealth represented by real productive capital assets and the negotiable or dollar wealth which is the fluctuating source of the debt-credit structure and the instability of the national money.

Proper recording of the above two factors is an essential to maintaining a sound price structure and balance between money and industry.

The relation of the foregoing proposals to such probelms as agriculture, the bonus, or technological unemployment is clearly to mitigate them. The consumption of agricultural products will come within reach of everyone. The farmer, while his market is broadened, buys his needs at reduced cost to him.

The increasing demands of consumers on the production organization will restore normal employment. After industry reaches capacity, a survey of the remaining unemployed will point the way to adjusting hours and conditions of employment so as to care for them.

The foregoing proposals are designed to achieve the following results:

(1) Revival of decent living conditions through the increased production-employment earnings cycle.

(2) A national monetary system which—

(*a*) Retains the gold standard as the base of ultimate settlements and backing for the currency.

(*b*) Prevents monetary and price inflation due to excessive issues of credit for unneeded and destructive overbuilding.

(*c*) Avoids interference with the currency which will continue to fill its present function undisturbed.

(*d*) Avoids the increase of prices to consumers. During the period of revival of trade it actually reduces living costs to them by reason of the discount on price.

(*e*) Puts industry upon a capacity basis, resulting in lowered costs and better earnings. At the same time it prevents the usual accompaniment to rising profits, namely, a flood of new flotations, which inflate money and prices.

(*f*) Open markets for securities and commodities remain, as an essential protection to legitimate business, but unwarranted speculation is restrained by the reduced percentage if that can be borrowed on speculative holdings.

(g) Government financing is done against consumers goods, instead of as now, supporting and inactive private debt structure. Government support of the private debt structure without establishing means of liquidating it must eventuate in State socialism. The means used must conform to modern economic conditions and social trends.

A strong flow of consumers goods is the only thing that can liquidate governments, banks, transporation, and industry, and at the same time keep the Nation busy, contented, and safe. Balancing of the Budget becomes automatically simplified.

The viewpoint that we stress is that normal national life can only be restored through adopting measures which impinge beneficially upon the whole population in such a way as to eliminate the harassing demands of sectionalists, the yielding to which can not, from an economic standpoint, meet the requirements of the whole Nation.

The effect of sectional demands on national politics is destructive of a unified policy. But a unified policy is the only one that can be effective, because it is the only way to achieve economic balance.

It is also believed that a study of this brief and the evidence the authors are prepared to supply indicates the meeting point of governmental and individualistic responsibility, and furnishes a guide to the limit that the former should go in organizing recovery. In other words, where Government responsibility should end and individual industrial effort begin.

It is designed to avoid three things which is it believed are not acceptable to normal national psychology, viz., Government in business, Government control of industry, and monetary inflation; in spite of the fact that there appears now to be a rapid drift in these directions.

Respectfully submitted.

EDWARD F. HARVEY.

APPENDIX

The following is a definition by Maj. C. H. Douglas of England of the A plus B theorem, which he developed as the result of observing the effect of war-time financing upon industrial production. This theorem has been before the world since 1919 and has never been refuted. Its implications are now the subject of study by several governments including Great Britain and Australia.

"A factory or other productive organization has, besides its economic function as a producer of goods, a purely financial aspect. It may be regarded on the one hand as a device for the distribution of purchasing power through the media of wages, salaries, and dividends, and on the other hand as a manufactory of prices—financial values. From this standpoint its payments may be divided into two groups:

"Group A. All payments made to individuals (wages, salaries, and dividends).

"Group B. All payments made to other organizations (raw materials, bank charges, and other external costs).

"Now the flow of purchasing power to individuals is represented by A, but since all payments go into price, the rate of flow of price can not be less than A plus B. Since A will not purchase A plus B a proportion of the product at least equivalent to B must be distributed by a form of purchasing power not comprised in the description grouped under A."

It should be noted that the deficiency in purchasing power of A has in recent years been made up by money created by the banks to finance capital production, thus bringing about our inflated debt-credit condition.

Further information can be obtained from the New Economics Group, 425 Fourth Avenue, New York.

Letter and brief submitted by Dr. Norman J. Silberling, Ph. D., San Francisco, Calif., are here printed in full as follows:

SILBERLING RESEARCH CORPORATION (LTD.),
*San Francisco, February 24, 1933.*

Hon. REED SMOOT
*Chairman Committee on Finance,*
*United States Senate, Washington, D. C.*

MY DEAR SENATOR SMOOT: In accordance with my recent letter to you, I am inclosing a memorandum to place before your committee on the subject of the depression and legislative remedies calculated to relieve it. The material here offered for your consideration is the result of intensive study of these problems over a period of years. Should the committee desire further elaboration of any of these points, it will be a pleasure to respond to your wishes.

Let me say again that I am sorry not to be able at this time to come personally before the Committee to present my views.

Sincerely yours,

NORMAN J. SILBERLING

## CAUSES OF THE ECONOMIC DEPRESSION AND SUGGESTED LEGISLATIVE REMEDIES

(Prepared for Committee on Finance, United States Senate, by Dr. Norman J. Silberling, Ph.D, Lecturer in Economics, University of California; President, Silberling Research Corporation (Ltd.), San Francisco)

There has been a general failure to comprehend that the current economic depression is a result of the war, is practically world-wide in its scope, and that both its severity and scope arise from the fact that international relationships are still essentially on a war basis. Many remedies and palliatives, superficial and localized, have been offered to deal with this crisis, but, failing to strike to the roots of it, they have been not only ineffective but positively harmful in prolonging and intensifying the trouble.

Before real remedies can be proposed there must be thorough understanding of the manner in which the World War affected business. From 1914 until 1920, roughly, the requirements of the war caused violent inflation of the price level, brought large areas of land, much of it marginal, into cultivation, and in general overexpanded our productive capacity in raw materials. After the temporary and inadequate readjustment in 1921 there came a second boom period lasting until 1928–29. This proceeded on the basis of continued foreign demands for capital goods to replace war losses, an ample gold and credit supply, an assumption that the treaty of Versailles marked the end of the World War and the beginning of European reconstruction, and the financing of European capital requirements by large loans. In this period of secondary boom, our plant capacity was greatly expanded; we entertained dreams of greatly developing export trade in manufactures, without realizing that the world was still at war; real estate and building were carried to extravagant heights of promotion; and on the basis of temporary industrial prosperity new capital flotations and activity in the security markets ultimately reached the proportions of wild inflation.

A large measure of this prosperity was due to temporary factors, and among these factors must be included artificial plans and schemes to liberalize credit far beyond sound limits, to expand the expenditures of governmental bodies, and to support prices and prevent an adjustment of the American price level to world conditions. More important still, the American people utterly failed to comprehend that European obligations owing to the United States as a result of the war could not indefinitely be discharged by advances of credit from this country, and in the end would either be repudiated or discharged in goods which would compete severely with American industries. In this period of the new era, the United States failed to realize that the continuance of an economic war throughout the world was having the effect of expanding productive acreage and industrial plant capacity simultaneously in many countries, which soon resulted in surpluses, falling prices, inability to maintain stable exchange between country and country, and ultimately the raising of barriers against international trade in every direction.

Essentially, therefore, the United States had 15 years of exceptional prosperity produced directly by the war, during which time productive capacity was greatly expanded while the outlet for products was being gradually contracted and forces were at work progressively lowering the basic level of prices. The crash in the security markets, for several years fed by cheap money owing to the liberal credit policies of the central banks, was the first signal of disaster. As the ensuing depression has continued the natural forces of recuperation have been persistently obstructed by the unsound philosophy of cheap money and by tinkering with symptoms rather than grappling with fundamental problems. Every important step in the depression—the rapid contraction in the foreign market for American raw materials; the distorted distribution of gold and the disturbances of international exchange; the suspension of the gold standard in England and other important countries; the depreciation of foreign investments; the boomerang effect of depreciating currency upon American gold prices; the seriously unbalanced capital structure of our railroads and their inability quickly to meet competitive conditions; the depreciation of capital values and the wholesale foreclosure of loans; and the obvious weaknesses in the American banking system in the meeting of this crisis—all have demonstrated over and over to those willing to look for causes the necessity of reaching to the roots of the disturbance in the international economic and financial system. Yet even now, at this later date, we are entertaining numerous proposals to tinker further with the price level by artificial monetary and credit schemes, and are losing every day the opportunities to assert the leadership in the international crisis which the position and power of the country, as well as our own stake in the matter, amply justify.

As matters now stand, the United States finds two alternatives: We must either withdraw entirely, isolate ourselves from the world, and undergo a prolonged process of readjusting our productive capacity to the narrowed limits of a domestic market, or we must take a definite and active part in cooperating with other countries in a program to place international obligations on a practical basis; to remove needless obstructions in the flow of trade; and thus to place international finances once more upon a stable gold basis, which in itself would powerfully operate to turn the word price level upward. This one objective would be the answer to many of the complex problems of deflation which now defy solution. Only by following the latter of these alternatives can the present alarming tendency toward resumption of international dispute be safely averted, and with it the threat of international competitive inflation of prices which might ultimately cause the ruin of the capitalistic system throughout the world.

Inasmuch as basic causes have been largely ignored, the present crisis calls for immediate relief measures. But these measures must be accompanied by a simultaneous attack upon the causes themselves. It is futile to introduce relief measures and then merely trust to blind luck that some good fortune will turn the tide and justify them. This has been exactly the policy of the last few years, and it has without question been ruinous.

(1) *The immediate problem is one of social relief.*—The Reconstruction Finance Corporation should be authorized progressively to curtail, and ultimately to abandon, its financial aid to institutions and to concentrate its work upon the granting of relief to the unemployed. This relief, if done through loans, should carry a low rate of interest, and it should not be delayed unnecessarily by being associated with public works. The situation calls for emergency help to the unemployed, not doles to the building industry and its price-fixing managements.

(2) *Immediate strengthening of the banking system.*—No progress can be made until the credit mechanism is protected from the dangers of too many small, weak banks; unnecessary restrictions upon branching within reasonably conceived areas are removed; and banking is redirected toward commercial, rather than fixed capital, financing.

(3) *Institute immediate changes in the viewpoint and policies of the Federal reserve system* to abandon at the earliest possible moment the false philosophy that cheap credit is the source of business prosperity. Remove also the dangerous connection between the Federal reserve system and the Treasury, which necessarily involves the raising of revenue rather than the financing of the Government by short-term loans from the Federal reserve. Let the Federal reserve system revert to its original province of being a bankers' bank and not a money-making device for the Treasury or an automatic "stabilizer" of the business cycle.

(4) *The debt problem.*—It is futile to approach this problem through general moratoria. The basic approach to this problem is to work toward a raising of commodity prices through removing restrictions upon trade and enterprise. The immediate passage of legislation provideing for arrangements between debtors and creditors which would hasten adjustments without the expenses and delays of ordinary receiverships and foreclosures, would remove the present confusion and its social aftermath of bitterness and waste.

(5) *Foreign debts.*—This country must face facts in connection with European debts and the tariff. It has been repeated over and over that debts can not be paid except in goods, and we shut out the goods. Instead of temporizing further, we must reduce debts and reduce tariffs to permit an adjustment of these claims, while at the same time not exposing Americzn industry to unnecessarily violent competitive forces. Underlying this must go cooperation on the part of the United States with the other leading powers looking toward a reversal of the present trend toward war preparations in the Orient and in Europe. The recognition of Russia and the inclusion of Russia in such agreements is imperative, not only from a commercial angle but as a means of reestablishing peaceful relations and the commerce which they promote. Immediate attention should be given to the working out of reciprocity agreements with individual nations.

(6) *Taxation must be revised.*—While the heavy local taxes weighing upon real estate, farms, and railroads must await local reforms, Federal financing demands

immediate change in taxes. So long as heavy expenditures must be made for past and future wars, the first essential is to reduce drastically payments to veterans other than those disabled in actual service; the restoration of revenue tariffs on imports in contrast with the present prohibitory tariffs, which merely keep the cost of living too high; the imposition of a general sales tax for a limited period. While the present crisis lasts the Federal Budget can not be fully balanced, but flotation of long-term securities should be initiated, as the prospect of it is a serious deterrent to stability in the general bond market. Furthermore, measures should be taken to remove the present provisions for exemption of Government securities from surtaxes. Congress must recognize that taxes can not be reduced and the Budget balanced at the same time, and as long as the Budget is unbalanced through continued borrowing the banking system and financial enterprises are threatened.

(7) *Railroads must be permitted to readjust their excessive capital structures* rather than artificially protected from reorganizations. The requirements of the country for economical and efficient transportation supersede the demands of the investment bankers and the holders of railroad bonds. At the same time the modernization of railroads should be promoted; Federal aid to waterways, highways, and other competing transportation systems should be abandoned; railroads should be encouraged to lower their rate structure in order to restore traffic; and plans for consolidation into larger systems rapidly carried forward. The recapture clause should be repealed.

(8) *Economies in Government.*—Economizing in Federal expenditures is impossible so long as large appropriations are necessary for war purposes. By contracting the advances of government through the Reconstruction Finance Corporation, through consolidation of departments, and through reduction in compensation to all public officials, savings can be made which will find their justification in the example they present to municipal and State authorities.

I am convinced that with concerted effort along these lines there will develop a natural recuperative tendency which would remove the threat of dangerous experiments and unsound stiumlants, such as monetary inflation, devaluation of the dollar, vast programs of unproductive public works, bonus plans for farmers, and a broad extension of public ownership and bureaucracy.

If the legislative and administrative forces of the country can be concentrated along the foregoing lines, and efforts focused upon a consistent program rather than frittered away upon haphazard plans and petty palliatives, the country will have demonstrated its ability to make the courageous decisions which originally made it great.

(A letter received from Herman Waldeck is here printed in full as follows:)

CONTINENTAL ILLINOIS NATIONAL BANK & TRUST CO.,
*Chicago, February 25, 1933.*

HON. REED SMOOT,
*United States Senate Committee on Finance, Washington, D. C.*

DEAR SENATOR: Referring to your communication of the 8th instant; I beg to submit the following:

The causes of the depression are so well known that to re-state them here seems unnecessary and futile.

As for the remedial measures to be adopted to overcome the crisis, I venture to suggest the following:

Restoration of confidence to be achieved by (*a*) A sincere and determined effort to balance the Budget.

(*b*) The early enactment of banking legislation calculated to supply the country with a banking system that will at once serve its purpose and command the confidence of the public.

(*c*) A prompt settlement of the war-debt question on a practical and realistic basis.

These, to my mind, are the problems, the solution of which would automically solve most of the other problems with which the country is afflicted to-day.

Trusting that the foregoing suggestions may prove of some service to your committee, I remain,

Respectfully yours,

H. WALDECK.

(Letter and statement submitted by Mr. W. F. Gephart, St. Louis, Mo., is here printed in full as follows:)

FIRST NATIONAL BANK,
*St. Louis, Mo., February 25, 1933.*

Hon. REED SMOOT,
*Chairman of the Senate Finance Committee, United States Senate, Washington, D. C.*

MY DEAR SENATOR SMOOT: Some time ago I accepted your invitation to appear before the Finance Committee to give testimony with respect to the present industrial and financial condition.

Owing to the seriousness of the general banking situation, I hesitate to leave my office, and in addition it has occurred to me that perhaps the members of your committee would be served quite as well if I sent to you a brief statement. I am, therefore, sending to you a number of copies which I should be very glad to have you give to the members of the committee. Needless to state, I should be very much pleased if you could find time to run through this 5-page statement.

Yours very truly,

W. F. GEPHART.

A STATEMENT BY REQUEST TO THE FINANCE COMMITTEE OF THE UNITED STATES SENATE ON AGRICULTURE AND ON PRICES, DOMESTIC DEBTS, AND INFLATION BY W. F. GEPHART, VICE PRESIDENT, FIRST NATIONAL BANK IN ST. LOUIS

INTRODUCTION

There are many explanations of the causes for the present world industrial depression, but after making all allowance for minor causes, the fundamental ones are to be found in the enormous destruction of capital occasioned by the war, the misdirected capital investment during and following the war, and finally the speculation engendered by the war.

War is one of the few ways that saved capital can be destroyed. Not only does it actually disappear but during the time of great wars there arises a great increase in demand for certain products with the resulting over-development of plant capacity in manufacturing lines as well as in the production of certain food and other basic commodities. The prosperity and the rising price level which accompanied the war led to a further increase in plant capacity after the war in the belief that high prices and profits would be a continuing phenomenon. This condition of overdevelopment and speculation affected almost all classes of industries with the result that we now find an ability to produce many kinds of commodities far beyond any present or prospective demand for them. Along with this has been a rapid development of technological progress, represented by improved machines, processes, and scientific discoveries which have culminated during the past quarter of a century, adding to the difficulties growing out of the stimulation to industry occasioned by the war and the succeeding period of speculation.

Then too, our commercial banking structure was weakened in the first instance by permitting the creation of commercial bank credit upon the basis of capital assets. In its initial stages, bank credit was expanded to meet governmental needs during the war. After the war its normal contraction was prevented. Additional bank credit was created on the basis of such capital goods as stocks, bonds, and real estate, and the credit so created was not self-liquidating. As capital goods have a longer cycle than consumers' goods they apparently maintained their values for a time in the face of the continually increasing supply of capital goods. Ultimately, however, they had to be subjected to the inevitable test of liquidity as they were supporting a commercial banking structure and when an attempt was made to apply this test the whole structure crumbled. No commercial banking system can have so substantial a portion of its outstanding credit, based on capital goods, as that of the United States, and expect to meet its obligations on demand or within thirty days. That fact probably more than any other single factor is largely responsible for the present plight of American commercial banking. While other countries have suffered even more than we from the effects of war, inflation and capital destruction, none have had a banking debacle comparable to ours, which has consisted of a gradual crumbling of the whole structure for over a decade. This basic defect in our banking structure can not be corrected by means of governmental credit grants without endangering the credit of the government itself. Even the United States Government can not perform a miracle and convert capital goods into self-liquidating commercial bank loans.

### AGRICULTURE

The present plight of agriculture is due basically to the fact that there has been during the past quarter of a century a very marked change in the demand for agricultural commodities without an adjustment on the part of the farming population of the world to these changed conditions. This change consists, first, in an enormous increase in acreage; second, a very decided decrease in the demand for what were originally the basic agricultural commodities; third, the climatic and other natural conditions which are beyond control and very greatly affect the production of agricultural commodities during any one season, and in the fourth place, to the fact that agriculture is such a highly individualized industry. It is an extremely difficult matter to get any co-operation of a wide scale among agricultural producers.

Taking 1880 as the basis, statistics show that by 1925 agricultural production in the United States had increased from 100 to 234. Crop land had increased from 100 to 200. (See Table I, appendix.)

If the people of the United States had known 50 years ago what the present situation of agriculture was to be, the public land policy of the United States would doubtless have been quite different. Millions of dollars have been spent in bringing new land into cultivation through irrigation and drainage projects which in view of what has occurred should never have been undertaken. Another aspect of the agricultural problem is the decrease in the foreign markets for agricultural commodities. This has resulted in part from our commercial policy but more particularly from the fact that there have been developed new centers of production in the world and many nations have become more self-sufficient in the production of food commodities.

Then too, not only because of the individualistic character of agriculture, but also because of the nature of the industry itself, it is difficult to reduce the agricultural population. It is very well to talk about the desirability of eliminating the marginal or submarginal land—that is, the marginal and submarginal farmers, but, as a matter of act, it is just these classes who are likely to continue longest in the industry. They earn no profit, no interest on the investment of the land, and not even good wages, but they persist in living on the land and eking out a bare existence.

The population of the United States in 1914 was 97,577,500 and in 1930 it was 122,775,046. This represents an increase in population of 36 per cent between the two dates, 1914 and 1930. Yet, at the same time, agricultural consumption statistics show that with this population increase of 36 per cent, there has been a decrease of 28 per cent in the consumption of corn; 7 per cent in the consumption of wheat; 25 per cent in the consumption of oats; 30 per cent in the consumption of potatoes, and only 1.1 per cent increase in the consumption of dressed meats. (See Table II, appendix.)

Another factor to be considered is the slowing up of the population increase, due to reduced immigration and the decrease in the birth rate. It is not probable that the people of the United States will, in the near future, adopt a more liberal immigration policy no more than is it likely that the birth rate will again be on the old level, and, therefore, the per capita consumption of agricultural products will not increase at the rate it did in the earlier time. The people of the United States are consuming larger quantities of fruits and vegetables and there is no longer the per capita demand for meat, bread, and potatoes.

The agricultural industry in America, like many other industries, has for 50 years been geared up on the assumption that there would be annually an increased market. But, with the present slowing down of the population increase and the overdeveloped plant capacity in so many lines, there has come about perhaps the most difficult industrial problem for the next ten years—namely, that of adjusting capital structure and plant capacity to prospective demand for goods.

The most pressing immediate problem for American agriculture is that of the mortgage debt. The farm mortgage debt is concentrated largely in the 12 North Central States, which in 1930 carried 59.5 per cent of the total. These States have 33 per cent of the total number of farms and 50 per cent of the value of all land and buildings in farms in the United States. The regional distribution of the remaining 40.5 per cent of the farm mortgage debt is: North Atlantic States, 6.8 per cent; South Atlantic States, 5.5; South Central, 13.7, and the Western States, 14.5.

The total farm mortgage debt increased 137 per cent from 1910 to 1920, principally during and immediately after the war years, a period in which the general price level and farm prices were nearly twice the pre-war average.

Distressing as the situation is at present, it should be noted that nearly 60 per cent of all farms in the United States are free of mortgage debt. In 1928, the peak year for farm mortgages, the total indebtedness rested on 40 per cent of all farms.

Of the total farm mortgage debt in 1930, the last year for which an estimate on this point is available, about 56 per cent was on farms operated by owners, 40 per cent on farms operated by tenants and 4 per cent on farms run by managers. Of all farms in the United States probably about 1 in 4 was mortgaged and operated by owners and about 1 in 7 mortgaged and operated by tenants.

The bulk of the present farm mortgage debt was incurred in years when the general price level was about twice, and the level of farm prices nearly four times as high as at the close of 1932. The creditor in most cases, therefore, lent about one-half of the purchasing power now owed him. To pay the debt under present prices, the farmer must part with about four times as many units of farm products.

The total mortgages held by each of various classes of creditors has not been definitely determined since January, 1928, when it was as follows:

| Classes of lenders: | Per cent |
|---|---|
| Federal land banks | 12.1 |
| Joint-stock land banks | 7.0 |
| Commercial banks | 10.8 |
| Mortgage companies | 10.4 |
| Insurance companies | 22.9 |
| Retired farmers | 10.6 |
| Active farmers | 3.6 |
| Other individuals | 15.4 |
| Other agencies | 7.2 |
| Total | 100.0 |

This table suggests that the creditors' side of the farm-mortgage problem is by no means simple. The individual creditors, who number nearly 750,000—including active farmers and retired farmers with the savings of a lifetime of toil invested in mortgages as their protection in old age—held in 1928 nearly $3,000,000,000 of farm mortgages, or about 30 per cent of the total. Retired farmers alone held a total volume of farm mortgages about as large as that of all commercial banks and nearly as large as that of the 12 Federal land banks.

Dollars were cheap when most of the present debtor-creditor relationship was established, compared with their value now. This is the central source of the farmer's debt problem and the main cause of stress and strain between debtor and creditor. In November, 1932, the buying power of the farmer's product was 51 as compared to 106 in 1910, due to the fact that the price of what he had to sell had decreased from 103 in 1910 to 54 in 1932, and the price of what he had to buy had increased from 98 in 1910 to 106 in 1932. (See Table III, appendix.)

For the immediate situation confronting agriculture, there needs to be, first, a refinancing of farm mortgages, and second, a relieving of the market from the surplus of certain basic agricultural commodities. To accomplish the second purpose, it is suggested that the Federal Government lease wheat and cotton land and in addition purchase a sufficient part of the extraordinary surplus cotton and hold it from the market for a period of three years.

If relief was brought to the producers of these two basic products, it would largely spread throughout the whole agricultural population. There is not presently or prospectively any such surplus of wheat as there is of cotton and the leasing of the wheat land would bring relief. But in the case of cotton, there needs to be not only the leasing of the cotton land but also the purchase of sufficient cotton to restore a fair price.

For the longer term agricultural relief, there must be taken permanently out of cultivation many millions of acres of marginal and submarginal land. In addition, there should be no more reclamation projects by the Federal Government. It is suggested that these two measures for emergency and long-term relief will place the agricultural industry of the United States on a reasonable basis of prosperity.

Agriculture will need to become more of a business and less of an occupation. The profits of agriculture in the United States, like in any new country, have come about largely from buying and selling land—that is, speculation in land rather than organizing and conducting farming as a business.

PRICES, DOMESTIC DEBTS, AND INFLATION

Much has been heard about magic recipes for restoring prosperity by governmental action. There are many who think that if we had an enormous inflation of the currency or credit this would correct the situation, because it would increase the price level, and many people believe that prosperity and high prices are synonymous. Inflation has its temporary merits, most of which are obvious. It is the easy way out, but it will exact a price to be paid later. The difficult way out is by acceptance of whatever rigors are required to balance budgets, by further adjustment of debt, by further corporation reorganizations, by further write-downs of fictitious values, all of which involve selective rather than blanket action. The latter course requires more immediate patience and application, but it involves fewer later dangers. It is desirable to look sharp and ponder well before drifting into inflation.

All of these inflation schemes are based on the erroneous assumption that there exists in the country a shortage of money and that if in some way more money could be pumped into circulation, prices would rise and thus all of our troubles be over.

Money is nothing more than a measure of wealth and services and increasing the units to measure wealth and services does not increase the actual wealth. The yardstick is the unit of linear measurement, but increasing the number of yardsticks in the world would not increase the number of yards of woolen and cotton cloth. Increasing the number of bushel measures in the world would not increase the number of bushels of wheat, and increasing the number of units to measure wealth, whether they are gold dollars, silver dollars, or paper dollars will not increase the actual wealth of the world, which consists of goods and services. As a matter of fact, there is no dearth of money or of money in circulation. There is just one way to increase the amount of money in circulation, and that is by increasing the purchases and sales of goods and services.

The average daily stock of gold in the United States was $4,207,000,000 in 1928 and $4,240,000,000 in 1932. Likewise, the average daily circulation of money in the United States in 1928 was $4,782,000,000, while in 1932 it was $5,615,000,000. It is, therefore, erroneous to argue that there is any need for more gold or more money in circulation. There has also been, during and since the war, a concentration of the world gold supply in the central banks and in the hands of the Government so that the gold of the world can be used more effectively as a basis for credit and as a reserve. (See Table IV, appendix.)

In assuming that existing low prices are the sole barrier to recovery the proponents of inflationary schemes are viewing only one phase of the problem and are neglecting a number of other important factors. It must always be realized that it is not alone low prices or high prices that necessarily handicap the normal flow of business. In industrial society, as it is at present organized, we have essentially a system based upon the exchange of goods and services for goods and services. As long as approximately the same volume and character of goods and services can be exchanged for a similar volume and character of other goods and services, the price factor is of itself not necessarily a disturbing element. One of the essential difficulties in the present situation is the change in the relationship that has taken place between various elements in the price structure. Prices of themselves are purely relative, and there can exist just as many inequalities and difficulties during a period of high prices as during a period of low prices if long established price relationships are thrown out of their customary relative trading position. This factor is well illustrated at the present time in the Department of Agriculture's calculation of the ratio of prices of farm products to prices of what the farmer can buy. In November of 1932 this index was 51 per cent of the pre-war average. In other words, at current prices for farm products the farmer can buy only about 50 per cent of what he could before the war. Thus, in considering inflationary schemes, through tinkering with the money mechanism, it should be realized that a mere general rise in prices as a result of such procedure would not necessarily enable the farmer to purchase any more at the higher price level than he could at the lower price level, unless the existing inequalities in his exchange position were corrected. Any deliberate attempt at inflation would create new and other aggravated dislocations in the general price structure and would prove beneficial solely to certain debtor groups.

Finally, the Government can only very indirectly, by act of legislation, help the situation. If it were possible to legislate prosperity and morality, we would soon create a Utopian world. The process of deflation, painful as it is, is progressing.

We have arrived at the third stage of the depression, which is a determination to face realities, and this always marks the first step of improvement. We realize that the boom days have passed and we begin, therefore, to order our personal, business, and governmental expenditures on a new basis. We have heard much talk recently about governments, Federal, State, and local balancing their budget. This is all very desirable, but it is also equally desirable that individuals and corporations also balance their budget which is nothing more or less than bringing their expenses in harmony with their present and prospective incomes.

The era of extravagance in personal and business expenditures has passed, and, therefore, all types of business are effecting economies. Business is eliminating many of the expenses which it incurred during the period of prosperity and which had very little or no relation to the profitable conduct of the business, and as a result, there is promised that business will be on a more healthy basis than it has been for many years.

Supplementary government aid to natural processes of recovery is desirable wherever it is effective, but there is a great temptation, as has been in part the case during the past several years, to continue to use palliatives and not to seek a remedy. We are arriving at the point where we need, so to speak, to use the surgeon's knife and lay aside the hypodermic. Doubtless, the Government can do something in the way of wisely extending credit as has been done in part by the activities of the Reconstruction Finance Corporation to certain deserved businesses. It can also aid by better bankruptcy law so that the railways and industrial corporations can more readily reduce their capital structure and enable many present creditors to write off their present claims and substitute for them a claim on the earnings of the business that will be possible in the future. But it is useless to go on loaning Government credit to banks, railroads, and other industries which have no hope and have had no hope for months that under the most favorable conditions they would ever be able to get a fair return on their present capital structures.

The solution of our problem lies primarily in permitting the natural corrective forces to operate as effectively and quickly as possible. Efforts to prevent the natural functioning of economic laws by attempting to maintain unsound economic relationships within the price structure by governmental action, such as through price fixing schemes, the bolstering of decayed capital structures, either railroad, industrial, banking, or agricultural, will only prolong and not cure the depression. The same thing is true in our economic life.

It is time to call upon the creditors of railroads, banks, farms, and other industries to assume their share of the burden of deflation and the reconstituting of their capital structure and not expect the people of the United States continuously, through taxation, to assume a burden which in large part belongs to the owners of the properties.

TABLE 1.—*Appendix*

| Year | Production | Crop land | Agricultural working population | Production per capita of agricultural working population |
|---|---|---|---|---|
| 1880 | 100 | 100 | 100 | 100 |
| 1890 | 136 | 132 | 110 | 115 |
| 1900 | 167 | 170 | 135 | 124 |
| 1910 | 207 | 181 | 172 | 120 |
| 1920 | 230 | 209 | 156 | 147 |
| 1925 | 234 | 200 | 141 | 161 |

Source: Facing the Facts, edited by J. G. Smith, published by G. P. Putnam's Sons, Chap. XI.

TABLE II.—*Consumption of principal foodstuffs in the United States*

[In pounds per capita]

| | 3-year average | | Increase (+) or decrease (−) |
|---|---|---|---|
| | 1929-1931 | 1912-1914 | |
| Cereals: | | | *Per cent* |
| Corn | 1,111.00 | 1,561.00 | −28.8 |
| Wheat | 298.00 | 323.00 | −7.7 |
| Oats | 299.00 | 399.00 | −25.1 |
| Rye | 16.00 | 21.00 | −23.8 |
| Rice | 13.60 | 14.31 | −5.0 |
| Meat: | | | |
| Beef | 49.90 | 59.70 | −16.4 |
| Veal | 6.80 | 5.28 | +28.8 |
| Lamb and mutton | 6.50 | 7.53 | −13.7 |
| Pork | 70.30 | 62.00 | +13.4 |
| Total dressed meat | 136.00 | 134.50 | +1.1 |
| Other foodstuffs: | | | |
| Potatoes, white | 169.00 | 241.30 | 30.0 |
| Apples | 58.30 | 103.70 | 43.8 |
| Milk | 956.00 | 801.60 | +19.3 |
| Eggs | 34.10 | 21.50 | +58.6 |
| Chickens | 20.90 | 16.85 | +24.0 |
| Sugar | 108.00 | 86.80 | +24.4 |

Source: Annalist; July 22, 1932, p. 107; November 21, 1930, pp. 869-870.

TABLE III

| | Prices received by farmers | Prices paid by farmers | Buying power of products |
|---|---|---|---|
| 1910 | 103 | 98 | 106 |
| 1920 | 205 | 206 | 99 |
| 1925 | 147 | 159 | 92 |
| 1928 | 139 | 156 | 90 |
| 1930 | 117 | 146 | 80 |
| 1932 (November) | 54 | 106 | 51 |

Source: St. Louis Globe Democrat; February 12, 1933; p. 1, pt. 2.

TABLE IV

| | 1932 | 1928 |
|---|---|---|
| Monetary gold stock, United States: Average daily figures | [1] $4,240,000,000 | [2] $4,207,000,000 |
| Money in circulation: Average daily figures | [1] 5,615,000,000 | [3] 4,782,000,000 |
| Gold reserves of central banks and governments: | November, 1932 [4] | December, 1928 [5] |
| Total 47 countries | $11,859,000,000 | $10,026,796,000 |
| United States | 3,885,000,000 | 3,746,000,000 |
| England | 678,000,000 | 748,390,000 |
| France | 3,267,000,000 | 1,253,500,000 |
| Germany | 197,000,000 | 650,127,000 |
| 24 other European countries | 2,807,000,000 | 1,677,000,000 |
| 10 Latin-American countries | 341,000,000 | 895,000,000 |

[1] Federal Reserve Bulletin, January, 1933, p. 11.
[2] Report of Federal Reserve Board, 1931, p. 63.
[3] Report of Federal Reserve Board, 1931, p. 69.
[4] Federal Reserve Bulletin, January, 1933, p. 24.
[5] Federal Reserve Bulletin, May, 1932, p. 311.

TABLE V.—*Classes of lenders*

| | Per cent |
|---|---|
| Federal land banks | 12.1 |
| Joint-stock land banks | 7.0 |
| Commercial banks | 10.8 |
| Mortgage companies | 10.4 |
| Insurance companies | 22.9 |
| Retired farmers | 10.6 |
| Active farmers | 3.6 |
| Other individuals | 15.4 |
| Other agencies | 7.2 |
| Total | 100.0 |

Source: St. Louis Globe Democrat, February 12, 1933; page 1, part 2.

(A letter received from Mr. Orlando F. Weber, New York City, is here printed in full as follows:)

NEW YORK, *February 17, 1933.*

HON. REED SMOOT,
*Chairman Committee on Finance,*
*United States Senate, Washington, D. C.*

DEAR SENATOR SMOOT: Upon my return to the office I find your letter of February 8.

I have noted in the newspapers the comments made by the various gentlemen who have appeared before the committee and find myself in sympathy with the thoughts already expressed before the committee as follows:

(1) The Budget should be balanced in order to maintain the Government credit structure.

(2) There should be no cancellation of foreign debts; to do so would not benefit the people of our country.

(3) The low price of farm commodities has had a real bearing on reduced industrial activities during the past two years, and has an important bearing on our present situation.

Burdened as the committee must be with the mass of opinions now being expressed before it, I would be pleased if this letter would be satisfactory in place of my personal appearance.

Very truly yours,

ORLANDO F. WEBER.

(A letter received from Rev. H. C. Morrison, D. D., Louisville, Ky., is here printed in full as follows:)

LAKELAND, FLA., *February 17, 1933.*

Senator REED SMOOT,
*United States Senate, Washington, D. C.*

MY DEAR SENATOR: Your letter of February 8, forwarded, has reached me. It is impossible for me to visit Washington City at this time.

Let me congratulate you on your long and faithful service which you have rendered to your country as a public servant.

Permit me to offer the following simple suggestions:

First, close the doors of this country tight against any immigration, except tourists and students.

Second, ship out of this country all foreigners with any sort of criminal record.

Third, keep a safe protective tariff over home products that can amply supply the needs of our people.

Fourth, discourage the wealthy people from taking hundreds of millions of dollars out of this country the coming summer and fall, as tourists to Europe.

Fifth, arrange for the Federal Government to unite with the State governments, the great cities, Red Cross, and wealthy philanthropists to get the millions of idle people of the cities onto the farms where they can make a comfortable living with a good degree of contentment.

Sixth, have the Government gather up the hundreds of thousands of idle boys and men who can not find employment, and put them into the military camps, the Government uniform them, give them rations and have them devote a certain part of each day to study, a part to physical culture, and a part to industry. They could do much in draining and preparing land for agriculture.

Seventh, if automobiles could be taught to eat corn and oats there would be a demand for all the products of the farm, and the vexed farm problem would be solved. Automobiles have led millions of people to mortgage their property in order to buy cars. They have wasted time and money running about the country. Less of the steering wheel and more of the hoe handle is one of our great needs.

Eighth, keep the country dry. Save the hungry, poor people from wasting that which would buy bread, for beer. Pass a resolution in the Senate calling upon ministers of the gospel to lead the people back to the Bible, to reverential fear and loving obedience to the God of the universe.

Respectfully,

H. C. MORRISON.

(A brief submitted by the Kiwanis Club of Elizabeth, N. J., is here printed in full:)

KIWANIS CLUB OF ELIZABETH

ELIZABETH, N. J.

The Kiwanis Club of Elizabeth realizes that conditions are rapidly getting worse, and that a united effort must be made at once if we are to avoid municipal insolvency and additional suffering. We have invited the various civic and taxpayers groups in Elizabeth to join us in the following program.:

1. To study local credit, municipal and industrial conditions.
2. To present a definite program for rehabilitation.
3. To offer our cooperation in putting the program in effect.

We believe that the most serious aspect of the depression is the mental state of our citizens, rather than the material losses we have suffered. We have an overabundance of food, clothing, shelter, and labor, but lack the will or the means to provide credit machinery for the interchange of these commodities.

It is quite evident to us that a plan to end the depression must first seek to raise the morale of our citizens, and, secondly, restore the credit machinery of the country. We also believe that a movement toward recovery need not and should not await the settlement of international problems. Men can not get back to work until credit gets back to work.

We are looking at our difficulties from a purely local viewpoint, and realize that we can not effect a permanent cure unless we have both State and Federal cooperation. The State may aid by using its credit to prevent wholesale municipal insolvency. The State may also provide a more equitable method of taxation to relieve industry and real estate of a disproportionate share of public expense. The Federal Government may aid by sponsoring a nation-wide organization to raise the morale of the people, and by liberalizing the policies of the Reconstruction Finance Corporation and the Federal home loan bank.

Elizabeth may be used as a typical example of conditions throughout the Nation. Elizabeth has a population of 115,000, of which nearly 30,000 are dependent on public relief. Probably 20,000 more are in dire distress, but are too proud to ask for help. Hundreds of homes are under foreclosure, and the number is increasing in leaps and bounds. Banks and building and loan associations are practically in a state of liquidation. Taxes are paid with difficulty or not at all, and the city must resort to borrowed money to pay operating expenses. City credit is impaired and bonds can not be sold. Owing to economies in city, county, and State government, unemployment is increasing. No concerted effort to provide work has yet been made. Large industries are demanding reduction of ratables on pain of closing plants. Increasing unrest and defiance of government.

PLAN SUGGESTED FOR ELIZABETH CITIZENS COMMITTEE

The Kiwanis Club believes that credit in one form or another is the main factor in the present situation. Start the machinery of credit to function in an orderly manner, and problems of unemployment, mortgage foreclosures, and municipal insolvency will no longer exist. We believe the 50 Elizabeth building and loan associations can be used as a lever to break the credit stalemate, and to that end have submitted plans to the department of banking and insurance.

The building and loan associations may aid in the following manner:

1. Pay off obligations to banks. This amount is in excess of $2,000,000. Banks have also loaned an additional $2,000,000 to shareholders on pledge of shares.

2. Extend loans to shareholders for relief or payment of taxes.
3. Use liquid reserve funds to purchase city bonds.
4. Collect taxes monthly as an aid to the city.
5. Loan money on bond and mortgage. A number of associations have surplus funds, but, through fear or caution, are not making loans. Other associations have not availed themselves of facilities offered by the Reconstruction Finance Corporation or Federal home-loan bank, to pay off obligations or to extend relief loans to shareholders. A substantial amount could probably be underwritten to finance new homes or repair programs.

The citizens committee may aid the city in the following manner:
1. Suggest the payment of taxes monthly and aid through publicity.
2. Encourage the prepayment of taxes.
3. Aid in the marketing of city bonds.
4. Suggest the building of public works as a relief to unemployment.
5. Suggest balancing of Budget and economy of government.
6. Suggest a remedy for burdensome taxes on real estate and industry.

SUGGESTIONS TO BE SUBMITTED TO THE SENATE FINANCE COMMITTEE

We believe that the most serious aspect of the depression is the mental state of our citizens, and that steps must be taken to improve our morale before there can be any betterment of credit or industrial conditions. We believe the suggestions below would be of tremendous benefit to Elizabeth, and possibly to the nation as well.

Plan in brief:

1. Appointment by the President of the United States or the Congress of a committee of outstanding leaders in industry and finance. Organization of State committees in every State in the Union. Appointment of local committees in every important city and town in the nation. The name of this organization might aptly be the "Prosperity council of the United States." The chief duty of the council and its various subdivisions would be to inspire confidence in Federal, State, and municipal Government; to advise local communities in municipal management; to mobilize banks and building and loan associations in measures to complete liquidation, and to set in motion local credit machinery; to encourage the building of public and private works.

2. Authorization by the Congress of a bond issue of $5,000,000,000 to be called the "Prosperity loan." This loan should be offered to the public in denominations as low as $50, with an interest rate of 3 per cent. Payment for bonds may be made in full or over a period of 50 weeks. Aside from the fact that the Federal Government will have the use of this money, it will serve the following purposes:

(*a*) Put back into circulation millions of hoarded dollars.
(*b*) Permit the use of excessive savings bank reserves.
(*c*) Encourage thrift.

It is important to note that, following the flotation of our last Liberty loan, the condition of our banks and citizens was better than any time in the history of the country. Nearly every family had one or more Liberty bonds which could be used as a basis of local credit. With wholesale retirement of Liberty bonds funds so released were put into stocks and building and loan shares, many of which are to-day either worthless or frozen. Our people would welcome an opportunity to buy Government bonds.

3. If the Federal home loan bank is to serve the public as intended by the Congress, important changes must be made in its policy. The Federal home loan bank is practically of little value as an emergency arm of the Government, nor are its inducements sufficiently attractive ro cause the thousands of building and loan associations to seek membership. As an aid to distressed home owners, the bank can be of little use unless a more liberal policy is adopted. A policy of loaning 60 per cent of present day values, instead of 40 per cent, would go far in stabilizing real estate and help to reestablish credit. The rate of interest charged is not of great importance. It should, however, be sufficiently high so that a loss or insurance fund of 1 per cent may be set up. If fire insurance companies can operate at a profit on charges of $1.80 per $1,000 of insurance, surely the home loan bank would cover all foreclosure losses by a 1 per cent rate.

4. The Reconstruction Finance Corporation can be of greater service to the country by exercising a more liberal policy to small banks and building and loan associations. New Jersey building and loan associations are empowered to borrow an amount equal to 25 per cent of their mortgages. It does not appear, however, that the Reconstruction Finance Corporation will make loans to the same extent.

There are many instances where associations have applied for loans; deposited sufficient collateral, and then, after months of delay, have been refused without explanation. Because of this condition many associations decline to apply for loans.

GENERAL

It appears to us that the problem of bank insolvencies is a major calamity, and that all the resources of the Government should be used if necessary to end this situation. The Elizabeth committee proposes to aid financial institutions in Elizabeth as far as our means permit. Similar movements throughout the Nation would go far in restoring confidence.

KIWANIS CLUB OF ELIZABETH.

FEBRUARY 21, 1933.

(A letter received from Mr. W. L. Clayton, Houston, Tex., is here printed in full as follows:)

HOUSTON, TEX., *February 18, 1933.*

Hon. REED SMOOT,
*Chairman Committee on Finance, United States Senate,*
*Washington, D. C.*

DEAR SENATOR SMOOT: I have your letter of February 8, and appreciate the suggestion that your committee may wish to invite me to come to Washington later on to give testimony regarding the causes of the present depression and possible legislative remedies.

I think I can cover in a short letter my views on this subject and I suggest that this letter be accepted by the committee in lieu of attendance in person and testimony.

I think the present economic disorder is the result, principally, of a speculative debauch, made possibly by a flagrant abuse of credit.

Nevertheless, I believe that the pricking of the bubble has disclosed to view certain grave defects in our national economy and in our international policies and that these defects must be corrected if we are to return to a condition of normal prosperity such as we enjoyed, for instance, before the Great War. The whole subject centers in the revolutionary change which came in our position among the nations of the world as a result of the war. I refer to our sudden transformation from a debtor nation to the chief creditor nation of the world.

If being the chief creditor nation of the world has any significance, it means that we must buy more goods from the rest of the world than we sell to the rest of the world, otherwise we must be prepared to drastically write down our foreign investments, and the debts, public and private, due to us from abroad, and to see our basic raw materials sell at such low prices as to destroy the buying power of millions of producers.

I would say that Congress can, and should, adopt the following measures, as a means of restoring normal prosperity:

1. Balance the Budget through a drastic reduction in the cost of Government.
2. Reduce the tariff in order to reopen the channels of international trade and thus restore value to our basic raw materials, such as cotton, wheat, tobacco, and copper, thus restoring the buying power of the producers of such commodities, quickening domestic commerce and putting people back to work.
3. Readjust the war debts on a realistic basis.
4. Have the Federal land banks rewrite farm mortgages, held by them, to a figure which represents some relationship to the present reasonable earning power of the land, in those States which provide by legislation for removal of a substantial part of the ad valorem tax on land substituting some other form of taxation. Insurance companies and other private holders of farm mortgages will be compelled, in their own interest and by public opinion, to follow the example thus set by the land banks.

If these measures are adopted, I believe confidence will be quickly restored and the country will get on its feet again within a reasonable time.

On the other hand, if Congress should further encourage and develop our drift toward a policy of isolation, or should adopt any measures of currency inflation, or should pass measures attempting artificially to advance prices of commodities, or should pass other legislation of similar character to that here mentioned, it is my belief that the depression will be deepened and prolonged.

Respectfully submitted.

W. L. CLAYTON.

(A letter from John G. Bullock and a copy of a radio address by Martin Dodge are here printed in full as follows:)

LOS ANGELES, *February 18, 1933.*

Hon. REED SMOOT,
*Chairman Committee on Finance, United States Senate,*
*Washington, D. C.*

MY DEAR SENATOR SMOOT: Answering your letter of February 8, I appreciate your consideration and that of the United States Finance Committee, and I regret that it will not be possible for me to be in Washington during the hearings of your committee.

Any action that can be taken to provide the work that is essential to recovery is constructive.

I am particularly of the belief that essential and delayed public works should proceed, particularly where they are self-liquidating.

It is my pleasure to send you in this mail a copy of paper No. 1—National Committee for Trade Recovery, 330 West Forty-second Street, New York City—which has appealed to me particularly as filled with sound suggestions.

It is entitled "The Effect of Public Works in Promoting Trade Recovery," by Martin Dodge, representing the banking and industrial committee of the second Federal reserve district, and is a radio address, delivered from station WOR, at 3.15 p. m. January 29, 1933. I submit it for your consideration.

Sincerely,

JOHN G. BULLOCK.

PAPER NO. 1.—NATIONAL COMMITTEE FOR TRADE RECOVERY

("The Effect of Public Works in Promoting Trade Recovery" by Martin Dodge, representing the banking and industrial committee of the second Federal reserve district)

RADIO ADDRESS

Station WOR 3.15 p. m., January 29, 1933. Under the auspices of the National Committee for Trade Recovery.

The banking and industrial committee of the second Federal reserve district, of which Mr. Owen D. Young, is chairman, is not an official or governmental agency, although it has a public character arising from its purpose. It was appointed last spring by the governor of New York Federal Reserve Bank for the purpose of considering methods of making the large funds released by the Federal reserve banks useful affirmatively in developing business.

Under the direction of a subcommittee, headed by Mr. Alfred P. Sloan, jr., the banking and industrial committee has promoted the resumption of work on sound and needed public projects, which might offer employment both directly and in the manufacture and transportation of needed materials and supplies. In this connection cooperation has been established with the National Committee for Trade Recovery, which ably represents the construction industry in all of its phases.

An expansion of public works construction is particularly appropriate at the present time. Much work needs to be done. Many worthy projects have been suspended because of the lack of funds or because of deliberate retrenchment supposedly in the interest of economy.

The decline in construction work has been drastic. In 1926 the total volume of construction, both public and private, was nearly $9,000,000,000. Disregarding the peak developed from 1927 to 1929, in 1930 it was still $8,000,000,000, but by 1932 it had shrunk to less than $3,000,000,000 for all construction work. Ordinarily $3,000,000,000 would be spent yearly for public work alone—this was approximately the amount spent in each of the six years preceding 1932. The amount of public work in 1932 was only about $1,500,000,000, or half the normal. The needed and worthy public projects abandoned during the past 18 months would be more than enough to restore the program to normal. When it is remembered that a large percentage of the abandoned or suspended projects represent necessary public improvements which will be carried out sooner or later, their resumption now, while costs are low and employment is in such great demand, is doubly important.

Several misconceptions prevail regarding the construction of public works as an aid in the present depression. For instance, it is said that no reasonable program of public works could possibly provide jobs for the ten or twelve million persons now out of work, so why bother with it at all. No one contends, of course, that the Government can supply jobs to ten or twelve million persons. It is equally true, however, that the Government can not permanently provide food, clothing, and shelter for these ten or twelve millions persons and their dependents. The only genuine relief for the unemployed is reemployment by business and industry. Every plan of relief, therefore, should be tested on the basis of whether or not it contributes to economic recovery, for if it does not then it can not offer genuine or permanent relief and must be looked upon as no more than a palliative. Public works construction by offering actual employment to large numbers of people and resulting in the stimulation of the heavy industries concerned with the production of machinery, buildings, and other capital goods offers one of the soundest methods for promoting economic recovery. Its merit lies not in the fact that it offers jobs for all, though it does offer jobs for many, but rather that it helps prime the pump of prosperity.

Another misconception arises from the belief that most of the funds used for public works construction go to the purchase of materials and, therefore, offer little direct aid for the unemployed. This is also incorrect. Engineering studies indicate that in subway construction, for instance, 79 per cent of the total cost of the work is spent for wages and salaries either on the job or in the manufacture and transportation of the materials necessary for the work; that in water works construction 91 per cent goes directly or indirectly for wages and salaries; that in road construction 77 per cent [1] goes for wages and salaries; and that on the average for all kinds of public construction about 80 per cent of the cost of the work goes directly and indirectly to wages and salaries.

A third misconception is the belief that public works mean public works by the National Government. The truth of the matter is that the bulk of public works construction has almost always been local or State, rather than national. Such projects as municipal water works, sewer systems, street and highway construction, bridges, tunnels, schools, and county and municipal buildings constitute by far the largest percentage of all public works construction.

Federal works, such as post offices contruction, reclamation projects, river and harbor improvements, etc., although large items in themselves, do not ordinarily constitute more than a minor part of all public works construction. Although Federal appropriations for public works have increased during the recent years, the significant volume of construction which will substantially affect employment and stimulate business recovery must come largely from the States, counties, cities, and towns. The local communities—that is, the cities and towns—are bearing the bulk of the burden of relief. Nearly three-quarters of the total relief funds spent throughout the country during the past two years have come out of municipal budgets. Just as the cost of relief is falling largely upon the local communities, the opportunities and the need for starting useful construction programs which might relieve relief, fortunately lie also with the local communities.

Our population has not stopped growing. We have not abandoned the idea of educating our children. Our streets have not stopped wearing out. We have found no adequate substitute for sewers. We have not graduated from the need for health, fire, and police protection. These are all things of which we need more, not less, if we are to provide our population with facilities necessary for reasonable decency andc omfort. Ruling out all faddist notions for made work and extravagant expenditures, there is still plenty to be done.

Can we afford it? Is it not inconsistent with present efforts toward tax reduction, economy, and retrenchment? These questions reflect a fourth misconception regarding public works as a means for stimulating business recovery. The answer here is that if we do not spend money in such a way as to provide employment we shall have to spend it for unemployment; that if economy means blind retrenchment it becomes extravagance, for instance, a wholesale suspension of public works, ostensibly to cut expenses, simply means transferring men from the employment roll to the relief roll, which costs money just the same but adds nothing to the public wealth and makes no contribution to business recovery. Direct relief in many cases is unavoidable, but from the economic standpoint it is also unproductive. It is money taken from the taxpayers and given to others, not for services rendered but for subsistence. It constitutes an uneconomic drain upon the public treasury, which may be necessary and will be continued to prevent starvation and distress, but which we can not afford on any other grounds.

So much emphasis is now being laid upon the subject of taxes and budgets

[1] U. S. Bureau of Public Roads shows 91 per cent for wages and salaries on concrete-road construction.

that misconceptions regarding this matter are not surprising. It is forgotten that taxes required to finance a program of public works will be negligible as compared with shrinkage of values and loss of earnings that result from the continuance of depressed business conditions. Such taxes will be equally negligible when paid out of the earnings of revived trade and industry. The prosperity of our cities is only a reflection of the prosperity of our citizenry. The balancing of city budgets must depend upon maintaining the earnings of the community, the ultimate source of all taxes. Budgets can not be balanced by methods that strike down the earning power of those who provide the revenues.

To undertake necessary and useful public works which will afford widespread employment, increase purchasing power, and stimulate numerous industries through the purchase of materials and supplies at a time when such enterprises can be undertaken at low cost, is not inconsistent with municipal economy but part and parcel of it. What is needed is not more spending but more intelligent spending.

Where will the money come from? It will come from budgetary reform. It will come from municipal house cleaning. When cities put their houses in order their credit problems will be largely solved. Budgetary reform will open the money markets. The process is dramatically illustrated by the case of New York City which has recently reduced its yearly expenditures by more than $100,000,000. Similar, even better, results can be achieved by other cities if they have the courage to cut their cloth to the measure of the times. With this done they can proceed to cash in on current low costs and provide their communities with permanent and needed facilities, the construction of which will further benefit them in stimulating business revival and relieving them of the burden of the dole.

With this in mind the Federal Government last July set up in the Reconstruction Finance Corporation a huge reservoir of public credit, to make capital available when it was not forthcoming from private sources. A billion and a half dollars was set aside for loans for self-liquidating projects; that is, projects which would be self-supporting and financially solvent, returning interest and amortization charges from their own revenues and independent of taxation, thereby laying no extra burden upon the taxpayer.

So far 56 projects in 22 States have been approved by the Reconstruction Finance Committee for loans, totaling $147,651,000, or about 10 per cent of the available fund. Of this amount only $17,663,000 has actually been disbursed. These results are obviously disappointing. It was expected that a large part of this money would be in use during the current winter. Cities and other agencies with eligible projects have been slow to appreciate the opportunities offered by the Reconstruction Finance Corporation.

Certain technical features of the act and its administration have also contributed to the delay. Amendments to the law now pending before Congress are designed to eliminate some of these difficulties. The more liberal policy recently adopted by the Reconstruction Finance Corporation in reference to interest rates should also help in speeding up the utilization of its funds. Meanwhile, funds are beginning to be made available again for capital improvement programs through normal banking channels.

In the latter category the recent action of the city of New York in appropriating about $7,000,000 to complete construction on three feeder lines of the independent subway system is conspicuous. Although no major project in the New York metropolitan district has so far been granted a loan by the Reconstruction Finance Corporation, several are being given consideration. Prominent among these are the proposed Midtown tunnel of the New York Port Authority, the Triborough bridge, and the water-front development of the Central District (Inc.) of Bayonne, N. J.

Construction of the Midtown tunnel alone would give direct employment to more than 3,000 men and result in orders for great quantities of materials, such as 100,000 tons of cast iron, 40,000 tons of structural steel, 400,000 barrels of cement, and 400,000 cubic yards of sand and gravel. These are orders which would start many wheels of industry running and put many more men to work.

They illustrate how an effective attack can be made on widespread unemployment and business stagnation. There is work to be done. Costs are low. Money rates are easy. These factors combined with courageous leadership in balancing budgets provide the formula for stimulating business recovery.

(A letter from Frederick B. Merkle and a copy of a report prepared by Charles F. Kingsley are here printed in full as follows:)

UNION LEAGUE CLUB OF BROOKLYN,
*February 18, 1933.*

Hon. REED SMOOT,
*Chairman of the Senate Finance Committee,*
*Senate Office Building, Washington, D. C.*

SIR: At the request of your committee for suggestions which might be helpful in aiding our country to recover from this abnormal depression, I am sending, on behalf of the Union League Club of Brooklyn, N. Y., two copies of a report made by the national affairs committee of the said club and prepared by Charles F. Kingsley of the New York Bar.

Very truly yours,

FREDERICK B. MERKLE, *Secretary.*

DECLARATION OF THE COMMITTEE ON NATIONAL AFFAIRS ON THE ECONOMIC CRISIS

(Union League Club of Brooklyn)

*To the honorable the committee on Finance of the Senate of the United States:*

Pursuant to the recent invitation of your honorable body addressed to all citizens for suggestions as to methods for dealing with the present depression, the national affairs committee of the Union League Club of Brooklyn respectfully submits the following:

Capitalism: It is not worth while discussing the contention that this is a transition period and that the capitalistic system must be scrapped and something else substituted for it. The chief objection to the capitalistic system is that while it has accumulated national wealth the distribution thereof has been inequitable and faulty to the extent of creating unnecessary poverty and misery. The remedy lies in a scientific readjustment of distribution, not in the destruction of the system. The practice of burning down the house in order to roast the pig was abandoned long ago. The question confronting us now is, "What is the best policy to follow in regard to specific efforts to bring about a revival, a restoration of confindence, renewed capital investment and a decrease in unemployment?"

Foreign debts and stable currencies: Foreign debts should be taken up with a determination to reach a conclusion and that determination should be effectuated. The whole foreign debt question should be settled. Preferably it should be settled in our interest, but in any event, it should be settled right away. The uncertainties, frictions, baitings, nose-thumbings, now going on should be ended as soon as possible. It is certain that we are to pay more than our fair share of the cost of the war. The conclusion is unescapable. Now that the war is fourteen years behind us, let us have the bitter truth to the last syllable and let us then proceed to something else. This is a counsel of reason, of expediency and good judgment. Let us wind up the debt question as best we may, but let us wind it up.

We do not believe, however, that a debtor should have the last word and the whole say in getting out of an obligation. If it be necessary for the safety of international trade, and it seems to be necessary, that there be an understanding with our principal debtors for the maintenance of a stable currency in order to protect the natural flow of commerce, such understanding should be acceptable to the beneficiaries of the negotiations—the debtors who prefer to use their resources to buy armament rather than pay what they owe. In this connection we quote from Sir Arthur Salter's book, "Recovery, The Second Effort," published last year in which he says, relative to stable currencies:

"The keystone of an ordered economic system is a money that fulfils its function. The world needs a satisfactory medium for the conduct of its trade and the conclusion of its contracts. It is not necessary to abandon different national currencies, pounds, dollars, francs; but if they are to serve the trade of the world they must always be convertible into each other at about the same rates, and must always, be able to purchase about the same amount of commodities. In other words, when we have returned to more normal conditions and prices we want exchange fluctuations to cease, except within narrow margins, and the general level of world prices to be approximately stable. If the principal countries of the world were determined to have such a money they could secure it" (pp. 334–335).

No inflation: Then there is the proposition to inflate, either by printing more money or reducing the content of the gold dollar—in effect much the same thing. We want nothing of it. Let us adhere to the policy which has made our credit the highest in the world. If one of the nations which is about to seek an adjustment of a debt incurred when her people were shuddering on the edge of an abyss has secured some apparent advantage by going off the gold standard, the next few weeks will show how futile and illusory that advantage is and will leave her to sweat out her own salvation as best she may. Neither debasing the national currency nor going off the gold standard is the American way of solving the problems of a depression. The example of the mother country is one to avoid. If we are to pare down debts in order to tide over the emergency, let us do so openly, candidly and in terms. We can ease the strain upon debtors by liberalizing the bankruptcy law, legalizing compromises with creditors, postponing collections by intelligent moratoria, reducing the rates of interest and forbidding the use of the mails to financial insitutions which refuse to follow the policy outlined by the Government in regard to these matters. It is easy to talk of a "controlled inflation" but hard to belive it possible. If the flood gates ever are opened they will not be closed. Printing presses are too handy, men are too willing to die over the day and let to-morrow take care of itself. There is such thing amid a diversity of counsels as a "controlled inflation." We must keep away from inflation altogether

Private capital in self-liquidating investments: Release of credit should be sought by every legitimate method. Self-liquidating investments should be encouraged and private capital should be urged to make them. Many important public works can be stimulated by Government and private capital induced to construct them if special provisions be made to insure their self liquidation. The list of such activities is a long one. There are bridges, tunnels, highways, hospitals, tenements, schools, airports, canals, which private capital, if benevolently protected, will build. This will furnish employment to large numbers not alone in construction, but also to an imposing extent in operation and maintenance. It is not necessary that the funds of the Government be employed in such enterprises beyond a limited extent. Capital if properly encouraged will carry them out and on.

Bonuses: The question of paying bonuses to veterans we leave to your discretion with the suggestion that one bonus should not be allowed to pave the way to another bonus. The country has neither the wealth nor the desire to embark on a policy of successive bonuses. A payment, bounty, premium, or bonus to farmers would be almost immediately disastrous. To tax a people in order that the money may be used to make the necessaries of life cost them more than they would have to pay if not taxed would constitute a monstrous injustice which could not survive one moment after its true nature became generally known. The proposition is not alone unconstitutional, it is absolutely inequitable and oppressive.

Control of agricultural production: Reduction of acreage can be started at once by the refusal of the Government to rent any of its own land for competition with the farmer. Increase of acreage can be opposed by the Government to the extent of refusing to expend any money for reclamation and irrigation in new projects. We have too much arable land just now. Reforestation should be made an extensive policy of Government both because of the direct and indirect influence it will have upon the situation. Controlled acreage is no more difficult than making up tax lists. Every government since Domesday Book has been efficient at making such lists. Every farmer should be informed by the Department of Agriculture just how many acres of his land should be cropped and what he should raise. Left to his own devices he will promptly increase the acreage suggested him in the hope that other farmers will do as they are advised, thus making a good market for him. If he knows when such advice is given him that it is given only to licensed farmers and that only licensed farmers can sell to licensed produce dealers and that his license is automatically voided if he disregards the instructions of the Department of Agriculture as to acreage, he will not run the risk of overcropping. Such a policy carefully worked out (it is not a big job) will put the farmer back on the road to prosperity, diminish his work, increase his income, make him a factor all around the ring in the purchasing market and do more to restore prosperity than anything and everything else so far suggested. With 22,000,000 farm people broke and out of the consuming market we can not hope to get prosperity back. Let them have something worth while for their work and their investment and they will restore the whole social fabric to solvency and prosperity. This can be accomplished by the comparatively simple plan we have indicated and the people of the cities and towns will not pay much, if anything, more than they do now for the products of the farm. It matters not whether wheat be 30 cents or $1 a bushel, the loaf costs practically the same at the baker's and the same is true in a less apparent degree in regard to other products. In any event, there is no one who begrudges the farmer a fair return upon his work and investment and everybody will rejoice if and when a plan for insuring them to him is worked out and adopted.

Embargo on dumped products: Authorize the Tariff Commission to put an embargo on the dumped imports of countries milking their creditors with a depreciated currency and throwing their products into our markets because of the cheap labor they are able to use and pay with their cheap money.

Let it be finally known that there is to be no inflation and there will be a prompt loosening of credit. Gold is now closely held. Doubters of this statement should try to get some and be convinced. In the event of inflation the banks holding the gold would pay off their depositors in depreciated currency and thus make an enormous profit and intensify the rigor of the situation. Their profits would be enormous. It may not be long before some of the "financiers" will be suggesting "controlled inflation" in order to make those profits. Scotch the snake of inflation with determination and credit will be loosened forthwith. That is the kind of expansion we want.

Lower rates of interest: It may be argued that the sanctity of contracts will forbid interference with rates of interest already established. If that is the case, then let a tax be put upon interest payments according to the amount charged. A tax absorbing all interest over 4 per cent would have the same effect as a valid law reducing rates from 6 to 4 per cent. As soon as the creditor would discover that all over 4 per cent of the interest collected by him would be taken by the government as a tax he would reduce the rate for the benefit of the debtor. Such a tax would ease the burdens of debtors generally, would obviate the disastrous expedient of inflation, would release credit and quicken the course of business.

Balancing the budget: We take it for granted that you will see the necessity for balancing the Budget and will do whatever is necessary to accomplish that desideratum. Bonuses, bounties, special favors in the way of appropriations will necessarily be avoided. No government can function successfully for long if it is so managed that it is constantly borrowing money to cover current expenditures and the United States is no exception. This does not mean the Budget is to be balanced upon the theory that there is no limit to the tax-paying ability of this people. It means a task which must be accomplished with a minimum increase of burden upon the taxpayer and a maximum of thought and intelligent economy on the part of Congress. Above all let us cease quoting a proposed beer tax as a financial panacea for all deficits. The beer tax, if and when levied, will be but a drop in the bucket against the deficits now steadily mounting. Statesmanship must suggest something more than a tax on beer.

Public unrest: Let us remember that in the midst of unexampled plenty this period of want and unemployment has developed. Why should men, of all animals, starve in the midst of a plenty created by their own industry—their own hands? There is no answer except profiteering, excessive indebtedness, high interest, distribution so faulty that it would be a cause for astonishment, contempt and laughter on our part if practiced by a community of squirrels. We, however, have sanctioned it by law and we maintain it by courts, policemen, and armies. If such a condition would be idiotic if developed by squirrels why is it sensible or permissible among men?

Your own daily mail shows you how acute your problem has become. Nobody ought to be better informed than the Members of Congress.

Machines, men, and science: The welter and confusion of the time are not machine made, but man made. This is an era of invention, machinery, and applied science, marvelous in vision and efficiency. Progress in the arts of civilization must be made a matter of rejoicing, not of regret. Never was there such an opportunity for the Nation to establish a permanent and satisfying prosperity. Every requirement for such a result is at hand. History never afforded such an opportunity for constructive statesmanship. We have an abundance of all things including the means of making it constant. Interest, debts excessive taxation, reckless expenditures, unbalanced budgets, worthless currency, must not be allowed to choke a fair distribution of that abundance nor dislocate and unbalance the prosperity it should guarantee.

We have spoken thus confidently on the matters brought to your attention because we have given them much attention during the past three years and they represent our matured conviction after much thought and discussion. None of us claims special ability for solving such problems as we here discuss, but when a man like the governor of the Bank of England says the case is beyond him, we have no hesitancy in expressing these views.

We recapitulate:

1. Capitalism—so called—will be retained.
2. Foreign debts should be settled at once and decisively.
3. We should not inflate either by printing money or by paring the dollar..
4. A controlled inflation is a snare and a delusion.
5. There should be no bonus to farmers.
6. Control of agricultural acreage and crops should be effected.
7. Dumping made possible by cheap money in other countries should be prevented by embargo.
8. Private capital should be encouraged to construct self-sustaining enterprises.
9. Inflation should be made so obviously impossible as to release credit.
10. A licensing system for acreage and marketing should be perfected so as to insure controlled acreage and production.
11. Interest should be cut down by direct law and by taxation upon the earnings of existing contracts.
12. Government should benevolently stimulate enterprises undertaken by private capital to the extent of granting special privileges to the end that self liquidation be insured.
13. Twenty-two million farm people should be brought back into the consuming market.
14. Balance the Budget.

We appreciate the opportunity you have afforded us to submit these recommendations.

COMMITTEE ON NATIONAL AFFAIRS, UNION LEAGUE CLUB OF BROOKLYN,

F. J. H. KRACKE, *President.*
FREDERICK B. MERKLE, *Secretary.*
CHARLES F. KINGSLEY, *Chairman.*

(A letter and brief submitted by Mr. A. E. Taylor, Stanford University, Calif., are here printed in full as follows:)

FOOD RESEARCH INSTITUTE,
*Stanford University, Calif., February 16, 1933.*

HON. REED SMOOT,
*Chairman, Committee on Finance, Senate Office Building,*
*Washington, D. C.*

MY DEAR SENATOR SMOOT: I acknowledge receipt of your invitation of February 8 to appear before the Senate Committee on Finance. I regret that at this distance it is not possible for me to appear in person. Therefore, I accept your invitation to present a brief, which is inclosed herewith.

Will you do us the favor to instruct your secretary to send to the Food Research Institute of Stanford University the printed reports of the Hearings on the Depression now under way.

Thanking you, I remain, very truly yours,

A. E. TAYLOR.

STATEMENT OF ALONZO E. TAYLOR, FOOD RESEARCH INSTITUTE, STANFORD UNIVERSITY, CALIF.

The present depression is not merely a severe instance of the recurring trade cycle; it is a drawn-out crisis unprecedented in characteristics, extent, and intensity. Under these circumstances, pride of opinion is parcticularly out of place, since no one person can hope to understand the entire problem. The views which follow are based primarily upon study of the commodity phases of industry, agriculture, and commerce.

I. The pressing difficulties of the time proceed from the low level of price and the high level of debt. The ultimate causes are to be found in the management of the World War and the mismanagement of postwar reconstruction. Low prices of commodities and the high fixed charges of heavy debts interact upon each other in a vicious circle. At the same time, low-price level and high-debt level have each their directly injurious effects. The low-price level of crucial importance is that of the primary raw materials. This is an international circumstance; in all countries the prices of raw materials (with few exceptions) are down to, or below, the low records of a century. Since the volume of debt is everywhere large—national and international, governmental and private—it follows that the disequilibrium between price level and debt level is universal. In the broad sense, recovery must be international if it is to be rapid, since we can not expect rapid recovery in one country with continuing depression in the others. It seems to be a favorite doctrine in Europe that the crisis began with raw materials and recovery will begin there.

The low price level of the primary raw materials is due mostly to (*a*) increase in the value of gold, and (*b*) contraction in the plane of living, using this term in its broad sense. The increase in the value of gold is not due to shortage of the metal; it is due to mismanagement and breakdown of the gold standard, weakness and inconsistence in central bank policy, flight of hoarded and sequestered capital from one country to another, governmental rationing of exchange and trade, and the all-too-familiar economic nationalism. The world stock of monetary gold is equivalent to $12,000,000,000. The outturn of new gold will exceed a half billion dollars in 1933. For special reasons, in different countries, hoarded gold is emerging to be joined to monetary gold. The gold stock and the rate of outturn of new gold are sufficient to support a reflation of the price level, whenever this gold is effectively set to work to influence commodity prices. Restoration of the gold standard in Great Britain (and in the numerous countries whose currencies are linked with sterling) and an improved program for gold working as metallic reserve throughout the world are essential for reflation of the price level of primary raw materials in terms of purchasing power.

II. Reflation may be aided within a country by a low rediscount rate, open-market purchase of securities by the central bank, and by a large governmental program of public improvements. Accomplishment in the direction of reflation in the United States through the use of these devices has been disappointing, though it is clearly too early to pass judgment since there is a lag in the effect of credit inflation on price. We have, indeed, very low bank rates, and our banks are filled with balances earning next to nothing. The banks fear to lend because they lack confidence in their depositors; business men do not borrow because they lack confidence in their ventures and in the buying public. Eventually distrust wears out, unless fed by new episodes of distress. Bankers get tired of bulging deposits and set out to find employment for money; business men tire of inaction and resolve to take the risks of endeavor. The influence of credit inflation on prices depends directly on confidence, on the use made of credit; and it is up to the public to make good the reflationary policies of the Federal Reserve System. In respect to a program of public construction, this country has made a lamentable showing, since public construction has declined during the depression instead of having been maintained to combat it.

III. Inflation of currency is to be condemned. If carried to a significant extent, under present conditions in the world, it would involve our departure from the gold standard. The hypothesis that the gold content of the dollar could be reduced to correspond with the price level and provoke a real increase in the price level fails to take account of the foreign situation. The foreign countries could always keep one jump ahead of us in currency inflation; therefore, our relative position could hardly be improved. To leave the gold standard would be to join the procession of depreciated currencies; in this depression the devil will get not merely the hindmost, but also the leaders. A world that can not manage currency under the gold standard surely can not manage without it. Inflation of the gold standard through free coinage of silver is now widely advocated in the Western States; but a comparison of the commodity relations of gold and silver does not support the hope that silver can raise gold to the support of inflation.

IV. The plane of living is contracted, more or less everywhere in the world, by lack of confidence in earnings and insecurity in possession of property. During this century (despite the war, but partly because of it) the plane of living has been significantly elevated. It has been elevated and expanded by the inclusion of comforts, luxuries, recreations, and cultural advantages, which involve services more than goods. The transition has been so recent and so rapid that we have not forgotten the simpler living. On provocation, through lack of confidence and insecurity, we are able substantially to contract our plane of living. In 1928 scarcely more than a third of the national income was expended for the goods and services which would have been called necessaries in the nineties; our expenditures for other goods and services are in 1933 much lower, in terms of the 1928 dollar. The rural folk are back to the simplest country living; the employed working classes reduce outlays in order still to save something; the unemployed are living on bare subsistence. Unemployment of workers in the so-called luxury trades is now a conspicuous fact. Consumer strikes, consumer resistance, consumer caution, consumer saving, as they may be called in different income groups, involve not merely self-denial but to a significant extent the substitution of cheaper for dearer goods. The net effect is widespread unemployment of capital and labor. Our unemployment of workers to-day consists of three fractions: technological unemployment, the unemployment of reduced exports, and the unemployment of reduced domestic consumption. The low price level of primary materials is not due to over-production, it is due to contraction of the plane of living—in short, to underconsumption. This underconsumption may indeed be relative and not absolute, but the effect on the price level is about the same. People will not return to the spending habits of prosperity until the income and security of prosperity are restored. Consumers' confidence must be restored before demand can be equated with supply in a higher price. Under usual circumstances, consumption expands with falling price: in pulling out of a depression, consumption expands with rising price. Maintenance of purchasing power is indispensable to recovery.

V. With respect to agriculture, much more might be said than finds place in a brief. Comment here will be limited to debt, taxation, price raising, acreage, and transportation. The farm mortgage debt aggregates $9,000,000,000. The most important part of this debt lies on the farms operated by their owners. Apparently about half of the owner-operated farms have mortgage debt. Those owners who have no mortgage debt have largely lost the advantage of this position, since their savings went mostly into mortgage loans to other farmers, purchase of stocks of country banks, and deposits in country banks, which have been wiped out to a large extent. No realist believes that the farm mortgage debt can be paid off at face value. It is necessary to reduce the face value of the gross farm debt by 40 or 50 per cent and reduce the rate of interest to something like 4 per cent. Such refunding ought to be done, whenever possible, directly between lender and borrower. But to the extent that lenders can not carry through such liquidation unaided, appropriate legislation should be enacted to distribute the risk and tide over the period of transition. A socially sound bankruptcy law would help greatly.

VI. The level of farm taxation is based on the commodity price level and the land value of 1928–29. A refunding of farm mortgage debt implies a reduction in the assessment. A reduction in the price level implies a lowering of the rate of taxation. The farmer, in the prospective future, can not carry the present dollar burden of taxation; and if a substantial reduction in public revenue derived from farm taxes leads to a curtailment of social services, then these will have to be relinquished by the urban and rural population. The time for tax-exempt securities is past; when these are appropriately taxed, the burdens on the land will be alleviated.

VII. Endeavors to raise the prices of farm produce by so-called farm-relief measures are everywhere disappointing except in net-importing countries. In a business depression, one can not purchase agricultural products and impound them in the hope of driving up the price. The hoped-for result does not transpire, as has been shown again in the failure of so-called stabilization by the Federal Farm Board. The farmer can not pull himself up by his bootstraps, and the lift is no different if Uncle Sam tugs at it. If valorization is to be of advantage, it must be done by buyers, not by producers. The farm allotment plan will prove a disappointment if it is enacted. If the operation were confined to wheat and cotton, this would introduce inequities between producers, curtailing consumption of wheat and cotton and increasing consumption of other products. Since processors would be unable to pass in full the increased prices to consumers, they would be compelled to reduce prices to producers, since processors could not absorb the taxes without inviting disaster. If the plan should initially work for wheat and cotton, the farmers raising the unassisted products, and compelled as consumers to pay their shares of the enhanced prices of wheat and cotton, would protest socially and politically. If the farm allotment plan were expanded to include other crops, which have as much right to price assistance as wheat and cotton, and thus become equitable for all, it would be unweildy and unworkable. From every technical point of view, the export debenture, applied on a sliding scale in respect to acreage, holds more promise in the positive sense, and shows less disadvantage in the negative sense than the farm allotment plan.

VIII. Export of farm produce has poor immediate prospects. High fixed charges, despite mechanization and rationalization of agriculture, prevent farmers in this country from bringing down production costs per unit low enough to enable us to export remuneratively in competition with countries where fixed charges are lower, costs of living lower, and currencies depreciated. Acreage must be reduced, but the farmer will not move to do it unless compensated. The simplest plan would be to lease acreage to lie fallow. A withdrawal of 50,000,000 acres now under tillage (most of it submarginal at present price level) would represent an approach to domestic requirements. Behind the tariff wall, contraction of acreage would lead to increase in the price level of farm products. The leasing cost would not be heavy, not over a quarter of a billion dollars; leasing land at $5 an acre, without expense to the farmer, ought to be acceptable as increase to gross farm income. Such a sum could be raised by a low tax on processing of farm products, so moderate that it could be passed on to the consumer.

IX. The prices farmers pay are disproportionately high. The excessive debts and inflated values in the cities will also need to be liquidated by refundings. Real estate mortgages in New York City are believed to equal in gross sum the farm mortgages of the entire country. The debts on the skyscrapers are higher than the number of stories. When the real estate and capital equipment of the cities are reduced to real values, this will be reflected in lowering of the price of finished goods, which will represent a saving to farmers on the articles purchased for the home and for the operation of the farm.

X. It costs too much to get farm products to market. While it is true that freight rates must bear a relation to cost of service, it is equally true that such rates must be related to what the traffic will bear. Freight rates on farm products are out of line with the price level, especially with the farm prices. Railways are under heavy taxation, much of which is reflected to the farmer. Railways have an overextended financial structure, based on obsolete practices of competition, with attendant waste and needless exaggeration of costs. It is socially important that the insurance companies be protected in their investments in railway bonds. It is not correspondingly important to protect the holders of railway stocks. It may eventuate that in future the railway share of the transportation of the country will pay out their bonds but not their stocks if freight costs are reduced to correspond to commodity values. Time was when radicals wanted the Government to take over the railways in order to obviate alleged exploitation; the time may come when the railways request the Government to take them over to absorb the losses on present financial structure. In any event, farm products can not continue to pay freight rates which are grossly out of line with the price level.

(A letter and a report submitted by R. U. Delapenha, New York City are here printed in full as follows:)

R. U. DELAPENHA & CO. (INC.)
*New York, February 16, 1933.*

Senator REED SMOOT,
*Senate Office Building, Washington, D. C.*

MY DEAR SENATOR: Realizing that I might have had to remain in Washington for several weeks to have had the opportunity of appearing in person before the committee, I deem it advisable to send to each member of the committee a copy of the report that I would have made had I appeared in person.

I ask that this be made a part of the record, and be printed with the oral statements made by those who will appear; and I also request that a copy of the hearings be sent to me as soon as they have been concluded and printed.

Thanking you for your usual courtesy, and happy to have seen you again, with kindest regards I remain,

Yours very sincerely,

R. U. DELAPENHA.

STATEMENT OF R. U. DELAPENHA, PRESIDENT OF R. U. DELAPENHA & CO. (INC.), A CORPORATION EXISTING UNDER THE LAWS OF THE STATE OF NEW YORK, MANUFACTURERS OF FOOD PRODUCTS, WITH TWO FACTORIES AT POUGHKEEPSIE, N. Y., AND IMPORTERS OF FOREIGN FOOD PRODUCTS

The various opinions are being expressed from day to day by professional politicians, statesmen, professors, leaders in industry, engineers, ministers of religion, and others on the causes of the present unprecedented period of depression through which our country is passing, and the suggested remedies that should be applied leave one's mind in a complete state of confusion and results in the seeming impossibility of suggesting a program that has for its object improving the present chaotic conditions that exist in almost every realm of endeavor throughout our Nation. It is my judgment that any attempts that are made to compare present figures either as to costs or quantities with those that existed in 1928 or 1929 is futile and erroneous. We shall have to completely eradicate from our minds the period beginning on August 1, 1914, to December 31, 1929.

There can be no comparison that would prove useful between periods that are both of them in a sense artificial.

The rate of production and the volume of business in 1928 and 1929 were brought about by a series of circumstances that created unusual demand by inflationary methods and that finally ended in disaster.

And because we keep thinking of the period which commenced in 1921 and ended in 1929, we are unconsciously hoping that some way will be found by which our country and its people will enjoy again the benefits that the period to which I have referred brought them.

It would seem as though the only valuable comparison would be to take the figures, both as to production and costs, that existed in 1913 and 1914, just before the world went mad, and the prices and costs that exist to-day, and see what relation they bear to one another.

In other words, the processes of recovery must come very slowly, and must begin with a natural improvement in agricultural prices and products of the mines.

It seems to me that if we can agree as to why we find ourselves in our present condition we shall have gone a long way towards endeavoring to find a remedy for our troubles.

There are those who argue that there can be no overproduction, but that what we are suffering from is underconsumption.

I take no such view of the situation, and no one who passed through the period from 1914 to 1929 can deny that the exigencies of the war brought about a continual demand for products of the fields and mines, as well as manufactured articles of all kinds. As the demand increased from day to day, so values increased in proportions, until our factories were working at capacity, and eventually became overburdened with excessive overhead, that when the crash came could no longer operate profitably; to which must be added the stock-jobbing operation and the building of new units to still further increase production during the post-period of the war that took place from 1920–21 to 1928–29. This situation then left our warehouses and factories with far more merchandise than could be consumed in the ordinary way, with the result that business has been shrinking; surpluses have been reduced, and in a large number of instances completely eliminated; bankruptcies have multiplied; banks have been forced to close their doors; and wherever you go, and to whomever you speak each has a particular formula of their own to create improvement.

Our Government has passed laws that are palliatives, but not remedies.

I do not speak of speculation, or gambling, or investments in stocks and bonds, the collapse in values leaving a trail of human misery that is unparalleled in our history.

So many people seem to regard the present period of depression as something that is recurring; something that our country has passed through before; something that will settle itself eventually as in other periods.

My contention is that this period can not be compared to any other through which our country has passed, because it is not a local condition, but is world-wide, and the reasons that it is felt to a greater extent by our people than those who live in other countries can be explained, I think, by the difference in our scale of extravagant living.

We business men, who are in the front-line trenches every day of our lives, can not help but recognize certain factors that are exceedingly dangerous if allowed to continue unbridled.

## PRICE CUTTER

I wish to particularly refer to the price cutter, the man who thinks that he can, by obtaining a temporary advantage, get away from the responsibilities and the dangers of the period through which we are passing, and who causes his competitor to take steps to protect himself and his wares, with the result that little by little, slowly but surely, industry has arrived at a point, where unless this destructive competition is controlled and stopped, a very large percentage of the manufacturers in our Nation will be forced out of business by complete collapse.

Manufacturers to-day are ruining one another by being forced to sell their products below the actual cost of production. This is a useless waste of capital that brings benefit to no one, and should be stopped at once.

I want to right here refer to a minority opinion in March, 1932, of Mr. Justice Louis Brandeis of the United States Supreme Court (with Mr. Justice Stone concurring):

"The people of the United States are now confronted with an emergency more serious than war. Misery is widespread in a time, not of scarcity, but of overabundance. The long-continued depression has brought unprecedented unemployment, a catastrophic fall in commodity prices, and a volume of economic losses which threatens our financial institutions. Some people believe that the existing conditions threaten even the stability of the capitalistic system. Economists are searching for the causes of this disorder and are reexamining the basis of our industrial structure. Business men are seeking possible remedies * * *. Many persons think that one of the major contributing causes has been unbridled competition. Increasingly, doubt is expressed whether it is economically wise or morally right that men should be permitted to add to the producing facilities of an industry which is already suffering from overcapacity * * * all agree that irregularity in employment—the greatest of our evils—can not be overcome unless production and consumption are more nearly balanced. Many insist there must be some form of economic control. There are plans for proration. There are many proposals for stabilization. And some thoughtful men of wide business experience insist that all projects for stabilization and proration must prove futile unless, in some way, the equivalent of the certificate of public convenience and necessity is made a prerequisite to embarking new capital in an industry in which the capacity already exceeds the production schedules."

And I also wish to quite from an address that was given by Mr. Julien Elfenbein, managing editor of Haire Business Publications, on January 17, 1933, wherein he states as follows:

"I wonder if Mr. Justice Brandeis may not be also prophetic? The law which denies the privilege to business men to conspire together to enhance their prices to the disadvantage of the public is a just and ethical law and it provides punishment for the offender. The law must also deny the privilege to cutthroats who severally or individually cut prices, by any method, for the manifest purpose of destroying the legitimate profits and legitimate business of their competitors. And it must provide punishment for these offenders. Let the public interest be the test of right or wrong."

NATIONAL EMERGENCY

It would seem to me that a state of national emergency exists, and that if Congress had the power to pass the law known as the Sherman Act that common sense should dictate that in this period of "national emergency" they should have the power to suspend the Sherman Act, at least until the emergency had passed, and which would permit manufacturers, with the advice and assistance of the Government, to regulate prices and stabilize a situation that has already reached a point where trading is almost impossible. No one is benefiting by selling merchandise of all kinds below the cost of production, but everybody is injured by this method, as little by little the quality of the merchandise is reduced until it gets to a point where even the ultimate consumer rebels at the class of products that she is asked to purchase.

PRICE FIXING

Price fixing does not necessarily mean robbing the public. The Government can see to it that the consumer is fully protected both as to quality and to price, but industry is entitled to a reasonable return on invested capital, and Congress should lend itself to finding a means of protecting both the consumer and capital as well.

Common sense also tells me that the government of any country is simply the larger individual. The individual is compelled by force of circumstances over which he has no control to limit his expenditures to his earnings, whether as an individual or a copartnership, or as the leading head of a corporation. In other words, unless one is prepared to accept the sacrifices that are necessary to permit him to continue in business, the only other alternative would be to go through the bankruptcy court.

Therefore, in view of this fact, it is my judgment that the Federal Government, irrespective of the pressure of political interference, should at once cut down Federal expenditures to a sum not exceeding $3,000,000,000, and by doing so insure the credit of the United States by balancing our Budget.

If this can be accomplished, and were I given the power, I should at once declare a 1 per cent consumers' sales tax and which every individual would pay, and which can be collected with less red tape than the present involved system of taxation, and which can be immediately put into operation and kept in operation during the period of the national emergecy that exists.

However objectionable it may be to our institutions to even refer to a dictatorship, it is my judgment that in a period of this time that if one business man that was qualified for his job, after a conference of the managers of industry in the United States, had full power given him to take decisions and to put them into force, confidence would be far more rapidly restored than by endless debate with all kinds of cures being suggested, some of them not bearing any relation whatsoever to our present situation.

It is my earnest opinion also that the currency of the country should remain sound, and should be kept in the gold basis. Any attempt towards reducing the value of the dollar, or any other method that would cheapen its present value would, in my judgment, end in complete collapse.

I want to repeat that common sense should be the guiding force, and no other.

(A letter and brief submitted by Mr. M. K. Graham, Graham, Tex., are here printed in full, as follows:)

GRAHAM TEX., *February 14, 1933.*

Senator REED SMOOT,
*Chairman Committee on Finance, Washington, D. C.*

DEAR SENATOR SMOOT: I thank you for your invitation to appear before your committee.

I am greatly interested in the subject, and I take pleasure in inclosing herewith my brief, which was prepared as new matter for my book, Continuous Prosperity, a copy of which I am sending you to-day.

I doubt if my appearance before the committee would aid materially until the matter now submitted is digested. Then, if you desire, I will be happy to comply,

With the hope that the work of your committee will prove fruitful,

Yours truly,

M. K. GRAHAM.

## AN ARGUMENT FOR DEVALUATION AS AN EMERGENCY REMEDY FOR THE PRESENT WORLD WIDE DEPRESSION

(By M. K. GRAHAM, Graham, Tex.)

### SOUND MONEY

One major political party declares for sound money, the other for the maintenance of the gold standard, and the writer proposes the abandonment of the gold standard, yet all three may be construed, without subterfuge, to mean much the same. Sound money and the maintenance of the gold standard both contemplate currency redeemable in gold, while it is proposed herein that the gold content of the dollar shall be reduced and that it shall then be stabilized, as nearly as can be, in terms of commodities. Thus the new dollar will also be a sound one on a gold base, equally as honest and unprincipled as the present one.

While credit expands, prosperity reigns; while credit contracts, depression. This is the cycle. There must be a rhythm, but its oscillations need not be catastrophic. After too much credit, depression must continue until the excess credit has been retired. To issue more credit, merely retards the recovery.

This excess credit during depression persistently endures as intolerable debt and fixed charges which can only be discharged in gold either by devaluation of the unit of payment or by long continued bankruptcies. We must choose one of these courses, remembering always that the present gold standard has not saved us from depression or tempered it or shortened it and that inaction is a vote for this standard, entailing sacrifices and hardships for years and possible revolution; whereas all other major nations have, in recent years, depreciated their currency once or twice with slight damage to their reputation and with benefit to their financial health.

### TOO MANY INCONSISTENCIES

The gold standard and central bank theory are inconsistent; the central bank relies upon a high bank rate to discourage credit issue whereas a high bank rate tends to attract gold and to make the member banks independent of the central bank. While the central bank's power is largely a negative one, a low rate tends to expand credit issue, yet a low rate also tends to expel gold and thus to decrease member banks' reserves and to contract credit. The gold standard and our protective tariff are also inconsistent: other countries with depreciated money are enabled to undersell us here, tariff included, and greatly to undersell us elsewhere.

The nations now on the gold standard have little business with each other, hence it is no longer a going international standard; and, especially since the gold standard interferes with central bank management, there is no likelihood of the other nations returning to the gold standard as long as gold is too valuable. Furthermore, since we will not permit payment in goods or services (if we can prevent it) and the consequent increased demand for gold increases yet more its value, our position as chief creditor Nation is made very difficult. Our gold standard has thus become an intolerable burden.

These inconsistencies should be reconciled. But, instead of doing so, we mismanage our money and credit as the rustic does his leaky roof. Domestic debtors are powerless to act; whereas creditors and salaried men, who are our leaders and could act, are silent. They say that all will work out for the best and that, anyway, nothing can be done about it. Yet decay spreads.

Our foreign debtors have managed better. Once before they had their debts revised by law in accordance with their ability to pay; and they are now demanding another revision downward, by law, to offset golds' inflated value under gold standard demands and practices. Shall there be legal revision of debts downward for the foreigner and no relief for the domestic debtor?

Gold should be retained as our monetary base but not as a standard; and its vagaries should be corrected. Devaluation of the dollar would automatically end the agitation for revision of both foreign and domestic debts and fixed charges. Our senseless support of gold's swollen value is retarding recovery everywhere.

### DEVALUATION OR NOTHING

With the world's intelligence as it is and its experience as it has been, no money can be considered sound unless it has a gold base. All other moneys are wholly managed and hence are undesirable because they are under suspicion. And no country can be partly gold and sufficiently greenback to inflate values appreciable any more than it can be partly free and partly slave. We solved both of these questions three generations ago. The choice must be gold or greenbacks because gold and greenbacks will not circulate together unless they are freely convertible and convertible currency (not bank deposits) normally has no effect on prices.

Anyway, both major political parties have declared for sound money so we could have fiat money only by revolution, yet we earnestly desire that our sound dollar's command over goods, be lessened. Clearly, the only way we can both keep our gold and attain this desire is either to lessen the value of gold or to lessen the quantity of gold in the dollar.

But we have done all we could think of to lessen the value of gold and yet retain it as our monetary base, and all to no avail because gold's real value is its world value and we alone are powerless to depress its value at will. Others must cooperate. We might possibly have held it down if it has not fallen too low.

There remains then only to devaluate the dollar—to lower its gold content. We can not compel the mountain to come to us but we can go to it.

Let no one argue that Congress has not the power to declare this lighter dollar to be legal tender for all domestic debts. Countries from time immemorial have exercised this right and to argue otherwise would be to argue that one Congress is superior to another and to destroy the supreme pardoning power which must always be vested somewhere. Suppose gold's value should rise to ten times its present value; what then?

Are its ethics questioned? Ordinarily, Peter should not be robbed to pay Paul. In defense, restitution is pleaded. The historic case of the pot versus the kettle is cited. And then the general plea of good intentions is offered. They who hold devaluation to be unethical, should recall what the man Joshua (Robespierre's exemplar?) did, by order, to the Jerichites and others.

### THE PROMISED LAND

The children of Israel came in sight of the promised land only to turn back and to wander aimlessly in the wilderness until their reactionary leaders had fallen by the way. And so with us, it seems. Now we want to get out of the depression; but, unless we know where and how we want to go, we shall wander in circles and get nowhere.

So let us decide definitely that our aim shall be to get back to that higher plateau of the "New Era" and to try to stay there. And, lest we wander, let us drive down stakes to direct us.

(1) We must have sound money, that is, money on a gold base.

(2) Sound money on a gold base means that all currency and deposit currency shall be freely redeemable in gold; and this means that all goods in the world market shall be valued in terms of gold.

(3) Gold is cosmopolitan and gold's value is its world value, the same the world over, place and time considered.

(4) One nation alone, with less than half the world's monetary stock of gold, can not, at once, materially change the value of gold. The cooperation of the other owners must be given. One nation, alone, might tend to decrease, within its limits, the value of gold in terms of its goods; but the consequence would certainly be to lose its base of gold to others who valued it more highly.

(5) Currency as such, on a gold base, normally has no influence on prices, because we have as much as there is any effective demand for and no more. We have a billion dollars more currency outstanding now, with prices and business scraping bottom, than we had in 1929. If more should be handed out as a soldier's bonus, this would stimulate trade temporarily but it would soon find its way to the banks and be retired; and more greenbacks or silver would simply retire an equal amount of Federal Reserve notes and render the currency less elastic. The same as to public works, financed by bond issues. The stimulation would be only temporary because the remedy could not raise world prices, including domestic prices, in terms of gold and hence could not remove the obstacle of debt and fixed charges.

(6) The road out of the depression must in some way get through the wall of debt and fixed charges which obstructs it or else follow along this wall until it can get through. We may wander on the wrong side of it for years to come.

(7) While we have no definite control over the value of gold in terms of goods, we do have a very definite control over gold, as regards our debts and fixed charges. By legislative decree that the dollar shall be devalued in terms of gold, the world price of goods in terms of gold would not at once be greatly changed, but the world price of goods in terms of the dollar would certainly be raised, thus easing the payment of debts and fixed charges. We should soon then regain the higher plateau of the "New Era," to dwell there as long as we should have enough intelligence to do so. The emergency operation of devaluation is a major one; but it is a definite one which need not again be necessary, if we shall be able to profit by experience.

## HOW DEVALUATION WORKS

Devaluation will do promptly and effectively what inaction will require years to accomplish. It will thaw out frozen debts, both domestic and foreign, and thus end failures. It will reduce to bearable proportions taxes and fixed charges. It will restore effectiveness to our tariffs. It will continue the work and pay of those now at work and will renew hope in men's hearts by saving their homes for them and by once more filling their dinner pails. It will hasten the return of the nations to a common standard of value and thus speed up the wheels of foreign trade.

Why all this? Because devaluation will definitely break the constrictive power of gold over America by decreasing the dollar's command over goods and this will, in turn, have a favorable international reaction. Since the devalued dollar would contain less gold, certainly it would buy fewer goods which is but to say that our goods would bring proportionately more dollars. Thus devaluation would tend promptly to remove the excess credit outstanding just as time, more slowly, will do, this unbalanced credit being the obstacle to recovery.

More in detail, referring to the Foreword and reversing the order, men owe debts and taxes which have been increased greatly beyond what they would, ordinarily, be required to pay. They can get money with which to discharge these only by exchanging their services or their goods for dollars. It is reasonable to suppose that they can demand, and reasonably expect to receive, more dollars for their goods and services if the dollars are made lighter in terms of gold; not at once, perhaps, but this will certainly be the tendency, both reasonable and urgent. Contrast this with the existing method of settlement: the debtor who can pay in full receives no concessions. The debtor who can not pay, receives only the concessions which his inability to pay demands. The creditor gets all he can; and he renews the balance, if there is any possibility of his collecting it later. The creditor compromises his claim only as his judgment, not his mercy, dictates.

The same may be said of mortgages in general. But bank closures differ in that they involve three elements: the debtors of the bank, the bank itself, and its depositors, who are its creditors. Here, the bank is ground between the upper and the nether millstones. The bank is compelled to negotiate with its debtors and to compromise with them as above; but, on the other hand, it is compelled to pay its own creditors (its depositors) in full on demand. Does any bank depositor ever consider making any allowance for the more valuable dollars received by him?

The insurance companies are much in the same position as are the banks. In order to pay their matured policies, or make loans on them as they have agreed to do, they must collect their annual premiums and their mortgages and cash their investments. These they are forced to do as best they can; but they are expected to pay their matured policies in full on demand. Has ever a policy holder demurred at receiving the more valuable dollars? Would he consider accepting fewer of them?

The railway case (and the public utilities, which have much the same financial set-up and control) differs yet again. Their physical plant was built for reasonable use and the slump in business, notwithstanding their efficiency in operation, has tended to extinguish their net profits. Again, here is a three-cornered relationship involving decreasing income and increasing fixed charges. Only the upturn in business which devaluation promises, can save very many of them from receivership, because the bondholders and the taxgatherers, as a matter of course, exact all they can get.

And who are the holier-than-thou reactionaries who scout devaluation? Of course, they are the ones who are licking the cream. They talk compromise but they compromise only when they must. The smaller salaried men and wage earners need not worry greatly about being paid in lighter dollars, since the tendency, under devaluation and reviving business, would be promptly to correct this; rather, they should worry, under inaction, as to how long their present wage or salary may continue at all.

These reactionary, old-fashioned, gold standpatters have been in control for many years. They may mean well but they will not learn. They have been warned continuously of their duty to stabilize the value of their gold and of the dangers of not doing so. But they have consistently disclaimed both this duty and their ability to discharge it. They did not foresee, certainly they did not forestall, October, 1929; and since then, under their guidance, the upturn has been, always, just around the corner; whereas, our course has been downward, always lower. They treat the symptoms instead of the disease. They seem to think that prices are set by God or should be left to chance.

PRICES AND GOODS

Price indices are essentially human phenomena, materially affected by nature only through the weather and the quantity of gold created and surrendered. Man does all the rest. In man's world, there may be goods without money or money without goods; but there can be prices only with both money and goods. Thus there are three variables in the equation of prices: Goods, money, and prices. Let either goods or money vary widely as regards each other and prices must vary widely. While a steady price level is desired, this is possible only on condition that money increase (or decrease) in the same proportion that goods increase (or decrease) (p. 12), supposing that the velocity of circulation of money is a matter of habit with monetary users and that this habit will remain fairly constant if profits, and thus habits in general, remain fairly constant.

Here has been introduced another variable, profits. Our objective, really, is not stable prices so much as an even flow of goods into consumption; and this even flow of goods can be induced only by fair prices while these in turn can be regulated, under our price and profit system, only through the profit accruing to producers. Too high prices, resulting in too great profit, call into being too many goods; while too low prices, with too small profit or even loss, produce too few. Only fair prices result in fair profit and induce the regular habits and the even, continuous flow of goods desired.

Thus while goods and money, normally, are both variables, they are in proper relationship only when their quantities vary together as indicated by a stable price level, the output of goods being increased or reduced by greater or less profit, this in turn being controlled by the amount of money (and credit) made available to the factors of production and to consumers (p. 104). Hence the price level should be the criterion, with the production ratio as an important aid (p. 13). The importance of considering both is exemplified by the recent boom period of 1925–1929, when the price level held fairly steady yet profits were too great, due to economy and efficiency in production, the excessive profits resulting in the too great production of all classes of goods. The production of the excess of goods was financed by the issue of too much credit for the base of savings and by the higher velocity of circulation of money induced. Had the importance, as a danger signal, of the excessive production ratio of goods been known and heeded, the crash might have been averted.

As a corollary from the above, those who undertake to predict future price levels by looking backwards at past price levels may lead astray, for future price levels need resemble past ones only with similar errors persisting as regards money, credit, profits, and goods.

## IN REVIEW

Much confusion results in human reasoning by our thoughts circling too widely and including too many details—by our thinking too generally. Let each consider his own affairs: He knows, of his own experience, that he will prosper only as his income exceeds his expenses, the excess being laid by as savings; that savings in money, as such, are unproductive but may become productive through investment; that this investment may, possibly, be increased by borrowing. He knows, furthermore, that loans to him will be made, in general, only as he has saved and that these loans can be made safely only as he invests wisely. And so, as a nation.

Our equation of prices included only three variable terms, while our reasoning has now been broadened to include profits, loans, savings, and investments; but this need not confuse because these latter are simply component parts of the former, all being included in either money or goods as may be and either entering into the totals or canceling out. As we look back on the years 1925–1929, each can now see for himself that, while our currency and deposit currency (bank money) may not have been greatly excessive, our loans of all kinds, both private and public, were greatly in excess of what they should conservatively have been, since they called into being too many goods of all kinds, and thus interrupted the even flow of goods desired (p. 41).

It may be argued that bank credit (p. 77) alone influences prices and that general credit does not, since here a loan at once becomes an investment, money being only an intermediary, and thus that the loans and investments cancel out. But there is more to it than this because of the basis on which the exchanges are made and are ultimately settled. If they were always made at only a fair profit and if the loans were reasonably well secured and were paid as demanded, unsettlement might not result; but, on the contrary, such trades are on a higher basis than when made for cash and, as business declines, the forced payment of the loans results in progressive disorder. Even bank loans and deposits become separated and their cancellation is thus rendered more difficult (p. 94). General credit certainly influences prices very greatly and must be reasonably controlled (p. 52), if the price-level is to be stabilized.

No bird ever wants or bothers to build for itself more than one nest at a time. The same is true of squirrels and bees. While these latter save for the future, they do so only in moderation. We are none of these but we might do well to learn from them this lesson of moderation. We have only to look about us to see the inequities and the disorders caused by greed, i. e., the insane desire for too many nests, too many nuts, and more honey than is good for us.

Christ preached moderation in all things. His teachings have stood through the centuries, not necessarily because they are revelations from heaven, but because they are fundamentally true of this earth and, being so, they are good economics as well as good morals.

## DANGER OF DEVALUATION

Devaluation is a strong stimulant, so potent that, unless we are men, we had better stay with our bread and milk.

It may seem simple, in present circumstances, to warn against the possibility, in the near future, of too great prosperity. But devaluation, effected properly and in order, might lead to a riot of prosperity, in that it would greatly increase potential bank reserves in dollars; it would invite the erection of a new credit structure on the base of savings, artificially restored by the reduction of debt and fixed charges; it would make possible the prompt restoration of a going international standard of value; and it would strongly tend to decrease the world value of gold.

The control of credit, then, if even a worse smash is to be prevented, would become imperative. Moderation must be the rule. To this end, devaluation, by all means, should be preceded by the unification of the banking system (pp. 64, 114); by authority to the central bank to increase the minimum reserve requirements (pp. 51, 112); and by the adoption of the price level and the production ratio as the criteria of credit control. Legislators and bankers must come to realize the vital importance of these measures.

Here is prosperity for the taking; and here is its danger. Weigh these against the world's present distress and then decide.

(A brief submitted by Mr. Norman Lombard, New York City, is here printed in full, as follows:)

SUGGESTIONS LOOKING TO THE CURE OF THE DEPRESSION AND TO CONTINUED BUSINESS, ECONOMIC AND SOCIAL STABILITY BASED UPON AN OUTLINE PREPARED FOR AMERICAN ENGINEERING COUNCIL, WASHINGTON, D. C.

*Classification.*—Business and economic stabilization through money and credit control.

*Objective.*—Promote that condition that will produce the maximum increment of goods and services and distribute them equitably to the members of society in proportion to the value of their contributions.

*Theory and principle.*—Such a condition is best approximated when the general level of prices is kept stable. Then production increases, wages rise, employment is obtainable by the efficient members of society at competitive rates, the great waste of idleness is at a minimum. The standard of living rises as reflected in more goods and more leisure time to enjoy them.

On the other hand, when the price level is permitted to fluctuate, production is reduced, waste of time and material is promoted, and wealth is redistributed without plan or purpose.

When the general level of prices is permitted to rise, creditors are injured; equities between the debtorlike and the creditorlike classes are distributed to the advantage of the former; undue business activity encourages uneconomic expansion of production facilities; extravagance, boom conditions, and inefficiency result.

When the general level of prices is permitted to fall, debtors are injured; the creditorlike classes profit at the expense of the debtorlike classes; dwindling consumption results in unemployment; wage and debt readjustments promote social and political unrest; factories lie idle; production, foreign trade, profits dwindle; failures, foreclosures increase.

The general level of prices is a reflection of the value of purchasing power ot money. When it rises, that means that money is falling in purchasing power. When it falls, that means that money is rising in purchasing power.

Money is subject to the law of supply and demand—too much of it, relative to need, and it falls in value; too little of it, relative to need, and it rises in value.

The principle, therefore, to be applied is to keep the total volume of money, credit, and moneylike instruments in effective circulation in any country in such balance with the varying needs of business that the general level of prices will be kept stable, letting changes in such volume compensate for variations of velocity, hoarding, banking fears, and optimism, changes in the volume of business and other uncontrollable factors of the equation.

To do this, it may be necessary for the monetary authorities to anticipate impending changes in the price level and to take steps to offset them (or the forces that produce them) before they become apparent statistically, just as a skillful engineer maintains a stable temperature in a cold-storage warehouse. To this end, their power should be plenary and their responsibility complete.

An index of prices of commodities at wholesale is preferred as the guide. Other indexes of the price level have much to recommend them and the use of almost any composite index would be better than to subject the whole economic and social structure to the strains due to fluctuations of one commodity, gold. Also, there are other proposed criteria of monetary policy than price level stabilization, any one of which would be preferable to none at all (which is the present condition in America) or to that of a fixed minimum gold reserve ratio.

The point at which the price level should be stabilized in the first instance (or after any great departure therefrom) should be determined by calculating "the center of gravity of the existing debt structure" as this will balance equally the benefits and injuries due to past fluctuations and work the minimum hardship on any group. That is, the new price level would be that found to have existed on the date that represents the weighted average of the dates when the existing obligations were contracted.

*Methods advocated.*—Strive for stabilization of the internal price level disregarding fluctuations of exchange or gold reserve ratios, but cooperate with foreign countries in stabilizing exchange as a secondary objective.

Machinery of control of money and credit exists in the central bank (in America, the Federal reserve), through its power—

(1) To raise or lower the rate of rediscount and thus discourage or encourage (*a*) borrowing and (*b*) gold exports.

(2) To buy or sell (*a*) eligible securities or (*b*) foreign exchange in the open market, thus: (*a*) Causing the commercial banks to expand or contract their loans or (*b*) discouraging or encouraging imports of merchandise. (Such action, of course, influences also the flow of services, remittances, credits, gold, and other factors of the international economic situation.)

(3) To influence banking policy through direct contact with commercial banks.

(4) To mold public and business opinion through announcements of its policy and of its reasons for taking action.

This does not, of course, exhaust the list of instruments of central bank control. Others in America include the power to call unpaid capital subscriptions, creation of new reserve cities, etc. Governor Strong mentioned 11 to Governor Norman. In England, the power to vary the fiduciary issue is important.

If its measures are taken in time, the central bank's control of the volume of money and credit (and, hence, of the price level) is absolute within the limits of restrictions imposed by legislation. If its measures are delayed, it may be necessary for the treasury to reinforce the efforts of the central bank, particularly when expansion is desired, thus encouraging business to make use of the facilities made available by the central bank (as by issuing legal tender, gold-reserve money in retirement of existing interest-bearing obligations, or in payment of government expenses or for public works.)

When the forces of expansion had thus been generated and it was clear that it would proceed to the extent desired, the purchase of securities should be discontinued or they should even be sold and the volume of money like instruments otherwise contracted in order to keep the general level of prices stable at the point determined.

In the present emergency further expansion of member bank loans and investments should be forced by increasing surplus reserves. To this end the Federal reserve should discontinue the recently announced policy of selling securities to keep these reserves at a "reasonable level" and should allow incoming gold and money returning from hoarding to have their natural expansive effect, even buying additional securities, if necessary. All this would tend to cause the member banks to lend, thus increasing the effective credit volume. If this proves ineffective an increase of the currency should be engineered by one of the more direct methods outlined.

The problem is political and technical rather than economic. That is, the problem is one of how to get governmental and banking authorities to do what should be done, rather than of knowing what they should do. Banking psychology largely controls monetary and central bank policy, and, at any given moment, the steps necessary to be taken in aid of price level stability through monetary control are likely to be in conflict with what the banker regards (correctly from the individualistic point of view) as "sound banking policy." Banks, moved by a desire for profit, loan freely and favor an expansive policy in a period of inflation, when loans should be contracted, and, moved by the wish to safeguard their depositors' funds, they strive for liquidity and favor a policy of contraction in a period of deflation, when the money volume should be expanded.

The onus rests not on the banking fraternity alone, although its responsibility is great, both because of the foregoing condition, and because its prestige, intellectual self-confidence and power to influence articulate opinion are great. Among other important factors are the lack of a national economic objective and the widespread ignorance of monetary economics.

Therefore, both in the interest of the public and to protect the banks from their own folly, there should be an international, nonpolitical, nongovernmental organization, liberally but privately endowed, devoted to the purpose of furthering the stabilization of the price level through (1) education of public opinion, (2) fathering and pressing legislation, (3) watching administration, and (4) encouraging research into matters on which there is need of further light.

An endowment seems essential to protect the staff against misinformed or interested financial pressure and to permit its prestige to grow through continued, constructive activity.

*Author's valuation.*—"Eternal vigilance is the price of stability," and no plan is any better than the intelligence and determination of those who have to administer it. Price level stabilization is more necessary than any other sort of social or governmental reform. In fact, the achievement of this reform might well remove all need for many others now proposed, most of which aim at symptoms, while this one aims at a root cause. Efforts toward international rapprochement, balancing of production and consumption, more equitable distribution of the proceeds of industry, reducing unemployment, farm relief, banking reform, must all prove futile unless the disturbances accompanying changes in the general level of prices are prevented.

*Status of plan.*—As relates to the organization of public sentiment, the situation is chaotic, the advocates of price-level stabilization, numerous and influential as they are, being without leadership or financial support.

As relates to cooperation between governments and central banks in the effort to secure stabilization of the price level: In England and some other countries it is in practical effect; in America it is sporadic and uncertain.

As relates to central banking controls: This is the philosophy recommended by the conference of 30 nations at Genoa in 1922. The period of stability in America from 1922 to 1928 was due to the more or less deliberate application of these principles under the leadership of Governor Strong, of the Federal Reserve Bank of New York. The Goldsborough bill, passed by an overwhelming majority by the House of Representatives in 1932, was a somewhat inadequate expression of the plan. It is, somewhat timorously, in force in England and a number of other countries and has been in successful deliberate operation in Sweden for over a year.

(A letter received from Mr. John Dewey, Washington, D. C., is here printed in full, as follows:)

THE PEOPLE'S LOBBY (INC.),
*Washington, D. C., February 10, 1933.*

Hon. REED SMOOT,
*Chairman Senate Finance Committee,*
*Washington, D. C.*

DEAR MR. CHAIRMAN: The investigation over which you are to preside, on the causes of the depression and measures which should be adopted to end it, as provided in the resolution of Senator Harrison, does not need to be protracted.

The American people have a right to assume that any party seeking their suffrage knows the causes which produce involuntary poverty and dares to end those causes.

The fact your committee has invited as witnesses several men who share responsibility for the present disaster, encourages the hope you propose to have them enter publicly a plea of guilty.

As you have asked for statements from those interested, we submit the following for your committee's consideration.

The chief causes of the depression in America are:

1. Speculation in land values and in natural resources, primarily due to the general practice of taxing buildings and other labor products instead of covering ground rents into public treasuries and of permitting private exploitation of natural resources.

2. Protective tariffs on manufactures and on farm products, which encourage inefficient and high-cost production and provide unconscionable profits for really efficient producers.

3. Our banking and credit system, which is run not primarily to foster needed production and investment, but to promote speculation and to make profits for the stockholders of banks through affiliates and similar devices.

4. Too rapid mechanization, illustrated by the fact that in the decade 1920 to 1930 one concern—The General Electric Co.—created machinery of 160,000,000 man power.

5. The failure of industry and employers generally to pay sufficient wages to enable consumption to keep pace with production out of current income. Business Week, a McGraw-Hill publication, states that in 1929, the peak year of our national income, which amounted to $89,585,000,000, the excess of expenditures over the income of individuals was $14,717,000,000.

6. The failure of governments, Federal, State, and local, to obtain their revenue from surplus incomes, and their policy of curtailing consumption by collecting at least half of the total governmental expenditures, about $7,000,000,000 in 1929, from those of small incomes, and reducing consumption to that extent.

Business Week reports that in 1927 savings of Americans were $10,054,000,000; in 1928, $12,650,000,000; in 1929, $12,543,000,000; and even in 1930, $7,892,000-000. This publication states that of the $12,543,000,000 savings in 1929, the 513 persons with incomes of $1,000,000 and over saved $1,045,000,000, or one-twelfth of the total; the 2,617 persons with incomes of $300,000 to $1,000,000 saved $1,085,000,000, or over one-twelfth; while the 47,212,000 persons with incomes of $5,000 or less, saved only $5,567,000,000, or less than one-half of the total; and it notes that the excess of expenditures over income of those with incomes under $5,000 was $10,442,000,000, or nearly twice their savings.

The recent report on Double Taxation, issued by the House Ways and Means Subcommittee, states that the greater part of the $5,266,000,000 collected from the general property tax is paid by persons with net incomes under $5,000.

7. Overcapitalization of public utilities, including power and electric energy development, and of many manufacturing concerns, fostered by high-pressure bond and stock salesmanship.

8. The irresponsible sale of foreign securities issued in boom times for speculative profit.

As measures for immediate improvement, we recommend:

(1) Appropriation of $1,000,000,000 by Congress for direct relief to be disbursed under the agency created by the Costigan-La Follette relief bill, which covers distressed farmers, as well as the unemployed in cities and their dependents. This will permit the withdrawal from gainful occupation also of a large part of the 4,400,000 under 17 and over 65 years of age who were gainfully employed in 1930.

(2) Liberalizing the provisions of the Reconstruction Finance Corporation with respect to loans, as to self-liquidating, and security, on the principles suggested by Senator Wagner, with larger credits for noncommercial profit housing, conditioned upon the exemption of all buildings from State and local taxes.

(3) Federal credit for an extensive program of public works, afforestation, roads, etc., to be assessed so far as practical on property improved thereby.

Repeal of most Federal taxes on consumption, a small reduction of the exemption from the income tax, a rapid increase in surtaxes, and in estate taxes—which should be retained for the Federal Government—taxation of income from Government securities as part of total income, and taxation of large corporation surpluses.

There is no possibility of any temporary or permanent improvement in economic conditions without a drastic redistribution of the national income which government alone can effect in time to prevent a collapse. Nearly every industry is overplanted. The Commercial and Financial Chronicle states that the total corporate new capital offerings during 1932 (with December figures preliminary) were only $318,000,000, compared with $8,639,000,000 in 1929 and $4,944,000,000 in 1930.

The Department of Commerce wrote us in December, 1932, that "capital investments in machinery, buildings, engineering projects, and the like approximated $15,000,000,000 in 1929, and for 1932 is probably running at less than 25 per cent of that huge total."

It is obvious that consumption must be increased through redistribution of the national income before there can be much increase in investment.

(4) Refunding the Federal debt at a much lower interest rate and retiring it as rapidly as possible.

(5) Writing down the principal of nongovernment debts to conform to the increased purchasing power of the dollar and reducing the rate of interest thereon.

(6) Creating a Government marketing corporation empowered to purchase farm products, process them, and sell them directly to consumers.

(7) Shortening the work week to 30 hours.

(8) Federal control of development of natural resources, such as the production and distribution of electrical energy.

These measures Congress can enact at once.

Congress can not compel State and local governments to transfer taxes from buildings to land values, so as to restore the former easy access to land and to reduce living costs, but it can restrict Federal credit to those taxing units which do this.

Yours sincerely,

JOHN DEWEY, *President.*

(A letter and an article received from Saunders Norvell, New York City, are here printed in full as follows:)

REMINGTON ARMS CO. (INC.),
*New York City, February 11, 1933.*

MR. REED SMOOT,
*Chairman Committee on Finance, United States Senate,*
*Washington, D. C.*

DEAR MR. SMOOT: Your circular letter of February 8 received. It is impossible for me just now to come to Washington to wait my turn to be called upon to express my views on the causes of the present depression and possible legislative remedies.

You suggest if we can not come to Washington that we send a brief. I happen to have an article I have just written with the idea of sending it to one of our trade publications. This article is not in the form of a serious brief, but it does cover some of the things that have led up to the present depression and it also suggests certain things that may help recovery. This article is written from the standpoint of the merchant.

In my judgment what we need from Washington is an entirely different view of business. When business is hard hit in this country everybody suffers. Even the farmer is a business man. This whole idea in Washington seems to be that the proper thing to do is to attack business instead of helping business. If business is wrong, in my judgment, they should be guided into the right channels. Business should not be blackjacked as it has been by the legal interpretation of the Sherman law and the Clayton Act. The Federal Trade Commission in my judgment has done far more harm to business than it has done good in protecting the people of the country. I mean if the harm and the good could be measured the harm will outweigh the good. Even the members of the Federal Trade Commission when practical questions come up of the effect of their actions upon business simply shrug their shoulders and say, "It is the law." These gentlemen on the commission see the futility and the absurdity of a lot of things that have been done and are still being done.

The business of the country is sick, very sick. It is flat on its back. Would anybody with common sense attempt to cure a patient in this condition by attacking him with a legal club?

Yours very truly,

S. NORVELL, *President.*

## SOCRATES DISCUSSES COMPETITION VS. COOPERATION

(By Saunders Norvell)

Scene: A garden surrounding a temple in ancient Athens. Large old trees. Carved marble benches. Walks.

A great powerful man with a face like a battered prize fighter is seen, covered by his robe, reclining at length on one of the benches. Enter: A younger man, tall, slim, athletic, carrying in his hand tablets and a stylus.

PLATO. It is a fine morning, Socrates. You are here early.

SOCRATES. I have been here all night. I did not go home. Xantippe has been in a devilish humor. I preferred to study the stars.

PLATO. There is much dissatisfaction among the merchants with the oil business. There is overproduction. There is cutting of prices. Many of the dealers are on the verge of bankruptcy.

SOCRATES. Yes, in my walks about town I have heard of these troubles. The basis of them is a lack of clear, simple, and logical thinking on tne part of the merchants. They are too shortsighted. They do not realize the welfare of one is the welfare of all, and that the destruction of one leads to the destruction of all.

PLATO. I have here some fruit. While we eat would it not be well for us to discuss the condition of the oil merchants?

SOCRATES. Nothing could be more delightful than to eat this luscious fruit, supplied so bountifully by nature, in this garden on this beautiful spring morning and discuss the troubles of the oil merchants.

PLATO. I suppose, Socrates, we will start our discussion by outlining all the facts that I have been able to obtain in regard to the conditions surrounding this oil industry here in Athens.

SOCRATES. Your plan, Plato, is most praiseworthy. Of all my disciples you have always been the most thorough in your study of facts. When you have gathered your facts correctly, when you have divided these facts in their relative bearing, one fact to another, usually the logical conclusion of the matter is simple. Most of our mistakes in logic come from our starting with the wrong facts.

PLATO. The great interest in our discussions, Socrates, is when we have laid our facts before you, how directly you apply to them fundamental principles that upon study immediately clear up our thinking on our problems.

SOCRATES. The great art of thinking is to eliminate immaterial details, to grasp the main problem. Therefore, Plato, while I peel and eat this orange outline to me the facts in connection with the present state of the oil dealers.

PLATO. Before our recent war our oil dealers were reasonably prosperous. The supply was about equal to the demand and profits were satisfactory. However, immediately upon the declaration of war, anticipating a reduction in the production of oil and a large increase in the consumption, merchants bid against each other for all the oil that was in sight. Oil rose to a very high price. As the war continued this stimulated the growing of olive trees. Manufacturers largely increased their manufacturing capacity. The Government was a heavy buyer. The entire oil industry received great stimulation. Many merchants rushed into the oil business. Fortunes were made and these fortunes were used to produce and sell more oil. These merchants acted as if in their judgment the war would last the rest of their lives. They never seemed to consider that the time would ever come when the war would be over and the demand for oil would be reduced.

SOCRATES. This is a delicious orange. Nothing is more beneficial than a diet of oranges. Do you know, Plato, that orange juice is one of our greatest builders of bone structure? Infants, when they are growing their teeth, should be given a liberal diet of orange juice. Yes, of course; you referred to the oil dealers, the war was at an end. There was a decline in the demand for oil. What happened next?

PLATO. Every maker of oil was now equipped to make oil on a war basis. The war demand had come to an end. However, each manufacturer decided by high-powered salesmanship to go out into the cities and capture the business of all of the oil dealers. Some of these manufacturers flattered themselves that their ability was so far superior to that of others that they could clean up the market.

SOCRATES. Poor short-sighted human nature. Will merchants never learn? Of course, Plato, as a result of this action there was a price war and profits of manufacturers, jobbers, and retailers were all sacrificed in the mad scramble of the leaders of the oil industry for volume.

PLATO. Why Socrates, what a mind! This is exactly what did happen.

SOCRATES. What else could be expected? Now, Plato, tell me about this price war. How was it conducted by these oil merchants?

PLATO. Not only did they cut prices on their products, change channels of trade, but having learned during the war the power of propaganda, all of their salesmen were instructed to use propaganda. They poisoned the minds of customers one against the other. Each manufacturer accused the other manufacturer of being the cause of all the troubles that had descended upon the trade.

SOCRATES. Just so, just so. All of this was naturally to be expected with human nature as it is.

PLATO. Now with the industry flat on its back our legislators, having largely increased the expenses of the Government, have issued an excessive tax on the sale of oil. One trouble in this industry has followed on the heels of another. Now the oil industry of the country having brought itself into a state of chaos is crying loudly for some way out of their troubles.

SOCRATES. Oh yeah! Oh yeah! This also always happens to homo sapiens. First they get into trouble and then they holler for help.

PLATO. Some of these manufacturers have now conceived the idea that one way out of their trouble is to consign oil to their customers. They will fill up their stocks and these oil dealers will only pay as they sell oil from month to month. By this method they think they can dodge taxes, concentrate the volume of purchases in a few manufacturers and bring stability to the industry. This, Socrates, is the present condition of these oil merchants. Therefore, I come to you to-day to lay these facts before you and ask you to reason with your usual logic on the situation.

SOCRATES. No, thank you. No more oranges. Enough is as good as a feast. More than enough is simply the cause of trouble, like the trouble these oil merchants are now suffering.

PLATO. Your other disciples have now gathered about us and as they are familiar with the condition of the oil merchants we pray your discourse on the matter.

SOCRATES. The trouble here is all simply one of overproduction. The capacity of the manufacturers of oil is too great. They could make enough oil in three months to last the country a year. Naturally, the result of overproduction always in every age has been price cutting. The end of price cutting is receiverships and bankruptcies. Then when the industry is cleaned up by this process a fresh start is made with many oil merchants eliminated, and a few controlling the trade.

All business must be conducted in either one way or the other. One way is free and unlimited competition. Some nations, and those nations supposed to be intelligent, have conceived the idea that unlimited competition was a great thing and tended to the welfare of their citizens. In my judgment unlimited competition will, in the end be disastrous to a country, to its manufacturers and to its merchants. It must not be forgotten that all progress, all culture, all art, all happiness in living must come out of fair and reasonable profits. Without such profits there follows nothing but a lowered standard of living, misery and unhappiness.

The other method of merchandising is cooperation, and by this I mean cooperation not only between competitors, but also between competitors, the Government and consumers of the product. Cooperation means a study of supply and demand in the industry and a regulation of manufacturing to consumption. Now, take the case of these oil merchants in a country such as ours, in times of peace only a certain maximum of oil will be used by the people. This maximum should be ascertained. Then if there are certain manufacturers in the field, there can only be stability to the industry if the amount of business to be had be divided among these manufacturers on a fair and equitable ratio. The Government, of course, should take a part in such divisions of business to see that the interests of all are protected. The government should assist merchants instead of handicapping them. The government should exist to serve the people, not to be served by them.

PLATO. So far, Socrates, your logic is clear, but by what method can this plan of division of the natural trade of the country on any article of merchandise be worked out? How, for instance, about this plan of consignment?

SOCRATES. We could dispose of this consignment plan in a few words. In the end it arrives nowhere. The problem is not one of consignment, but is one of production and consumption. Suppose, for instance, the manufacturers of oil should fill up all of their customers around in good credit and bad credit with oil on a consignment plan. Then every warehouse in the country will be full of oil. Now, oil consigned is not oil sold. All of this great consigned stock would have to wait for the natural course of consumption. In other words, oil is not off of the market until it is consumed. Therefore, those manufacturers who consign, unless they should work together in cooperation will soon find that they have simply transferred their oil from their own factories to the warehouses of their customers.

The time naturally will come when these stocks of oil will be so heavy that the merchants will only buy small quantities and the heavy stocks of consignment in the hands of all kinds of dealers, who had rushed into the business because it did not require any capital, would be a menace to the price structure. Under such conditions prices could not be maintained, and the cinsignment plan would in the end make conditions worse than in the beginning. Consignment is simply a postponement of trouble to a later day.

PLATO. You paint a very dismal picture, Socrates. What is the true answer to this problem of oil?

SOCRATES. The only answer is the regulation of production. Until production is regulated at the source with the manufacturers, and this regulation governed by the consumption there never can be any stability in any industry.

PLATO. Therefore, Socrates, you would advocate that in an enlightened government there should be studies made of the increase and decrease of consumption in oil and other lines and in conjunction with the government manufacturers would regulate production in line with the demand?

SOCRATES. That seems to me the only answer to the problem of the oil merchants. It all boils down to a simple formula—ascertain the amount of oil consumption of the country and then regulate the production of the manufacturers just to meet the requirements of this consumption. Then we will have stability.

If merchants can only obtain as much oil as they can sell there is no reason for any of them to cut prices.

When overproduction is the cause of the trouble there can be no cure until production is regulated.

(A letter received from Mr. W. T. Anderson, Macon, Ga., is here printed in full, as follows:)

THE MACON TELEGRAPH AND NEWS
*February 13, 1933.*

Hon. REED SMOOT,
*Chairman Committee on Finance, Washington, D. C.*

DEAR SENATOR SMOOT: I have your letter of February 8 asking for an expression of my views on the causes of the present depression and possible legislative remedies and suggesting personal appearance before your committee.

I am sorry that because of an accident a few days ago in which a small bone in my right leg was broken near the ankle, I shall be unable to travel for some time. However, my opinion about the depression is that these things come about every seven years, or multiples thereof, approximately speaking. It seems that seven years is about the period required for the complete impoverishment of the masses by the classes, universal bankruptcy is indulged, a new deal set up, and business resumes by reason of the restoration of buying power of the masses instead of debt paying, and everything is pretty for another seven years.

Ever since the seven fat years and seven lean years of ancient Egypt, it seems mankind has been afflicted with these cycles of depression. The most serious one of recent history was in 1873. Another one that we had which I think bore down with a great deal of weight was in 1893–94, which you will observe came on a multiple of seven. There were others in between these two dates, but they apparently did not make a very lasting impression.

The next one I know anything about was in 1907, when all our money went into hiding as it has done at the present time. We issued clearing house certificates, which were a form of inflation, and got along pretty well with it. We were right on the threshold of another depression in 1914 when the World War postponed it. Another arrived in 1921, and this last one came in the latter part of 1928–29, and it seems that this one is going to last the seven years, harking back to the days of ancient Egypt.

Mass insolvency replaces individual insolvency every seven years, and this apparently brings about the crisis. As soon as we have canceled or paid our debts down to where our creditors feel satisfied the remainder is safe and we debtors feel we can pay the interest on what remains and make nominal reduction in the principal, we again have some credit or margin with which to buy. Industry is thereby enabled to resume and we proceed on the lines of former prosperity and conditions.

Even in the present crisis and distress, we find ourselves confronted with more debt than any people have ever known in the history of the world. It is stated on good authority, I believe, that the people of America and the governments of this country at the present time owe $206,000,000,000. Thirty-six billion dollars of this is said to be owned by our governments, and $170,000,000,000 by the people. This is as much money as the entire United States was estimated to be worth in 1914. The interest on it at 6 per cent, which is probably average for individuals, et al., is $13,000,000,000 per annum, or over $1,000,000,000 per month. Our average income, or turnover, in industry is probably $45,000,000,000 to $35,000,000,000, although the peak was estimated at $95,000,000,000. Let us take $13,000,000,000 for interest out of the $45,000,000,000 to $$35,000,000,000, and another $15,000,000,000 to apply on principal, which is estimated to be the fact, and we see very readily that two-thirds to six-sevenths of our national turnover is going for debt.

This in itself leaves no spending money for anybody and with the effort to collect and the desire to pay, industry shuts down and unemployment runs rampant, every increasing the vicious circle.

We were able to get past the depression of 1914 and 1921 in very rapid fashion, primarily because of the War beginning in 1914, which put us on a credit basis throughout the world, and then in 1921 all the forms of government in this country were issuing bonds for every conceivable purpose, one of the major items being roads. When the universal insolvency due to losses of the war was brought up for adjustment in the cycle of 1928–29 and all of our government bonds besides private debts came around for handling, we shut down everything and we are still suffering with it.

I do not know any remedy except to grin and bear it. Let nature take its course. Of course we ought to be smart enough to devise some remedy that will help us solve the problem at an earlier date than that which naturally control under the recipe I have just set forth. but the fact that our master minds have not been able to do anything about it makes me feel that there is not but one thing, and that is as I have stated. We may be able to help nature, but be sure we don't try to supplant nature.

I think we are making a great mistake to be spending money as is being done to try to pump oxygen into the patient, especially when every tank of oxygen is going to cost more money, more investment and interest, and in all probablilty not speed the recovery of the patient by a single day.

The orgy of spending in Florida alone, for instance, is disturbing. I think 32 post offices are being built in Florida. One town, Clearwater, with 9,000 or 10,000 people I am told, is having erected a million dollar post office. I think the post office formerly used there cost the Government about $30 per month and the million dollar post office will increase the cost of government to at least $70,000 a year for interest and operation.

At Palm Beach and West Palm Beach there are two magnificent buildings being erected by the Government and figuratively speaking you can stand in the door of one post office and throw a rock into the door of the other. These are being erected at an enormous cost to the Government and a drain on the people. Pumping more oxygen.

All the efforts to help the farmer through Government loans are an absurdity, and intelligent, successful framers are earnestly protesting against it. One farmer writes in from Bushnell, Fla., that he and his neighbors had good prospect for Irish potatoes this year and expected or hoped to make money out of them if the acreage were held down. He pointed out that on account of the Government seed loans that numbers of his neighbors have planned to increase their potato acreage and this will so increase the supply of potatoes that none of them will be able to make any money, all through "Government aid." The Government on one hand is arguing to keep down acreage, and on the other hand has 7 to 10 agencies lending money to increase acreage and production.

The Government has an Agricultural Department in Washington with about $300,000,000 annually to spend. Approximately $100,000,000 of this is used for roads and other purposes, leaving $200,000,000 for county agents, agricultural colleges, and every scheme imaginable to teach and induce the farmer to increase his production. The State governments also have their agricultural departments and experiment stations and the amount of money spent on farm aid runs into hundreds of millions of dollars.

In 1910 the average production of corn per acre in Georgia was 7 bushels. Now it is about 18 bushels. The county agents have shown how to select soil and seed and the Government has supplied the money for buying seed, and all sorts of stimulants to try to help the farmer. The 11 bushels extra corn raised in Georgia in 1930 as compared with the 7 bushels produced in 1910 are in competition with the original 7 bushels, and this is the condition throughout the country. The Government on one hand is urging the farmer to reduce his acreage; on another hand the Government has 7 to 10 different agencies and loan schemes to lend the farmer money to increase his production; and on another hand we see the Government sitting down at the end of the sluice way trying to stop up and dam up the supply and hold it back off the market so as to raise the price.

Briefly stated, I think the United States Government should shut down rigidly on its orgy of reckless spending. There is no dollar lost by the Government but becomes a particular charge on humanity, and unless we have something substantial that will earn interest and repay the principal, Government money should be left in the pockets of the people where it will more readily reestablish normal conditions than any way I know of. Everything I have seen tried or proposed is the same old story of the man lifting himself by his bootstraps.

To add to the Government's troubles, the farmer has done the most toward destroying his own market. In the past 10 years he has done away with six and a quarter million mules and horses from the farm, besides the farm hands that he formerly used. These he was able to sustain and pay out of the produce of his farm without converting it into money. It requires four acres of land to sustain a work animal, to say nothing of labor, and this in itself means 25,000,000 acres of land taken off production of animal food and put on human food. And then we worry about the surplus. By the use of tractors, trucks, and other so-called labor-saving machinery, none of which can eat a bundle of fodder or an ear of corn, we have piled chaos on top of foolishness.

I am sure we are all desirous of seeing something done about the present situation, but I do not believe anything that has been tried will stand the test of a business analysis.

I believe the greatest aid that could be rendered industry would be to insure, or guarantee bank deposits. According to the National Industrial Conference Board 14 per cent of industry in this country is without any bank credit or connection of any kind, and this 14 per cent employs 47 per cent of the labor. Hence by reason of having to keep their paper liquid with the Federal reserve in the event of demands of depositors, banks have cut out the great bulk of perfectly good collateral because of its nonliquidity and nonrediscountability. Witness Dawes borrowing ninety million from Reconstruction Finance Corporation on good paper his banking brothers wouldn't touch. The banks are afraid of the depositors and the depositors are afraid of the banks and the greatest single factor that could be set up to overcome this would be to guarantee bank deposits. This would free more money and drive it into industrial and other legitimate channels than anything else that could be accomplished.

It is nonsense to talk of the impracticability of guaranteeing bank deposits. Through a period of 66 years the United States comptroller gives the losses to depositors through all national bank failures as one-sixtieth of 1 per cent.

To summarize, I should say that anything which will reduce debt, be it Government or individual, will hasten the end of the depression. And anything which increases debt will lengthen the depression. The reason this depression is hanging on longer than any we have ever experienced is because the world owes more money and we have got to reduce that debt, either by sacrifice and stinting through scaling down, or through outright bankruptcy, or some miracle. It would be better to abandon every unnecessary expenditure and go definitely on the dole system for the emergency period, until this liquidation has been accomplished. Liquidation has proved the only remedy for other depressions. It is the only remedy for this one.

Yours very truly,

W. J. Anderson.

(A letter and brief received from Mr. Victor S. Clark, Washington, D. C., are here printed in full as follows:)

Library of Congress,
*Washington, February 11, 1933.*

Hon. Reed Smoot,
*Senate Office Building, Washington, D. C.*

My Dear Senator Smoot: Possibly the inclosed extract from a letter which I wrote to Prof. Irving Fisher Thursday will be sufficient answer to your inquiry of February 8. I do not object to its being called a brief. At least it possesses the merit of relative brevity.

Respectifully,

Victor S. Clark,
*Consultant in Economics.*

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February 11, 1933.

Our recent swing from excessive optimism to excessive pessimism seems to me to have about reached its limit. From now on we may gradually recover psychological equilibrium. Coincident with this will presumably come easier credit conditions, fuller utilization of our existing stock of money, freer buying, and steadying of prices.

Our price problem presents itself to me under two aspects: That of reestablishing a more or less fixed price ratio between different classes of commodities, and that of stabilizing the general price level. I am not convinced that these two aspects are necessarily interdependent. Unless that interdependence exists, stabilizing the general price level would remove only one difficulty, and the relation of farm incomes to other incomes, for example, would continue unsatisfactory.

My guess is that we shall worry slowly out of the present impassé by a process of trial and error involving many minor and local adjustments rather than by any single reform. In order of immediate urgency, measures to hasten recovery from the depression would seem to range themselves somewhat as follows:

1. Encouraging public confidence by a courageous policy of curtailing Government expenditures, cessation of borrowing beyond imperative emergency needs reducing taxation, and a minimum disturbance of the currency.

2. Readjusting private debt burdens to the present price level where this is necessary to keep business going, by judicial or arbitration procedures taking account of individual circumstances.

3. Stabilizing prices of export commodities by international agreement.

4. A more salutary distribution of the world's stock of monetary gold.

5. A settlement of the international debt problem. Personally I should favor accepting goods in payment for these debts, the character and ultimate distribution of these goods to be determined by the Government.

6. An investigation of the currency problem by an expert commission with a view to providing against future excessive price fluctuations.

VICTOR S. CLARK,
*Consultant in Economics.*

(A letter and brief submitted by Mr. Thomas H. Beck (brief prepared by Mr. Joseph P. Knapp) are here printed in full as follows:)

COLLIER'S, THE NATIONAL WEEKLY,
*New York, February 15, 1933.*

Hon. REED SMOOT,
*Chairman Senate Finance Committee, United States Senate,*
*Washington, D. C.*

MY DEAR SENATOR SMOOT: I have been very much interested in reading of the hearings your committee is holding concerning recovery plans.

Under the circumstances, it seems to me proper to send you herewith a rather carefully worked out plan written by Mr. Joseph P. Knapp, who is the principal owner of the Crowell Publishing Co., which publishes Collier's, the Woman's Home Companion, the American Magazine and the Country Home, and whose father was the founder of the Metropolitan Life Insurance Co., of which Mr. Knapp is a director.

Sincerely yours,

THOS. H. BECK.

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The attached was written early in the spring of 1932 when there was much discussion concerning the "Swope Plan", which I felt sure would not appeal to businessmen because of their distrust of Federal interference. In his plan there were excellent labor insurance suggestions, but or life insurance statisticians tell us that unemployment is not and probably can never become a measurable and consequently insurable risk. So finally I wrote the attached to "get it off my chest."

It is probably unnecessary to state that it deals with a possible future and is no attempt to suggest a panacea for our present troubles.

It seems to differ from all other plans that I have read in resting upon—

1. Compulsory trade membership.
2. Minimum price.
3. Variable work week.

No one of these could be adopted without including all.

It proposes stablization but does not stifle American individualism nor introduce Government control.

It is the absolute reverse of the Sherman Act but provides a supreme court of industry (I am an ardent admirer of our Supreme Court as the greatest institution of our Government) to prevent exploitation.

It bids everyone get together, plan together to be prosperous but be careful not to gouge unless desirous of a jail sentence.

It was not written with the idea of publication.

If you find it interesting enough to read, an expression of your frank criticisms would be appreciated.

Fred Ecker said of it that it would be "Utopia," to which my reply was, "Then it must be a magnificent plan."

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"Something is going to be done to eliminate depressions and the application of the planning principle is dictated by the experience of solving in private establishments problems identical in essence to those now confronting collective industry."—H. S. Person.

## Wise Planning

(Submitted as a suggestion by Joseph P. Knapp)

An astounding number of our ablest men are planning and endeavoring to find the road to a better future. This planning is generally termed stabilization.

It is well indeed that our "captains of industry" should thus progress and become scientists of industry. Just as the medical profession has in a brief half century wonderfully conquered pestilence, plagues, and contagion, so should our industrial leaders tackle in force the stabilization question with its innumerable problems.

An endeavor to solve as many of these problems as may be possible merits the closest attention and deepest concentration of our ablest industrial, financial, agricultural, banking, and economic leaders, men having both wide experience and vision.

Before you give expression to hasty opinions, it might be well to attempt a personal realization of the enormity of the problem; to examine carefully the more than a hundred questions, each of vital importance, now being considered by the United States Chamber of Commerce. These are set forth in The Job Ahead—the program for the forthcoming annual meeting to be held in May, 1932.

Get a copy of that program and read thoughtfully those 146 questions. To how many of them can you give the correct answer?

Because of the difficult and different problems that present themselves, it is well that groups of our most experienced leaders should be urged to "plan"—each group to plan for that industry in which its leaders have experience. No man living has the brains to alone conceive the complete plan in all its details.

We are in the midst of a world depression and of an unusually severe United States depression. We have had them before and have recovered. We will recover from this one.

With wise planning, however, it may be possible in the future to prevent serious depression—to have peaks less high and valleys not so deep. The attempt should surely and promptly be made, but it is well to be patient and not expect an immediate Utopia.

Let us remember that during the past decade there existed in this country a better standard of living for the great mass of our people than we ever had before—better than was ever known at any time in any country in the whole history of the world. What sound conditions caused it? Let us find out and bring back those conditions. Let us also now plan to keep those conditions ever with us and make our standard of living slowly, steadily, surely, conservatively better.

The following suggestions are diffidently offered in the hope that possibly they may be of assistance to leaders in their efforts to plan wisely. Some of the ideas we believe to be quite new and possibly of great stabilization value. They deserve most thoughtful consideration. They are not revolutionary because new.

Reason, common sense, practicability, cause and effect seem to indicate these conclusions as sound and frequently we have felt inclined to write Q. E. D. because 2 plus 2 still seems to equal 4.

Let us first set forth certain seemingly self-evident truths. In order to have continuous and regular prosperity, with reasonable living conditions, it is essential that there be—

*In industry.*—A full pay envelope, not alone weekly but yearly. The pay per day or per week is not important, be it high or low. The total wages received during the year is the vital point.

*In farming.*—A fair price paid regularly for farm products, enabling the small farmer of average industry and intelligence to get along comfortably.

Without these the great masses of our people can have neither proper living conditions, nor spending money, nor savings money. All of these are essential to general prosperity, not only theirs but everyone's prosperity.

Without them every industry slackens, unemployment and hardships begin and then spread as we slip into another depression.

The problem, therefore, is to find how to hand to the worker, with reasonable regularity, a full pay envelope and how to regularly pay the farmer a reasonably profitably reward for his industry, expressed in a fair price for his products.

To obtain these, to have regular instead of intermittent prosperity, it is evident that better stabilization of industry must be planned and obtained. In accomplishing this end—

1. The public must not be exploited.

2. Insane, ill-timed, forced competition must be recognized as disastrous to all in any and every industry.
3. All in any industry must confer through a trade organization for its improvement and stabilized operation.
4. The work week in an industry must be variable—shortened or lengthened as the demand for the product varies, with the same weekly pay roll, irrespective of hours of work—the hours worked per week varying from time to time, according to the then demand for the product.
5. Farmers must be shown how to similarly form their own local associations for cooperation in buying, selling, and such planting as is advisable in a given locality as promising to obtain the best return and intended to supply a given market. These associations must cooperate with larger and still larger groups. Such efforts are now being earnestly advocated and organized. The day should and also will come when every farmer must belong to his local organization and must cooperate.
6. Each of these items is considered in the following chapters. An improvement in stabilization will be beneficial to all of us. Prof. Henry P. Fairchild discerningly states: "Discover the way to restore purchasing power and you have discovered the remedy for the existing depression. Find out how to maintain purchasing power and you have found out how to prevent depressions in the future."

### THE PUBLIC MUST NOT BE "EXPLOITED"

In days of old a warrior bold fought the trusts and hence we have the Sherman Act.

Under its obsolete provisions, if those in a trade now confer and make wise regulations for the prosperity of that trade, the Federal prison awaits them. It is out of date, woefully behind the times. Repeal it. Kill it.

Substitute therefor a law advising all, compelling all, to form trade associations, one in each trade, to formulate regulations to stabilize the industry and to be binding on all in that industry. If an attempt be made to use this power to exploit the public, then is the time to send the culprit to jail.

A stabilized industry is of value to everyone in or out of the industry. Therefore encourage stabilization, compel it, and reserve the jail sentences for those who will not stabilize.

To discourage any attempt to exploit the public or to become graspingly monopolistic, arrange that a filed complaint—yours, mine, anyone's—shall be considered; first by the trade board of that industry; next and finally, say, by a supreme court of industry, functioning with all the dignity that surrounds our present Supreme Court.

When an industry is in doubt, as to what might be considered proper or construed as possible exploitation, make it possible for that trade to obtain a prompt decision from such supreme court—a decision clearly expressed, understandable to all, and not expressed in "weazel words." Do not leave the industrialist in doubt as to what he may or may not do. Let there be a clear-cut decision saying "Thou mayest" or "Thou shalt not."

### COMPETITION

Let there be established a minimum price, giving a fair profit and thus ensuring the payment of good wages.

If quotas of production are agreeable to all in an industry, let this be the practice of the trade, but why have quotas? Keep in mind American individualism. Remember that the small concern may be more efficiently managed than the big one and should have full opportunity for growth. Give to the better or more progressive management its opportunity. Let the competition, controlled by the minimum price, be in better ideas, better products, better manufacturing, and better merchandising.

But under this system, it may be asked, would there not be occasional overproduction? At present such product is eliminated by price cutting. What would be done in future with such goods?

The answer is that under the minimum-price rule such goods would remain in stock, unsold and the fool manufacturer, unless he soon learned wisdom, would "go broke". Careless optimists and unreasoning manufacturers are of no value to any industry or the workmen dependent upon such industry. The sooner they go broke the better.

The minimum price—charge as much more as your attractive goods can bring—eliminates inexorably the inefficient manufacturer who overproduces.

AN ASSOCIATION IN EVERY TRADE AND WITH COMPULSORY MEMBERSHIP

All in any industry must belong to its trade association. Nonmembers of a useful trade association reap all the benefits, bear none of the burdens, are untrammelled by its regulations and unguided by its statistical information. They are the wild "bulls in the china shop."

A few free lances of this sort on the outside can, as has been repeatedly proved, effectively injure the usefulness of any trade association. If they are sufficiently powerful, the association can not function effectively. If weak, they operate as parasites, working against instead of for the interests of the trade as a whole and consequently against public interest.

No real stabilization can be established without the membership of all and therefore that membership must be compulsory.

Economic history is so full of specific instances, known to all, that it is unnecessary to here describe the baneful effects produced by "outsiders"—those who will not do "team work."

It is unlikely that any trade association should be so short-sighted or so controlled as to discriminate unfavorably against the proper activities of its own members. Should this happen, he or they, unjustly treated, would promptly make complaint to the supreme court of industry.

THE VARIABLE WORK WEEK

"There is an approach to unanimity of opinion that right wages and the sustained high purchasing power of the great mass of our working people are essential to our economic well-being."—Committee of United States Chamber of Commerce.

The wage or other reward of industry to be paid should consequently be as high as possible but certainly regular and assured.

"An assured basis of earnings would place more adequate power as consumers in the hands of the masses of people."—Sidney Hillman.

The hours of labor, not to exceed eight per day, are unimportant, except in a few arduous occupations. It is important, however, that the total hours of employment during the year shall be sufficient to provide a yearly income insuring a comfortable scale of living, with reasonable purchasing power, and to enable savings or other protection against incapacity, old age, and family protection on death. Let us consider having a work week in each industry varying from 30 to 48 hours, the variation depending upon the demand from time to time for the products of that industry.

As the occasion arose and depending on the then demand, the trade association would announce the number of hours that constituted the then standard work week. That work week normally or on the average should be, say, 40 hours. If orders were plentiful, the work week would go up to 44 or 48 hours. If business should be slack, the work week might be only 36 or 30 hours.

Whatever the number of hours worked, the pay envelope would contain a full weekly wage, the same pay for 30, 36, 40, 44, or 48 hours.

Overtime should be discouraged through heavy excess wages. The cure for overtime should be a double or triple shift, providing additional employment, when demand exceeds an 8-hour capacity.

The manufacturer at this point asks: "How can I afford to pay a full week's wages for, say, 30 hours of labor?.

The answer is that the "minimum price" will cover the extra wage cost. The minimum price will naturally vary from time to time with the costs of production. Prices would rise should a depression be threatened and not be lowered as now with the incidental and insane cut-throat competition, which brings in its wake reduction in wages and unemployment.

Workmen at the end of such a full-pay work week would always have money to live, money to spend, money to save. That means prosperity for all.

And another answer is that probably under any such system—because the great mass of the people would have regularly that full pay envelope—there would be no depression, none would ever get started because there would be no shortage of money for making purchases and consequently the hours in the work week would run with great uniformity, probably in most trades averaging about 40 hours per week.

Is this plan possible in any and all industries?

Yes—or with variations suitable to the industry. Few industries operate under exactly similar conditions. Compel membership in the trade organizations and then leave each to iron out its own difficulties. Any group of intelligent leaders in any industry can find the smooth stabilized road to travel—can make it a permanent success, if permitted and encouraged to establish 100 per cent cooperation.

Employment under this plan should be normally assured with a full weekly pay check for, say, not less than 46 weeks per year.

If the exigencies of any trade make this impossible, because, say, of seasonable variations in production, then a substitute employment or the equivalent thereof must be found. Some way must be found to take care of that yearly income of reasonable amount and for every workman.

Why? In your interest, my interest, everyone's interest.

Because we can not have prosperity—not one of us— without that reasonably full yearly pay envelope for the workman, the farmer, and all of the masses.

And we can paste that sound and logical fact "in our hats."

### FARM PROBLEMS

It is not within the limits of this paper to fully discuss the farm problems.

The farmers are America's most confirmed individualists. If they insist on absolute individualism, without cooperation, then no Government aid can bring about their prosperity and happiness.

Far more than industrialists they must be shown how to form their own local associations, having objectives quite similar to those of the proposed trade organizations. There must be cooperation in information as to what should be planted and how. What—because they should be planting to supply a given market. How—because of better yield per acre.

There must be cooperation in buying supplies and in selling the product because of the enormous resultant economies.

These local associations must provide for compulsory membership and they must cooperate with larger groups, State and even nation-wide.

Through such monopolistic management, controlled by that same supreme court of industry, they must fix and obtain a fair price for their farm products.

The small farm, not suited for the big crop staples, must be continued if there is to be a life worth living for millions of Americans, unsuited to endure or survive in crowded urban life. The price to be paid for farm products by the town and city dweller need not increase, but to insure this, it is essential that farm efficiency shall improve. Finally all operations must be efficient and controlled and must lead to least handling from farm to consumer. Other uses than farming can be found, and must be, for marginal and submarginal farm lands on which now all too much labor is expended and from which no profitable productions can be expected.

In the proper solution of the farm question, it is quite—yes, entirely—possible that our farm helping agencies in Washington might be improved—vastly improved.

And it's about time that this improvement began.

An instance of minor importance but significant of the possibilities follows:

In one little county of 7,000 inhabitants, right management with some individually loaned cash capital, during the depressing year of 1930, brought to the farmers $60,000 of profit above normal—or about 18 per cent of total volume. The good management proved a life saver, and distress largely disappeared. The following year, 1931—the worst ever for farms—showed similar results.

And in these years the farmers of the immediately surrounding counties were "going broke" under truly deplorable and almost unbearable conditions. Why? No organization, no management, and no one to supply the small amount of initial necessary cash.

The cash capital requisite for such purpose was less than 15 per cent of the total annual crop sales in that county. This capital, loaned at the start, will later be accumulated over a period of years, and then be supplied by the farmers themselves, through retaining a small percentage on their sales, in profitable years. This will lead eventually to the farmers financing and owning their own cooperative associations.

The same plan is spreading slowly, surely—yes, gloriously.

Along these lines that $200,000,000 of farm money appropriated recently by Congress could be made to do truly effective work, and no one need get brain fever in finding out how.

GENERAL

*Individualism.*—All of the foregoing would seem quite possible without limitations of opportunity of any one or of all who are gifted and will work hard for success. There is no unwise check on American individualism. None is required or proposed unless it attempt to operate on the "Me und Gott" principle.

Business men properly dread governmental interference. Under this plan each and all are quite free to work without any interference (less than now under the Sherman Act)—work to make their own industries profitable.

They are told to paddle their own canoe but warned to play "clean ball" and absolutely not to make any attempt at exploitation.

*Banking.*—There were about 2,000 bank failures in 1930–31, and none in Great Britain and Canada in the same period. Think that over.

The writer, unversed in the strange convolutions of our dollar, does not attempt a solution. But our bankers should see that such happenings can not occur again. Mildly put, it's a national disgrace. Let the Federal Reserve Board lead in putting forth the plan that will prevent any repetition and make every bank safe. Let us have fewer banks, if necessary, with such requirements for operation as to make each safe. In future possibly they may have "frozen assets." They may even be compelled to close because of a run. But they must, if ever permitted to open and start operations as a bank, always eventually pay 100 cents on the dollar. If Great Britain and Canada can do it, so can the United States under proper banking laws.

Just one more banking thought. It is not necessary to spend effort or time in popularizing baby $25 bonds, although, of course, everyone should be interested in owning at least a small amount of Government bonds. Probably you do not know what you will receive should you hand in $1 (or any multiple) at any post office. Try it to-day. Do this now yourself, and thus learn of the solidity of the postal bank. Look at that fine baby $1 bond you will receive, solid as the rock of Gibraltar, on which is imprinted "The faith of the United States of America is solemnly pledged to the payment of deposits with accrued interest," and then let all of us insist that by proper and extensive publicity, every timid soul in our country shall be told all about the entire safety of Uncle Sam's postal savings bank, shall know it rests upon "the faith of the United States of America." That will forever end hoarding.

*Exports.*—These comprise about 10 per cent of our total business. Why not first give careful consideration to, and secure the stabilization of the 90 per cent domestically consumed? Common sense would seem to dictate that this big part of the whole is obviously of paramount importance and should first receive attention. Of course, we should not neglect the 10 per cent of exports, but this one-tenth of the whole is surely of secondary importance. Concentrate first on taking good care of the 90 per cent.

"A decline in foreign demand for American products seems likely to occur because of the rapid extension of foreign tariff barriers, which is already having a marked effect on our export trade."—Myron C. Taylor.

*Tariff.*—It should be flexible to give full protection to the American industries and workmen.

Action, if necessary, should be prompt and not await complete revision, as occurs from time to time with change of administration.

The tariff has long been conceded to be a nonpolitical question and should be treated as such.

We either want certain imports or do not. If the latter, there should be no difficulty in establishing prohibitive rates. If the former, the rates should be recommended from time to time to Congress by the Tariff Board on a few items at a time, and not leave Congress, within a single session lasting from say, two to six months, to attempt any such impossibility as to understandingly and wisely legislate on the entire list.

Rates having been thus approved, Congress may give such powers to the Tariff Board as it may deem wise, permitting it from time to time to lower or raise the rates on individual items.

*Transportation.*—The mass of our people are the "big owners" of our railroads. This is because of the enormous holdings of railroad bonds owned by the people, especially through the mutualized insurance companies. It totals not millions but $18,000,000,000. The welfare of the people is tied up in these investments. These investments, their own savings, depend upon the welfare of the railroads. Do not foolishly imagine that the rich own the railroads. They are practically owned by the masses of the people.

General Atterbury, of the Pennsylvania, proposed recently a fair method of viewing the whole proposition and visualized a bright future for our railroads which is essential to all of us. He evaluated competition by bus lines, pipe lines, and other competitors. He spoke wisely.

Would it not be advisable that the Interstate Commerce Commission listen most attentively and promptly to General Atterbury?

We need no modifications in present laws for immediate action along these lines.

### NATIONAL HARMONIZATION TO INSURE STABILITY

The National Economic Council, as proposed by Senator La Follette (bill is now before the Senate), would seem to have great merit. It is logically the first step. The value to the country of the services of that council—purely advisory—would depend entirely on the mentality, soundness, and experience of its members, and its members should be the wisest of our wise.

Are such men obtainable at the proposed remuneration of $15,000 per year? We think not. We believe, however, that they can be obtained for $1 per year and would esteem it a duty and an honor to thus act as "elder statesmen." Such "dollar a year" men should receive secretarial compenstion of, say, $15,000 per year, enabling them to engage men of high caliber who would be qualified to carry on much of the work connected with properly filling a membership in such council.

Would it not be wise, having established such a national economic council and the supreme court of industry, herein referred to, that these should have interlocking activities with other existing governmental bodies, such as Federal Reserve Board, Farm Board, and Interstate Commerce Commission?

The activities of any one of such five bodies should be carefully considered in connection with one or all of the others in order that the best results might be obtained and that there should be a harmonization, a synchronization of all efforts. It might therefore be advisable that one member from each of such bodies act on a "special synchronization board" or "committee."

### CONCLUSION

This would seem to be a summary of the complete plan. We would have—

1. A national economic conference to advise us—its members to be our acknowledged leaders—the wisests of our wise.
2. Laws with teeth compelling us, for the welfare of all, to "play ball" together and play it clean.
3. Thus there would be compulsory membership in trade, farm, bank, transportation, mining, insurance, and other organizations.
4. Universal adoption of the minimum price idea.
5. A reasonably well filled yearly pay envelope to all who are willing to industriously work reasonable hours, insured through the variable work week.
6. We are to concentrate first on the proper conduct of our domestic business and then may use remaining energy on exports.
7. There is to be a supreme court of industry—supreme—to drastically punish those who will not accept and obey orders to do teamwork; to curb those who worship self and know nothing of the golden rule.

Such a plan will in no way curb American individualism. The individual may still make all manner of glorious successes as well as inglorious failures. The latter, however, will react only on the individual or on one particular enterprise.

In this plan will be found nothing of Marxism, nothing of economic slavery, no solace for the unwise, the greedy, or the lazy. Reward will await those who do their fair share, and there will ever be room at the top for those especially gifted, those especially endowed by the Infinite Power.

A better way is possible and must be found. And it certainly would be well that our leaders now find the path and lead us into it.

It will be understood that this is a brief presentation of the broad triple idea plan—compulsory trade membership, variable work week, variable minimum price. Difficulties will suggest themselves in many trades or industries, especially, for example, those with great seasonal variations. But do not say "It can't be done in my trade", but rather "That's a good idea. Let's work it out in our trade." Start now.

(The Second Annual Report of the Committee on the Relation of Consumption, Production, and Distribution, to the American Engineering Council, which has been submitted by Mr. R. E. Flanders, as a supplement to his testimony of February 20 (see p. 427 of the hearings) is here printed in full as follows:)

SECOND PROGRESS REPORT OF THE COMMITTEE ON THE RELATION OF CONSUMPTION, PRODUCTION, AND DISTRIBUTION, TO AMERICAN ENGINEERING COUNCIL, JANUARY 13, 1933

[This report was submitted to the annual meeting of American Engineering Council January 13, 1933, which authorized its publication as a report of the committee]

## BALANCING ECONOMIC FORCES

Two years ago the American Engineering Council assigned to its committee on the relation of consumption, production, and distribution this commission:

"The selection and recommendation of such governmental, financial, and business policies as will maintain in the United States a standard of living that is high, broadly distributed, and free from severe fluctuations."

On January 16, 1932, the committee submitted to council its first progress report. That report outlined the method of attack which had been adopted, offered an hypothesis as to the occurrence of the existing business recession, and gave an outline of apparent causes which had contributed to that event. It also considered briefly a few of the remedies which had been proposed.

The first progress report was approved through letter ballot of the assembly early in February, 1932, and released for publication. The committee, acting under this approval and authorization, released the report to the technical and general press. It was widely distributed and freely commented upon in publications throughout the United States.

Nearly a thousand copies were sent to individuals with a request for critical review and report. A number of conferences were held between members of the committee and some of these reviewers, who in several instances formed discussion groups for this purpose.

Members of the committee and others also have used this report as the topic of meetings of engineering and other societies with the uniform result that generous comment and discussion were elicited. Furthermore, the report has been used as a text in several colleges and universities.

The two most constructive results obtained from the distribution of the first progress report are (1) a collection of over two hundred reviews, in many cases including extensive discussions, offered by eminent men engaged in a wide range of business and professional activities; and (2) a file of more than fifty suggested remedial plans.

These reviews, comprising criticisms, comments and suggestions, and the proposed plans for business stability, have been of major assistance to the committee in preparing this second progress report. For all this assistance, so generously and constructively offered, the commitete is deeply appreciative; and it takes this opportunity to acknowledge its indebtedness and to express its gratitude.

This second progress report is divided into two parts:

I. An analysis of 40 alleged causes of business instability, classified as primary, contributory, incidental, or doubtful.

II. An analysis of the theories, principles, and methods of a selected group of 23 plans offered to prevent or to minimize the effects of business recession.

## I. AN ANALYSIS OF 40 CAUSES OF BUSINESS INSTABILITY

The method of analysis of the alleged causes of business recession which was adopted was suggested by the problem assigned to the committee as stated in these three questions: What can be done to bring about—

(*a*) A decrease in the violence of the fluctuations in the volume of goods produced and consumed, that is, an increase in stability?

(b) An increase in the average rate of production and consumption, that is, a rise in the general scale of living?

(*c*) A wider distribution of goods produced?

(*a*) Business stability: The committee does not believe perfect stability, or a near approach to it, is possible of attainment. Nor is the committee even sure that such a state is a desirable objective, for there appear to be creative and rejuvenating forces in moderate, rhythmical variations in the volume of business. However, the present degree of variation is destructive, and must be brought under such a measure of control as will insure the safety of our social structure.

(*b*) Scale of living: A rise in the scale of living is physically possible of attainment to a degree little comprehended by those unfamiliar with the available productive mechanisms, processes and organizations. Except in occasional and unimportant instances these were not operating to their capacity during the peak of the last boom. The scale of living made possible by existing facilities and which is within easy reach, is that resulting from maximum production and not the mean of the variations of production.

(*c*) Distribution of goods: A wider and larger distribution of goods produced is in one respect a problem in social justice. However, it is here considered as an economic circumstance.

The committee believes a better distribution, that is, more to classes now enjoying few or almost no goods, is physically attainable without any substantial diminution in the share now obtained by those rendering useful services. The larger share of the possible increases in production should go to those who are able and willing to work, but who are now poorly served by the social mechanism.

In this connection attention is called to the lack of purchasing power of those having very small incomes, as agricultural workers, soft-coal miners and others, and those whose wages are now at, or close to, predepression levels, as building-trades workers, anthracite-coal miners, and railroad employees. The inability of those groups lacking purchasing power to procure a sufficient volume of the necessities and comforts of life presents a problem, not only of the current depression, but of continuing business operation.

## LIMITATIONS OF THIS REPORT

This report does not deal directly with questions of morals or of esthetics. The findings contained herein were not determined by abstract concepts of social justice, nor from the nature of human satisfactions. The committee took for granted that production and consumption should be less violent in their fluctuations, higher in their average amounts, and more evenly distributed. A self-imposed limitation was established that the problem assigned be studied as a national and not as an international question. While the committee has taken into account numerous international factors which affect the domestic problem, it has not sought to lay the foundation for international solutions.

There is a good reason for this decision; while certain elements of the economic problem are world-wide other ruling factors are purely national. The problem in the United States is simple in contrast with that of other nations. Here population is not pressing on subsistance. Our national propserity need not be dependent on the export of a substantial part of our total production. We need not divert our energies to the development of virgin resources, nor to the building up of manufacturing equipment. We are not divided into hostile political segments, but form one country, large in extent, varied and ample in natural resources and in the capacities and abilities of the people.

The assignment definitely limited the investigation to the long-time problem—no consideration was to be given in the first instance to emergency measures.

## ALLEGED CAUSES OF INSTABILITY

Numerous causes for economic instability have been alleged. A knowledge and evaluation of them is essential to an understadning of the problem with which the committee is dealing. The committee has grouped into seven general classes all alleged causes which have come to its attention. These calsses are: Psychological, technological, business performance, savings and investment, financial, agricultural, and governmental. Each alleged cause has been analyzed for the purpose of determinig whether it had a primary, contributory, incidental of doubtful effect upon (*a*) business stability, (*b*) scale of living, and (*c*) inequality of distribution.

## PSYCHOLOGICAL CAUSES

(1) It has been contended that the instability of business is primarily due to successions of states of mind. It is true that at times the business world is activated by a contagious hopefulness, then by speculation, then by fear, and finally by a lethargy of despair. This being true it is probably a potent factor in effecting the various changes in the business cycle. There are reasons for this series of emotions as will appear in other connections; and there is significance in the mechanisms by which the changes in emotion are effected. Both at the

peak of the boom and the bottom of the recession the psychological factors predominate in importance so far as the immediate situation is concerned.

One cause of the inhibiting emotions can be properly singled out for comment. It is the betrayal of trust. Far too many examples in both large and small business operations have become public during the current depression. Such revelations undermine public confidence, foster hoarding, breed suspicion, and unsettle business. No condemnation of such practices can be too severe.

Psychological factors in this analysis are classed as contributory, adversely affecting business stability. At the same time it is recognized that in certain stages of the business cycle certain of such factors may be properly classed as primary in their effect.

## TECHNOLOGICAL CAUSES

(2) Inefficiency in production resulting in costs so high as to make business unprofitable is charged with being a primary factor in business instability. As a matter of fact output per man-hour has increased and unit production costs have decreased, that is, efficiency has greatly increased in the manufacture of most staple products during the last decade, yet there has been a severe business depression. Depsite these facts there exists a vague feeling that if efficiency can be still further increased and wastes still further reduced, business will be on a firmer basis. This belief is due probably to a confusion in considering the evident advantages for the individual firm in an increase in efficiency with its possible temporary disadvantages in its general effect.

Inefficiency in production must be classed as a contributory cause of business instability and a hindrance to the wider distribution of goods, and as a primary bar to a rise in the scale of living.

(3) Inefficiency in distribution, for reasons which will be given under (5), is perhaps dependent upon efficiency in production. It is a doubtful cause of business instability and restriction of distribution, but is a contributory bar to a rise in the scale of living.

(4) General overproduction is frequently assigned as a disturbing result of the use of highly efficient machinery. There can be overproduction in special lines, particularly those of inelastic demand, such as staple food stuffs; but a survey of the scale of living of the majority of workers dispels the idea that there has been general overproduction. As a cause of business recession general overproduction, therefore, must be classed as a highly doubtful influence.

(5) Technological unemployment is claimed to accompany general overproduction. It is also claimed that improved efficiency in production displaces workers while increasing output. Apparently the assumption is that more is made, while purchasing power is not increased, or is even decreased. The answers to this point of view are two.

The first is this: Improved efficiency will result in a lowered price to the consumer, or an increased profit to the producer, or both. In the first instance consumption will be increased by the lowered price, and in the second the producer's profits will be expended in increased consumption, or the purchase of new capital goods. Doubts as to the beneficial effects of these processes are raised under (19), (20), and (21).

The second answer is that new processes, new occupations, and the various services required by new inventions, reemploy those displaced. There is evidence to support this point of view. Competent investigators have analyzed employment statistics and have found that there has been a steady net increase in the percentage of the total population gainfully employed. This conclusion, however, even if entirely correct, is not reassuring. An accepted estimate places the unemployables at some 1,500,000 in our country. The best that can be shown for the boom years is that unemployment did not greatly increase. At no time since the World War has there been a general dearth of labor, either skilled or unskilled. When the details of the process of finding new jobs are observed, as described under (6), the reemployment situation is doubly dubious.

Technological unemployment is a possible though doubtful unfavorable, primary factor in its influence on stability, scale of living and distribution. Its contributory effects are not subject to question.

(6) *Instability of occupation.*—Manufacturers have observed with dismay that improved efficiency in production is not easily translated into lower prices or higher profits. The concurrent growth in selling expense has frequently canceled the improvement in manufacturing cost. There is a growing suspicion that the two tendencies are not separate but are connected, perhaps in the following way:

When men are displaced either by machines or by more efficient selling, they tend to obtain reemployment in selling in one to two typical ways; they engage in house to house selling, or open service establishments, unneeded gas stations, for instance; or they may be employed by a manufacturer who is expanding his sales department under the pressure of necessity for output (see 8). An aspect of the latter situation is the need of educating the public to choose intelligently from among the great variety of manufactured articles offered, a process requiring more men in selling. In either case the reengaged worker is employed under more hazardous conditions than are those who remain in production activities—particularly those producing the staples of subsistance. Here is a probable element of unbalance, but also an undesirable, although effective way of maintaining a connection with the economic machine for large numbers who might otherwise be cast off.

There are other sources of occupational instability. As a result of improvements in production, a continuously smaller percentage of workers is concerned with the making of the more stable staples, while a growing percentage is dependent on the fluctuating demand for articles of taste and luxury. The production and distribution of necessities maintain only subsistence levels, while the avenue of business expansion is through the provision of luxury commodities and services. Except for its unbalancing effect this process is desirable; no solution of economic ills which decreases the distribution of constructive luxuries will serve. Our mechanical development is capable of furnishing articles of taste and luxury in large volume and variety, and mechanisms must be devised to permit their unobstructed flow into consumption.

Another variety of occupational instability is that concerned with the manufacture of capital goods—machinery, manufacturing and business buildings, engineering structures, etc. These industries, for obvious reasons, get the full impact due to the variations of the business cycle. It has been shown that the entire drop in consumption for the years 1930 and 1931 might be accounted for by the decrease in capital goods produced, and in consumer goods used by those dependent on capital goods production. This has importance in connection with (20) and (21).

The instability of sales and service, luxury and capital goods operations is certainly a contributory and perhaps a primary factor in all the elements of economic maladjustment.

(7) The shift from agriculture to industry remains the major factor in occupational instability. Except for floods, freezes, insect pests and droughts, agriculture on the subsistence basis is a relatively safe occupation. On the whole it provides only a low scale of living. Workers are attracted from this low scale, stable occupation in agriculture during periods of good business to unstable marginal occupations in industry. This shift is always present when the standard of living is rising. Were general business reasonably stabilized, this change would be desirable as adding both to the market for and production of manu factured goods, thus being a primary factor in advancing the scale of living and giving a more general distribution of wealth. But the existing instability of business acts with particular sensitiveness on these transplanted workers. Therefore the shift from agriculture to industry is a contributory cause of business instability.

(8) The reduction of profits at reduced plant output is greater when modern methods are employed, hence lowered output becomes an important cause of general business instability. Under modern operating conditions mechanical devices replace men in productive processes. As a result capital charges are a large proportion of manufacturing cost at full output, and these charges are constant and independent of the volume of output. The charges due to direct materials and labor are small, in comparison, and do vary with the volume of output. In contrast, under older methods in industry, capital charges were small, and direct labor was the largest item in manufacturing cost. Under these conditions as output decreased, the labor charge, an important proportion of cost, decreased in proportion. These conditions are illustrated in Figs. 1 and 2, which show simple forms of the "break-even" chart.

Figure 1 represents the older conditions of comparatively inexpensive machinery and high labor cost in a factory capable of producing \$100,000 worth of goods. Cost and profit are shown as vertical lines corresponding to production at various percentages of full capacity, as represented by the horizontal scale. The vertical lines represent corresponding output (or sales) in dollars and the cost factors, (*a*) two variable elements, labor and materials (each proportional to output), and (*b*) fixed charges, that is, taxes, insurance, interest on fixed investment, depreciation, and others. On the vertical line for the per cent capacity at which the plant may be operating the difference between the sales and the sum of the three cost items is the profit. Figure 1 shows that under the conditions which are there represented, the total cost and the sales are equal when the output is 25 per cent of plant capacity.

Figure 2 represents relationships in a modern plant in which the variable cost items, labor and material, are small, and the fixed charges are large. At full capacity the profit is greater than shown in Figure 1, but the break-even point where sales and cost are equal occurs at 50 per cent capacity, instead of at 25 per cent capacity as in Figure 1. The losses when operating below 50 per cent capacity become proportionately quite large as production is decreased. As a result there is a tremendous pressure on the business to maintain output, which tends to expand and elaborate the selling organization as discussed under (5) and (6). Furthermore, while profits at full capacity are large as compared with the condition of Figure 1, they vanish more quickly and turn into serious losses with comparatively small changes in demand for output. The chart represents the situation for a plant in which losses when idle equal the profit at full capacity.

(9) Unstable relations between price and supply of goods appear in a highly mechanized industrial economy. That is, the response of output to price changes is sluggish under modern methods where fixed charges are a relatively high proportion of cost.

This situation is made clear by a consideration of the theoretical extremes. If the whole cost was made up of the variable item wages, it would become unprofitable to operate so soon as the selling price dropped to the level of the cost. On the other hand, if the whole cost was made up of the nonvariable item of fixed charges, operation would be justified at any selling price. In this situation a low price that entails a loss is still a smaller loss than if the plant were shut down. Hence when fixed charges are high, as they are under modern methods of industrial operation, a reduction in selling price of product does not necessarily cause a shut down of even the least efficient plants.

These relationships have been plotted in Figures 3 and 4. The chart of Figure 3 presents the relations between variable cost, fixed charges, total cost and profit, all expressed in percentages of the unit sales price, for the conditions assumed for Figure 1, that is, for older methods of operation. Each vertical bar, A to G, indicates the cost and profit of one of a group of seven manufacturers, of whom A is the most efficient and G the least. All are making a profit at the unit selling price of $1 except G, who is just breaking even. If the price, due to a drop in demand, sinks to 80 cents, F and G will go out of production, E will continue because he is making something on his fixed expenses, D will break even and the others will continue to make lessened profit. If the price now drops to 60 cents, only A and B can remain in operation. Under these conditions price has a quick and sensitive control over output.

Figure 4 is a chart similar to Figure 3, but is based on the conditions shown in Figure 2 where the fixed charges of modern manufacturing have increased and variable costs have become of less importance. Here a drop in selling from $1 to 80 cents leaves all competitors operating, because those who are not making a profit are making something on fixed expenses. If the selling price per unit now drops to 60 cents, only the two least efficient, F and G cease operations.

Output is thus neither quickly nor proportionately responsive to price changes. Prices drop precipitately without much effect on the volume of goods marketed, and one of the primary governing elements of economic balance becomes sluggish and ineffective. The area of fixed cost in Figure 4 has been aptly characterized as the "area of cut-throat competition."

From the above considerations it would appear that the modern condition of heavy fixed charges is a primary source of business instability, without any apparent compensations.

(10) The substitution of power for human effort is believed by some to be a primary source of unbalance. Careful study of this viewpoint does not reveal important influences not previously considered under (4) to (9), inclusive. The substitution of mechanisms, the transfer of human skill to machinery and tools, rather than the increased amount of power applied, is the essential change. The elements of quantitative importance are the increase in fixed as compared with variable factors in the total cost of output, and the released man-hours due to increased productivity, the latter constituting the crux of the problem of technological balance. The substitution of mechanical power for man power is a favorable primary factor in raising the general scale of living.

Certain general considerations apply to factors (4) to (10) inclusive. As productive processes they become more mechanized, more efficient, and less dependent on direct labor, dependence on the rewards for productive operations as the primary means of distributing goods becomes less automatic and certain. There are perhaps other factors and relationships concealed within this situation which have not been isolated. The subject is of the utmost importance.

### BUSINESS PERFORMANCE CAUSES

(11) Failure of profits to appear at the height of a boom is the traditional cause for the collapse assigned by some of those who hold to the view that the disturbing causes are primarily due to credit inflation. (See (26) and (27).) The subject

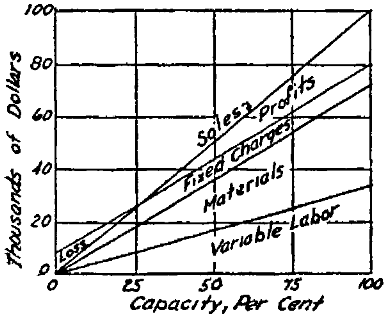



Fig. 1

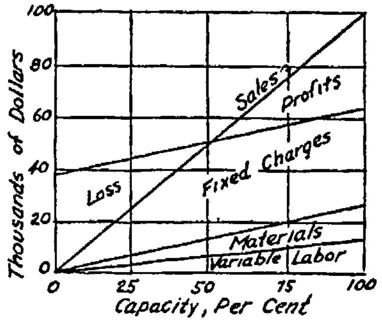
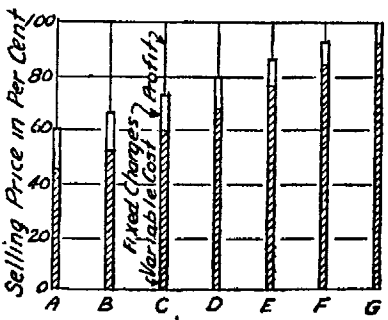
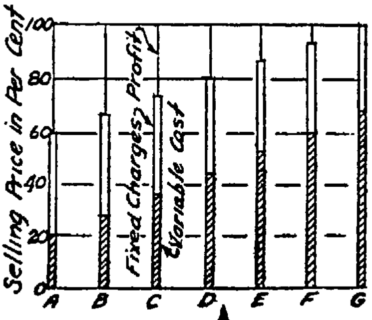



Fig. 2




Seven manufacturing concerns with Total Production Costs ranging from 60¢ to $1.00 per unit

Fig. 3

Fig. 4

is considered at this point because of its relations with the preceding discussion of technological factors.

Modern productive processes tend to develop profits rapidly as production increases up to the point of diminishing returns. This tendency can be blocked by labor scarcity and consequent high labor costs due to high wages and overtime, by inefficient, marginal labor, and by scarcity of materials. However, none of these influences appeared in 1929, in any important class of goods. Prices generally tended downward, indicating an increased difficulty in disposing of output. The only expense element tending to increase was that of selling, for reason presented under (3), (6), and (8). The reports of taxable incomes for the boom years give no indication of an increasing difficulty during that period in making profits from business and speculative transactions as a whole.

Lack of profit is a factor of doubtful importance as affecting any element of the present business cycle. Fear of the lack of opportunity for making profit, however, has an unstabilizing influence as it precipitates business inactivity.

(12) False views as to the possibility of continuous profits affect business procedure adversely. In particular, there has been a tendency to consider net earnings of the most profitable period as being normal, and to pay them out in dividends on that assumption. Only in recent years has it become customary to adjust current policy to the movements of the cycle as a whole, recognizing that each industry has its characteristic history during the course of any cycle of business.

A full view of the business cycle would suggest the need of reserves for dividends in poor times, for wages and salaries to maintain the organization, for unemployment funds, for the development work and plant improvement which can be carried on most advantageously during depression, and for working capital when business again appears.

To the extent that a business does set up such reserves its operations become more unsteady and subject to wider fluctuations. If business in general follows this course, the total effect is to magnify the variations. This false view of continuing profits is a contributory cause of business instability.

(13) Natural rhythms in the operating performance of individual industries can be detected. When these chance to coincide in their maximum or minimum phases, the total volume of business is affected thereby.

This characteristic has been studied for four major industries, food, automobiles, textiles, and building construction. Of these all except food exhibit marked rhythms, based on replacement periods. Furthermore, these rhythms appeared to culminate synchronously in the events of 1929–30.

In view of all the other effective influences it is difficult to see how the natural rhythms of industry can do more than determine the timing of the cycle and affect its amplitude. They can not be charged with a major responsibility for its occurrence. They are classed as an incidental factor affecting business stability.

(14) Unbalanced relations between different branches of industry have been declared by some authorities to be the chief cause of business instability. As a major example the disturbed balance between agriculture and manufacturing has been cited.

This factor is uncertain as a primary cause. Analysis at once turns to discovering the reasons for the disturbance of relationship. Several elements have been cited which upset the traditional corrective reactions of price, profit and production, of supply and demand. The special factors depressing agriculture are discussed in (33) to (36). Except for agriculture this factor is at the most contributory. Its presentation even is a description of a situation rather than a statement of cause and effect.

(15) Attempts at price fixing and production control, private and governmental, are believed by some to have upset the natural economic compensations. Wheat and cotton stabilization, coffee, copper, and sugar control, the prorating of petroleum production, all are looked upon as introducing rigidity into an organism whose successful functioning depends upon flexibility and responsiveness.

There is no doubt as to the ultimate harmfulness of some of these projects, and all of them have dubious aspects. In general, rigid production control in this country, in commodities naturally or artificially protected from world competition, will lead inevitably to governmental price control There is therefore great need for examining the practical effect of price control There is little that is encouraging in its history. It appears to be most justifiable in the case of unreplaceable, natural resources, and only partly successful in the case of the major staples, as demonstrated by the checkered history of the continental cartels.

An example from current experience is afforded by copper in the United States. The price was fixed at 18 cents per pound. As a result overproduction of the metal and excessive speculation in stocks of the producing companies were encouraged, and substitutes for copper were freely adopted. Consumption decreased and the industry became demoralized. The price of the metal dropped to 5 cents per pound

Attempts at price fixing and production control, if not a primary cause of business instability, are a major contributory influence in the industries where they are practiced.

(16) Excessive size of industrial organizations is claimed to be a specific cause of general business unbalance. It is asserted that the ability required to aggre-

gate or consolidate a great unit of production and distribution is much less than that needed to operate it properly after it has been assembled.

This is a reasonable assumption, and is supported by the present tendency toward dissolution and decentralization in many large industries, in the difficulties which many mergers have found in making expected savings, and in the present-day realistic attitude toward the profit possibilities involved.

However, it is difficult to see how the history of the late boom and the present depression would have been greatly different if the largest industrial units had been smaller in size. There might have been a less painful history if there had not been a general opinion favorable to mergers which made stocks of holding companies and similar securities acceptable to investors and speculators. That aspect is discussed under (23) and (24).

The great size of industrial units is a doubtful causal factor in business instability, but it does affect the severity of depressions.

The viewpoint which gives importance to the items under (11) to (16) inclusive demands attention. The basic assumption is that the illness of business as a whole is merely the sum of the ills of its parts. This assumption leads to remedies affecting individual industries, trade associations, etc. Many of these remedies appear to be useful and desirable, but there is good reason for questioning the basic assumption. This point of view is developed under the headings immediately following.

### CAUSES RELATING TO SAVINGS AND INVESTMENT

(17) Inequality in the distribution of wealth is often advanced as a factor affecting business stability and the scale of living. The contention is that the failure to control the distribution of the standard of living reacts unfavorably on its degree and its stability, besides being undesirable in itself.

Those who specially held this viewpoint are usually disturbed with the manner in which wealth is accumulated, as well as with its total volume.

Lending for interest has often been attacked and, more recently, profit as distinguished from payment under free competition for personal services rendered.

So far as these contentions are based on concepts of justice, they are outside the province of this report. Their presentation here is concerned with their effect on business stability and the general scale of living. (See (18) following.)

(18) Private ownership of natural resources, or of artificial monopolies, was the particular concern of Henry George. He questioned the justice and wisdom of permitting such ownership, whether of mineral deposits, fertility and site value, or franchises. He contended that the owner was permitted to exact rent from the community through his ability to withhold such resources from use, rather than from rendering of actual service; and, in addition, any increase in productive activity by his neighbors enabled him to increase his returns without effort on his part.

It is apparent that the most unjust types of social organization are not necessarily unstable. For conditions to which it is economically adapted slavery is stable as an institution and permits of a stabilized rate of production and consumption. The same may be said of robbery even, at least in such institutionalized forms as that enjoyed by the mediaeval barons of the Rhine.

Under more civilized conditions it does not necessarily clog the economic processes to have large accumulations of wealth. If the few large recipients actually spend their income as freely as would a larger number of small recipients totalling the same income, the impersonal objectives of the economic process are served, even though human ends are neglected. In particular if large sums are thus disbursed for personal service—servants, gardeners, chauffeurs, grooms, yacht crews, and the like, the rich act as distributing channels for the social income.[1] As is indicated under (19) and (20) there is more question of the effects of the savings and investments of the wealthy than of their expenditures.

The effect of concentrated income, as such, on stability seems to be doubtful. The retaining of workers for personal service, if they are withdrawn from industry when there needed, affects the general scale of living adversely. If they are recruited from those otherwise unemployed, the effect on both the scale of living and distribution of wealth would seem to be favorable, though incidental.

(19) Oversaving has been urged as the primary cause of business instability. Briefly the theory is this:

[1] For a contrary view, but based largely on ethical grounds, see Thorsten Veblen's Theory of the Leisure Classes.

In times when industry and commerce as a whole are operating on an even keel, neither expanding nor contracting, and neither adding to nor drawing on their surpluses, the acts of extraction, manufacture, and distribution of goods finance their purchase by the general public. The receipts from the monthly sales are all paid out in wages, salaries, and dividends, for materials and supplies, repair and replacement of equipment, taxes, insurance, and other services. If the firms and individuals to whom these sums are paid are likewise neither saving nor drawing on savings, but spending all they receive, the whole process is completely self-supporting. This is a commonplace of classic economics. Furthermore, expansion of activity can take place without upsetting the balance, which may thus be dynamic rather than static. For if, instead of paying out dividends, a company finds it expedient to spend its profits expanding its plant and making additional expenditures for more material and increased labor for a larger work-in-process account, the increased expenditures go into the general pool of purchasing power to finance the initial purchase of the increased output, which then balances as before, but at a higher level. All this, of course supposes that the product is salable and that increased labor hours are available. These are purely ideal conditions.

Many departures from ideal conditions come to mind. The most serious of them is the necessity for saving. Sad experience in an uncertain world has taught firms and individuals that they must save if they are to survive. But the act of saving withholds immediate purchasing power so that society, to the extent of its aggregate saving, does not buy goods it has made.

These statements require qualification. The amount of "money", and the purchasing power which it represents, are not fixed, but variable. See particularly (26), (27), (29), and (30). Money varies both in nominal amount and in purchasing power per unit with the activities of the Federal reserve banks; and in the form of "credit" it is expanded every time a bank makes a loan, and is contracted when the loan is repaid.

Another qualification, and an even more important one, relates to the use made of savings. If savings are not hoarded, but banked, they normally find their way into new investment, and this is their proper use. If this takes place, they are ultimately used to buy materials and equipment and to pay wages. When so used, they restore the balance of purchasing power. In this case the only harmful effect is in the time lag between saving and investment, which is minimized by the banking mechanism. As savings increase in amount, their rate of inflow may be conceivably too great for the outlets furnished by obviously profitable investment, as described under (20) and (21). Uninvestable savings would then build up. This increase would aggravate the difficulty of selling the goods made.

The correctness of this theory as concerns the present depression, hinges on two points. As a matter of fact, was there any failure in purchasing power previous to the collapse of September, 1929? As a matter of theory or fact, is it possible for funds which have been banked and thereafter loaned out for any purpose whatsoever to escape an ultimate use in the purchase of goods and services of some sort?

In answer to the first question reference is made to the index of Volume of Manufacturing Production as determined by the Federal Reserve Board. Production fell off in May, 1929, largely due to the drop in automobile output. Other industries did not follow until August and September. That the drop in output was not compensated for by a rise in prices is shown by the index of the United States Bureau of Labor Statistics. The peak of prices occurred in 1928, with a rapid drop commencing in 1929 about the time of the drop in production. The coincident drop in price and volume points toward an increased difficulty in disposing of output and is favorable to the oversaving theory.

On the other hand, it is not so clear that savings entrusted to banks can escape use in the purchase of goods or services, unless they are held idly in reserves. In 1929 funds were not hoarded, but banked, and loaned by the banks.

In the first progress report of this committee (February, 1932) it was contended that funds loaned on the money market were in part at least withdrawn from purchasing power. This contention has been denied by Professor Cassel. The countervailing arguments presented by Professor Eitemann appear to be convincing.

No opinion in regard to this theory is given. The matter is left indeterminate and set apart for further study. Business experience appears to support it. Theoretical analysis makes it appear untenable.

(20) Overinvestment would appear to be possible, even if it can be shown that all funds saved find an ultimate destination in the purchase of goods and services.

Oversaving may still be effective in the sense that it leads to an undue expansion of productive equipment without generation of a corresponding purchasing power to dispose of the output of that equipment. This theory has been convincingly stated by J. A. Hobson.[2] Business experience and available data tend to support the theory. Funds do appear to have gone unduly into physical investment in plant, office buildings and hotels before and during the height of the boom, though the strictly productive investment appears to have declined before the peak. (See (23).) So far as the productive plant is concerned the overcapacity at the peak of several important industries has been investigated by the U. S. Department of Commerce.[3] These studies indicate that in all major industries there existed at the peak of production an unused capacity varying from 10 to 30 per cent. It can not be claimed that this unused capacity was the most efficient, but it is clear that the recent peak marginal productive capacity was not used to the extent customary in previous booms.

There are, then, evidences of overinvestment or unwise investment in capital facilities as compared with the volume of production which consumers are able or wish to purchase. That it was a question of ability of consumers rather than their desire was argued under (4). It does not clearly appear, however, that this excess productive capacity, resulting from overinvestment, necessarily slows up the flow of business. Why are not the production and sale of capital goods as effective as consumer goods in financing purchasing power? An abandoned automobile or factory would seem to be in the same category. Each employed men and materials in its production, and in varying degrees in its later use.

The most evident difference lies in the fact that the now unneeded factory had formerly attracted workers, some from other factories, others from agriculture and the ranks of the unemployed. Industry was unable to sustain these workers so they were compelled to make new connections or be unemployed. At least, therefore, there is involved a social dislocation which is not easily or quickly adjusted; and during the process of adjustment there is a failure of purchasing power.

It is clear that unneeded capacity decreases the general scale of living. It turns productive activity into impersonally wasteful uses. Overinvestment seems at first sight to be a much more direct and serious cause of economic evil than it proves to be on careful analysis. Possibly there are elements involved which have not been clearly distinguished.

Overinvestment, or unwise investment, is a probable primary cause of instability and certainly a contributory bar to an increase in the general scale of living. Finally, the resulting destruction of capital is a clumsy and wasteful method of regaining balance.

(21) A slackening in the opportunity for profitable investment has been suggested as a present or imminent condition either on a temporary or a permanent basis.

The discussion under (18), (19), and (20) indicates the desirability of a balance between savings and profitable investment. That the ratio between the rate of savings and the rate of investment is highly significant is becoming generally recognized.[4] It may be expected that anything which diminishes the opportunity for profitable opportunities for investment will have a harmful effect. Its nature was indicated in connection with fluctuations in the equipment industries discussed under (6).

That there has been a permanent slackening in opportunity for profitable investment is a highly dubious conclusion but is worthy of thought, nevertheless. An obvious factor is the slackening of population growth, due to the curtailment of immigration and the inevitable flattening of the curve of natural increase. Such a large increase of investment in the future will not be needed to care for increased population.

Another evident factor is the approach to complete development of our natural resources and the rapid development of competing resources in more recently explored parts of the earth.

Allusion has been made to a serious and significant fact which lends weight to these speculations. This last boom was the first major one in which industry as a whole did not receive orders in excess of its capacity. Deliveries were not

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[2] See, for instance, his rationalization and unemployment problem. Read also the picturesque and uncompromising pamphlet by David S. Coyle, Business v. Finance, published by the author at 101 Park Avenue, New York City.

[3] See bulletin of the Taylor Society for June, 1932.

[4] The 2-volume work on Money, by J. M. Keynes, is largely an exposition of this thesis.

greatly delayed at the peak. It was a "buyers' market." For the first time there was ample equipment and labor with which to meet the extreme demands of unrestrained business enthusiasm.

There is one large and hopeful chance for a renewed demand for physical investment. This will become a reality if our economy is recast to provide increased purchasing power for the millions who are able and willing to render effective service, but who either temporarily or permanently can not secure employment. An important factor in providing this increased purchasing power will be the higher wages which will prevail so soon as it becomes economically sound to pay them.

If overinvestment in enterprises for the production of consumer goods is a factor tending toward business instability and disturbance of the scale of living, any considerable permanent slackening in the opportunity for such investment would have an identical effect.

(22) Economies through managerial efficiency are particularly upsetting to the balance between production and purchasing power.

While great changes in production methods took place in the last generation they were commonly dependent on the development of new and more expensive equipment. This industrial progress furnished a continuing use in investment for the savings derived from that progress Frederick W. Taylor who initiated the industrial efficiency movement in the nineties made full use of the latest improvements in mechanism and apparatus. However, he was particularly concerned with the great efficiencies to be obtained by the rational use of existing mechanisms. His principles have had their most rapid expansion in the last decade, during which time there has been a great increase in efficiency, resulting in corresponding profits. To the extent the profits resulted from improvements or change in management policies, they did not generate an outlet for savings in any corresponding volume of new physical investment.

Improvement in managerial efficiency appears to be a contributory cause of unbalance, a primary beneficial factor in a possible rise in the scale of living, and of doubtful effect on the distribution of wealth.

The factors (17) to (22), relating to the accumulation of savings and their flow into investment are of great importance. Inequality in wealth in itself is not so determinative as the way in which it is used, whether in consumption, social expenditures, physical investment, or speculation. (See (23).) Much of the importance in the question hinges on future trends which are not clearly defined. An unrestrained profit system works most effectively in the situation of virgin territory with undeveloped resources, or, with less certainty, when rapid technological advances require new investment. Secular changes in these elements, in world industrialization, and in population growth will severely tax the profit mechanism in its present form.

These factors probably affect stability primarily and adversely, contribute to delay in a rise in the general scale of living, and affect primarily and adversely the distribution of wealth.

### FINANCIAL CAUSES

(23) Speculation is a commonly assigned cause of business and economic troubles. It is a conspicuous feature in every business boom. Indeed, speculative fever and high business activity are so inseparable that they have tended to become identic from the practical point of view. With regard to this situation two questions may properly be asked. Business activity and speculation have always gone together, but need they be joined? Is speculation itself a cause of collapse or only a symptom of more fundamental disorders?

The first question may be resolved into the more basic inquiry as to whether there was anything essentially speculative in the physical volume of business during the years 1928 and 1929. So far as concerns goods for human consumption and enjoyment this query may be answered unhesitatingly in the negative. There are two ultimate limitations on the economically justifiable production of material goods: The requirements that unreplaceable natural resources must not be squandered, and that enjoyable leisure must not be sacrificed by producing products to be wastefully consumed.

As regards the first limitation, it may be asserted with confidence that, as a whole, our resources are not being squandered. Some are replaceable, others exist in larger quantities than has hitherto been realized, and present or imminent technological advance has relieved the anxiety about others. With appropriate development and conservation there need be no crisis even on a broader scale of production.

The second limitation, that of leisure versus goods, is primarily a question of values, and so is in part outside the present field of discussion. It may properly be noted, however, that even with business at its best there were millions of American citizens existing on a very low scale of living. (See (4).) Among those earning so-called good wages, certain standards, such as housing and furnishing, for instance, were inadequate.

As a whole, the people did not make more goods than could be properly enjoyed, nor were they made on such a scale as to tax unduly our natural resources nor the energies of the population.

The second question, whether speculation is a cause or a symptom, is more difficult to analyze.

From the business and industrial point of view the history of the last boom may be stated as follows: The unparalleled improvements in machinery, processes and management methods in the period since the war resulted in a large increase in productivity of existing manufacturing establishments whose profitable operation encouraged the building of additional plants. For a time the provision of the improved and additional equipment absorbed the large available profits, furnished employment in the production of capital goods in new investment for labor otherwise displaced, and thus offered a market for the increased flow of consumer goods.

As the provision of new equipment approached saturation, however, the situation changed. Increased output was maintained and profits were high, but there had been no proportionately increased returns to labor and to those in the lower salaried positions during this period of expansion. Nor did those receiving dividends and the higher salaries choose to spend in consumption the full amounts received. They sought further investment instead. There was thus a failure in purchasing power to match the increased production of consumer goods. This situation was masked for a time by the rapid expansion of installment buying (see (28)), but became evident when its source of credit had been stretched to its limit.

The evident adequacy of existing plants, and the temporarily high returns from their operation, led to a condition in which the purchase of the securities of established enterprises was much more attractive than the building of new ones. This process was stimulated and expanded by the desire to deal in securities as commodities, as something to be bought and sold at a profit. Thus vast accumulations of savings, both large and small, were directed into speculation instead of new investment. This stimulated the real estate market and the investment-banking business and led to the floating of immense and valueless issues which represented no physical expansion whatever, but merely revaluation of properties at highly inflated levels, based on expected earnings. Speculation is thus seen to be an almost inevitable result of the assumed oversaving and overinvestment described under (19) and (20).

The speculation, however, did not focus on material goods or on documentary titles to them. Stock and bond prices soared far above the physical equities which they represented. The primary expectation of earning power was based on the expectation of a higher scale of living to match the new productivity. To this extent speculation was a result, not a cause. Its foundation was weakened by the failure to provide directly in wages and salaries for purchasing power. Furthermore, the investment transactions involved soon left their foundation in savings and soared aloft on the flimsy wings of credit inflation. (See (27).)

Speculation is always latent in our social structure. In its recent outbreak it was, in the first instance, a result of other causes, but it quickly became an enormously exaggerated unbalancing factor on its own account. As such it destroyed business stability.

(24) Investment banking has been subjected to much criticism for the part it has played in unsettling business. It is charged with misleading the public through the sale of worthless securities. Its relationships are sufficiently described in the preceeding paragraphs. The extent to which responsibility can be placed upon it and accepted by it, or the degree and kind of control which can and should be imposed, are matters relating to remedies rather than causes and will therefore be left for later consideration.

(25) Commercial banking policy in general may be an unstable element. Unfavorable effects may result from policies customary in business and permitted by legislation or from those forced upon it by governmental regulation. In either event legislative control appears to be a necessary factor, even though at times it may be unwisely applied.

Certain governmental provisions have, or may have, a primary stabilizing effect. Among these are the semiofficial functions of the Federal reserve banks, which supply credit for business uses (see (26)), inspect operations of all member banks, and mobilize resources for the support of member banks during periods in which failures are liable to occur. These provisions, however, apply only to member banks.

Unfavorable elements of governmental regulation are seen by many in State legislation against branch banking, which tends in some States to foster the growth of weak local institutions in small communities. While hundreds of such banks have failed during the current depression, a number of large institutions have also closed their doors.

Still a third class of governmental effect is seen in the laxity of laws in some States. The operations of banking are too vital to the maintenance of individual and general prosperity, too tempting in their profit possibilities to the inexperienced and to the dishonest, and partake so closely of the nature of a social trust, that they can not be left open to free competition and initiative, nor are they completely so left in any civilized country.

There are other banking practices of a recognized sort, some optional, others inescapable, which act as elements of unbalance.

Chief among the apparently inescapable factors is the necessity for selling securities by the banks during and after the collapse of a boom to "maintain a liquid position," so that the bank can meet the lawful demands for cash on the part of its depositors. Such selling embarrasses individual borrowers and lowers security prices. Both practices tend to hasten and accentuate the collapse as much as speculation hastens and accentuates the boom.

The most effective act of commercial banking practice is the control of credit, involving the defensive act of contraction described above in one of its forms—and the more positive acts of expansion and inflation, which are referred to under (26) and (27).

In general, banking policies, whether resulting from the practices of the business, or from governmental regulation or its absence, have a serious primary effect on business stability.

(26) Credit expansion and contraction is a normal banking function, whose proper and easy performance was the original purpose of the Federal reserve banking system. Credit expansion actually adds to the funds available to business of the process by making loans. A bank with a satisfactory surplus loans a depositor against commercial paper, credits the paper to itself, and charges the borrower. The latter leaves the funds in his account for a time, but checks them out sooner or later, transferring the funds to other accounts in the same bank or in other banks. But as a whole, to the extent that the account is checked out, other accounts similarly originated in other banks are being checked in, so that the net result is an increase of funds for business without a corresponding decrease in resources for the banks. Since the paper employed is usually of a self-liquidating character, the amounts demanded are paid on the completion of the business transaction which the loans were originally made to finance.

To facilitate this normal process, the Federal reserve system arranges for the pooling of the reserves of the member banks, and also for the rediscounting of the paper on which its loans are based. The latter act, in particular, greatly increases the ability of a bank to make loans, as it promptly receives the amount of the principal back from the Federal reserve bank, as well as enjoying the increased deposits resulting from the loan.

It is evident that the total effect of individual banking policies in making or refusing loans at lower or higher rates has a marked effect on business expansion and contraction. It is furthermore evident that the rediscount rate of the Federal reserve bank has a still more fundamental and controllable effect of the same sort.

That this effect is not directly proportional to the numerical values of the pooled reserves or of the discount rate is evident from the present situation. Psychological factors (see (1)), are effective also. Even that more technical branch of economics called finance must be classed as a "social science," with all of the implications which that term comprehends.

Banking policy with reference to credit expension and contraction has primary effect on the expansion and contraction of business, and thus on its stability. That it is a direct cause of speculation, and maintains that fever after it is generated, is undoubted. That it exaggerates speculation, which itself exaggerates original business instability, likewise seems clear.

(27) Credit inflation is a term hitherto applied to credit expansion carried to an extreme. Recently it has been proposed to assign to it a more definite and measurable meaning to distinguish it from normal expansion and contraction.[5]

In considering these concepts, it should be borne in mind that the short term loans, discussed in (26), usually reappear in checking accounts. To the extent that business operations are financed by such self-liquidating loans these two elements should tend to balance each other, or at least to rise and fall with a measurably consistent difference, considering the operation of banking as a whole. It is likewise asserted that the time deposits of all banks, which represent savings, should show an equality with the long-time paper, mortgages, stocks, bonds, and the like. This is a reappearance, from a new angle, of the principle that savings should equal investment, which is briefly treated under (19) and (20). It is more fully discussed in Keynes treatise on money.

According to older viewpoint—here Keynes must be included—credit expansion and contraction are relative factors. All bank loaning operations represent its existence in some degree, and it would never sink to zero except on the extinction of all business not done on a barter or gold basis. The reason for the existence of the banking system would vanish with its extinction.

Harwood contends that it is desirable to keep credit expansion based on investment-type assets as near zero as possible. When so kept it would appear that: (*a*) The rate of saving is equal to the rate of investment, i. e., investments are just absorbing savings; (*b*) there is no debt structure being built up on overvalued assets to become top-heavy and later crash and require painful liquidation; (*c*) speculative profits and losses losses are currently wiping each other out, leaving the returns from industry to be distributed more nearly on the basis of competitive reward for services rendered, whether by management, labor, or capital;[6] (*d*) the general price level would permanently adjust itself to the slowly changing gold level, undisturbed by credit inflation; and (*e*) the growth of security prices would be a measure of the actual saving of physical goods and their application to physical investment. Under present conditions the increase in values represents principally the inflation of funds available for their purchase.

In this view, any cumulative excess of investment over savings is a fallacious and an unstable condition, self-generative of further inflation, and only to be arrested by its approach to the limit of gold reserves, as in 1920, or by a general recognition of its top-heaviness, as in 1919.

While the general position taken by Harwood seems to be useful, his statistical work has been criticized. Credit inflation is one of the first factors affecting business stability which needs control. It can not be maintained, however, that it is the only cause of business instability.

(28) Installment buying is classed among the financial causes because on any large scale it depends ultimately on the extension of banking support through credit corporations or otherwise. The crucial aspect is the method of financing. If bank credit is employed, it may be unfortunate in its effects, for it provides purchasing power that has neither been earned nor saved. If, however, the credit represents savings, the situation may be sound.

In this analysis (see (23)), it appears as an indication of maldistribution of purchasing power, of a diversion of an undue proportion of the returns of industry from the purchase of consumer goods. Its application to the purchase of capital goods is of considerable proportions.

Its expansion, as inflation approaches its climax, appears as an exaggerating effect on unbalance. It conceals the deficiency in purchasing power for consumer goods, maintains an appearance of stability when foundations are seriously impaired, makes the collapse more serious, and delays recovery by requiring consumers to pay for past purchases before they can apply earnings in full to the purchase of current consumption.

It is a primary factor in delaying the return to stability, with no apparent permanent effects on the scale of living or equality of distribution.

(29) Monetary factors are of evident importance in economic disturbances. They manifest themselves through variations in the general price level; that is, through changes in the value of the dollar. These changes are due in part to the factor of credit inflation and deflation, already described, and in part to the relative value of gold on which our currency is based.

While no technical description of the theory of prices, on which experts disagree, is given, it is still clear that prices must be some function of the total funds avail-

[5] See particularly Cause and Control of the Business Cycle, E. C. Harwood, Financial Publishing Co.

[6] The return to capital will approximate the "natural rate" of interest. There would seem to be no effect on the returns from natural and artificial monopolies, discussed under (18).

able, and that these funds are composed of credit in various forms, on the one hand, and of currency, on the other. The currency is for the most part gold based. Credit is gold limited, but not gold based.

A part of the difficulty surrounding the subject arises from the fact that the factors of currency and credit have not been separated, and that there are differences of opinion as to the nature of the credit factor.

There is no dispute as to the seriousness of extreme variations in the price level. As the level rises, persons with fixed incomes suffer hardship, creditors are paid in money of lower purchasing power than that which they lent, and wages tend to lag behind prices, though employment is good. On the decline, debtors find it hard or even impossible to pay in costly dollars debts incurred during inflation. On the other hand, creditors who are paid gain thereby, those with fixed incomes enjoy an advantage for a time and prices tend to fall faster than wages, though employment is scarce.

On the whole, the variation in the price level tends to enrich the more astute of the investing class, who are accustomed to reckon on and adjust themselves to its variations. In its extreme variations, as in the drop of 1920–21, and again from 1929 to the present, the creditor class becomes involved in the distresses of the debtors and no one profits.

If credit inflation could be controlled, and the price level maintained by the relationship between the productive costs of gold as a commodity and other commodities, changes in the price level would not be as serious as they are now. The prime advantage of gold as a currency base lies in the large volume of permanent monetary supply as compared with annual accretions. Price fluctuations based on this factor alone would therefore probably be of such slow effect that all classes of society could adjust themselves to it without hardship.

The monetary factor is a primary cause of business instability, and a contributory cause of an unsatisfactory scale of living and of inequality in distribution.

(30) War inflation is by all odds the most serious form of monetary disturbance. It is primarily a credit factor, and only secondarily a gold phenomenon. No great war has been financed without credit inflation, and until some other way is found there is a grave question as to whether the distresses of the succeeding deflation do not in their sum exceed the physical and spiritual miseries of the armed conflict.

If we would avoid this greatest cause of instability, of reduced scales of living below the attainable standards, and of unfortunate spreads in the distribution of wealth, war must be prevented with its accompanying inflation and its inevitable deflation.

(31) The burden of debt is a factor whose effect is obvious and directly felt, but whose elements are more numerous than appear at first sight. The total of public and private debt in the United States is enormous; a recent estimate places the total of industrial indebtedness (bonds, mortgages, bank loans, etc.) at over $200,000,000,000. While such sums are very great, their significance can be exaggerated. In substance, they state the total of a certain form of evidence of ownership, the property itself being under the management of others than the owners with the expectation that they can "service the loans" (pay interest and pay installments on the purchase of the property) and still have something left over.

This situation might not be unmanageable except as the change in the value of the dollar makes it so. Most of these obligations were undertaken at a much higher price level. It is the variation in the monetary factor which makes the burden unendurable.

Indebtedness under these conditions has one effect of its own as well. It makes it difficult or impossible to come to a profit basis during a depression by reducing wages, salaries, and other variable expenses. The compelling reason for these reductions is to make operation less difficult. This has been indicated under (8). The burden of debt is an important element of fixed expenses in many industries.

In general, the burden of debt has the same effects as deflation under the monetary factor. (See (29).)

(32) Foreign debts are a disturbing factor, whether in the operations by which they are incurred, their continued existence, or the attempts made to service and collect them. But their effects appear to be different from purely domestic ones, in that they operate through the mechanism of international exchange, and affect or are affected by direct political considerations.

The normal difficulties of war debt payment have been accentuated by the drop in the price level, the same as for private domestic debts. Nations as well as individuals have bound themselves to pay in dear money obligations which were incurred in cheap money. This is reflected in part by drops in exchange value of those nations which have gone off the gold standard.

The difficulties of repayment are partly political and partly economic, aside from the change in values. We have no mechanism for receiving large payments. We can not be paid in gold, we are unwilling to receive the equivalent in an excess of imports on account of its effect on domestic industry, and foreign credits or even currency are useless except as they can be exchanged for gold or goods, or absorbed into the "invisible items" of the international balance sheet. This subject is only touched upon; here the concern is primarily with domestic questions.

There is no doubt that the collapse of the European financial structure in 1931, after this country had made unwise loans to support it, had a serious effect on our own condition and possibilities of recovery.

During the war we loaned our allies goods, primarily, taking paper in return. In the periods since the war our net export of goods has tended to vary with our net export of capital. Fundamentally this means that the producers of exported goods are paid by the domestic buyers of foreign loans. Viewed in this way it is a domestic transaction, but with the purchaser holding title to future payments instead of consuming the goods. The process is reversed when, as and if loans can be paid for by an excess of imports. In that case the domestic purchasers and consumers of foreign goods reimburse the holders of foreign bonds, which are thus retired. To the extent that this normal procedure is followed, the transaction still remains a domestic one.

But this normal method of repayment is almost impossible for us, both politically and practically. The repayment and servicing of large scale foreign loans requires changes in the balance between our domestic and foreign sources of supply which we are unwilling, and may be unable, to make. The net result of the difficulty in repayment is therefore a domestic shift in wealth distribution from the American lender to the American producer of export goods, and since these goods were consumed abroad, they are subtracted from the possible total of domestic consumption.

From the above considerations it is evident that foreign indebtedness is an important contributory cause of instability, and a primary cause of some degree of lowering in the scale of living. It also appears as an agent in the redistribution of wealth as between the investing and the manufacturing classes.

The financial causes and factors are of primary importance. While the business and profits, and the savings and investment factors, set the stage, credit inflation furnishes the energy for destructive speculation, and unwise banking weakens the structure and broadens the collapse.

### AGRICULTURAL CAUSES

(33) The postwar deflation (see (30) and (31)) bears with special severity on agriculture, particularly that devoted to the staple cereals.

During the war the collapse of European production stimulated our own. The prices of farm products were artificially set to prevent excessive profiteering. At the same time official encouragement was given, particularly to the production of foodstuffs. As a consequence younger and more enterprising farmers took over larger and larger acreages from the older owners, usually on mortgages at the prevailing inflated prices. This policy was spectacularly effective in its immediate results, but has left the farmers with an undue proportion of that burden of debt already described. As investors, in farm mortgages banks and insurance companies are sharing in the burden.

The results of war inflation in agriculture are a primary cause of instability, of a lowering of the scale of living and thus of an inequality in distribution as between agricultural and other classes who were less directly affected.

(34) New producing territories and new productive methods have played a part in agricultural distress, although the per capita production of farm products in the United States has been decreasing since 1915.

Wheat is not only feeling the impact of the expansion of new territories, in Canada and Russia, but also that of new varieties and processes. The new processes, largely mechanical, result in a great increase in both acreage and production per acre. They also make possible a satisfactory extension of the industry into more arid regions than had before been thought usable.

The same extension of areas applies to cotton. In foreign countries there is Egypt, the Sudan, and Turkestan; in the United States the climatic and other conditions of the new cotton fields of northwestern Texas have led to improved and more economical methods of production. This increase in output has met a decrease in demand due to the introduction of rayon and the vagaries of fashion.

These circumstances and conditions are among the causes responsible for present economic conditions in this country.

(35) Crop surpluses have been another disturbing factor. For the years 1927 to 1930 the annual production, in general, of the great staple crops has been high, although not the largest crops on record. In wheat, however, the average world production for these four years was over 4,600,000,000 bushels per year, as compared with an average of less than 4,000,000,000 bushels annually for the preceding six years. The production of the Union of Socialist Soviet Republics is included in these figures. The principal causes of the surpluses in the United States are the reduction of consumption and loss of exports.

(36) Agriculture as a business has certain difficulties of its own. It is burdened with too high land values, it has been injured by loss of exports, it has suffered since 1929 from low prices for its products, it must operate under a wide range of production costs, the spread being between those of the most efficient and least efficient production. In the case of foodstuffs it meets a comparatively inelastic market. Production can not be accurately gaged in advance, due to the uncertainties of weather and crop influencing conditions. Agricultural output is under control through only one factor, and but once a year, at planting time which is many months before harvest. During the growing period conditions may and do arise which indicate quite different acreages than those planted, provided they could have been foreseen. Staple agriculture is essentially unstable.

Agricultural methods of operation are so complicated and under the best of conditions so completely mechanized that farming can not absorb the unemployed released from industrial occupations, except on the basis of subsistence farming, a standard of living which would tend to destroy everything desirable in our social structure. To be a source of national strength agriculture must be treated as a manufacturing industry.

By its very size agriculture is a preponderating factor in the market for goods, and, for that reason, its well being is vital to national prosperity. However, it is inherently unstable, and further, because of its peculiar exposure to the evils resulting from war financing and war production policies, it is in a situation of distress which is a primary cause of the lowering of the attainable standard of living, and in the uneven distribution of wealth.

## GOVERNMENTAL CAUSES

(37) Tariffs interfere with the free flow of goods from country to country, and are thus an element in preventing the attainment of a natural, world-wide equilibrium. It is commonly assumed that such an equilibrium is desirable. But equilibrium assumes a tendency toward the leveling of the scale of living in proportion as special advantages of different areas tend to diminish, as is the case at the present time. At this particular stage of industrial development and of the diffusion of techniques and mechanisms, the first result of ideal free trade conditions would appear to be the emergence of the scale of living to the position of being the decisive element in world competition. In such a situation our own scale of living would be inevitably depressed below what is physically attainable.

World forces in actual effect at the moment tend to put a new aspect on the tariff question. It is appearing as a tool of conscious social control, rather than as a support for special interests. In proportion as this change can be recognized and assisted, this factor may be made a primary element of stability, and contribute to a raised scale of living.

(38) Restraint of business by Government interferes with free adjustments internally as do tariffs externally. Among the governmental interferences may be mentioned the antitrust laws, railroad rate and other forms of control by the Interstate Commerce Commission, and the attempts to control prices of commodities artificially, as wheat and cotton prices by the Farm Board.

Of these examples the control of railroad rates has been undoubtedly the most complete and effective. It is also illustrative of the difficulties of arbitrary economic management in a complex industrial society. The rate structure is of such complication and of such delicate balance that no changes can be made except after much study and with great care. It is doubtful if as satisfactory a structure could have been built up by conscious design as was originally developed by free competition. The evils of that competition were obvious, but its services are no less so.

As to the control of prices, when the Government seeks to fix the price of any commodity, that very attempt prevents the setting of proper prices, except under conditions of national emergency, such as war.

Other forms of governmental authority have pointed to similar complexities in the exercise of arbitrary control and give support to the view that such policies, even when unavoidable, are at least contributory causes of unbalance. This cause was discussed from another angle under (15).

(39) The burden of taxation is annoying in prosperity, but scarcely endurable in times of depression. Inpart it is a reflex of the tendency to spend a growing proportion of our income in various forms of social expenditure, instead of in personal consumption. To the extent that this choice is consciously made and the expenditures are economically administered, the increased taxation is not only inevitable but desirable.

In part the present burden of taxation is derived from war financing and war obligations. To the extent that these were necessary and inescapable the burden is justified. A considerable portion of them were unnecessary and at present escapable, and this portion is classed by many as an unjustifiable burden.

Finally, the burden of taxation has been multiplied by the deflation since the war, as represented by the expenses of servicing and retiring the national indebtedness in dearer money than that originally borrowed. In this aspect the burden of taxation is one of the incidences of the burden of debt.

Under the present fiscal ideals which endeavor to equalize the volume of taxation over good times and bad (though with little success) taxation during the depression is a handicap to recovery so far as the psychology of recovery requires the attainment of profit conditions.

The burden of taxation would appear to be a contributory cause of business unbalance and a factor in the distribution of wealth. It affects the average scale of living in the sense that it may divert purchasing power from personal to social, consumption which may or may not be preferred.

(40) Public construction in its total volume of municipal, county, State, and Federal undertakings is of a magnitude which can only be roughly estimated. It is clear that the volume is sufficient to make ti an important element in the total volume of business. To the extent that the fluctuations of public construction coincide with those of private business, it would appear to add to those fluctuations. To the extent that the two classes are out of phase they will tend to diminish the amplitude of the total variations. This is merely the obvious, primary effect. There are doubtless important secondary effects not clearly recognized.

The present coincidence of the variations in public and private activity accentuates as well the fluctuations in employment, and concentrates public expenditures in the period when costs are highest.

It is evident that any method of improving this situation will have to take into account the favorable period for taxation, and provide some as yet unapplied means for carrying over funds from prosperous to depression periods, when they can be employed most effectively and economically. This problem lies rather in the category of remedies than of causes, and is not discussed further.

The various governmental acts bring serious forces to bear on the economic problem, but in so diverse a way that it is not possible to evaluate them.

By way of summary, the committee restates the fact that the causes of business instability naturally fall into the seven groups presented in this report, and on the whole, the items in each group are so related as to lead to the surmise that the effective remedies may be more or less in common; that is, the rational structure presented by the causes suggests a corresponding structure of appropriate remedies. The second part of this Second Progress Report, which now follows, is given over to an analysis of a selected group of suggested remedial plans and programs.

## II. An Analysis of 23 Plans for Business Stabilization

From the more than 50 plans and programs presented to your committee as remedies for business instability, 23 have been selected for analysis and inclusion in this report. The criterion of selection has been to give through the group a cross section of the theories, principles, and methods now being actively advocated. Plans of similar origin and content with those selected were omitted because they did not contribute additional fundamental thought or method.

The committee does not indorse or condemn or even express an opinion favorable or unfavorable toward any of these plans. They are presented as Part II of this Second Progress Report to show the type and quality of thinking being given to the problem of business instability, and to indicate suggested remedies and cures.

A uniform topical schedule of analysis was adopted with these headings: Classification, Author and Origin; Objective; Theory or Principle; Methods Advocated: Author's Evaluation; Status of Plan; Supporting Comments; Objecting Comments. So far as practicable, each analysis has been condensed to a single page.

PLAN OF A. L. APPLETON

Classification: Wider distribution of national income.

Author and origin: Allen L. Appleton, article in Springfield Republican, September 20, 1932.

Objective: An automatic business stabilizer, and eventually a better distribution of national income—not a revenue-producing measure.

Theory or principle: To tax savings instead of income, thus preventing accumulation of capital and capital investments.

Method advocated: Would establish a Federal graduated tax on personal savings exempting modest savings. Savings defined as that portion of one's annual income which is retained in liquid form, i. e., cash or credits, or as invested. High surtaxes with exemptions including everything except reinvestment.

Author's evaluation: Such a tax on annual savings will result in wealthy spending more for services, luxuries, and travel, and less for investment in securities of unneeded and overexpanded industries. The result would be to put funds into the hands of the consuming masses, increase corporation earnings making bond interest safer, restoring dividends, and increasing the taxes derived from corporation earnings.

Anxious to avoid taxation for increasing funds for Government disbursement.

Status of Plan: Proposal only.

PLAN OF ADELBERT AMES, JR.

Classification: A philosophic examination of our industrial system.

Author and origin: Adelbert Ames, jr., trained in law, art, science. Research professor in Dartmouth College. Plan published as a supplement to the Dartmouth Alumni Magazine, January, 1932.

Objective: To restore and continue prosperity.

Theory or principle: The essence of life is becomingness and development, economically, socially, culturally, and spiritually. Well-being depends not on the absolute economic level, but upon a proper increase or growth. A steady flow of new developments is therefore imperative. He establishes two interesting and instructive human activity classes, consumable and nonconsumable. Thus clothing, heat, food are consumable, while religion, art, research are nonconsumable. Labor-saving developments will liberate labor for the nonconsumable activities. With the proper allocation of labor in these groups, modern productive methods present opportunity for well being of individual and society as never existed before.

Methods advocated: To increase the flow of new developments in both the consumable and noncomsumable activity fields, he cites influence of personal and foundation benefactions and the properly directed influence of the Department of Commerce. To this he adds the possibility of new laws that would assist, through exemption from taxation all nonconsumable activities, as is the case with churches and colleges. The increase of labor-saving developments in the field of consumable activities must be accompanied by expansion of activities in the nonconsumable field, to be accomplished by a continuously evolving program of government, state, and municipal aid, plus action by individuals and privately owned industries, to increase the numbers employed in nonconsumable activities.

PLAN OF CHARLES A. BEARD

Classification: A national economic plan, or, a 5-year plan for America.

Author and origin: Charles A. Beard, writer and editor, New Milford, Conn.

Objective: To provide national control of production and distribution not by communistic methods, but by control exercised through representatives of fundamental industries.

Theory and method advocated: A national economic council authorized by Congress representing the fundamental industries.

Repeal of the Sherman and Clayton Antitrust Acts; industries affiliated with the council and others approaching a high degree of concentration, to be declared national public service enterprises subject to principles of prudent investment and fair returns.

A board of strategy and planning to survey resourcse and productive facilities and forecast the production of consumers' and capital goods, allocating production not only to secure maximum of output within limits of increasing demand, but also to raise the standard of living by increasing wages and reducing prices.

The Bureau of Standards to be strengthened by concentration of industrial research agencies to coordinate research, eliminate duplication of effort, and standardize essential commodities produced under the jurisdiction of the national economic council.

Each industry associated with the national economic council to become a syndicate of affiliated corporations, in the form of a holding company, with large directorial and service powers; each syndicate to have a board of strategy and planning, geared into the grand board; the syndicate to be divided into divisional or geographic corporations to be operated by corporation managers.

A separate agricultural syndicate to survey fertile regions, reforest sections now devoted to futile cultivation, plan new roads and power lines; to develop the most productive parts of the country. Large-scale corporate farming to be introduced where the old methods of farming are not profitable.

A marketing syndicate under the national economic council to eliminate waste in haulage and handling, to curtail the profits of middle men by establishing great storage houses and refrigeration plants, with branches.

A syndicate of exporting and importing corporations to direct trade with foreign countries to secure goods needed by the United States, control issue of foreign securites in the United States, stop the reckless habits of financiers in making loans to irresponsible governments for unproductive enterprises. Through this syndicate a consistent influence in diplomacy could be wielded by means of economic pressure.

American diplomacy to proceed on the basis of the Kellogg pact, recommending adherence to the World Court, full cooperation in the economic conferences and councils of the League of Nations, and cancellation of European war debts on condition that the armed forces of the world be reduced to a police basis.

Author's evaluation: Believes nothing but a "planned economy" can in any way cope with our present ills.

Status of plan: Proposal only.

### PLAN OF CLARK-SMITH-SMITH-SOULE

Classification: Long-range planning for the regularization of industry.

Authors and origin: J. M. Clark, chairman, J. Russell Smith, Edwin S. Smith and George Soule, subcommittee of the committee on unemployment and industrial stabilization of the national progressive conference.

Objective: "Regularization of industry" through increase of total production; increase of proportion of income going to majority of lower income ranges; raising the lowest wage rates; improving or eliminating the highest cost concerns; use of reserve or insurance against unemployment; balancing productive equipment and demand; avoidance of wasteful duplication of existing facilities; maintenance of balance between, and stabilizating of, flow of savings and capital expenditures; prevention of concentrations of capital construction and inventory growth from causing basic production and sales to fluctuate unequally; stabilization of price levels; and canvassing of possibilities of latent as well as actual demand.

Theory or principle: The introduction of "collective planning into our existing system." The making of "the best possible use of our resources," "representation of all interests involved."

Method advocated: National economic board to make nation-wide statistical fact-finding survey; initiate organizing councils for setting up permanent organizations in the various major branches of production and distribution, including finance; cooperate in process of organization, approve, disapprove, amend proposed plans, recommend new legislation and national policies affecting economic system.

Authors' evaluation: Hopes "to mitigate or curb features of the economic system which cause disturbances to spread and intensify cumulatively; to prevent business from getting into such top-heavy condition that outside disturbances will start it on a long downward slide * * *."

Status of plan: Presented to committee on unemployment and industrial stabilization of the national progressive conference. Printed in the New Republic January 13, 1932.

Supporting comments: Gives business a chance to rescue itself "with a reasonably free choice of means and methods * * * under reasonable safeguards."

Objecting comments: No absolute certainty in advance that the plan proposed will develop power enough to overcome disturbances which shake the economic system, but there is fair prospect of partial success.

PLAN OF H. C. DICKINSON

Classification: Business stabilization.

Author and origin: H. C. Dickinson, chief, division of heat and power, United States Bureau of Standards, Washington, D. C.

Objective: (1) To end the depression; and (2) to stabilize a normal condition of prosperity and industrial development.

Theory or principle: Crises result from an unstable relationship between capital goods and consumables. A trend away from the normal either towards inflation or depression, is cumulative in effect. Three conditions occur:

(*a*) Inflation, when capital goods sell for more than their normal value based on current or probable earnings.

(*b*) Panic when capital goods sell for less than their normal value based on current or probable earnings.

(*c*) Chronic depression when there is serious unemployment, reduced income and low prices, with capital goods selling at prices which may or may not be in line with the greatly reduced earnings.

Method advocated: Condition (*a*) always ends in panic if uncontrolled and can be controlled by the Government through diverting to consumables a portion of the unearned increment of capital representing the excess of selling price over its normal value based on earnings.

Condition (*b*) can be controlled by borrowing, on short-time notes, using the proceeds to increase employment and buying power and thus allay popular fears, retiring the short-term notes by a levy against the resulting increase in value of securities.

Condition (*c*) can be controlled partly or wholly by the foregoing process combined, if necessary, with a universal nonselective tax used to retire the notes if the levy on increase in security prices is too onerous.

If the proposed tax is truly nonselective, by which we mean levied against all the population in porportion to their participation in the benefits of recovery, each taxpayer will have received in advance more than the amount of the tax in increased income through the process of recovery, before he is called upon to pay.

Each of these processes requires the emergency expenditure of funds for consumable goods and services, either by the Government or by private interests under governmental control. The most effective means is to keep all normal employees, governmental and others, at work through expenditures for wages or for goods and services. The next is to create useful new employment of maximum value to the public, such as roads, parks, hospitals, education, and research. Relief of want and suffering should be provided from this source with the proper regard to social reaction.

It is estimated that a maximum of $5,000,000,000 would be required under condition (*c*) to actuate recovery under present conditions. This is equivalent only to the present loss of net national income for 40 days as compared with 1928–29.

It would require not over 10 per cent of the total resulting rise in security values for the next two or three years to pay the cost or part of this might be assessed in the form of a nonselective tax on increased incomes.

Author's evaluation: The results, both economic and social, which would follow the proposed stabilization, offer promise for national welfare far beyond that yet attained with any degree of permanence.

Status of plan: Suggestion of an individual.

PLAN OF WILLIAM B. DICKSON

Classification: Control of industrial operation and distribution of wages, salaries, and dividends. Democracy in industry.

Author and origin: William B. Dickson, retired. Formerly vice president, United States Steel Corporation and Midvale Steel & Ordnance Co.

Objective: Decentralization of control of American industries. "This nation can not endure permanently, politically democratic and industrially autocratic."

Theory or principle: (*a*) Industrial workers are economically dependent. They differ from the founders of our nation:

(1) "In that they have no voice in the consideration of questions which affect the continuity of their employment;

(2) "When confronted by unemployment, they lack both the ability and the opportunity to find any means of providing for the maintenance of their families."
(b) "Decentralization of control of American industries by organized labor is as essential to the public welfare as decentralization of control by organized capital."

Methods advocated: (a) Incorporation of labor organization, preferably company associations, with membership limited to employees of a corporation, company association, through shop committees, of elected delegates, confer frequently with the management concerning mutual relations. Employees have equal representation on the board of directors.
(b) Establish by law "unemployment insurance funds" contributed by employer and employee.
(c) By Federal law require each corporation to maintain modern approved accounting system—covering all hazards as fire, depreciation, bad debts, etc., and an ample reserve for each. "Surplus" item by law should be made to read "Excess of Assets over Liabilities, as stated above."
(d) The principal accounting item will be the amount paid as salaries and wages. These should be at current rates for similar service.
(e) Include in total cost of products the amount due capital partner, as current capital wages. This wage should be 4 per cent on actual capital invested.
(f) "* * * profits, if any, should be divided as follows: Stockholders, 4 per cent in addition to the 4 per cent wage; balance remaining, one-half to stock-holders and one-half to officers and employees."

Author's evaluation: The plan will give each of the three, capital, management, and labor "a voice in all decisions which affect vitally the general welfare of all." The worker will secure economic independence through definite plans for participation in profits and unemployment insurance.

Status of plan: Proposal only.

### PLAN OF FRANK D. GRAHAM

Classification: Abolition of unemployment.

Author and origin: Prof. Frank D. Graham, professor of economics, Princeton University.

Objective: Prevent unemployment during depressions by cooperative devices.

Theory or principle: Establish an emergency production board and an emergency distributing board under the auspices of say the National Chamber of Commerce or the Industrial Conference Board. The boards would furnish employment and distribute products. They would operate without profit. The unemployed would produce their needs using existing equipment. The medium of exchange would be consumption-certificates—unit value one hour of unskilled labor.

Author's evaluation: "It is possible to deal effectively with unemployment as distinct from the broader problem of business depression on the basis of present knowledge." That is, he thinks the problem of unemployment can be segregated from surrounding conditions and cured independently, although he admits the difficulties.

Does not believe in planned economy and says that nothing short of that now operating in Russia can be effective in preventing depressions.

Status of plan: Suggestion of an individual.

### PLAN OF WILLIAM GREEN

Classification: Economic planning, worker security, unemployment relief, and unemployment insurance.

Author and origin: William F. Green, president, American Federation of Labor, through the annual report of the executive council of the American Federation of Labor, submitted to the annual meeting of the federation November 21, 1932.

Objectives: To check wholesale destruction of human personalities and redirect energies to restore sanity and balance in economic life, and provide permanent channels for sustained progress.

Payment, in the right proportion, of wages, salaries, and dividends by each individual operation unit.

Advance Federal and local programs to be made promptly effective for unemployment relief.

An unemployment insurance plan which will provide for the payment of weekly benefits to unemployed workers.

Theory or principle: Economic planning: Fundamental changes in the technique of work and living have eliminated time and space as barriers to human intercourse and have placed the limiting factor in production outside the individual producing ability. * * * The basis of organization for activity in various fields must be shifted from the individual to the groups through which the individual functions. * * * Plans for maintaining economic balance must grow out of a unified basic philosophy and coordinated procedure to advance human well being. National economic planning should aim at raising standards of living for lagging groups and not at a program of limitation of production with price fixing. We need to find out how best to use our capacity to produce.

Worker security: Work is the source of our wealth. Those who invest the the work of their hands and minds have a right to claim a good living from the proceeds of their investment. What every worker wants is a job and the sense of security that comes from having a dependable source of income. Life and living, in the full meaning of that term, are inseparably associated with employment, wages, work security, the possession of a job and the exercise of the right to work.

Unemployment relief: Whatever degree of benefits we may derive from stabilization, we shall need to be prepared to relieve the unemployed for years to come. To meet the tragedy of unemployment in any way but giving work is failure. The lesson of the present depression shows us that we must establish adequate relief machinery.

Unemployment insurance: The economic facts arising out of the unemployment situation make it absolutely necessary to develop and put into practice through the enactment of appropriate legislation, and unemployment insurance plan which will provide for the payment of weekly benefits to unemployed workers.

Methods advocated: Economic planning: Plans for maintaining economic balance should involve the following: Steeply graduated income and inheritance taxes; constructive control of credit to finance production; recognition of the equities of workers in the industries in which they work and at least protection equal to that given financial investments; Federal agency to collect and collate data on man-hours and wage-earner income, necessary to appraise producing workers participation in industrial progress (such an agency would provide the standards for determining economic balance); Federal licenses for corporations operating on an interstate scope, with specific requirements as to accounting; all accounts available to those interested and protective service for investors; organization of wage earners to advance their interests intelligently within industry and other relationships; legalize normal functions of trade associations.

As essential to the development of agencies for national economic planning, recommend as first step calling of a representative national economic conference to outline the initial steps.

Worker security: As steps toward worker security, the following is proposed: Organization of the job market through a system of State employment services under Federal coordination; wage earners organized into unions of their own choosing and under their own control; distribution of man-hours so that all may have an opportunity to earn a living (when workers have been added to the producing staff, none should be laid off until the hours for all have been reduced at least to 30 per week); higher wages (consumer buying power should expand proportionately to increases in production and services available to raise standards of living); vocational counsel and restraining; larger aspects of unemployment prevention through national economic planning.

Unemployment relief: Advance planning of public works; use of national credit for self-liquidating projects, for building homes for workers and other small-income groups, for slum reclamation, etc.

Unemployment insurance: It would be desirable, were it possible, to press for the enactment of one uniform measure for unemployment insurance applicable throughout the United States. Since this is practically impossible due to existing provisions, limitation, and regulations, the federation advocates the passage of unemployment insurance legislation in each State, and the supplementing of such State legislation by Federal enactments. Underlying objective of insurance legislation: (a) Stimulation of more regular employment and (b) payment of unemployment compensation to those who are temporarily out of work.

Status of plan: Approved by the fifty-second annual convention of the American Federation of Labor.

### PLAN OF VERNE LEROY HAVENS

Classification: Payment of international debts.

Author and origin: Verne Leroy Havens, consulting engineer, New York City.

Objective: Reduce demand (and apparent high price) for gold by utilizing all available means to facilitate direct or triangular payments to us of all foreign debts in media other than gold, although referred to gold as a price standard; dampening gold shipments; reducing raids on our gold supply; blocking fall of real low prices of goods and services; reestablish credit margins and resume normal trade relations.

Theory or principle: Gold is wealth only as it is useful in the arts. Its capital utility is as a price standard. Its primary function is as a reserve to maintain par value of currencies, lessen gaps between domestic and world prices, and to meet international balance of payments Debts can not be paid in gold. They can be paid only by men at work. The proof of maladministration of debts is that when the world is most anxious to liquidate national and commercial obligations some 60,000,000 men are relieved from employment.

Methods advocated: The first essentials are (1) commercialize intergovernment debts; (2) forget gold as a medium of settlements while maintaining it as a standard of prices; (3) set up a commercial settlements corporation functioning as a clearing house through the medium of bank credits; (4) establish contact with central authorities of thirty-three (or more) different countries where no commodity, negotiable document, person, service or thing crosses the frontier without special consent of authorities.

Author's evaluation: This is a basic problem, simple in principle, structure and solution with small capital. It is a big job but not so big as to frighten us.

### PLAN OF FREDERICK W. KELLEY

Classification: Regulation of competition.

Author and origin: Frederick W. Kelley, late president North American Cement Corporation, Albany, N. Y.

Objective: Maintenance of minimum prices at cost.

Theory or principle: "Problem is to preserve the advantageous features of competition but to adapt it to modern conditions of mutual, social, and economic interdependence."

"Competition must be made constructive, not destructive."

Method advocated: Each industry to have a trade association vested with a large responsibility for sound practices and conditions within the industry.

"Unfair competition" to be eliminated by declaring the initiation of prices in an industry "at less than cost" to be unfair, together with the enforcement of corrective measures through suitable policing.

Deny the right to anyone to lower his initiated price below that of a competitor, he may meet the price but not beat it. A lowered price may be initiated if warranted by lowering cost.

Author's evaluation: Would give the most efficient members of an industry a fair and reasonable profit.

Under this plan there would be no necessity for control of entrance to an industry.

Status of plan: Proposal only.

Supporting comment: The intended suppression or minimizing of cut-throat competition will contribute in large degree to the stabilizing of industry with its resultant iorning out of the valleys and peaks.

The fixing of minimum prices at cost will tend to discourage the unwarranted entry of newcomers in overbuilt industries.

Objecting comment: The fixing of costs offers problems difficult to solve, such as the fair valuation of properties; the treatment of varying circumstances in different localities as affecting rates of return on capital, salaries, bonuses, wages, working conditions, etc., the fair allocation of overhead costs amongst a multiplicity of products in a given industry.

The stabilizing of prices holds forth the danger of promoting monopoly and of discouraging lessened costs to consumers.

### PLAN OF F. J. KUNNECKE

Classification: Business and financial stability and way out of depression.

Author and origin: Prof. F. J. Kunnecke, University of Dayton, Dayton, Ohio.

Objective: To pull us out of depression, prevent future depressions; to stabilize business, finance, agriculture, labor.

Theory or principle: Depressions primarily caused by purchasing power reduction due to excessive use of profits for extension of productive properties; by so speeding up rpoduction men early become incapacitated, thus compelling industry, through charity, to carry large numbers without purchasing power; the speed of machinery should be divided among labor, but with full wages to all.

The farmers have suffered from too many middle men, too much speculation on farm products, insufficient credit, lack of purchasing power among the industrial class and a defficiency in knowledge as to demand for their product, resulting in overproduction.

Methods advocated: For industry (1) dividends declared out of profits to labor and capital to maintain balance between production power and consumption buying power; (2) reduction in speed in industrial operations to capacity of men of 50 years age to extend earning time, or share work with full wages.

For agriculture, regulate the number of middle men; prohibit speculation in farm products; extend longer credit; furnish accurate information for demand for farm products.

For finance, regulation of interest in any form; governmental control of the credit element of our monetary system; establishment of an honest dollar through the principle of multiple tender.

For the immediate depression, confer large emergency powers upon the President, who shall direct operations through the Federal Reserve Board and the Federal Trade Board; boards to be reconstituted to include economists and business representatives; their decisions to be supported by prompt action of the Department of Justice. Author would insitute many reforms, such as stop all issue by banks and other financial institutions of present currency, and replace this same by short time currency issued to financial institutions, secured by deposits of actual currency; close stock exchanges temporarily; prohibit temporarily foreclosures and liquidation, because this tends to concentration of wealth.

As concerns business during the emergency: enforced agreement among producers of similar product to apportion types of product among themselves; salaries of officers at lower scale than prevailing; limit further investment and replacement of equipment; order the wheels of industry to move and force banks, by taxation upon unnecessarily retained currency, to loan capital for the operation of industry.

Author's evaluation: Application of plan would lead the Nation out of this depression and ward off future repetition.

### PLAN OF JOHN S. LENNOX

Classification: Maintenance of purchasing power by monetary means.

Author and origin: John S. Lennox, engineer, General Electric Co., Pittsfield, Mass., in book, The Cause and Cure of Unemployment.

Objective: To maintain purchasing power for the full output of the productive mechanism for such a period of hours as men wish to devote to work.

Theory or principle: Under the gold standard, when credit is being expanded (that is, when debts are increasing), spending and income increase in a self-generating cycle When the time comes that credit expansion ceases (that is, that debts are paid up as fast or faster than they are incurred) there is initiated a self-generating cycle of diminishing expenditure and income.

Method advocated: A new monetary system the "Public works standard" under which 100 per cent employment would be assured by always maintaining a surplus of tenders for public works to be paid for with new money which would be retired (amortized) out of taxes as the works depreciated.

Positive Federal control of the commodity price index is provided with local planning of public improvements.

Author's evaluation: Necessity for large debt structure eliminated; national income stabilized; current debts paid out of earnings; international debts paid in goods; commodity price level premanently stabilized without price fixing; absolutely individualistic; can be started instantly by any one nation and become effective in a few months.

Status of plan: Proposal only.

### PLAN OF EMANUEL LISSNER

Classification: Industrial stabilization.

Author and origin: Emanuel Lissner, engineer, San Pedro, Calif. Published in January and February, 1933, issues of the American Engineer.

Objective: My preventive will not perpetuate such feverish boom times as we had at the start of the year 1929, when we were on the brink of a precipice without knowing it. It will render impossible such periods of overexpansion, just as it will the periods of depression. It is designed to flatten the peaks of the charted line of business activity as well as to level the hollows.

Theory or principle: The outstanding cause of the present depression has been the overexpansion of our productive facilities, not only in manufacturing, but also in agriculture, mining, transportation, merchandising, communications, real estate, entertainment, and other similar lines. Until very lately the quality of thrift has been accorded undiluted praise, but to-day it comes in for a share of criticism. The old idea has been that thrift, by providing funds for investment, creates additional employment; the new one is that it actually cuts down employment by limiting consumption. The truth lies somewhere between these two theories.

Method advocated: For every industry an association under a dictator who would have two main duties: (1) Prohibit unnecessary expansion; (2) when expansion was warranted, allocate it among members of the association. He would also fix selling prices, diversion of markets, and make decisions about dividends, wages, and working hours.

Author's evaluation: Money now lost in overexpansion will be used for consumers' commodities. Corporations will reduce their surpluses by distributions among officials, stockholders, and employees. A portion will be placed in pension and unemployment funds. To be a success trade associations must provide practically continuous employment for all wage earners. This probably involves a reduction in working hours.

Status of plan: Proposal only.

## PLAN OF NORMAN LOMBARD

Classification: Business and economic stabilization through money and credit control.

Author and origin: Norman Lombard, former executive vice president of the Stable Money Association, New York.

Objective: Promote condition which will yield maximum increment of goods and services and distribute them equitably in proportion to the value of contribution made.

Theory and principle: Condition best approximated when general level of prices is kept stable. Production, wages, and employment increase at competitive rates. Living standard rises as reflected in more goods and leisure. Fluctuating prices reduce production, promote waste, redistribute wealth without plan or purpose.

When general price level rises creditors are injured; equities between debtors and creditors are disturbed to advantage of former; undue business activity encourages uneconomic expansion; extravagance, boom conditions, ineffiiency.

When general price level falls debtors are injured; creditors profit; reduced consumption and employment result; wage and debt readjustments promote social and political unrest.

The general level of prices reflects value or purchasing power of money. When it rises, money falls in purchasing power. When it falls money rises in purchasing power. Money is subject to the law of supply and demand.

Total volume of credit, money and money-like instruments should be kept in effective circulation in such balance with the varying needs of business that the general level of prices will be kept stable, letting changes in such volume compensate for variations of velocity, hoarding, banking fears and other factors of the equation.

To do this it may be necessary for monetary authorities to anticipate impending changes in the price level and to take steps to offset them before they become apparent statistically. Their power should be plenary and responsibility complete.

Methods advocated: Stabilization of internal price level disregarding fluctuations of exchange or gold reserve ratios, cooperate with foreign countries in stabilizing exchange as a secondary objective.

Machinery of control of money and credit exists in the Federal reserve through its power (1) to raise or lower the rate of rediscount; (2) to buy or sell (*a*) eligible securities, (*b*) foreign exchange in the open market; (3) influence banking policy through direct contact; (4) mold public and business opinion through announcements of its policy and of its reasons for taking action.

In the present emergency, further expansion of member bank loans and investments should be forced by increasing surplus reserves. Therefore the Federal reserve should discontinue selling securities to keep reserves at a "reasonable level" and allow incoming gold and money returning from hoarding to have its natural expansive effect, thus tending to cause lending by member banks, thus increasing effective credit volume.

The problem is political and technical rather than economic. In the public interest, and to protect banks from their own folly, there should be an international, nonpolitical, nongovernmental, organization, devoted to furthering the stabilization of the price level.

Author's evaluation: Eternal vigilance is the price of stability. Price level stabilization is more necessary than any other social or governmental reform.

Status of plan: As relates to the organization of public sentiment—The situation is chaotic, the advocates of price level stabilization, numerous and influential as they are, being without leadership or financial support.

As to cooperation between governments and central banks: In England and some other countries it is complete; in America it is completely lacking.

As to central banking controls: This philosophy recommended by conference of 30 nations in 1922. The period of stability in America from 1922 to 1928 was due to the more or less deliberate application of these principles.

### PLAN OF LEWIS L. LORWIN

Classification: Industrial stability and economic advance.

Author and origin: Dr. Lewis L. Lorwin, member of the council of the Brookings Institution, Washington, D. C.

Objective: Adjustment of a progressively growing productive mechanism with a progressively rising standard of living.

Theory or principle: Social progressive planning as distinguished from other types, namely, state socialist, nationalistic, and business planning.

Definition: A planned economy is a scheme of economic organization in which individual and separate plants, enterprises, and industries are treated as coordinated units of a single system for the purpose of utilizing all available resources to achieve the maximum satisfaction of the people's needs within a given time.

Essential features: (1) Interdependence of all production units; (2) adjustment of a progressively growing productive mechanism with a progressively rising standard of living; (3) existence of some unifying center to direct the system consciously toward these nationally recognized ends; (4) planning is a synthesis of the ideas of dynamics and order, of science and immagination. It is a new mode of feeling life and of living.

Method advocated: Social progressive planning implies redistribution of income (through an annual wage, 5-day week, 6-hour day, utilization of leisure), an extension of the demand side of economic life, a variation of the range of return in relation to social service, and methods for directing the flow of capital.

This type of planning, while rejecting dictatorial methods, demands some control through a central unifying agency—a national economic council—which is expected to bring into life boards and commissions which, working together with the Federal Reserve Board, the Farm Board, the Interstate Commerce Commission, etc., could guide the course of our national economy. Management, labor, technicians, and scientists should come together to supply both the planning and the administrative machinery for carrying out plans. Planning must have a national character and a measure of governmental authority.

The author presented to the Amsterdam Congress on Social Economic World Planning (I. R. I., August 1931), what might be called a 5-year world plan, based on the following: (1) A general 5-year moratorium on all war debts and reparations payments, with a presumption in favor of final cancellation if the effects of the moratorium warranted it. (2) A series of international loans carried through the cooperation of the chief lending countries and revised in such way as to promote productive resources in the most promising areas and increase world purchasing power. (This might be done through a world industrial bank.) This would also offer an opportunity to affect and modify commercial policies through agreements by which credit would be extended on condition that a tariff truce be observed or that tariff schedules specially detrimental to trade be modified (3) A series of international agreements for the division and control of the world market by producers of raw materials and of some manufactured goods.

### PLAN OF FREDERICK H. M'DONALD

Classification: A plan to stabilize the business structure through individual corporate "stabilization reserve funds."

Author and origin: Frederick H. McDonald, consulting engineer, Atlanta, Ga.

Objective: To equalize the business curve by using reserves accumulated during prosperity to maintain in lean periods a minimum level of operations and income; to maintain and widely distribute purchasing power; to direct overinvestment from the production of consumer goods or services toward community facilities or public works at proper periods; and to avoid revolutionary changes by providing acceptable evolution of the present business structure.

Theory or principle: Author assumes that fluctuations in business activity are inevitable, and plans to mitigate the severity of national variations through the cumulative effect of tempered variations in individual enterprise.

Method advocated: Legally require profit-making enterprises to establish a segregated reserve fund by withholding distribution of all earnings in excess of legal rate of interest on capital invested until minimum reserve is attained; fund to be trusteed. After completion of minimum reserve, future excess earnings to be distributed on voluntarily agreed basis between labor, management, and owners. In lean periods, reserve fund to be used to maintain minimum levels of wages, salaries, and dividend payments, based on fair rates of average income agreed for considerable periods between owners and employees. Fiscal policies to be based on decades rather than limited annual status. Reserve funds to be invested primarily in obligations of local governmental bodies for public-works construction, through central or Federal investment channels. No State or governmental infringement or regulation of business operation except to insure compliance with law through annual public reports to State.

Author's evaluation: By these means the bulges and depressions of business can be leveled as they would reduce excess activity, unregulated expansion, excessive or premature disbursement of profits, overinvestment in industry, distribute purchasing power during active times, and care for resulting minor unemployment and loss of income in dull periods.

Status of plan: A series of articles in current issues of Review of Reviews and World's Work. In the October issue, 1932, is a discussion of the advantages and disadvantages of the plan.

### PLAN OF CHARLES A. ROBERTS

Classification: Governmental taxation and construction policies.

Author and origin: Charles A. Roberts, member of New York bar. Paper reprinted from Tax Magazine, December, 1931.

Objective: Preventing industrial expansion which is not supported by purchasing power and also increasing purchasing power.

Theory or principle: (1) World tends persistently toward overproduction. With cyclical regularity the aggregate of goods and services produced becomes too great for the stream of money to move it. Too much income is devoted to new production, and too little to maintaining the continuous flow of expenditure by consumers.

(2) Income tax puts a wholesome brake on the growth of productive facilities, and furnishes (through governmental expenditures and through increased expenditures by business men for advertising, etc.), a needed accelerator to the public's buying power.

(3) A taxpayer's costs can not be increased indirectly by reason of the imposition of income taxes on his suppliers.

(4) Income remaining after current expenditures and income taxes is the sum available for reinvestment.

(5) Two variables fluctuate in direct proportion. The "clear income" (the net effective addition which can be made to the invested capital of the community) must vary strictly in accordance with the rate of growth in the buying power of the public.

Methods advocated: (1) The personal exemption from income tax should be increased from \$1,500–\$3,000 to say \$4,000–\$8,000. This change would eliminate two-thirds of the 4,000,000 individual tax returns.

(2) The normal tax should be reduced to 1 per cent flat.

(3) In lieu of exempting dividends from normal tax, every stockholder should be given a credit, against his total tax, equal to 15 per cent of all dividends received by him.

(4) The corporation income tax rate should be raised.

(5) A credit against the Federal income tax (and not, as at present, a mere deduction from income) should be granted for income taxes paid to the States.

Author's evaluation: Net effect the foregoing proposals would likely increase the revenue by some $300,000,000. In anticipation of such additional revenue plans should be made for its prompt disbursement, otherwise than for debt retirement.

Status of plan: Proposal only. See O'Connor bill (H. R. 12643), pending in Congress, January, 1933.

### PLAN OF JOHN WILLARD ROBERTS

Classification: To cure unemployment through income taxes distributed as old-age pensions.

Author: John Willard Roberts, New York City.

Objective: Prevent business cycles through balanced production and consumption.

Theory or principle: Overmechanization is the cause of unemployment and overproduction, and destroys the values of capital goods through oversupply. This destruction of values can only be avoided by controlling the degree of mechanization. Measures to meet the situation by perfecting currency and credit institutions are futile before the overwhelming forces exerted by overmechanization. Mechanization arises from investment, which in turn arises from savings. To regulate mechanization we must regulate savings, diverting purchasing power out of the hands of those who invest it so as to run to excess the creation of capital goods and into the hands of those who will spend it on living. At the same time we must reduce the urgency of the need for savings.

Methods advocated: Revision of income tax laws to make income tax more effective and productive by proper adjustment between corporation and individual rates.

Author's evaluation (summarized): Would avoid bureaucratic dictation of business details, conserve incentives of effort and initiative which have constructed marvelous productive powers.

Stabilize industry while permitting rapid growth; by preventing overproduction, would prevent depressions; if recession appeared would provide immediate remedy by increasing pensions and taxes.

Would maintain the demand for workers, freeing them from fear and enabling them to claim good wages and working conditions.

Would care for the superannuated.

Would maintain the value of investments, and the independence and self-respect of citizenry, thus conducive to better government.

Would relieve the pressure for making foreign loans and pushing exports into unwilling countries; would not prevent a large foreign trade, but would make it a less desperate competition, and thereby improve international relations to a marked degree.

Although its effectiveness would reach its greatest development by world-wide application, it does not need to wait for unanimous adoption by many nations. If one nation, such as the United States, should adopt it, the others, seeing its beneficent effects, would soon follow suit.

### PLAN OF M. C. RORTY

Classification: Stimulation of business activity.

Author and origin: M. C. Rorty, formerly vice president, International Telephone & Telegraph Corporation, New York.

Objective: Immediate relief of unemployment, with ultimate development to control business fluctuations.

Theory or principle: Supplementing of other measures for economic stabilization by increased stabilization of construction, reconstruction, and other new capital operations. Special stimulation of reconstruction, reequipment, and other Capital activities in times of extreme depression, through use of a relatively small volume of public funds to induce much greater expenditure of private funds.

Methods advocated: Payment of direct premiums out of Federal funds to encourage private initiative in construction, reconstruction, and other capital operations.

Advertise for bids for the initiation of the new activities. Such bids shall be in terms of the required percentages to be paid as premiums upon certified and audited amounts disbursed for wages and materials, the awards of premiums to be made in the order of the lowness of such bids, after allowing for certain preferentials to reconstruction and other preferred operations. Self supporting State and municipal works to be eligible for premiums.

Initial funds to be furnished by advances from Federal Government, to be repaid from proceeds of special taxes assessed for the purpose.

Author's evaluation: "The real cost of even a moderate business depression is, perhaps, not less than $10,000,000,000 * * * cost of present depression will very probably exceed $50,000,000,000 * * * the maximum cost of stabilization, per business cycle, in excess construction and new capital investments, should very certainly be less than $2,000,000,000."

Status of plan: Presented to Institute of Public Affairs, University of Virginia. Printed as supplement to April, 1932, issue of Harvard Business Review. Has been presented to Federal administration. May be proposed in modified form to next Congress, primarily as a measure of immediate unemployment relief.

Supporting comments of author: "* * * majority of students of the business cycle are prepared to admit that the plan * * * has the power to produce results and that it probably could be made effective in the hands of an intelligent economic czar."

Objecting comments of author: Even under present conditions, some premiums might be paid for operations that would be started without such payments and some work delayed in expectation of premiums. Initial operations would have to be restricted mainly to reconstruction and rehabilitation projects, and noncompetitive construction. Plan would require ample administrative authority, and ultimate applications for general economic stabilization should await results of experience as emergency measure.

### PLAN OF CHARLES R. STEVENSON

Classification: Business and manufacturing stabilization.

Author and origin: Charles R. Stevenson, of Stevenson, Jordan & Harrison, management engineers.

Objective: To secure balanced production and comsunption.

Theory or principle: Balance production and consumption by reducing competition through rearrangement of industry (mutual trade agreements); limit freedom of individual to engage in industry as he sees fit; hours of labor are matters for national and not state legislation.

Method advocated: (1) Modification of antitrust laws; (2) grant the right of any industry, if 85 per cent of capital invested desires, to organize in a definite way; (3) create a commission to regulate such organized groups of industries; (4) give Congress power to regulate hours and wages; (5) set up a labor commission to regulate and enforce items under (4).

Author's evaluation: These adjustments would provide work and adequate earning power for everyone who wished to work; would provide security of employment, increased earning power for the worker, and security of capital and return for the investor in industrial securities.

Status of plan: Proposal only.

### PLAN OF GERARD SWOPE

Classification: Industrial stabilization.

Author and origin: Gerard Swope, president General Electric Co., based on experience with unemployment allowance plan in effect in his company for some two years.

Objective: " * * * industry must evolve and make effective those measures which will first ameliorate (unemployment) and ultimately eliminate it. * * *"

Theory or principle: (1) Every effort should be made to stabilize industry and thereby stabilize employment to give to the worker regularity and continuity of employment, and when this is impracticable, unemployment insurance should be provided.

(2) Organized industry should take the lead, recognizing its responsibility to its employees, to the public, and to its stockholders, rather than that democratic society should act through its government. If the various States act, industry will be confronted with different solutions, lacking uniformity and imposing varying burdens, making competition on a national scale difficult. If either the individual States or the Federal Government act, the power of taxation has no economic restraints.

(3) There should be standardized forms of reports so that stockholders may be properly informed.

(4) Production and consumption should be coordinated on a broader and more intelligent basis thus tending to regularize employment and thereby removing fear from the minds of the workers as to continuity of employment; as to their surviving dependents in case of death; and as to old age.

(5) If organized industry is to undertake this work, every effort should be made to preserve the benefits of individual originality, initiative, and enterprise, and to see that the public is assured that its interests will be protected, and this can be done most effectively by working through the agency of the Federal Government.

Methods advocated: (1) All industrial and commercial companies (including subsidiaries) with 50 or more employees, and doing an interstate business, may form a trade association which shall be under the supervision of a Federal body referred to later.

(2) These trade associations may outline trade practices, business ethics, methods of standard accounting and cost practice, standard forms of balance sheet and earnings statement, etc., and may collect and distribute information on volume of business transacted, inventories of merchandise on hand, simplification and standardization of products, stabilization of prices, and all matters which may arise from time to time relating to the growth and development of industry and commerce in order to promote stabilization of employment and give the best service to the public. Much of this sort of exchange of information and data is already being carried on by trade associations now in existence. A great deal more valuable work of this character is possible.

(3) The public interest shall be protected by the supervision of companies and trade associations by the Federal Trade Commissioner or by a bureau of the Department of Commerce or by some federal supervisory body specially constituted.

(4) All companies within the scope of this plan shall be required to adopt standard accounting and cost systems and standardized forms of balance sheet and earnings statement. These systems and forms may differ for the different industries, but will follow a uniform plan for each industry as adopted by the trade association and approved by the Federal supervisory body.

(5) All companies with participants or stockholders numbering 25 or more, and living in more than one State, shall send to its participants or stockholders and to the supervisory body at least once each quarter a statement of their business and earnings in the prescribed form. At least once each year they shall send to the participants or stockholders and to the supervisory body a complete balance sheet and earnings statement in the prescribed form.

(6) The Federal supervisory body shall cooperate with the Internal Revenue Department and the trade associations in developing for each industry standardized forms of balance sheet and income statement, depending upon the character of the business, for the purpose of reconciling methods of reporting assets and income with the basis of values and income calculated for Federal tax purpose.

(7) All of the companies of the character described herein may immediately adopt the provisions of this plan but shall be required to do so within three years unless the time is extended by the Federal supervisory body. Similar companies formed after the plan becomes effective may come in at once but shall be required to come in before the expiration of three years from the date of their organization unless the time is extended by the Federal supervisory body.

(8) For the protection of employees, the following plans shall be adopted by all of these companies: A workman's compensation act; life and disability insurance; pension; unemployment insurance.

Author's evaluation: "By this method American industry can discharge its obligation to its employees and, by holding its position in the markets of the world, bring additional work to America."

Status of the plan: Presented to the National Electrical Manufacturers Association, September 16, 1931. The board of governors of the association passed resolutions commending Mr. Swope for preparing a completely formulated plan; expressing the belief that a plan of stabilization of industry would be of aid to all concerned; recommending that the policies division of the National Electrical Manufacturers Association through a special committee make a careful study and develop, in cooperation with trade associations, a constructive program contemplating stabilization of industry with adequate protection for all elements involved.

### PLAN OF UNITED STATES CHAMBER OF COMMERCE

Classification: Suggestions for stabilizing industry through voluntary action of business men.

Author and origin: A report of the committee on continuity of business and employment of United States Chamber of Commerce, Henry I. Harriman, of Boston, chairman. Printed copies distributed to constituent members and made publicly available October 30, 1931.

Objective: To secure better balance between production and distribution.

Theory or principle: Advocates limited amendment of antitrust laws, the setting up of a national economic council; the voluntary adoption by employers of unemployment reserve plans, the voluntary development of uniform plans for protection against unemployment, old age, sickness, and accidents by trade associations. These and other topics are presented under three headings: (1) Causes of Depression and Unemployment; (2) Long-time Measures for Lessening Effect of Depression; (3) Means for Meeting Immediate Unemployment Conditions.

Cites as causes of the depression, wars, undue expansion, and speculation. Does not believe that technological advance is the main cause of the depression but admits there is a problem to be solved. Expresses belief that gradual shortening of hours of labor should continue in the future.

Methods advocated: Advocates modification of antitrust laws to legalize voluntary agreements designed to keep production related to consumption, such agreements to be under supervision of a governmental agency. Advocates industrial planning by representative trade associations and national planning through a national economic council. Proposes a national economic council of three to five members of highest standing and representative of the country as a whole, privately organized and sufficiently financed so that it could employ highest grade of economists, etc.

Status of plan: Acceptance by general referendum of chamber.

### PLAN OF ERNEST J. WOLFE

Classification: Unemployment relief.

Author and origin: Ernest J. Wolfe, instructor in economics, Columbia University. Plan "has been developed through an exchange of communications with students, professors of economics, and State and Federal Government officials."

Objective: To alleviate unemployment.

Theory or principle: "A conservative principle underlying this plan is that we should prepare in periods of prosperity for periods of depression." Financing of plan is to be jointly by workers and the Government.

Methods advocated: "It is proposed that units be established for the production and distribution of commodities, and provision made for the rendering of services adequate to maintain a comfortable level of living." Among the commodities that are to be produced are: The various economical cuts of beef, veal, mutton, lamb, and pork, fresh fish, salt fish, chickens, eggs, lard, butter, milk, wheat flour, cornmeal, potatoes, cheese, vinegar, molasses, dry beans, prunes, evaporated apples, and rice, the commonly used items of men's, women's, and children's clothing, various forms of fuel, furniture, tobacco, and the commonly used building materials.

"Each unit, or the several units in a community, shall be organized as a corporation. A holding corporation is also to be organized, which is to hold the stock of all the productive and distributive units.

"The United States Government is to own all the stock of the holding corporation, and is to hold this stock in trust for the workers of the United States."

There are to be two types of workers, "Those who constitute the permanent staff, and those who are employed only until there are positions available to them in private industry."

"* * * output shall be restricted to amounts required by the personnel both during normal and emergency times." Workers not needed for this production "shall be employed in public projects."

"In the first year of the operation of this plan, and until such time as an adequate reserve has been accumulated, a graduated tax of 1 to 5 per cent shall be levied on all incomes in excess of $1,200 derived from wages and salaries of all workers in the United States."

Author's evaluation: "* * * the plan is thoroughgoing." "It is clearly realized that this proposal is not an attempt to solve all our economic problems."

Status of plan: Proposal only.

CLOSURE

The preceding list of causes or possible causes of economic dislocations and business instability, and the assay of plans, programs, and remedies, are representative of the thinking of the past year. To the extent that the causes are recognized as valid and the remedies as feasible, the presentation is, on the one hand, impressive, and, on the other, discouraging. These points of view are distinctly those emphasized by the material as a whole which has reached your committee in the study which has yielded this report.

The single finding which the committee is willing to support at this time, drawn from the presentation of causes and remedies, is that no one all-inclusive cause can be designated as the forerunner of business recession, nor can any one all-inclusive remedy be found as a preventative or cure.

The situation that this finding presents should occasion neither surprise nor discouragement. Emphasis is merely given to the accepted fact of the complexity of our business and industrial structure, and to the interaction of economic forces.

The problem of social and economic control is of such magnitude that its solution will be a major event in the history of civilization. The project can not, and must not, be approached from any inferior estimate of difficulty or extent.

This second progress report should be considered as superseding its predecessor of a year ago for the reason that it indicates the direction and quality of thinking of a year of intense business stress. The next effort of the committee may well be to select and present those elements of remedial programs which seem feasible and practicable and which promise to integrate into a program of social and economic control. This integration will only be attained through a slow evolutionary process.

(A letter received from Mr. H. A. Willis and an article submitted therewith are here printed in full as follows:)

THE UNIVERSITY OF CHICAGO,
*February 27, 1933.*

Hon. REED SMOOT,
*Chairman Senate Committee on Finance, Washington, D. C.*

DEAR SIR: My work incidental to the unemployment situation in Illinois is so pressing that I can not appear before the Committee on Finance to present such views as I have concerning the "causes of the present depression and possible legislative remedies." I do, however, accept your invitation to submit some of these views in writing.

I submit herewith a printed copy of a memorandum on Balancing the Budget: Federal Fiscal Policy During Depression. As indicated by the title page, the memorandum was the product of a series of round-table discussions, these meetings being called by me. It expresses the views of the 11 economists, political scientists, and leaders in public administration who formulated and signed it.

A few observations may be made on this memorandum. (1) The chief objective we had was to define what is meant by balancing the budget, in an effort to correct erroneous views as to the problem. Capital expenditures and certain other charges have no rightful place in the ordinary budget which is to be balanced. (2) The opportunities for reducing Federal expenditures was discussed. I wish to add to the statement occurring near the bottom of page 13, reading, "Expenditures for veterans include allowances for disabilities and hospitalization arising from injuries not connected with military service. Until the Federal Government undertakes the relief of destitution for all persons, these allowances appear to constitute merely a bid for political support to a privileged group." Here is an opportunity that should be embraced to save $400,000,000 or $500,000,000 per year in 1933–34 and a much larger amount later on by amending existing legislation and returning to sound principles. (3) The Wagner bill (S. 5336) should be passed at the earliest possible moment in order to make possible the prosecution of urgent and desirable public works the States and local government have planned to prosecute but can not finance at this time.

Developing this last point, I may say that here in Illinois, and the situation is not untypical of the situation in the industrial States generally, a very large percentage of the working people are unemployed; an increasing and very large number of them have become public charges; the cost of public aid in the State is several million dollars per month; an increase in the volume of employment is imperative; there is a considerable volume of public work that might be done, some of it urgent, some of it highly useful in the years to come. Of course, public work involving bond issues calls for taxation to pay interest and sinking fund charges, and hence raises the question of whether or not it is wise to prosecute public works at this time. In my opinion, it is wiser to borrow money for needed public works than to borrow money for mere relief of the destitute, and the condition of the finances of the county of Cook and of the State is such that borrowing will inevitably be resorted to for work or for relief. While perhaps a given sum of money will go somewhat further in financing relief than in placing men at work and thus minimizing relief, I am convinced of the value of employing men on needed public works at this time. Relief involves great risk of developing the spirit of dependency; work makes for independence and self-reliance. Relief is accompanied by deteriorated efficiency; work under conditions as nearly normal as they can be made, maintains efficiency. Mere relief leaves nothing behind except a record of money spent; employment on needed public works results in tangible things which will serve the needs of the community for years to come. And more than that. Good drainage, good water supply, good highways, decent schools facilities are helpful in restoring values and in affording a good place in which to live and to do business. Finally, constructing public works ought to have cumulative effects in the employment situation, increase consuming power, and improve the opportunity to do business.

Being of these opinions and of the further opinion that the existing situation calls for vigorous action, even action involving some risk, I have been interested in finding an answer to the question how needed local public works can be financed at this time. Few of them can be financed out of current local or State revenues. In Cook County, at least, they can not be financed by local bond issues, for the bonds can not be sold except at ruinously low prices. They can not be financed by State bond issues, because of the procedure required by the Constitution. The one answer I have found, in so far as most of the approved public works are concerned, is in loans that might be granted by the Reconstruction Finance Corporation, were the act of 1932 amended and liberalized. Perhaps the credit of the Federal Government remains strong enough to lend some support.

Public works would minimize relief and, if carefully proceeded with, should be helpful in toning up the business situation. But in so far as business is concerned they would serve only as a tonic. The big problem is to bring about the necessary balance in our economic system so that business may go ahead. That will involve time and many things.

A few of these things may be noted. I am convinced that direct inflation would be inadvisable. A forced increase in prices, assuming that it could be effected, would now involve more harm than good. Now that deflation has proceeded so far, it should be permitted to proceed farther—at needed points. The Reconstruction Finance Corporation should cease giving support to railway and other corporations in order to keep alive obligations no longer representing active capital. Excessive valuations and excessive overhead must come down, along with wages, which, with exceptions, have been heavily deflated. Many public-utility rates and other service charges are excessive, in the new, changed situation.

The position of the United States in the world situation is substantially different from what it was in pre-war times. Some of our policies must be changed and adapted to the new situation. A more liberal policy with reference to foreign trade must be adopted. The question of debt settlement must be disposed of definitely.

To mention only one more point, something must be done about agriculture. Agriculture is so important in our economy that the country can not expect a good degree of prosperity while the plight of the farmer remains unsolved. And, unfortunately, it is extremely difficult to do much about that problem because it is largely a part of a world problem. The allotment plan is based upon a bad principle, and as it would be worked out in practice, any scheme would likely be worse than the principle. But one thing sorely needed is to alleviate the farm mortgage situation. Otherwise the farm situation will be revolutionized—for the worse. What specific measures might best be used to this end, I am not prepared to say.

Sincerely yours,

H. A. Willis,
*Professor of Economics.*

[Public Policy Pamphlets No. 1]

# BALANCING THE BUDGET

## Federal Fiscal Policy During Depression: A Statement by A University of Chicago Round Table

### INTRODUCTION BY THE EDITOR

For many months there has been much discussion of balancing the Federal Budget. Unfortunately, most of those who have participated in the discussion have not been careful to define what they mean by balancing the Budget or to analyze fully the problems involved. Evidently not a few have assumed that all outlays, whether for ordinary operating expenses, capital investments, loans, or emergency relief, should be covered by tax and miscellaneous revenues for the year. Informal discussion of the subject by some of the signers of this memorandum led to the formation of a round table which, beginning early in November last, held a series of meetings. A committee of three drafted a memorandum; this was considered by five economists who have specialized in Government finance, a number of political scientists, and an equally large number of experts officially connected with associations in the field of public administration. A somewhat revised memorandum was then prepared and another meeting held. Working in this way, the statement herewith printed was evolved by the 11 persons who have signed it.

This is the first of a series of public policy pamphlets which the University of Chicago Press is planning to publish. Frequently the scholarly journals give no attention at all to problems that have an acute but temporary interest, while the ordinary magazines can print little but superficial comment. The university might well perform a valuable public service by making available to the public whatever special training and information it may have at its disposal. The continuation of such a series will, of course, depend upon its reception by the public.

Perhaps it goes without saying that the authors of these pamphlets are individually responsible for their views and that they in no way involve the responsibility of the University of Chicago.

Harry D. Gideonse.

January 16, 1933.

### Federal Budgetary Policy During A Depression

Few problems confronting the American public transcend in importance that of Federal financial policy. There appears to be grave danger that in balancing its Budget the Federal Government may adopt policies, the inevitable consequence of which will be the retardation of business recovery and the impairment of the social usefulness of government. These evil consequences can be avoided.

In determining its fiscal policy for the coming year the Federal Government is faced with these major questions:

1. How should the Budget be balanced?
2. Should expenditures be reduced?
3. What taxation policies and devices should be adopted?
4. What should be the debt policy of the National Government in the near future?

The purpose of this memorandum is to shed light on these questions and to make such constructive suggestions as appear to be in point.

The determination of policies to be followed in dealing with governmental budgets concerns State and local units as well as the Federal Government. Though the principles to be observed are almost identical, they are capable of wider application to Federal finances than to the finances of the State and local governments. In one important respect there is a vital difference between the fiscal operations of the national and those of other political units. For the Federal Government has control over the monetary system of the country, and its fiscal policies can and should be controlled with reference to the monetary and credit situation of the Nation. The activities of the National Government are of greater importance in reference to the swings of the business cycle than are those of State and local governments. Although this memorandum is primarily concerned with the issues of policy confronting the Federal Government, some of the fundamental principles herein discussed may find proper application in the financial programs of other governmental bodies.

The present economic depression did not materially affect the fiscal operations of the Federal Government until the year 1931.[1] Beginning in 1920 and extending to 1930 a series of annual surpluses accrued to the Treasury. At the end of the fiscal year 1930 the surplus approximated $184,000,000, but the fiscal year 1931 closed with a deficit of over $903,000,000. At the end of the fiscal year on June 30, 1932, the annual deficit had grown to $2,473,000,000, exclusive of debt retirement charges. To prevent a recurrence of deficits in 1933, expenditures were pruned and additional taxes were imposed; but these measures have not prevented the recurrence of a fiscal deficit. In his Budget message to Congress, President Hoover estimated that the deficit for the fiscal year 1933 would be approximately $1,146,000,000 exclusive of public debt retirements, which now may be affected by the failure of some of the European countries to make payments on account of their war debts. These payments have hitherto been devoted primarily to the retirement of the national public debt, and the consequences of their reduction or discontinuance must be faced in developing the Federal fiscal policy.

## I

## Balancing the Budget

Should the 1934 Budget be balanced? If so, how? These questions can be answered only by getting a clear idea of the nature of the Budget and of precisely what is to be balanced.

### NATURE OF BUDGET

The Federal Budget for 1933-34 was presented to Congress by the President on December 8, 1932. It outlined a program of expenditures and presented revenue estimates presumed to be sufficient to carry into execution the activities indicated during the next fiscal year, except such as will be covered in the ever recurrent deficiency bill. The Executive Budget recommends to Congress a program of activities, but the sums made available by Congress for expenditure during the ensuing year remain partially within the control of the Executive. The amounts made available by appropriation need not necessarily be spent. Frequently, by Executive order, as in the case of the naval limitations agreements affecting battleship construction, sums designated in the Budget are "salvaged" or "recaptured."

On the revenue side of the Budget, the power of the Government is somewhat more limited. The Budget should present honest estimates of probable income; but whatever the degree of care with which estimates are made, errors are inevitable. Apart from providing an efficient administrative and collection system, the Government can not control the payment of taxes, which will depend upon the ability, and to some extent on the will, of taxpayers to pay taxes. The recent decline in Federal revenues, particularly from personal income taxes, reflects clearly the impairment of the economic circumstances of taxpayers.

### BALANCING THE BUDGET

"Balancing the Budget" should be used to mean the attempt to secure sufficient revenue to defray the expenditures of Government. That portion of the Budget not covered by revenues may be considered as unbalanced. Funds to meet the fiscal requirements of the unbalanced portion can be secured (1) by short-term borrowings, (2) by long-term funding, or (3) by issuance of fiat money. Given an expenditure program, the question Congress faces is: How much of the needed revenues should be obtained by taxation and how much by borrowing?

This question can be answered only after the expenditure program of the Federal Government is carefully analyzed. It is often erroneously assumed that every item of expenditure, regardless of its nature, should be covered by revenues derived exclusively from current taxation and miscellaneous current sources. Certain types of expenditures which ordinarily should be financed by current taxation may properly be financed by borrowing during a depression period.

Those expenditures which should be financed from current revenues can best be seen by the listing of items which need not be so financed. Among the types of expenditure which in this emergency should not be financed from current taxation are the following:

1. Nonrecurrent emergency expenditures.

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[1] Unless otherwise specified, all references to years are to fiscal years ending June 30 of the year specified.

2. Loans and investments.
3. Expenditures for public works.
4. Permanent appropriations not to be spent during the current fiscal year.
5. Public debt retirements.

With the foregoing items excluded, the aim of the Treasury for the fiscal year 1934 should be to finance only normal operating expenses from current revenues. Relief, investments, loans, and public works should be financed from borrowings; and the Federal debt during the next fiscal year should be increased by a sum not less than the amounts so expended.

In a period of prosperity some of the items for which borrowing should now be resorted to may properly be financed by taxation. In a deep depression the injury inflicted upon taxpayers by requiring them to defray the cost of every governmental activity by current taxation in order to avoid increasing the public debt appears to be greater than can be justified. Of course, it is necessary to avoid borrowing to such an extent that the credit of the Government becomes seriously impaired. But the credit strength of the Government can be maintained without resort to taxation measures of such severity as to threaten to prolong the existing depression.

### NONRECURRENT EMERGENCY EXPENDITURES

The public should not be called upon at this time to furnish funds by taxation to finance nonrecurrent emergency expenditures. The burden of normal taxation has already been made severe by the shrunken incomes and losses of the depression, to which have been added the weight of emergency taxes enacted by the last Congress. It is not desirable that relief from unforeseen disasters or flood, for example, should under existing circumstances be provided by current taxation.

### LOANS AND INVESTMENTS

It is also inappropriate at this time to raise funds by taxation for investment and loan purposes. Subscription to the stock of Government-owned corporations is a practice almost as old as the Republic, dating back to the formation of the Bank of North America in 1781. Among the other corporations to which the Government has subscribed capital are the Panama Railroad Co., the United States Shipping Board, the Federal land bank the Federal intermediate credit banks, and the Reconstruction Finance Corporation. In some instances these subscriptions resemble other governmental expenditures, being only a method of financing particular services; in other cases they resemble ordinary investments or loans of Government credit. The sums so advanced have often been returned to the Treasury, some of them yielding substantial profits, others huge losses. In the fiscal year 1932 the Treasury subscribed $500,000,000 to the Reconstruction Finance Corporation and $125,000,000 to the Federal land banks. Similar advances do not appear to have been included in the 1934 Budget; but should additions to the capital of these agencies become necessary, or should similar plans be adopted by Congress during the present emergency, the funds should be secured by borrowing, provision being made from current revenues for the creation of reserves for such losses of capital as may now reasonably be anticipated.

That many of these advances are merely loans of Government credit is apparent from the operations of the Reconstruction Finance Corporation. Created with a capital of $500,000,000 supplied by the Treasury, with potential resources aggregating $3,800,000,000, of which $3,300,000,000 was to be provided by the issue and sale of Federal credit instruments, this arm of the Government from February 2, 1932, up to the close of business on November 30, 1932, had authorized loans amounting to $1,542,000,000 and had advanced in cash $1,502,000,000, of which $283,000,000 had been repaid. Loans to banks, trust companies, and financial institutions (including livestock and agricultural credit corporations) aggregated $1,088,000,000, of which $898,000,000 was for banks, trust companies, and their receivers; $75,000,000 was advanced to the Secretary of Agriculture for the relief of agriculture, out of which loans aggregating $64,000,000 had been made;[1] $328,000,000 in loans was authorized for railroads. Loans approximating $146,000,000 were authorized for "self-liquidating" projects up to December 23, 1932, but the cash advances in aid of these projects up to December 31 amounted to only $15,597,000. In addition, relief loans to States and cities, up to January 1, 1933, amounted to $103,705,000. In his latest report the Secretary of the Treas-

[1] Of the $75,000,000 so advanced, the Secretary of Agriculture has returned $15,000,000 (November 30, 1932).

ury recognized that "these funds are represented by loans made by the corporation on security and will, at a not too distant date, be returned to the Treasury." During the continuance of this depression, capital for investment or reloaning operations should be secured by the Federal Government by borrowing rather than by taxation.

### PUBLIC WORKS EXPENDITURES

Outlays for public works undertaken to stimulate employment are essentially capital investments which in this emergency should be financed by loans. These outlays are made to acquire permanent improvements, the life of which will extend over many budgetary periods. If sound practices of private businesses were followed, sums expended for such purposes might properly be distributed over the period of the useful life of the property, the original outlay being financed by the issuance of bonds.

It has been regarded as sound financial practice among larger units of government (as well as among corporations) to finance a certain amount of constantly recurring capital expenditures from current revenues. The Federal Government has not only done this but has financed through taxation over a long period of years many non-recurrent outlays. In times of prosperity this policy was the proper one for the Government to pursue. In this depression, even some of the recurrent outlays should be financed from proceeds of loans. The financing of recurrent outlays by borrowing can, however, be justified only as a depression measure, and should be abandoned as soon as the country is well on the road to recovery.

### PERMANENT APPROPRIATIONS BALANCES

Another type of budget item, commonly referred to as "continuing" or "permanent" appropriations, should not be financed entirely by the revenues of a single year, especially during a depression. Whereas unexpended balances in other appropriations usually revert to the general fund at the close of the fiscal year, these authorizations are exempt from lapsing or transfer, so that expenditures against them may continue until the sums initially appropriated are exhausted. To the extent that the taxation program is governed by the Budget for expenditures, the inclusion in that budget of provision for permanent appropriations not to be expended during the fiscal year necessitates an increase in present tax burdens to provide for future expenditures. To the extent that the taxation program is not made to depend upon the budget for expenditures, balances not to be spent currently only add to the apparent (but not the real) difficulties of balancing the budget. Unused balances in appropriation accounts are to be expected; and, so far as they accrue, they lessen the need for providing current revenues or they make possible increased expenditures or further debt retirements. The Budget for each fiscal year should contain definite appropriations only for that fiscal year. To the extent that permanent appropriations are financed by borrowing, the funds required are not borrowed until needed. The same practice should be followed as to expenditures financed by taxation. Funds should not be raised by taxation except in the fiscal year for which they are required, provision being made in prosperous times, however, for the acceleration of public debt retirements. The exclusion from the Budget for any current year of expenditures continuing beyond such year will measurably reduce the apparent difficulty of the task of balancing the budget.

To assure the efficient execution of projects whose completion is impossible or undesirable during a single fiscal year, provision should be made for charges against future budgets. This can best be done by long-range financial planning—that is, by the preparation of long-term budgets into which annual budgets may be fitted.

### PUBLIC DEBT RETIREMENTS

While the present depression lasts, no expenditures for the amortization of the Federal debt should be made. Where specific requirements in the contract do not prevent, the retirement of the debt should be postponed to more prosperous times. In the 1934 Budget the President, in estimating the Treasury deficit, deducted from the amounts payable by the Treasury public debt retirements schedules for the next fiscal year, amounting to $534,070,300.[2] This measurably

| | |
|---|---|
| [2] Total payable from Treasury | $3,790,425,200 |
| Deduct public debt retirements | 534,070,300 |
| Total other expenditures | 3,256,354,900 |
| Receipts | 2,949,162,713 |
| Excess of expenditures | 307,192,187 |

lessened the apparent difficulty of balancing the Federal Budget, leaving, according to the President's estimate, a prospective deficit of $307,000,000, to meet which special taxes were recommended.[3]

By not including public debt retirement allowances among expenditures to be covered by current revenues, the President gave partial recognition to the budgetary principles here being advanced. It would be useless, save for the purpose of creating certain psychological impressions, to continue to levy taxes to amortize the public debt at a time when the oustanding debt was being substantially increased. On the assumption that receipts and expenditures were not otherwise changed, the result of the continuance of amortization payments would be an increase in the annual fiscal deficit accompanied by an increase in new indebtedness. In the present emergency the President's treatment of public debt retirements is sound.

The implications of this policy logically extend to nonrecurrent emergency expenditures, to loans and investments, and to expenditures for public works—all of which in this depression should be financed by borrowing rather than by increased taxation, to the extent that the credit of the Government permits. Current revenues should now be provided to cover not more than the ordinary operating expenses of government.

### SHOULD THE BUDGET BE BALANCED ANNUALLY?

It is by no means axiomatic that the Federal Government should annually collect revenues sufficient to cover even its ordinary operating expenses. This, of course, should be an aim of the Treasury; but if this policy involves too great hardship from the imposition of burdensome taxes, the Government is justified in borrowing for a few years in order to meet deficits from current operations. As the Secretary of the Treasury said in his annual report presented to Congress, December 8, 1932:

"In a period of deep depression with the income of the people greatly reduced, with their buying power drastically curtailed and with millions deprived of their earning capacity, it is not only unwise but impossible to bridge the gap in the Budget entirely by increased taxation."

A historical survey of Treasury finances shows that deficits are a recurring phenomenon. These deficits are defensible if in accordance with deliberate and well-designed long-range planning. The planless character of past fiscal policy has made governmental burdens during this depression unduly severe.

The balancing of budgets should be regarded as a series of long-term operations in which deficits will be incurred and debts increased during years of economic adversity while Treasury surpluses and the rapid retirement of the public debt will be planned for during years of prosperity. When a series of annual budgets is thus put together, the result is the balancing of the long-term Budget with reference to economic cycle periods. The equilibrium between revenue and expenditures is thus intentionally struck over a period of years rather than annually.

Balancing the Budget on an annual basis is ordinarily not an impossibility; but if practiced during a severe depression, such a procedure, requiring as it does a heavy load of taxation at a peculiarly inappropriate period, will tend to prolong the depression. On the other hand, the failure to take advantage of a period of prosperity to build up financial reserves will tend to make inflationary and speculative booms the more pronounced. The more rapidly the debt is retired during prosperous times the greater will be the credit reserve during an economic emergency.

### RELATION OF FEDERAL FINANCES TO THE CURRENCY SYSTEM

The repercussions of the ordinary fiscal operations of the Federal Government on the Nation's currency system must not be ignored. The flow of funds in industry and commerce is favorably affected by the volume of public expenditures, if such expenditures are not financed by taxes falling directly or indirectly upon business. Taxation, on the contrary, by reducing the profit margin of business, tends to cut down both the volume of credit created and its rate of use. It appears all the more desirable, therefore, for the government to finance emergency expenditures, loans, investments, and public works by borrowing instead of taxation. Such borrowings may be justified until a desirable degree of credit expansion has been secured or until the level of business activity has otherwise been brought back to an approach to a normal position.

[3] The amount of this deficit will be increased by the failure of some of the European countries to make payments on account of their war debts.

## II

## The Reduction of Public Expenditures

Should public expenditures be reduced? Can substantial reductions be made?

Every opportunity should be seized to reduce the cost of rendering public services. Citizens demand of government the efficient performance of certain functions at the lowest reasonable unit cost. They do not demand the expenditures of given sums of money. The unit cost of providing public services can and should be reduced.

The reduction of expenditures should not be confused with the curtailment of activities. It may be doubted whether citizens desire the curtailment of government functions; they have rather, for the most part, insisted upon their extension. The demand for economy properly considered is a demand for the reduction of unit costs rather than a demand for the curtailment of necessary and beneficial public services.

### REDUCTION OF UNIT COSTS

If a will to effect economies exists, many savings can be accomplished without impairment of services. The political system upon which American Governments rest exacts a heavy toll in the form of patronage. The Post Office Department, for example, has notoriously been manned at the top by spoilsmen. Many of the 15,032 presidential postmasters have been selected for political, rather than for service, qualifications. The collectors of customs, the internal-revenue collectors, and many other officers outside the civil service represent to a large extent political overhead which could be eliminated in the interest of economy and efficiency. Expenditures for veterans include allowances for disabilities and hospitalization arising from injuries not connected with military service. Until the Federal Government undertakes the relief of destitution for all citizens, these allowances appear to constitute merely a bid for political support to a privileged group. Limitations of space prevent the multiplication of examples.

Efforts should be made to eliminate waste and inefficiency as fully as possible from the Federal service. Party patronage and spoils should be replaced by a merit service fully protected from partisan influences. The reorganizations of bureaus and departments to eliminate duplication should be undertaken at once. Improved and more economical methods of rendering services should be adopted. The efficient and economical performance of public business may well prove to constitute a more effective appeal for political support than the wasteful methods of the past.

### ECONOMIES MADE POSSIBLE BY THE DEPRESSION

The depression has brought with it many realizable economies in governmental operations. Prices of commodities and materials have declined to 67.8 per cent of their 1929 level.[1] Governments are thus able to purchase materials more economically than a few years ago. In addition, wage levels have decreased. A horizontal cut of 8⅓ per cent in the salaries of all Federal employees receiving over $1,000 per year was accomplished by a month's furlough without pay. In his message to Congress on December 6, 1932, the President recommended the continuance of this furlough system and the further reduction of salaries by 11 per cent, producing a saving estimated at $55,382,000. It is difficult to imagine a worse method of reducing salaries than that involved in the furlough system. It constitutes an implication of excess personnel in the Federal service or the performance of functions which can be immediately curtailed.

### SALARY REDUCTIONS

Salaries should not be further cut unless steps are taken at the same time to accomplish all the other possible economies in the public service. Personnel surveys should be made, and their findings should be used immediately as a basis for the separation from pay rolls of superfluous and inefficient employees, and for any cuts in wages which may be decided upon. Where horizontal cuts alone are employed, the service is not purged of the incompetents nor of political "hangers-on." The "horizontal" method of retrenchment is an easy means

[1] Yearly average index of wholesale prices computed by Bureau of Labor Statistics for 1929 was 96.5 (1926=100). Average for first nine months of 1932 was 65.4. Decline is 32.3 per cent from 1929 level.

for meeting the demand for economy, and only slightly reduces the cost of political patronage. In retrenchment the principle to be followed is to reduce expenditures and curtail operations where they will do the least social damage. No discrimination as to consequences is possible when horizontal or uniform percentage reductions are followed.

For those employees who are discharged from the Federal service, adequate unemployment relief or employment in emergency services should be provided. These adjustments in personnel should be a phase of the reorganization of Federal administrative departments now being considered by Congress.

### POSTPONEMENT OF EXPENDITURES

Modest reductions in expenditures may be achieved by the postponement or complete elimination of certain projects included in the Budget. For example, the surplus of agricultural land now under cultivation justifies the curtailment and postponement of expenditures for land reclamation and irrigation, save perhaps to the extent of salvaging capital already sunk in such projects. Substantial economies can be realized from the postponement of naval construction. The 1934 Budget estimates for vessel construction are about $21,000,000 in excess of appropriations for 1933. The modernization of battleships also calls for the expenditure of $9,450,000. The total amount available for naval construction during 1934 is estimated by the President at $53,380,000. Further reduction in expenditures may be achieved by postponing the acquisition of land and improvements not immediately needed. In the 1933 Budget, for example, reductions in appropriations for the Dpartment of Agriculture were accomplished, in part, by a reduction of $1,750,000 in the estimate for the purchase of additional forest lands. Such savings as these may be used either to reduce total expenditures or to make possible the increase in appropriations for more pressing needs.

### CURTAILMENT OF SPECIAL SERVICES

Likewise, services undertaken primarily for the benefit of particular individuals and conferring little or no advantage upon the citizens as a whole should either be dropped completely from the Budget or placed upon a self-supporting basis by the collection of charges for services rendered. Many activities of the Department of Commerce are illustrations in point; notably, the foreign services of the Bureau of Domestic and Foreign Commerce. Moreover, these duplicate, in part, the activities of the consular service.

### SUBSIDIES

Subsidies to special interests should also be speedily withdrawn. Some of these subsidies are disguised by excess payments for services. The least that can be asked is that such subsidies as are retained should be clearly designated as such in the Budget. The postal deficit for 1934 is estimated at $97,000,000, substantial portions of which are due to losses on parcel post and second-class mail, to the continuance of rural free delivery routes laid out for horse and buggy delivery, to excess rentals, and to excessive, as well as uneconomic, subsidies to steamships and air lines carrying mail. Economies can be effected here, without impairment of the quality of service.

### OBSTACLES TO EXPENDITURE REDUCTION

In the pursuit of any program of expenditure reduction numerous obstacles will be encountered. A survey of the Budget discloses the fact that the reducible [2] portion of appropriations is small indeed. The 1934 Budget called for appropriations totaling $4,248,160,731,[3] which were reduced by additional recommendations in the President's "Budget message" to $4,218,808,344. Of this latter total (except for slight adjustments in amounts for specific items in the body of the Budget to bring them into harmony with the modifications in the Budget message), $1,628,517,319 is for military functions (38.60 per cent); fixed debt charges take $1,259,070,321 (29.84 per cent); public improvements call for $122,108,690 (2.89 per cent); the postal deficit exacts $97,000,000 (2.29 per cent); refunds call for $85,238,800 (2.02 per cent); the construction and general Government buildings is to receive $69,060,000 (1.64 per cent); and $42,458,590 is estimated as the

[2] "Reducible" has reference to expenditures not called "nonreducible."

[3] Trust funds not included in this total; if they are included, appropriations amount to $4,403,178,032 as stated in Budget message.

cost of governing the District of Columbia and other territories[4] (1.01 per cent). These so-called "nonreducible" items call for the expenditure of $3,303,453,720, or 78.30 per cent of the aggregate appropriations proposed for 1934. Included in the percentage just given are certain items referred to in the Budget statements as "fixed charges" representing interest, pensions, retirement salaries, annuities, and World War allowances, together with subsidies, grants, and contributions,[5] which amount to $1,723,436,793, or 40.85 per cent of proposed total appropriations Unless curtailments are made in these items, improperly designated "nonreducible," substantial reduction of ordinary expenditures can be accomplished only with serious loss to the community.

### INCREASED DEMANDS

The depression, it must be recognized, has brought with it an increased demand for Federal services Upward of 11,000,000 people are out of employment through no fault of their own. The resources of State and local governments, together with private philanthropy, have been unable to provide adequate relief. During the present winter the Federal Government probably will be forced to provide direct aid—not loans of its credit to States and cities—in order to mitigate human suffering. Yet in the 1934 Budget the President provided only $18,000 for relief expenditures, as compared with $40,018,000 appropriated for the fiscal year 1933 and $461,651,000 for 1932.[6] Of this latter sum $450,000,000 was represented by a subscription of that amount to the capital stock of the Reconstruction Finance Corporation, while the remaining subscription of $50,000,000 to the capital stock of that body was charged to the promotion and regulation of argiculture. However, from the total resources of the Reconstruction Finance Corporation only $300,000,000 was "to be used in furnishing relief and work relief to needy and distressed people and in relieving the hardship resulting from unemployment." In addition a curtailment of building construction and public-works projects is recommended for 1934. Appropriations for general Government buildings were $212,638,000 in 1933, but only $69,060,000 is recommended for 1934. Public improvements—roads, rivers, and harbors; flood control and others—received appropriations of $402,482,000 in 1933, while only $122,108,690 is proposed for 1934. The President did not deem "further building at this time in the public interest." It is doubtful whether the volume of useful public works should now be curtailed. Business recovery has not sufficiently advanced to warrant this retrenchment. Likewise, generous Federal appropriations for the direct relief of the unemployed are recommended.

### AID TO CITIES AND STATES

Another phase of the problem relates to financial aid to cities and States not by way of loans but through the direct sharing of public revenues. Local government revenues have especially been drained during the past two winters to provide unemployment relief The depression has demoralized many State and local revenue systems whose chief reliance has been the property tax. The collapse of real-estate values has been accompanied by unprecedented tax delinquency; and while revenues have dwindled, relief demands have prevented substantial reductions in expenditures and taxes. The constitutions of many States prevent any ready modernization of revenue systems or extension of borrowings. Hence the National Government will soon be confronted with the problem of keeping the State and local governments functioning as well as solvent. The Federal Government can not afford to allow its political subdivisions to cease to function. Curtailment of their functions will decrease the volume of social services needed during this emergency; will reduce the demand for labor and materials when they should be increased. If the subdivisions default on the payment of substantial amounts of bonds and other obligations, this may react unfavorably on the credit of the National Government. Such defaults will tend to restrict the flow of funds in trade and commerce, and will undoubtedly restrict the volume of credit with which business is being transacted. Such consequences the government is endeavoring to prevent through the banking and currency system. Increased lending of credit to State and local governments and an increase in grants for

[4] Total for District of Columbia, $39,743,270, of which only $7,775,000 is directly appropriated from United States Treasury. The remainder comes from the combined revenues of the District of Columbia.

[5] See message of the President of the United States transmitting "The Budget for the Service of the Fiscal Year Ending June 30, 1934," Seventy-second Congress, second session, House Document No 439, Budget Statement No. 10, p. A183.

[6] Ibid., p. A176.

their use would materially aid the efforts toward recovery which have already been made.

#### REDUCTION OF AGGREGATE EXPENDITURES

There finally arises the question: "Should the aggregate of public expenditures be reduced? This question should not be confused with the reduction of unit costs and the reallocation of appropriations among the items of expenditure. After all reasonable adjustments to effect economies and promote efficiency have been made, this question must still be faced.

What is needed to-day is an increase in the circulation of money and credit, an increase in the volume of purchases, more employment, larger aggregate pay rolls, and an improvement in the morale of the people. The reduction of aggregate public expenditures, except as and if accompanied by reduction of current excise-tax rates, will influence these factors in exactly the wrong direction. But if the government decreases the unit cost of providing present services as lower prices and wages enable it so to do, and if it eliminates all elements of waste in its operations, it should be encouraged to undertake such additional activities involving expenditures as the prevailing emergency makes urgent.

## III

## THE REVENUE PROBLEM

The major tax problem of the Federal Government during this depression is to find additional sources of revenue. The yield of existing taxes has declined and taxpayers resist the imposition of new taxes, so that additional productive sources of revenue can be found only with difficulty. In endeavoring to develop new sources of revenue, the Government should avoid the adoption of taxes which tend to increase costs of production for private business or to reduce employment or production. If private business activity is not to be retarded, taxes falling on the margin between production costs and prices should be avoided. Sales, transaction, and production taxes have these untoward effects. Yet the President has proposed to balance the 1934 Budget (or avoid increasing the public debt) by the continuance of the 1-cent Federal tax on gasoline and the adoption of a general uniform sales tax of 2¼ per cent on all commodities except food and certain grades of clothing.

#### SALES TAX

Such a sales tax is objectionable at all times but is especially dangerous when the country is in a severe depression. If such a tax when passed on to consumers by increasing the prices of goods, the volume of sales of many commodities would be decreased. Costs of living would be made higher; and since the tax applies to expenditures rather than to incomes or the surplus above minimum living costs, it would fall with greater severity upon the poor than upon the more wealthy. It would tend to increase with the necessity for expenditure rather than in proportion to ability to pay. The number of dependents to be supported would be an important factor determining the weight of the citizen's tax. The regressivity of sales taxation is enough to condemn the President's proposal. But if the tax could not be shifted forward to consumers, it would fall in an uncertain and arbitrary manner upon industries and businesses and would still further reduce the already narrow excess of prices above costs—and in many cases convert this excess into a deficit—thus leading to a further curtailment of business activity. Such a tax might easily bring about the suspension of many enterprises, particularly if sales should dwindle following an attempt to raise prices so as to absorb the tax.

The present popularity of the sales tax, in certain quarters, is due to the mistaken belief of many business men that such taxes can always be passed on to consumers. Administrators look with favor upon it because it is easy of administration. Others favor it because they are exempt from its provisions or hope to secure reductions in other forms of taxation if a sales tax is adopted. These considerations are far outweighed by the regressive character and the business-disturbing propensities of general sales taxes.

Sales taxes are all the more objectionable if they are employed by both the Federal Government and the various States. Under such circumstances the pyramiding of taxes may be expected; but with business largely national in character, cumulative taxes upon sales will disastrously affect business recovery. Gasoline taxes are now found in every State; gross income taxes on some or all classes of public utilities are found in 43 States and the District of Columbia;

severance taxes measured by sales are found in 14 States; taxes on chain stores are found in 12 States; and either general or selective sales taxes, or both, are found in 35 States. General sales taxes are found in Connecticut, Delaware, Georgia, Kentucky, Mississippi, North Carolina, Pennsylvania, Virginia, and West Virginia. Many of the State rates are low, but pressure is being exerted to bring about their increase and the more general adoption of this method of taxation. Products sold at wholesale in Pennsylvania, for example, are subject to the State mercantile license of one-twentieth of 1 per cent; and if sold at retail, to a similar tax of one-tenth of 1 per cent, to which is added the State emergency relief sales tax of 1 per cent. If a Federal levy of 2¼ per cent were also added, the combined rates would equal 3.4 per cent. In Mississippi the State wholesale and retail sales taxes equal 2⅛ per cent; and if the proposed Federal levy were added, the combined rate would reach 4.37 per cent, with no allowance for pyramiding. The Federal Government should not adopt a sales-tax program in reckless indifference to existing State taxes and to the effect of both upon trade.

If there must be such a tax, then, in order to avoid undesired economic consequences resulting from the cumulation of sales taxes, the Federal Government should impose the tax and divide the revenue with the States, the sharing to be made conditional upon the repeal or avoidance of sales taxes by the States. The Federal law should be so drafted as not to interfere with the operation of State gasoline, tobacco, malt, and, perhaps, sumptuary taxes.

In advancing this and other proposals, it can not be too strongly emphasized that there is urgent need for the coordination and integration of Federal and State tax systems. A complete and thoroughgoing revision of the revenue systems of all levels of government is needed. The inability of the various tax systems to meet the present crisis is evidence of this need.

## INCOME TAXES

Income taxes generally do not directly affect production or prices, although the impingement of taxes on incomes may reduce consumption—an effect which must be considered when the weight of taxation is increased. Objection is occasionally raised against income taxes as the principal source of Federal revenues because their yield declines in times of depression, but it is rather one of the virtues of this form of taxation that its burdens automatically decrease when the economic circumstances of the taxpayer are adversely affected. The desirable degree of elasticity in the Federal revenue system should be secured by the proper use of public credit.

In times of depression public credit should be expanded in order that tax burdens may be lessened. In times of prosperity the levels of taxation should be maintained or increased. If the income tax is progressive, a more than proportional increase in revenues will automatically follow any increase in incomes. With proper brackets and rates the income tax will not need adjustment at every session of Congress but can be stabilized over a period of years. In prosperous years the revenue system should yield a surplus of revenues to the Treasury, to be devoted preferably to debt retirement rather than to the accumulation of reserves, so as to provide no temptation for its dissipation by profligate expenditure. In such times the burden of income taxation should not be lessened so long as any public debt remains unpaid. The time to lower tax rates is during a depression. Instead, governments have at such times too readily increased tax burdens, thereby augmenting tax delinquency, increasing the costs of living and of doing business, and postponing the improvement of economic conditions.

In searching for new sources of revenue with which to balance the 1934 Budget, the Treasury has made no recommendations looking toward the improvement of income taxes. At the present time it is doubtful whether the rates in the higher brackets of the Federal income tax can be increased without adversely affecting the productivity of the tax. The degree of progression may be modified somewhat by changing the limits of certain brackets and by reducing exemptions, all of which would be designed to secure increased payments from those in the lower-income levels. These changes would doubtless increase Treasury receipts. In comparison with taxes paid by Europeans, the American rates appear to be moderate; yet it must be recognized that substantial increases in tax levels can be achieved only gradually and that so long as State governments likewise tax incomes and exact other tax payments, many of which fall upon income, there are limitations upon the freedom with which the Federal Government can modify its practices in taxing the smaller incomes. In any case a closer integration of Federal and State revenue systems is desirable. Similar changes might be effected in the Federal estate tax. The gift tax can also be made more productive. The immediate revenue possibilities from changes in these taxes should be explored.

### REVENUE TARIFF

A marked reduction in American tariffs would probably increase, instead of decrease, revenues from customs duties Lower tariffs will also make possible the payment of a greater portion of the war debts—if they are not completely canceled or repudiated. A revival of trade following a world-wide reduction of tariffs would not only directly increase customs receipts but would also increase the yield of income and other taxes which reflect the degree of business prosperity. Enlightened self-interest necessitates the reduction of tariffs

Substantial revenues can be secured by the imposition of emergency customs duties on tea, coffee, and cocoa. These commodities are not commercially produced in the United States and only in nominal amounts in our insular possessions, Moderate revenue duties upon them will not affect their domestic production. The productivity of these duties should be substantial They are easy of administration, can be collected by existing officials, and are distinctly preferable to general sales taxes or to levies on specially selected manufactured articles. The objection to them is that they are regressive in operation and make impossible "a free breakfast table."

Teas were subject to relatively heavy taxation in the early days of the Republic and during the Civil War. During the period from 1898 to 1903 a tariff of 10 cents per pound on tea was in effect. To-day there is no duty on such imports. In 1901 the tea tax produced $8,300,000 in revenue. To-day the revenue from a similar tax should be about the same In 1929, approximately 89,393,000 pounds of tea were imported—sufficient to produce a revenue of $8,939,000 if taxed at 10 cents per pound, and if consumption did not fall because of the tax

Coffee has been on the free list continuously since 1872. Prior to that date all tariff acts, except the tariff of 1832, imposed duties on coffee ranging from 2½ to 5 cents per pound From 1926 to 1929 the importation of coffee averaged over 1,466,000,000 pounds per year, sufficient at 5 cents per pound to produce an annual revenue of more than $70,000,000, with no allowance for curtailment of consumption caused by the imposition of the tax

Cocoa beans (or unprepared cocoa) have been on the free list since 1872, while prepared cocoa has been dutiable almost continuously since 1789. The duty on cocoa beans, prior to 1872, ranged from 1 to 4 cents per pound. In 1931, 418,159,000 pounds of cocoa beans were imported. If these imports had been taxed at 2 cents per pound, the revenue produced would have been $8,363,000

Revenue duties on tea, coffee, and cocoa at the rates suggested could thus be relied on to produce at least $75,000,000 per year.

### BEER TAX

Substantial revenues should also be secured from the taxation of the sale of beer and wine if, as, and when the liquor prohibition laws are modified.

All of the foregoing proposals combined would have fewer deleterious effects upon trade and the revival of business than the proposed Federal sales tax. Their combined productivity should amply care for the President's estimated Budget deficiency of $307,000,000, but probably would not cover additional deficiencies arising from the nonpayment or postponement of war-debt obligations. Yet, if the method of balancing the Budget suggested in this memorandum were adopted, it is not unreasonable to believe that the entire deficit could be covered.

## IV

## Public Debts

Throughout this memorandum it has been emphasized that the Federal Government should make use of extensive borrowing to assist in financing the operations of government during an economic crisis. It has been maintained that loans should be resorted to in order to finance emergency expenditures, public works, and loans or investments. Temporary borrowing to defray the cost of necessary services is also justifiable during an emergency. But, if the public debt were now expanded, steps should be taken quickly to reduce it during the next period of prosperity. The alternate expansion and contraction of the public debt with reference to the business cycle would not only help to minimize the swings of these cycles but would also give to the Federal revenue system a desirable degree of elasticity.

These borrowings could now be undertaken on the basis of short-time loans in order to secure the advantage of extremely low rates of interest. This policy has recently been followed by the Treasury Department. On December 15, 1932, the Treasury borrowed $250,000,000 on 1-year certificates at an interest rate of three-fourths of 1 per cent—one of the lowest interest rates ever paid. This issue was nominally oversubscribed sixteen times. At the same time, $350,000,000 was borrowed on 4-year notes bearing 2¾ per cent interest. This offering was nominally oversubscribed nearly twenty times At present, therefore, there appears to be an ample market for Federal loans. The one problem confronting the Treasury in its short-time borrowing is so to arrange maturities that the Government does not become embarrassed in their payment or conversion when due. Too large a floating debt may make conversion into long-term indebtedness a difficult task.

As things now stand, there are limited possibilities for refunding a portion of the outstanding public debt. The average annual interest charge on this debt has been steadily declining since 1922, and a portion of the obligations is callable at the option of the Treasury. For example, the fourth Liberty loan of over $6,000,000,000 is callable after October 15, 1933. The interest rate of 4¼ per cent carried by these bonds is greater than the rates now being paid. A substantial amount of outstanding bonds might also be exchanged voluntarily for new issues, provided that ancillary inducements were offered. At any rate, the example of England in its recent refunding operations indicates what might be accomplished by the United States, particularly if a public subscription drive were inaugurated. The economies realizable through moderate refunding should be carefully explored

## V

### Summary of Suggestions

In summary the following suggestions are presented by the signers of this statement:

1. We suggest that Congress, in undertaking the task of balancing the Federal Budget, should finance expenditures for relief, investments, loans, and public works from borrowings, and that the Federal debt during the next fiscal year be increased by a sum not less than the amounts so expended.

2. We suggest that funds from current taxation should be applied to pay the ordinary operating expenses of government; that so far as these expenses can not be defrayed from taxation they should be covered by temporary emergency borrowings.

3 We suggest that funds should not be raised by taxation (or borrowing) except in the fiscal year for which they are required; that the Budget should limit appropriations at this time to sums to be expended during the next fiscal year

4 We suggest that Congress, after making provision for discharging contractual obligations, should adopt the policy of not appropriating funds for the amortization of the Federal debt during 1934, as proposed by the President in his Budget message.

5. We suggest that Congress and the President should adopt the policy of balancing the Budget over a period of years, taking account of the swings of the business cycle, rather than attempt to balance each annual Budget without reference to the effects of such policy on business and social welfare.

6. We suggest that every opportunity should be seized to reduce the cost of rendering public services; that political patronage be completely eliminated from the Federal services; that every possible effort be made to reduce waste and inefficiency to a minimum; that the reorganization of departments should be speeded; that improved methods and procedures should be adopted wherever possible.

7. We suggest that salaries should not be further cut unless steps are taken at the same time to accomplish all other possible economies in the public service, that personnel surveys be made and that the findings be used immediately as a basis for the separation from pay rolls of superfluous and inefficient employees and for any cuts in wages which may be made.

8. We suggest that, in developing its retrenchment policy, Congress should not blindly follow arbitrary rules but should make reductions and curtailments after weighing the value and importance of each activity.

9 We suggest that services undertaken primarily for the benefit of particular individuals or groups and conferring little advantage to citizens as a whole should be curtailed and put on a self-supporting basis; we suggest that subsidies to special interests should be withdrawn.

10. We suggest that the volume of public-works expenditures should not be curtailed during the fiscal year 1934.

11. We suggest that Federal appropriations should be made at once for the direct relief of the unemployed.

12. We question whether the total of Federal expenditures should be reduced lest the demand for goods and services be curtailed as a result of the restriction of Government purchases and wage payments.

13. We assert that in developing new sources of revenue the Federal Government should avoid the adoption of taxes, such as the sales tax, which tend to increase costs of production and diminish the volume of production and employment.

14. If any new taxes are to be levied, we suggest first an increase in income, estate, and gift taxes, then the adoption of revenue duties on tea, coffee, and cocoa, together with a material reduction in existing tariffs, so that increased revenues may be secured from customs duties.

15. We suggest that taxes be imposed on the sale of beer and wine if the prohibition acts are modified.

16. We recommend that elasticity in Federal revenues should be sought in the future by the planned control of the Federal debt—that the Federal debt should be permitted to increase in times of depression and be rapidly retired during prosperous times; that the borrowings for 1934 should be not less than the sums required to finance emergency relief, loans, investments, and public works

It is our belief that if these suggestions are adopted the 1934 Budget will be adequately balanced; that the general welfare will be enchanced; and that Congress will, by its action, hasten the return of better times

Frank Bane, Paul Betters, Carl Chatters, Paul H. Douglas, Simeon E. Leland, H. A Millis, Clarence E. Ridley, H C. Simons, Donald Slesinger, Jacob Viner, L. D. White.

(An article submitted by Mr. Frank B. Cook, Salt Lake City, is here printed in full, as follows:)

## The Economic Importance of Silver

(By Frank B. Cook, Salt Lake City, Utah, January 3, 1933)

"All truth is safe and nothing else is safe; and he who keeps back the truth, or withholds it from men, from motives of expediency, is either a coward or a criminal or both."—Max Muller.

Much has been written and much said on the subject of silver since its fall in price, as measured by gold, and since the latter was made the sole unit of value in the United States in 1873. But a surprisingly small number of people take the trouble to study the subject from an economic standpoint, considering its importance to every man, woman, and child in every walk of life.

Present conditions the world over are deplorable, to express it mildly, and still many earnest men in endeavoring to find a solution of our difficulties in the United States have concluded overproduction of commodities and manufactured goods is the answer and in order to cure this, advocate all kinds of remedies from the 5-hour day and the 6-day week to plowing up every third row of cotton, technocracy, buying silver and issuing currency against it without fixed ratio, and the same old monkey wrench they have been throwing into the machinery since 1875, international conferences on bimetalism.

There has been authority for such a conference (sec. 312), for 36 years; but no such conference has been called. It is as follows:

"312 INTERNATIONAL MONETARY CONFERENCE COMMISSIONERS

"Whenever the President of the United States shall determine that the United States should be represented at any international conference called by the United States or any other country with a view to securing by international agreement a fixity of relative value between gold and silver as money by means of a common ratio between these metals, with free mintage at such ratio, he may appoint five or more commissioners to such international conference; and for compensation of said commissioners, and for all reasonable expenses connected therewith, to be approved by the Secretary of State, including the proportion to be paid by the United States of the joint expenses of any such conference, the sum of $100,000, or so much thereof as may be necessary, is appropriated. (March 3, 1897, c. 376, sec. 1, 29 Stat. 624.)"

There is no overproduction of food stuffs so long as there is a hungry human being to be fed and no surplus of goods to clothe the people so long as there are men, women, and children inadequately clothed.

As illustrating that this idea of overproduction is not new, in 1844 Henry L. Ellsworth, at that time United States Commissioner of Patents, stated:

"The advancement of the arts, from year to year, taxes our credulity and seems to presage the arrival of that period when human improvement must end"

One would be excused for wondering what Mr. Ellsworth would conclude if he could review at this time the "improvements" which have passed through the Patent Office since 1844.

Hon. Carroll D Wright, the first Commissioner of Labor and an economist of note, after a careful study, stated in his report issued in 1886:

"Industry has been enormously developed, cities have been transformed, distances covered, and a new set of economic tools has been given in profusion to rich countries and in a more reasonable amount to poorer ones What is strictly necessary has been done often times to superfluity. This full supply of economic tools to meet the wants of nearly all branches of commerce and industry is the most important factor in the present industrial depression. It is true that the discovery of new processes of manufacture, will undoubtedly continue, and this will act as an ameliorating influence; but it will not leave room for marked extension, such as has been witnessed during the last 50 years, or afford a remunerative employment of the vast amount of capital which has been created during that period. The day of large profits is probably passed. There may be room for further intensive but not extensive development of industry in the present era of civilization Supplying themselves with full facilities for industry and commerce will give to each of the great nations of Europe and America something to do, but the part of each in this work, will be small and far from enough to insure more than temporary activity."

These quotations are not given for the purpose of criticizing, but to show that the theory of overproduction because of mechanical improvements is not new. A review of conditions since the periods quoted is all that should be necessary in the way of comment.

What then is the answer? What is it that is fundamentally wrong? Why is it that we have a condition throughout the country which is trying men's souls, breaking the hearts of women and causing millions of little children to go to bed hungry?

Why did 1,800 human beings commit suicide in one of our cities last year, and why do we see millions of honest men tramping through the country whose only hope, which may soon be a demand, is that they be given an opportunity to work?

The administration at Washington continues to loan money which can not be profitably employed, in the hope of keeping the large corporations, banks, and insurance companies out of receivership and the Congress continues to try to find new ways to tax an already over-taxed people, while the people themselves try to find ways to earn enough to pay taxes already levied. At the same time 11,000,000 or 12,000,000 men are wondering where they and their families are going to get the next loaf of bread.

There are world debts according to estimates by statisticians of $750,000,000,000. In this country the debts of the Government, the States and their subdivisions, together with all forms of corporate and personal obligations are estimated at more than $200,000,000,000. Sums so vast that the human mind can not comprehend them. In order that we may have some idea of what they mean, it would take more than 1,400 years to liquidate the former without interest and 381 years the latter at the rate of $1,000 per minute. Of the debts in the United States farm mortgages alone are estimated at $9,500,000,000. In addition to an annual interest charge of $600,000,000 on these mortgages paid by the farmers, their direct tax amounts to nearly one thousand million dollars annually. These debts are payable in terms of gold and of gold there is available in the world, for monetary purposes, $11,500,000,000. They are payable in terms of gold because, whether so written in the bond or not, the producer must pay at prices expressed in gold. Commodity prices have not fallen when measured with other commodities. You may trade one commodity for another and find each bears approximately the same relationship to the other that it did four years ago. It is only when measured by gold that the difference is apparent. In other words, gold has appreciated. It will require from two to three times as much of the products of the soil or of the mine to buy a gold dollar to-day as it would have taken four years ago. The only remedy suggested is to lend more money when no one can produce enough to pay taxes and interest on what is already owing.

John Stewart Mill has said:

"There is such a thing as a general rise in prices. All commodities may rise in their money price but there can not be a general rise in values. It is a contradiction in terms. 'A' can only rise in value by exchanging for a greater quantity of 'B' and 'C'; in which case these must exchange for a smaller quantity of 'A'. All things can not rise relatively to one another. If one-half of the commodities in the market rise in exchange value the very terms implies a fall of the other half; and reciprocally the fall implies a rise. Things which are exchanged for one another can no more all fall, or all rise, than a dozen runners can each outrun all the rest, or a hundred trees all over-top one another"

Also, "that the money prices of all things should rise or fall, provided they all rise or fall equally, is, in itself, and apart from existing contracts, of no consequence. It affects nobody's wages, profits, or rent Everyone gets more money in the one case and less in the other; but of all that is to be bought with money they get neither more onr less than before. It makes no other difference than that of using more or fewer counters to reckon by. The only thing which in this case is really altered in value, is money; and the only persons who either gain or lose are the holders of money, or those who have to receive or to pay fixed sums of it There is a difference to annuitants and to creditors the one way, and to those who are burthened with annuities, or with debts, the contrary way. There is a disturbance, in short, of fixed money contracts; and this is an evil, whether it takes place in the debtor's favor or in the creditor's."

President E. Benjamin Andrews of Brown University, a recognized authority on the subject, stated in 1895 in reviewing conditions at that time:

"Appreciating money is occasioning injustice in case of every one of these obligations. The business friction proceeding from this source I mention presently; here I hold up to view the fraud of the system; how increase in the value of money robs debtors. It forces every one of them to pay more than he covenanted to pay, not more dollars but more value, the given number of dollars embodying greater value at the date of payment than at date of contract. In these days debtors must struggle hard to be able to pay what they honestly owe. A money system which forces them to pay from 10 to 50 per cent blood money is devilish indeed." and,

"That a very great fall in general prices has occurred since 1873 is uncontested; but the baneful effect of that fall is not so widely seen. Some, indeed, deny that fall in prices is an evil, and deem it an advantage instead. Such people confuse falling prices with falling costs, two things which are perfectly distinct The amount of labor necessary to produce the great commodities of life may be lessening from year to year, and yet the prices, the money value of those things, be increasing. Costs and prices may rise or fall together or one may rise as the other falls. The costs of things were falling in the sixteenth century, when American silver was first getting distributed in Europe; but prices were then rapidly rising. Likewise between 1850 and 1873 costs were falling more rapidly than now, but prices were not falling; they were rising. Even when the two movements coincide, as at the present time, they are not to be identified. The lowering of the costs of things is always advantageous, meaning an easier living for mankind. A fall of general prices is always a curse. I desire also to emphasize the fact that it is the fall which is mischievous, and not the lowness of the prices after they have fallen. While, during its progress, a general fall of prices, however caused, is always unfortunate, and while the effects of such fall may be grievous and continue long, yet a low range of prices when attained, considered apart fromthe causes which made it low, may be as desirable as a high range of prices. In what I shall say, therefore, I have in mind falling prices, not falling costs, and falling prices instead of low prices; and my immediate purpose is to set forth how unfortunately in many ways a fall in general prices works. I say, first, that falling prices, such as are now occurring throughout the gold-using world, work outrageous injustice." And, "falling prices (appreciating money) set up a special, positive motive for abstaining from productive industry. This is the impulse to hoard. Appreciation of money tempts holders of money and of titles certain to be paid in money to cling to these and not invest in industry." And, "In this risk to industry from having to produce against a falling market, this bondholder instinct, and this hoarding motive or impulse to clutch at gold-paying paper and not let go save when return in kind is sure, we see the reason why our banks overflow with funds which they can not loan and our streets with hungry men willing to work, but unable to find strong employers who have heart for productive enterprises. The first victims to falling prices are producers of the weakest class. These are the farmers—weakest because possessing the least capital and unable either to combine or to stop producing. Hence the agrarian distress in every farming country and section of the gold-using world."

According to Sauerbeck, prices in 1873 averaged higher than in 1867 to 1877. The index number for that year being 111; in 1874 prices 102 and the index number of silver 95.8; in 1895 prices 62 and silver 49.1; in April, 1896, prices 60.3 and silver 51 1.

The London Economist reported a fall in (world) prices January 1, 1890, to January 1, 1896, of 10 per cent. Mr. Sauerbeck showed a fall of 14 per cent from 1891 to 1895.

The London Statist at that time stated that while the cash value of imports in 1895 was 416,687,000 pounds, on the basis of 1890 prices their cash value would have been 507,100,000 pounds. The benefit to England being for that year 90,400,000 pounds

It was by reason of such conditions that the money question was raised in the campaign of 1896; the same conditions, only less severe, than exist to-day.

I quote some opinions of that period.

Senator Sherman in 1869.

"The contraction of the currency is a far more distressing operation than Senators suppose. Our own and other nations have gone through that operation before. It is not possible to take that voyage without the sorest distress. To every person except a capitalist out of debt or a salaried officer or annuitant, it is a period of loss, danger, lassitude of trade, fall of wages, suspension of enterprise, bankruptcy, and disaster. It means ruin to all dealers whose debts are twice their business capital though one-third less than their actual property. It means the fall of all agricultural production without any great reduction of taxes What prudent man would dare to build a railroad, a factory, or a barn with this certain fact before him?"

In 1878, in discussing the Blaine-Allison Act in Congress, James G. Blaine said:

"The people do not want a single gold standard, they want both gold and silver, in equal honor, in whatever abundance the bountiful earth will yield them to the searching eye of science and to the hard hand of labor. The two metals have existed side by side in a harmonious, honorable companionship as money ever since intelligent trade was known among men." And, "I believe the struggle now going on in this country and in other countries for a single gold standard would, if successful, produce wide spread disaster in and throughout the commercial world. The destruction of silver as money and establishing gold as the sole unit of value must have a ruinous effect on all forms of property except those investments which yield a fixed return in money. These would be enormously enhanced in value, and would gain a disproportionate and unfair advantage over every other species of property." Also,

"I believe gold and silver coin to be the money of the Constitution; indeed the money of the American people, anterior to the Constitution which the great organic law recognized as quite independent of its own existence. No power was conferred on Congress to declare either metal should not be money. Congress has, therefore, in my judgment, no power to demonetize silver any more than to demonetize gold."

Mr. Balfour:

"Let Germany, India, and United States try a gold currency and a tremor seizes every one of our commercial magnates. They look forward, in the immediate future, to catastrophe, and feel that the ultimate result may be a slow appreciation of the standard of value, which is perhaps the most deadening and benumbing influence that can touch the enterprise of a nation."

Mr. Goschen:

"If, however, other States were to carry on a propaganda in favor of a gold standard and the demonetization of silver, the Indian Government would be obliged to reconsider its position and might be forced by events to take measures similar to those taken elsewhere. In that case the scramble to get rid of silver might provoke one of the greatest crises ever undergone by commerce. One or two states might demonetize silver without serious results, but if all demonetize there would be no buyers, and silver would fall in alarming proportions. If all

States should resolve on the adoption of a gold standard, the question, would there be sufficient gold for the purpose, without a tremendous crisis? There would be a fear on the one hand of a depreciation of silver, and on the other of a rise in the value of gold, and a corresponding fall in the prices of all commodities."

William Jennings Bryan:

"There is a class of people whose interest in financial legislation is too often overlooked. The money-loaner has just as much interest in the rise in the value of his product—money—as farmers and miners have in the increased price of their products "

John G. Carlisle:

"The destruction by legislation of silver would ultimately entail more misery on the human race than all the wars, pestilences, and famines that ever occured in the history of the world." Also, "mankind will be fortunate indeed if the annual production of gold coin shall keep pace with the annual increase of population, commerce, and industry."

John J. Ingalls:

"I assert that the American people, and especially those of the West, demand the free and unlimited coinage of silver."

Senator Teller, in his farewell address to the Republican convention in 1896:

"I have said enough to convice you that I think this is not a question of policy but a question of principle. It is not a mere idle thing, but one on which hangs the happiness, the prosperity, the morality, and the independence of American labor and the American producers."

An opinion of an earlier date is also worth noting.

Daniel Webster:

"I am clearly of the opinion that gold and silver, in ratio fixed by Congress, constitute the legal standard of value in this country and that neither Congress nor any State has authority to establish any other standard or to displace this standard."

Following 1896, however, the condition complained of, the need of more basic money, was corrected to some extent by new gold discoveries and heavier production from those already discovered. The Rand, which was first talked of in 1885, by 1899 produced 3,637,713 ounces of gold; the Klondike began to send millions from the North in 1897; the cyanide process in 1899 enabled operators to work ores not previously possible; Cripple Creek in 1900, although this was several years after discoverv; western Australia 1901, and Goldfield 1904. It is interesting to note that the first of these, the Rand, is still producing and furnishing at this time more than 50 per cent of the world production. This new production, although large, has not kept pace with the increase of commerce and trade and increase in population, and we now have a condition brought about by those factors, and in addition an enormous increase in all forms of debt as the result of the last great war.

Lord Bradbourne, chairman of South Africa Consolidated Goldfields Co , said (1931):

"The supply of gold is even now insufficient to meet the world's credit requirements."

And "In ten years time the present gold production of $415,000,000 to $425,000,000, of which South Africa now contributes about one-half, will have fallen to about $275,000,000, while in 15 years the South African production will not exceed $50,000,000."

In the report (1931) of the joint committee of the Federation of British Industries and the Empire Economic Union on Empire Monetary and Financial Policy, they say, with reference to future supply of gold:

"Moreover, there remains the fact that the existing and prospective gold supply in the world, even if more evenly distributed, is likely to prove seriously inadequate to world needs. The total output is likely to go down from 83,000,000 pounds in 1930 to about 76,000,000 pounds in 1940. The now monetary demand is slowly increasing and is calculated to rise from 37,000,000 to 41,000,000 pounds by 1940. The new gold available to meet the growing monetary needs of the world will thus fall from 46,000,000 in 1930 to under 35,000,000 pounds in 1940 On the other hand, the world need for increased currency to meet its growing production was estimated by the gold delegation of the financial committee of the League of Nations in their first interim report at either 2 or 3 per cent per annum. It is the latter figure which is confirmed as necessary to maintain price stability, by the very careful analysis of gold production and prices over the period since 1851, which has been carried out by the Industrial Institute. On this basis and assuming the retention of the present conventional 40 per cent gold cover for notes in most gold standard countries, there is already a shortage on the annual supply, rising from 16,300,000 pounds in 1930 to an estimated 48,900,000 pounds in 1940. Even if the gold cover were reduced to 33 per cent and the rate of increase required taken at the lower figure of 2 per cent, there would only be a small margin to-day converted into a small but steadily increasing shortage after 1937. In these circumstances it would appear that the possibility of supplementing the metallic basis of credit by the restoration, in some measure or other, of silver to a place in the world's monetary system deserves serious consideration."

Financial committee of the League of Nations:

"But as a result of its (the delegation) analysis of the large mass of statistical data collected, the delegation has reached the conclusion that the inadequacy of the supply of new gold available for new money is likely at no very distant date to exercise its influence in depressing prices—a danger which, as the delegation points out, would be aggravated were gold coin to be put once more into circulation." The delegation itself states: "It is obvious that, when, throughout any period, there is a long-term tendency of prices to fall owing to a scarcity of gold, the difficulties in periods of depression will be increased, more especially for certain countries, if for any reason there is a distribution of the gold stocks which limits their efficiency."

"And the demand for currency is naturally dependent upon the volume of production and trade and the monetary transactions to which such trade gives rise The demand for gold which forms the basis of currency in all gold-using countries will, in the absence of any important changes in currency systems, be determined by these factors. We may reasonably expect, therefore, that the future requirements of gold, as long as methods of payments do not undergo important changes, will tend to increase as production and trade expand."

Mr. H. A. Kursell in his paper: "Gold Production and Its Future," 1930, gives the gold production since 1493 as 1,042,850,000 ounces of which 542,850,000 ounces have been absorbed by industry, lost or disappeared by hoarding, leaving about 48 per cent for monetary uses. He states:

"The consensus of more balanced opinion, however, seems to be that if the Rand Mines continues crushing on an annual basis of 30,000,000 to 32,000,000 tons the Rand production will remain more or less stable around 10,000,000 ounces for the next four or five years, but by 1936 a decline of 30 per cent is to be expected."

In conclusion Mr. Kursell states:

"It seems logical to expect that between 1935 and 1940 the available gold supply for the latter purpose (coinage), will not exceed 5,000,000 to 6,000,000 ounces per annum, i e , about one-half what it is at present."

Sir Robert Kotze, engineer for the South African Government, has said:

"A decline of 48 per cent in Rand production by 1936, which is likely to increase gradually, as the present probable and prospective ore reserves will be exhausted by 1947."

In the statement given out by the Federal Reserve Board, December 23, 1932, it was stated:

"The principal stocks of gold were held by the following countries:

| | | | |
|---|---|---|---|
| United States | $4,340,000,000 | Belgium | $362,000,000 |
| France | 3,266,000,000 | The Netherlands | 415,000,000 |
| England | 678,000,000 | Switzerland | 493,000,000 |
| Germany | 195,000,000 | | |
| Italy | 306,000,000 | Total | 10,055,000,000" |

Leaving approximately one and one-half billion for all the balance of the world including many important European countries, Japan, and all of central and South America.

It is this question of the inadequacy of gold to support the commerce and credit needs of the world that is of the greatest importance. The commerce of the world is estimated at $400,000,000,000. The average annual increase is estimated at from 3 to 3½ per cent. The gold supply during the past year, although it will show considerable increase, will fall short of supplying monetary needs by at least $90,000,000, without taking into consideration the accumulated deficiency.

It is generally conceded that no permanent improvement can be had until the present commodity price level is higher. Numerous proposals have been made to bring this about; the one most discussed being inflation and the question to be decided, if this is to be the remedy, what form of inflation is to be had. Will we follow the example of Germany with the printing press and all its accompanying evils or shall we return to the plan of our forefathers and open our mints to the free coinage of silver? In the first instance we use a machine which has no limit; in the second, we are limited by a very well known quantity of the metal, estimated by competent authorities to not exceed 8,000,000,000 ounces or at our present coinage ratio $10,343,200,000 for the world. This would be less dollars in silver than dollars in gold. Paper money expansion would no doubt have the effect of raising the price level in this country, but would not have any effect whatever on world prices. The opening of our mints to silver, however, would affect prices throughout the world and would increase the buying power of more than one-half of the population of the world. This is important for a large share of our exports are those which may be classed as basic commodities; such as cotton, wheat, corn, copper, etc.

Some who are opposed to bimetalism say we would be flooded by silver should we open our mints to that metal. In a pamphlet, recently issued, it was stated:

"The present price of silver is 30 cents per ounce and obviously, every speculator in the world would buy silver in all sorts of manufactured forms such as spoons and vases and would seek out stores of silver in India, China, and elsewhere so long as it could be bought for $1 an ounce (the discussion was on coinage ratio at 20 to 1 which would be $1.03 per ounce), less the cost of collecting and some margin of profits."

Shortly after the World War silver sold at $1.37 in New York and as high as $1.72 in London, the difference being explained by the difference in exchange, but no one will tell you of any old spoons or vases coming on the market. On the contrary, it was found necessary for this Government to sell to the British Government 200,000,000 ounces of our silver to enable her to meet her India obligations. Also, no one has adequately explained why and by what authority this Government entered into a contract with New York bankers to break the price at that time and furnished those bankers with silver from the United States Treasury for that purpose, as will be seen from the following:

I quote from an article, by former Senator Charles S. Thomas, printed in the issue of March, 1932, of Money:

"Secretary Houston's brief recital of this incident in his report for the fiscal year 1920, beginning on page 182, reads as follows:

" 'The price of silver rose with considerable regularity after the beginning of the fiscal year 1920 until a price surpassing all definitely known records was reached in New York on November 25, 1919, the price being from $1.08 to $1.38¼. The maximum price in London, 89½ pence, was reached on February 11, 1920, and it is understood that sales were made as high as $1.42 per ounce in San Francisco.

" 'The coining value of silver for United States dollars is $1.29+ per ounce, and for United States subsidiary silver coins $1.38+ per ounce. For a time, therefore, the price of silver was sufficiently high to menace the silver circulation.

" 'At about this time the Treasury, acting in cooperation with the Federal Reserve Board and the Federal reserve banks, arranged to release free standard silver dollars to be employed in regulating our exchanges with countries having silver monetary standards, and pursuant to these arrangements about 13,000,000 of silver dollars went to the Orient in addition to some 16,000,000 silver dollars which went through other sources between November, 1919, and May, 1920.

" 'A copy of the public announcement issued by the Federal Reserve Board in this connection, under date of December 6, 1919, appears on page 596 of this report.

" 'The price of silver remained above the melting point for dollars until early in March, 1920, when it gradually began to recede until in May it went below the price of $1 fixed in the Pittman Act for the purchase of silver bullion, to replace the standard silver dollars melted under the act.'

"The announcement of the Federal Reserve Board of December 6 referred to is also appended:

" 'Announcement was made to-day that under arrangements made between the Treasury and the Federal Reserve Board standard silver dollars that are free in the Treasury will until further notice be delivered against other forms of money to the division of foreign exchange of the Federal Reserve Board, which will, through the Federal Reserve Bank of New York, cooperating with the branches of American banks in the Orient, employ such dollars in regulating our exchanges with silver-using countries. This arrangement does not, of course, affect the redemption of outstanding silver certificates in standard silver dollars.'

"In that connection the Secretary says that the price of silver 'reached the point where our principal metallic circulation medium was menaced by the prospect of going to the melting pot for realization to the holder thereof of the profit incident at a greater bullion value than face value.'

"'At this time the Treasury, acting in cooperation with the Federal Reserve Board and the Federal reserve banks, arranged to release silver dollars to be employed in regulating our exchanges with countries having a silver monetary standard.' He then states that 'about 13,000,000 of silver dollars went to the Orient under these arrangements, while from November, 1919, to May, 1920, the silver dollars leaving the country totaled over 29,000,000.'

"In 1925 I made every possible effort to ascertain the facts regarding the export to the Orient of the 16,000,000 silver dollars thus referred to; but I was unable to secure any information other than the bare recital of the fact.

"I have no doubt the circumstances were as unwarranted as was the transaction relating to the remaining 13,000,000 dollars. Before detailing them, it should be stated that the danger menacing our silver circulation had been created by the Treasury officials.

"It is true that the bullion price of silver at the time exceeded the monetary value of our silver circulation, but the export either of silver coin or silver bullion had been prohibited both by the President's order enforcing subsection (b) of section 5 of the trading with the enemy act of October 6, 1917, and also by title 7 of the espionage act of 1917, both of which were by section 19 of the Pittman Act of April 23, 1918, declared continued in force until the amount of silver bullion required by that act should have been purchased as therein provided, and that has never been done. Of course, with this triple embargo upon exportations of silver in full force, the bullion price of the metal could not operate to deprive the country of any of its metallic coins, especially as the design of the precaution in the Pittman Act was not only to safeguard but to insure the silver purchases, therein provided for at $1 per ounce, which exportation might interfere with either, by lowering or raising market values. Hence, the menace apprehended by the Treasury Department was imaginary until created by its own action.

"Sometime, however, in the fall of 1919 and in the face of a rapid advance in the market value of silver bullion, the Treasury Department assumed the authority to set aside these statutory barriers to the export of silver bullion when they must have known that it would be at once followed by the melting of our silver coins and the sale of the resulting bullion in the market.

"In other words, when this prohibition was most needed, it was disregarded. This, of course, created the menace which served as the department's excuse for its subsequent action in the premises.

"Events now followed in rapid succession.

"On November 14, 1919, the vice governor of the Federal Reserve Board suggested to the Assistant Secretary that the department should prohibit the export of standard silver dollars 'while making it plain that no prohibition exists against the export of bullion obtained by melting them.' This prompted the reply that 'our standard silver dollars form a first-line trench which will stop the present movement,' the movement being the upward trend of silver bullion values.

"Having destroyed the statutory prohibitions, these 'trench defenses' became the Treasury's protection. After further discussions, the vice governor of the Federal Reserve Board reported, on November 26, a conference with the officers of the Asia Banking Corporation, 'regarding the protection of subsidiary coinage and removal of discrimination, exercised by British banks in the Orient against dollar drafts'; on November 28, two days afterwards, the Federal Reserve Board announced 'that in order to protect subsidiary coinage with silver selling above $1.30 per ounce, it is necessary to regulate exchanges with silver standard countries, arrangements for which have been made by the employment therefor of the foreign branches of American banks in these countries'. To do this effectively, it was decided that for the time silver dollars would be subject to redemption only with the standing silver certificates, except in the foreign exchange division of the Federal reserve bank, where they would be delivered against other forms of money on the conditions: First, that such dollars are intended for immediate export to be melted either before export or immediately upon their arrival abroad, and second, that the proceeds of the exported silver will be employed only in the purchase of dollar exchange.

"The only law which could possibly justify this transaction was the well-known Pittman Act. That it did so is very doubtful, but any silver dollars melted under that act emphatically required the purchase of an equivalent amount of silver bullion for domestic protection at a dollar per ounce, something which as to this incident the Treasury Department never pretended to do.

"On December 6, 1919, the Asia Banking Corporation, the International Banking Corporation, and the Park Union Foreign Banking Corporation of New York formally proposed in writing to the division of foreign exchange of the Federal reserve bank in that city, subject to the approval of the Federal Reserve Board and of the Secretary of the Treasury, that 'with the purpose to prevent the price of silver from rising above the point at which the subsidiary coinage of the United States will be exported, and to benefit and protect the position of American dollar exchange in the Orient market,' they would agree that for any dollars so furnished to use the same with the approval of the Board to protect, so far as possible, the subsidiary coinage from export by not premitting silver to advance in the Orient to a point which would endanger it; that they would turn over to the division of foreign exchange the net profits on silver dollars so furnished them after deducting enumerated items of expense, including a commission of not to exceed one-fourth of 1 per cent on the face amount of silver dollars so delivered; that all risk in the transaction should be borne by the banks and that the interest of the Federal Reserve Board is in the profit only without risk of loss; that the arrangement, if consumated, might be terminated at any time by the foreign exchange division, subject to its obligation to provide silver dollars against current funds in amounts sufficient to liquidate outstanding contracts, and lastly, that the total obligation of the said division of foreign exchange should not exceed the aggregate amount of 20,000,000 silver dollars. The three bank corporations above named were foreign branches of American banks located in New York.

"Their proposal was accepted on December 8, and immediately approved by the Federal Reserve Board and the Secretary of the Treasury.

"Instructions were at once wired to all reserve banks to send to the Treasury 'any silver certificates which may be spared in order to prevent other withdrawals of silver dollars from the Treasury while the agreement was in operation', thus giving the three banks as agents of the Government, the exclusive privilege of breaking the silver market in Asia through the agency of a law by its title expressly designed 'to stabilize the price and encourage the production of silver.'

"This arrangement was in no sense one for the sale of silver dollars to the banks. That word or its equivalent does not appear in it. The banks were to be 'furnished' the coin against current funds; as Government agencies they were to sell the bullion to Asiatic consumers and the Government was to receive the profit less a commission. The history of its performance confirms this assertion.

"Although not so designed, it was a conspiracy against the prosperity of the world.

"The banks were furnished, on December 18, 1919, with 3,000,000; January 23, 1920, with 7,000,000 and February 11, 1920, with 3,000,000 or a total of 13,000,000 silver dollars, mostly against their acceptances rather than 'against current funds or other forms of money as expressly stipulated.' These acceptances in the form of drafts by one of the banks upon a second with the indorsement of the third, were discounted by the Federal reserve bank to enable the private banks to complete the enterprise.

"In this way the Reserve Board supplied its banking agents both with silver dollars and with funds to secure them.

"Finally, the banks protested against the melting requirement, which was formally waived by the board on February 26, 1920, the Secretary of the Treasury having previously left the subject to the board's discretion. Some time afterward the board reported that, with the exception of the first million, the 13,000,000 silver dollars had been melted in Shanghai followed by sales of the bullion; but if additional silver dollars had been 'furnished' subsequent to the waiver of the melting requirement, they would have been so used in disregard of the provisions of the Pittman Act. The last consignment of February 11, however, with the added 16,000,000 silver dollars which the Secretary says were 'released' for the same purpose, but to whom is a mystery, were sufficient to break the world market and force the price of silver below $1 an ounce, since which time it has steadily declined.

"It will be remembered that these dollars were taken from the Federal Treasury and dumped upon Asia for the avowed purpose of 'protecting our subsidiary coinage from export.' Moreover, the Federal Reserve Board so informed James W. Gerard on January 9, 1920.

"On January 2, 1920, acting Governor Straus went further in a memorandum of that date to Governor Harding, which recites: 'There is no authority in the Treasury to finance the movement directly, and the transaction is absolutely essential for the protection of our silver coins,' such protection, as before stated, having been made necessary by the action of the Treasury in setting aside three statutes then in force prohibiting exports of coin or bullion.

"By April, 1920, the plan was accomplished and silver was forced from $1.38 to $0.608 per ounce, a decline of 66 per cent, and disaster confronted the industrial world.

"When the eastern markets responded to these attacks of the Treasury, its contract with the banks was abandoned. The net profit arising from the transaction was $190,937.47, which was divided among the 12 Federal reserve banks in proportion to their combined capital and surplus. This circumstance confirms the assertion that the enterprise was that of the Government operating through the banks and using them as screen to camouflage its activities."

No material decline in the market price of silver has ever occurred except as the result of some legislative act or the official act of some country.

Silver served as a basic money for all the world until England, under Lord Liverpool, made gold the sole unit of value in that country in 1816. Whether this was because England was ambitious to become an industrial nation and hoped by this act to buy her raw materials in cheaper markets, or because she was the great creditor nation of the world, although she had a large internal debt, 845,900,000 pounds, as the result of the Napoleonic wars, is not known. No price change in silver resulted from the action of England at that time. The record shows there was no time of which we have record up until 1873 that the commercial ratio fell to the United States coinage ratio except in two years when it was 16.11 in 1812 and 16.25 in 1813, and this was before England demonetized silver.

Germany, after collecting $1,000,000,000 from France as a war indemnity, which at that time was nearly one-third of the monetary gold of the world, adopted the gold standard in 1871, and in 1873 proceeded to sell her silver, and did sell 85,000,000 ounces from 1873 to 1878.

In 1873 the United States followed the example of Germany, and then began the fall in price as measured by gold which has continued to the present time.

France adopted the gold standard followed by the balance of the Latin Union in 1876.

The Congress of the United States attempted to stem the tide in 1878 by the passage of the Bland-Allison Act, and later in 1890 by the passage of the Sherman Act, which latter increased the amount to be purchased.

In 1893 the Indian Government closed its mints to silver, and the United States at the insistence of President Cleveland repealed the Sherman Act.

Following the closing of the India mints in June, 1893, the price dropped 19 cents per ounce in three days.

The position France maintained with reference to silver was much different from that of England and the United States. Instead of endeavoring to promote the price of the metal through purchase as we have done, she paid either metal at her option. At the annual banquet of New York Bankers, 1914, M. Robert Masson explained:

"I need not recall the remarkable role played by the Bank of France under the leadership of its very distinguished governor, Mr. Pallain, during critical periods such as 1907, when that institution succeeded in keeping the French discount rate on an exceptionally moderate level, while giving valuable and effective aid, at the same time, to the London market. How is this successful policy of the Bank of France materially possible? Precisely because it has the option to pay in silver as well as in gold. When the situation is such that withdrawals of yellow metal are to be feared the bank quotes a premium on gold. At present, for instance, the quotation is about one-tenth of 1 per cent premium—that is to say, you only get $999 in gold against $1,000 in notes. If you want to get $1,000 cash you can get them but in silver."

In 1920 England reduced the amount of silver in her subsidiary coins from 0.925 fine to 0.500. The excess silver from this operation was sold on the market and it is estimated these sales amounted to in excess of 75,000,000 ounces in 1921 and 1922. In 1929, 10,000,000 ounces were sold. Germany, Poland, France, Belgium, Italy and Switzerland followed the example of England and Indo-China sold large amounts derived from the same source in 1929.

We may pass the return to the gold standard of the different countries, at the close of the war, and consider the next step directly bearing on the market price—the action of the Royal Commission on Indian Currency and Finance appointed in August, 1925, to examine and report on Indian exchange and currency. The plan proposed was for a gold standard for India with gold circulation, silver to be limited as legal tender to 50 rupees and a gold reserve of 103,000,000 pounds was suggested to support this, and to melt rupees to the extent, if necessary, of

687,000,000 ounces of silver in order to build up the anticipated gold reserve. It is well to remember that for years India had absorbed gold in the world markets at the rate of more than $100,000,000 per annum and in that year, 1925, she took more than twice that amount. This is hoarded gold.

The result of the menace of this large amount of silver coming on the market and the later selling which took place, had a depressing effect as was anticipated.

India continued to be a purchaser of silver notwithstanding government selling and an import duty.

The commission's final decision was for the establishment of a gold standard:

"It is possible (they reported) to have a true gold standard under which the currency is based on gold both in reality and in a manner that is conspicuously visible, without putting gold in circulation."

Further, they reported:

"The people of India have from time immemorial placed their trust in silver as the medium of exchange and as their store of value. They are deeply interested in the value of silver bullion, and it is contrary to their interests to depreciate it. The present proposals would inflict heavy losses on the poorer classes, who have put their savings into silver ornaments, and who would find their stores of value depreciated by perhaps 50 per cent by the action of the government."

The final result of their deliberations was that the amount of silver to be sold be reduced to 206,000,000 ounces over a period of 10 years During the period 1927 to 1931, inclusive, the sales by the government amounted to 126,000,000 ounces of which twenty-one and one-half million were taken by the domestic market. During this time the Indian Government has not been a buyer but private purchases have been at the rate of about 100,000,000 ounces per year which is proof of the abiding faith of the Indian people in the white metal

The London Times commenting on the report of the commission at that time said:

"An unsettled feeling has been caused in the market for bar silver by certain of the recommendations of the currency commission. The price has fallen to the neighborhood of 28½ pence per ounce, the lowest point for several years past"

Is it not clear, as has been stated, that the price of silver (in gold) is the result of legislation or official acts of governments?

The following are some short quotations from authorities on the subject.

John Locke, referring to silver, says: "The money of account and measure of treade all through the world"

Jevons: "If all nations of the globe were suddenly and simultaneously to demonetize silver and require gold money, a revolution in the value of gold would be inevitable."

Giffin: "The prime offender in the matter perhaps, was Germany, which made a mistake, as I believe, in substituting gold for silver as the standard of money of the country. No doubt the pressure on gold would have been more severe than it has been if the United States had not passed the Bland coinage law."

Schuster: "Overvaluation of gold is the calamity from which the world is suffering today." He also stated:

"Unless the status of gold is placed in its proper perspective in world finance one of two results must happen—either the whole present economic system will collapse or all the currencies of the world will have to be detached from gold."

J. F. Darling: "The country that takes steps to rehabilitate silver values will have immediately 'sold' itself to the whole eastern world with its teeming population, for, with silver currencies stabilized, India, China and the whole East will have an enormously increased purchasing power to divert to the nations which will bring about its urgently needed reform." Again, "A return to bimetallism is the one and only remedy for economic ills, which if unchecked, will rapidly bring decay and dissolution to the fabric of international commerce."

Arthur Brisbane: "Ninety per cent of the world's nations and people, now off the gold standard, must have some kind of money, better than imaginary paper values. They will be compelled to use silver which nature and industry furnish uniformly about thirteen times as plentiful as gold. At present gold is almost seventy times as expensive as silver. More than seventeen hundred million human beings haven't got any gold and therefore have got no real money. They will use silver and the conspiracy against silver, ingenuously managed by those that have wanted to control the world's money, and have succeeded too well, will come to an end." Also, "Two things this country needs, could, and should have—wheat at $1 per bushel and silver at $1 per ounce."

William E. Borah: "Unless we can adopt some program which will bring back the purchasing power of some 800,000,000 people throughout the world, we shall not very soon, if ever, be free from the depression which we are now experiencing." Also, "In treating the silver question as a part of the great economical problem of the world, every effort ought to be made to restore this metal to its right place. I think under bold leadership it can be done. But, the leadership ought to be taken by the United States."

Mark Sullivan: "The world-wide drop in the price of silver has not been discussed noticeably in any prominent public place as an explanation of recent events and trends in American business. It is fairly certain there will soon be a good deal of such discussion. A few thoughtful persons believe that the drop in the price of silver accounts for at least as much as any one factor The meaning of the drop, to American business, takes into account the use of silver as currency in China and as a basis of purchasing power everywhere in Asia."

Sir Arthur Meighen: "The remedy lies in the restoration of silver as currency on a basis of 20 to 1 with gold. This suggestion has been made by Sir John Darling, bank director of London, and many other able economists. If this were done there would be no danger of any disproportionate amount of silver in the vaults of the British Empire I think Mr. Darling is correct in saying that the proportion of silver that would come into the banks would be very small and the rate of income would be very slow. The remedy for the industrial depression of the world is in the restoration of silver as a currency on a basis of 20 to 1 with gold, or on some other ratio that will be fair to both metals The exclusive gold standard is a mistake and the sooner we remedy our mistake the better for the entire world."

B C. Forbes: "The average American can not begin to grasp the ramifications of the injury to the world commerce caused by the tragic drop in silver from above 50 cents to approximately 25 cents per ounce So accustomed are Americans of the present generation to the gold standard that it comes as a shock to them to learn that fully one-half the human race depend on silver as their currency. Halving the purchasing power of one and one-half billions of people has naturally aggravated inordinately the current depression throughout the world, even though the silver-using nations consume much less per capita than the more advanced nations using gold."

Sir Josiah Charles Stamp: "If we do not solve this gold problem we shall all go bankrupt in Europe" Also, "What is universally called the fall in commodity prices might just as correctly be called the rise in the price of gold"

Sir Henry Deterding: "For no reason whatever other than ease and quick realization of the idea—but certainly not upon mature consideration—the world has been advised by great money theorists to the general adoption of gold as the only standard for fixing relative values for everything. This is an unreality which must be righted in time." Also, "That the money trade tends now to restrict itself to the gold-using countries to the exclusion of those with a silver currency. This barring of silver from the world's money markets is undoubtedly one of the main causes of the restriction of trade throughout the world to-day.

Lord d'Abernon: "Nonpayments and bankruptcies throughout the world will result, unless measures are taken to achieve a fall in the price of gold." He is quoted further: "The gold standard of the world has become unstable due to the increasing deficiency in the supply of gold in relation to increased post-war volume of production." Also, "Unless effective measures are taken, the result will be a world-wide catastrophe, both economic and political."

Mr. S. A. Knapp quotes a letter from Mr. F. L. Harden, Shanghai, dated November 28, 1930, as follows: "The teeming millions of Asia need every product of the Americans. They can not buy because international 'experts' and frenzied financiers have robbed their honest metallic currency of its purchasing power. To-day Asia has retired behind her traditional wall, is purchasing nothing and has become a competing manufacturer. Oriental labor as we have here will eventually wreck Occidental civilization. Unless Asiatic standards are improved, which can only be done through stabilization of silver upon an equitable basis, Asia will drag Europe and America down to her own level of existence."

Frank J. Cannon: "The advocates of the single gold standard have assumed that the issuance of credit based upon gold would sustain the commerce of the world. Their tragic mistake is now demonstrated in the misery of millions, including many of our own. The falacious idea of substituting, under the authority of small and interested groups, gold credit for a sufficiency of money ought now to be beyond dispute."

Jonathan Bourne: "The enactment of the Wheeler bill (S. 2487) would restore the honest dollar of our forefathers and establish an honest financial yardstick in our domestic and international trade."

Charles S. Thomas: "For purchasing power is the equivalent of a sound and abundant monetary system, endowed with the unqualified function of legal tender and safeguarded against undue inflation, yet capable of expansion under the operation of natural laws, in response to the increasing demands of human activity. This can be effected by a return to the old and time-tested system of bimetallism, whereby the monetary standard rests upon both gold and silver."

Premier MacDonald: "Is finance to be based upon one certain metal? Is credit to be controlled by the supply, demand and distribution of that particular metal? Is the policy, theory and practice which we accept and express in our coinage to thwart our commercial welfare?"

William H. King: "It is obvious that as gold diminishes in quantity it appreciates in price or value measured by commodities." And, "The level of prices of commodities is determined by the number of units of purchasing power, hence if the number of units of purchasing power are reduced, each unit immediately possesses greater value expressed in commodity prices and the prices of commodities measured by the monetary unit fall."

John A. Simpson: "Another thing, three-fourths of the world uses silver as a basis money, and if we were to remonetize silver it would open up avenues of trade with millions of people that we can not deal with now because we are on a gold standard. It is my firm belief that the remonetization of silver would double the prices of wheat, cotton, beef, and all other farm products within 60 days."

Burton K. Wheeler: "The remonetization of silver would raise and stabilize the price of wheat and cotton on the world market without resorting to unsound methods and without cost of $1 to the Federal Government." And, "This is not primarily a question concerning the price of silver but a monetary question vitally related, in the most direct fashion, to unemployment and the depression through which we are now passing."

The function of money is too little understood even by those who deal in it from day to day. The merchant who exchanges for it those things which he has to sell, it would appear, would be the one to appreciate that he has received a symbol of the value of what he has sold and of what he must himself again purchase in order that he may continue to sell. The man who acquires money in payment for labor performed does not stop to think, as he pays it out, that what he is paying represents the labor he has exhanged for something he can divide into smaller units in order that he may purchase his necessities. The banker who receives it from his clients and rents it to other clients for a consideration also payable in money thinks of it only as something which by handling as often as possible he can gain profits from. All are likely to forget, if they ever knew, that money is something established by legislation for the convenience of people that they may exchange what they have to sell for what they want to buy. A measure of value, a medium of exchange, a standard of comparison, a token.

It is important then that this token of to-day shall represent the same things that it did, for instance, four years ago, or will represent the same things four years hence, or at any period in the future to which may run a contract now in force.

If the farmer four years ago entered into a contract to pay certain sums which have now become due, he should be able to pay with the same number of bales of cotton, pounds of beef or mutton or pork, or bushels of wheat or corn. This he can not do. He not only finds he must deliver nearly three times as much of what he has, in order to meet his obligation, but he finds that when he has disposed of what he has raised, he has nothing left above the cost of production. Not only must he default on his principal, but he has not enough left to pay his interest or his taxes. The farmer is used for illustration because his is a basic industry. The same statements will apply to other lines of endeavor. In fact, the national income has fallen in almost exact proportion to that of the farmer. As indicating this, farmers and national gross income are estimated for the years quoted as follows:

All farmers, United States:

| | |
|---|---|
| 1929 | $12,000,000,000 |
| 1930 | 9,300,000,000 |
| 1931 | 6,900,000,000 |
| 1932 | 5,000,000,000 |
| 1932 (estimated) | 5,000,000,000 |

All income:

| | Per cent |
|---|---|
| $89,500,000,000 | 13.4 |
| $65,600,000,000 | 14.1 |
| $52,400,000,000 | 13.1 |
| $35,000,000,000 | 14.2 |

It will be seen that the farmers' gross income remains fairly constant in its relation to that of the whole

To quote Hon. James H. Teller: "Whether or not a thing is money, is to be determined, not by its substance, but by the functions it performs. The value of money is its purchasing power."

Honest money, therefore, is money which can be had or can be exchanged for as nearly as possible, the same amount of commodities or labor as at the time an obligation was entered into. The assumption that a gold dollar is an honest dollar is a fallacy easily demonstrated; for no dollar is an honest dollar which will buy two or three times as much of the necessities of life, or one-half or one third as much, in the course of four years.

Again quoting Judge Teller: "The prime requisite, the absolutely essential quality of honest money, is stability in value, in other words, unchanging purchasing power."

It is frequently stated by unthinking persons that the price of gold never changes. One often hears the statement that gold is always worth $20.67 an ounce. But payable in what? Itself? Is it with labor, or the products of the farm or the mines or the factories? In any of these an ounce of gold is surely worth $20.67 and much more. It is so valuable that no one can acquire it from savings or profits. Nothing could be further from the truth than that gold has an unchanging value.

Leonard Courtney, a member of the Royal Commission on Gold and Silver, said: "It is a dream to suppose that gold is stable in value."

Professor Jevons said: "We are accustomed to look upon the value of gold as a fixed datum line in commerce, but in reality it is a very variable thing."

The Statist, an authority on finance: "It is a mistake to suppose that gold is more stable in value than silver."

It has been stated many times that the reason silver was demonetized was because of the flood of silver coming on the market from mine production. This is not true. It is important to keep in mind, in considering production, that it is the relative amount of the two metals which is important. In 1873 the United States adopted as our unit of value 23.22 grains of fine gold or 25.8 grains of standard gold. The average world production for the 5-year period, 1871 to 1875, inclusive, was 5,591,014 ounces of fine gold and 63,317,014 ounces of fine silver; a ratio of 11.32. Nor can it be said that there was any market drop in the price of silver at that time. The average London price in 1872 was $1.322 and in 1873, following demonetization, $1.29769. As has been noted, there was no time of which we have record that silver was quoted on the London market as low as our coinage ratio of 16 to 1 except in the two years preceding the change in the English unit—1816.

For the 440 years following the discovery of America the ratio of production has averaged about 14 of silver to 1 of gold. To make plain that production had no bearing on price, so long as the mints were open to free coinage of both metals, it should be remembered that there was great variation in the production of one or the other metal in different years. In 1850 the United States produced 2,418,750 ounces of gold and 38,700 ounces of silver, a ratio of more than sixty-two times as much gold as silver by weight. In 1871 the world production was 8.7 of silver to 1 of gold. In 1872 between 12 and 13 to 1; at the time that England adopted bimetallism during the reign of Queen Elizabeth, production ratio varied from 26 to 56 of silver to 1 of gold.

The following is from the report of the United States Monetary Commission, 1876:

"At the Christian era the metallic money of the Roman Empire amounted to $1,800,000,000. By the end of the fifteenth century it had shrunk to $200,000,000. (Adam Smith informs us that in 1445 the price of wheat in England was 2 pence per bushel.) Population dwindled, and commerce, art, wealth, and freedom all but disappeared. The people were reduced by poverty and misery to the most degraded conditions of serfdom and slavery. The disintegration of society was almost complete. History records no such disastrous transition as that from the Roman Empire to the Dark Ages. The discovery of the new world by Columbus, restored the volume of precious metals, brought with it rising prices, enabled society to reunite its shattered links, shake off the shackles of feudalism, and to relight and uplift the almost extinguished torch of civilization."

During the period covered by our own history, production ratio has varied from 4.6 to 1, for the years 1851–1860, to 50.3 to 1 for years 1801–1810. Still for all this time, until the United States closed its mints to the free coinage of the white metal, there was no appreciable change in the price ratio. In 1873 the world production ratio was 13.6 and the highest since that year was in 1890, when it was 21.9; the lowest in 1915, 7.6; and the average for the period 1873 to 1929, 13.6. The past year has probably been about 8 to 1.

Much has been said about ratios and much left unsaid. It is proposed central banks be permitted to hold 4 per cent of their reserve in silver at not to exceed 50 cents per ounce. Among other proposals are to establish a ratio varying by periods from 1 to 50, to 1 to 25. Others have proposed 20 to 1 and 30 to 1. It is important that the ratio established shall be neither too high nor too low; but it is of even more importance that whatever is done will not only fix a ratio but provide that silver shall be a basic money. Our circulation per capita in silver in 1873 for instance was only 44 cents, because the Latin Union ratio was 15½ to 1 and ours 16 to 1, which made it profitable to export silver from this country. If we now establish a ratio of 20 or 30 to 1 and the commercial ratio should rise above that point, the result would be the melting of coins and the sale of the resulting bullion.

The earliest mention of silver we find in Genesis XXLLI–16:

"And Abraham harkened unto Ephron: and Abraham weighed to Ephron the silver, which he had named in the audience of the sons of Heth, four hundred sheckels of silver, current money with the merchant."

It is interesting to know that the ratio in Babylon, more than 1,000 years before the Christian era, was 13½ to 1, and this was the ratio in Greece before the time of Alexander and 9 to 1 at the time of Julius Ceasar. The lowest was when Portugal fixed it at 16 to 1 in 1688. Spain raised it to 15½ to 1 in 1775 and France in 1785. Alexander Hamilton, after long and careful study of the subject, decided on 15 to 1, and it must be conceded, in the light of data we now have, that he was the nearest to the average production ratio. At the time of making his decision, he said:

"I agree with you, Mr. Jefferson, that the unit of value should rest upon both metals." Also, "To annul the use of either gold or silver as money is to abridge the quantity of the circulating medium, and is liable to all the objections that arise from the comparison of the benefits of a full with the evils of a scant circulation."

The statement that a double standard is comparable to two yardsticks of different lengths is absurd. There is no similarity between a measure of goods and a measure of value. One is a fixed quantity and remains the same no matter how many yards are to be measured or how many yardsticks there are to measure it with. As has been noted, value is relative. The yardstick is not a measure of value but of things to be measured. By increase or decrease of the number of dollars, the relative value of a dollar in terms of what that dollar is to be exchanged for, rises or falls. The dollar in this case is the expression of value, not value itself.

Another argument, that we might as well try to fix the price of other commodities, as the price of silver, by establishing its ratio to gold. In the report on Empire Monetary and Financial Policy by a joint committee of the Federation of British Industries and the Empire Economic Union October 14, 1931, they state:

"In spite of the nonparticipation of this country, which had gone on a purely gold standard in 1816, the support of the European nations and the United States had proved amply sufficient up to 1873 to maintain the successful working of a bimetallic system which not only afforded a stable basis of exchange between gold and silver using countries, but also provided an adequate total supply of metallic currency for world needs. In 1873 Germany placed, by the unexpectedly rapid payment of the French War indemnity of 200,000,000 pounds, in a position of having a great surplus of currency, decided, in imitation of England, then at the height of its prosperity, to go onto the gold standard and proceeded to sell off large quantities of silver. For this the normal market was the French mint and those of Belgium and other countries of the Latin Union."

The Eighth Royal Commission (1888), after exhaustive study, reported: "So long as that system was in force (bimetallism), we think that, notwithstanding the changes in production and use of the precious metals, it kept the market price of silver approximately steady at the ratio fixed by law between them, namely 15½ to 1."

Mr. Courtney, a member of the commission, stated at that time: "The Royal Commissioners found as an uncontested and uncontestable fact that the price of silver measured in gold had remained wonderfully steady from the beginning of the century down to the year 1873, the average price oscillating about 60 pence per ounce, 59 pence being the lowest point and 61⅝ being the highest." And continued: "They believed a stable ratio could be maintained because they found that it had been maintained."

It might be questioned at this point, which of the two metals oscillated. Was it gold or was it silver? Was it the price of gold measured in silver which was, at that period of which Mr. Courtney was speaking, the money base of much more than one-half of the people of the world and the part money base of nearly all the balance, or was it silver measured by gold, at that time the money base of England only?

Another cry of the gold men is that the demand for free coinage of silver is simply a scheme of silver-mine owners to enrich themselves at the expense of the people. The greatest world production of silver in any one year was 262,598,000 ounces in 1929. Of this, the mines of the United States and the Philippines furnished 60,938,000 ounces. The average price for that year was $0.53306 per ounce, or a gold money price total for the United States of $32,483,610.28. If they had received the United States ratio price of $1.2929, they would have received $46,303,129.92 additional to what they did receive. If the contention that bimetallism will raise the commodity prices in exact proportion to the price of silver is correct, then the farm products of the United States, which were valued at $12,000,000,000 in 1929, would have sold for $29,040,000,000. To put it more simply, based on the present price of silver and wheat, if the price of silver should be $1.2929, wheat would be about $2.10 per bushel. The increase to the Kansas farmer for his wheat crop alone for the year 1931 would have been $158,000,000. The silver miner was naturally one of the first to inquire why the price of his product has fallen and learning the effect on world commodities was quick to call attention to the situation as affecting world commerce and trade. He is entitled to the thanks of the country for doing so; but his benefit from correction of present conditions would be small when compared with the country as a whole.

To the statement that no country ever had practical bimetallism and that from 1834 to 1878 we had no silver circulation, it is only necessary to recall what has already been said. We could not retain silver in this country because our mints placed a lower price on it than other countries and so it left us. After it began to fall as measured in gold as the result of legislation, and sold as a commodity only, we could retain what we were pleased to buy.

The English pound is at present quoted around $3.30 in gold; but in England the paper pound will buy approximately what it would buy before England discarded the gold standard. It is true that if we wished to purchase in England the same article we might buy in the United States, we can buy it for less in gold dollars than formerly; but the Englishman can alsosell to other countries as well as to us, at a less price than we can after converting the so-called depreciated currency into gold dollars. A gold dollar looks the same to-day as yesterday and to-morrow. Physically it is the same, comparatively it is not. It may buy a bushel of wheat to-day and 2 or 3 bushels to-morrow, but the average man or woman still thinks of it as the same dollar. It is not an honest dollar to the laborer if it buys less, unless his wage has been raised in proportion, or to the farmer or other producer if it will buy more.

It has been asserted many times that we do not need more metallic money because so large a proportion of our business is done with checks—bank money. Jevons has said with respect to this:

"Prices temporarily may rise or fall independently of the quantity of gold in the country; ultimately they must be governed by this quantity. Credit gives a certain latitude without rendering prices ultimately independent of gold."

Colonel Ayers, of the Cleveland Trust Co., has shown that bank credit was less than $100 per capita in 1900, but in the fall of 1929 had reached over $500 per capita. All of this, $60,000,000,000, was payable in terms of gold.

Ricardo has said: "The value of money is determined by the amount existing."

John Stewart Mill: "We have seen, however, that even in the case of metallic currency, the immediate agency in determining its value is its quantity." And "Alterations in the cost of production of the precious metals do not act upon the value of money except just in proportion as they increase or diminish its quantity."

The argument is advanced that the man who receives $3 per day is as well off as when he received $5, if prices have fallen in proportion. His life and fire insurance premiums remain the same at the $3 wage as at the $5 wage. His interest rate has not been lowered and he is lucky if his tax rate has not been raised. It may be answered that this particular man has no debt and pays no taxes; but every man pays both interest and taxes in some form. If he rents the house he lives in, he pays taxes in terms of rent, for his landlord must consider taxes and interest in fixing that rent. He must pay his proportion of the public debt and its interest, which must be added by not only the merchant from whom he buys but the wholesaler, manufacturer, and producer. The only class of society not affected by the general lowering of wages are those receiving salaries from Government.

The supply of money and the low rate of interest at which it is offered is another argument often quoted to contradict the statement of the bimetallist that the supply of money of ultimate redemption (primary money) should be increased. It is true the banks are full of money, or at least the large banks in centers of population are, and that interest rates were never so low. This is so because money can not be profitably employed in any line of endeavor. No thinking man or woman will borrow money for any new enterprise, or old one, with the evidence before them that they can not employ it profitably. What the bimetallist does claim is that commerce and trade have increased, the world debt has increased, and the population has increased beyond the ability of gold alone to sustain them. The population of all Europe, for instance, 16 years before England demonetized silver and 89 years before the United States did so, was estimated at 180,000,000 and in 1914 at 460,000,000. During the interim also, many millions had emigrated from Europe to the United States and Central and South America.

Judge Teller has quoted Sir W. H. Houldsworth as having said: "A scarcity of water in a river is not disproved by the fact that there is a large reserve of water stored up in a mill dam. Under ordinary circumstances a low rate of discount leads to the dispersion of excessive bank reserves, and this dispersion leads to a rise in prices."

Gold has been adopted as the standard of the leading nations. The probable reason for England and Germany adopting a gold standard has been recited. France did so to protect herself against sales of silver by Germany. But no one has yet explained why the United States did so. We have a record of the gold standard covering 60 years. Of these 60 years, except those in which some important nation has been engaged in war, and excepting the influx of gold from important gold discoveries already referred to, we have had falling prices of commodities. The though that under bimetallism conditions would have been better during this 60-year period can not be proven; but we may at least reason from cause to effect.

In 1871, two years before the United States demonetized silver, Ernest Seyd stated:

"It is a great mistake to suppose that the adoption of the gold valuation by other states besides England will be beneficial. It will only lead to the destruction of the monetary equilibrium hitherto existing, and cause a fall in the value of silver, from which England's trade and the Indian silver valuation will suffer more than all other interests, grievous as the general decline of prosperity all over the world will be. The strong doctrinism existing in England as regards the gold valuation is so blind that, when the time of depression sets in, there will be this special feature; the economical authorities of the country will refuse to listen to the cause here foreshadowed; every possible attempt will be made to prove that the decline of commerce is due to all sorts of causes and irreconcilable matters. The workman and his strikes will be the first convenient target; then speculation and overtrading will have their turn. Later on, when foreign nations, unable to pay in silver, have recourse to protection; when a number of other secondary causes develop themselves, then many would-be wise men will have the opportunity of pointing to specific reasons which in their eyes account for the falling off in every branch of trade. Many other allegations will be made; totally irrelevant to the real issue, but satisfactory to the moralizing tendency of financial writers."

The foregoing is a remarkable forecast made 60 years ago by an Englishman and one who was recognized as an authority on the subject.

The claim that we would become the dumping ground for silver if we alone of the nations adopted it, because we were at that time a debtor nation, made during the campaign of 1896, could not be advanced to-day. As a matter of fact, the only stock of silver which is potentially for sale to-day is that which may be sold by the Indian Government. But it is highly improbable that any government or any individual would rush in to sell silver at any price below the coinage price set by our government when the demand is unlimited. If some silver from other countries were offered for coinage and that coinage or its equivalent in paper currency exchanged for gold, it would not be harmful. It might be quite beneficial in helping to adjust more equitably the supply of gold and let those countries benefit which need it.

A good illustration of demand affecting price was had on passage of the Sherman Act in 1890 when the Secretary of the Treasury was directed to purchase 4,500,000 ounces monthly. The average London quotation for 1,000 fine in 1889 was 0.93511 and in 1890 was 1.04634. If an unlimited demand at a stated ratio price had been had at that time, can any one doubt that the price would have been established in every country and maintained? No country in the world to-day, including India, can afford to lose any of the silver they now have. They need it all and more, and so far as melting up silver plates, spoons, and vases as has been suggested, it is not likely that anyone having articles either ornamental or useful would be inclined to melt them and sell the resulting metal, when they would be destroying their greatest value, the manufacturing cost, by doing so.

The question of how much the silver dollar certificate has behind it is sometimes asked, and many will tell you the other paper currency has gold behind it. As a fact, Federal reserve notes have no less than 40 per cent; but how much has a national-bank note and how much have United States notes? It is true that by act of Congress the Secretary of the Treasury is instructed to maintain all forms of money issued by the United States at parity with gold, and this applies to a silver certificate as well as other forms, but it does not mean that the Government has to have, or does have, sufficient gold for the redemption of all of its issues.

Complaint is often heard that silver dollars are of too much weight for convenient handling. It is not contemplated that people would carry considerable sums of silver in their pocket any more than they now carry gold. If our mints were open to the coinage of silver, that silver would circulate in the form of paper money the same as our gold now circulates.

The term "intrinsic" is frequently used in connection with both gold and silver. The Standard Dictionary defines intrinsic as: "Pertaining to a thing or person; inherent; real; true." And, "Contained or being within." In other words, having value within itself. Let us see—we will agree that either metal has exchangeable value but can not agree either has value "contained or being within." That is to say, value within itself. Suppose we imagine the man who becomes lost on the desert. He has no food left, he has no water—neither is it possible for him to survive long enough to reach the one or the other; but he has his pockets filled with gold nuggets. How much intrinsic value has his gold? The gold can not sustain life. He can not exchange it for food or water, for none is to be had.

Under date of December 31, 1932, the papers carried an item quoting the Department of Agriculture as saying: "Drastic retrenchment in expenditures was advanced to-day as the farmers' main defense under present economic conditions."

Gone is the third row of plowing.

Under date of January 3, 1933, the papers carried the information from the Department of Agriculture that the farm price index number December 15 was 52 per cent of the pre-war figure and back to the low point of last June. New low levels were recorded for corn, oats, wheat, rye, hay, hogs, cattle, calves, and chickens. Compared with prices one year ago dairy products were down 23 points; grain, 16 points; fruit and vegetables, 9 points; and cotton and cotton seed, 2 points. This seems to answer the question of the efficiency of raising prices by Federal loaning, no matter to whom.

A prominent Chinese official was quoted in 1930 as saying he could not understand why the American Farm Board should go to the expense of buying wheat if they wished to raise the price of wheat when if they had used one-tenth of the money to buy silver they would have raised the wheat price higher.

Some European economist had predicted that if we continued to accumulate gold, the result would be inflation in this country—high prices of commodities in terms of gold or a depreciated gold dollar. So eminent an authority as George E. Roberts said in an address before the Investment Bankers Association December 10, 1918, in discussing foreign loans and interest payments:

"And even if these governments were able to relinquish from their present holdings sufficient gold to make a few payments, the effect of adding gold to our already large reserves would be to raise the level of prices in this country and to maintain prices here above those in the rest of the world, which would place us at a disadvantage with our competitors in world trade. It would make this the best country in the world to sell goods in and the poorest country in the world to sell goods from We couldn't afford to take their gold with such results."

The condition suggested by Mr. Roberts, so far as accumulating gold is concerned, has been brought about but from a different angle—ourselves staying with the gold standard while other countries abandon it The gold has been received but we do not have the inflation predicted. We do find ourselves in the position of being "the best country in the world to sell goods in and the poorest country in the world to sell goods from," but from a different cause—that is, appreciation of that same gold in purchasing power.

In June, 1931, a delegation called upon President Hoover to present their views on the silver question and were referred to Eugene Meyer, of the Federal Reserve Board One of the delegation, when asked what Mr. Meyer said, replied that he (Meyer) stated: "The silver industry was but one-fifth as important as the potato industry, and that if silver had to be stabilized why not do the same for potatoes."

We are not asking that silver be stabilized. We are asking that silver be permitted to resume its natural function as a part of the metallic money base. But it should not be forgotten that if restored to that position, Mr Meyer would not need to be concerned for the price of potatoes, if he is, for potatoes with every other commodity would advance in price.

To summarize:

Silver has been used as money since time immemorial.

Experience has clearly proven that the ratio of silver production for over 400 years has been less than 15 to 1.

When basis money is inadequate, civilization becomes distressed.

Price of silver has never declined to any extent except through acts of governments. Such acts are usually based on selfishness.

Bimetallism had operated successfully in the United States for 80 years and in the world for centuries.

With gold and silver used as basic money, it would be quite impossible for international bankers to control it, and impossible to have maldistribution as exists to-day.

The United States and the world sorely need commodity price increase. Remonetization of silver would quickly bring this about.

Increase in price of silver would not result in dumping of silver or melting of silver articles.

The United States is now a creditor nation and can with safety remonetize silver.

World price of silver would immediately rise to coinage ratio adopted by the United States.

Printing-press inflation is disastrous.

Restoration of silver to its rightful place as money would create an honest dollar for the debtor as well as the creditor The standard of value (gold) which to-day favors the creditor, is as dishonest as the printing-press dollar was and would be which favors the debtor.

No proper proof can be produced to indicate that the world supply of gold is sufficient for world commerce and credit.

Acceptance of silver as a basis money will not cause undue inflation.

Let us reason together, with no selfish interest to be served, but with the hope that we may have understanding; and having that, do what our understanding and conscience dictates in the interest, not of the few, but of the many. To-day the country stands in as great danger as ever threatened by war. The service which the Congress can give is as great. When war threatens there are no parties—there should be no partisan question in this emergency. If the solution of the economic questions involved are contained in bimetallism, then let us have the courage to open our mints to silver, trade with the world, and see that productive effort receives its just reward.

(A letter and statement received from Mr. Max Liebeskind, New York City, is here printed in full as follows:)

DU PONT HOLDING CORPORATION,
*New York, February 13, 1933.*

Senator REED SMOOT,
*Chairman Finance Committee of United States Senate,*
*Washington, D. C.*

MY DEAR SENATOR SMOOT: I am in receipt of your letter acknowledging my letter of February 6, wherein I requested the opportunity to testify before your committee in connection with the plan I have in mind relative to the relief of the unemployment situation.

I exceedingly regret that you find it impossible to grant me this request, stating that you find the calendar of the committee completely filled. Nevertheless, I am inclosing herewith, a resume of my plan and would ask that you kindly submit same to the committee.

I will appreciate it if you will inform me of their opinion.

Very truly yours,

MAX LIEBESKIND, *President.*

My program relative to the relief of the unemployment situation is as follows:

To present the plan to manufacturers and industrialists throughout the entire country, whose plants have been either idle or working at low capacity, due to existing economic conditions.

Many of them have heretofore employed hundreds and perhaps thousands. My plan is to suggest to them the following program to be worked out in the following manner:

Take a plant that had in normal times employed a thousand people. This plant has been idle for some time or is working at low capacity due to nonexisting buying power. Naturally it has not made any money, but, on the contrary, lost money. The overhead charges go on continuously. To start the plant in operation with 500 employees. The employees to agree on the following:

To accept half of their wages weekly, and, for the other half, participate in the funds of the company, to be distributed every six months. The employer shall not earn any profit, but charge only for actual overhead expenses. This should assure the employees the payment of the other half of their salary at the end of six months. I believe that the unemployed would be more willing to work on a participating plan as outlined, than to work shorter hours or part time.

I am sure that this program will meet with the approval of the industrialists throughout the country, for it is reasonable to assume that they would rather have their plants going at a fair capacity than to remain idle, with continual loss.

This program should in no way conflict with the labor organizations or scale of wages. It is merely a common-sense business proposition for the immediate return to work of a good part of the 12,000,000 people now unemployed. For this reason, I am confident, that this plan will meet with the approval of the labor organizations.

This plan can also be favorably adopted by the smaller manufacturer, and even the storekeeper throughout the country. Let us take the vast group of small manufacturers and storekeepers who have been compelled to give up their business. Don't you think it would be an incentive for them to go back into business, if they are to receive the cooperation of the employees, as outlined in this plan?

I am sure that this program will immediately stop the daily increase of unemployment.

The employer may bring up the question of financing, for the first few months for the outlay of material and wages. If he has been in good standing, isn't it only fair that the Reconstruction Finance Corporation lend money to the bank in the locality where the plant is located and with the proper check up by the bank; lend the manufacturer the necessary amount of money to cover the cost of operation of the plant for the first few months, after which period, bills receivable would be due for merchandise sold, and part of the loan should be repaid. This plan will in no way put the Government in business.

Now the question may arise, How is all the merchandise that is manufactured, going to be disposed of? I maintain that you must cover the situation of the unemployment first, before buying power can be created. Surely, if a man approaches you on the street and says, "Brother, can you spare a dime." What is he going to do with the dime. Is he going to the bank and deposit the dime or is he going to the coffee shop and get a cup of coffee. So the same thing applies to the wage earner. Soon after the wage earner gets employment, being out of employment for quite some time, he begins to realize that his shoes have outworn their usefulness and his clothes are in rags and the same thing applies to the woman. Do you think that when she receives her first week's salary it will be banked? Yes, part of it may, but the greater part will be to replenish her old clothes. So there is where you will get immediate increased buying power and the consequent increase in consumption.

We are all aware of the fact that the wage earner creates the buying power.

(Letters and articles received from Prof. Charles S. Tippetts are here printed in full as follows:)

THE UNIVERSITY OF BUFFALO,
*February 12, 1933.*

The honorable REED SMOOT,
*Washington, D. C.*

DEAR SENATOR SMOOT: I appreciated your letter of last week very much. I shall be unable to appear in person before the committee, as my finances will not permit it.

I am inclosing several copies of a summary I wrote about a year ago. This deals with causes rather than cures. I am uncertain as to cures, but shall send you shortly a brief of my suggestions.

I do not contend that the short article I am sending tells the entire story. Who can assume he knows enough to feel confident? Perhaps it has more truth than error. That is all I can hope.

Most respectfully,

CHARLES S. TIPPETTS,
*Professor of Economics.*

SUPPLEMENT—STATISTICAL SURVEY—THE UNIVERSITY OF BUFFALO BUREAU OF BUSINESS AND SOCIAL RESEARCH

(Causes of the Depression of 1930–1932, by Charles S. Tippetts)

In a brief analysis of the causes of the present business depression I can not hope to present all of the factors which may have been responsible, but only those which must bear the major part of the blame. These are international in character, although there are in individual countries situations which have made the breakdown more serious than it otherwise would have been.

During the past 40 years there has appeared a constantly growing volume of literature upon the subject of the business cycle. A close perusal of the conclusions reached by eminent authorities reveals that, on the whole, there is more agreement among them than there is difference of opinion. Where there is disagreement, it has to do, primarily, with the relative importance which should be ascribed to a certain factor. It is reassuring to find one of America's foremost authorities on industrial fluctuations, Prof. Alvin H. Hansen of the University of Minnesota, stating in the preface to his Business Cycle Theory, "There is a surprisingly large measure of agreement among the leading business-cycle theorists, despite the apparent irreconcilable antagonism which is often met."

But, what about the severe depression in which we now find ourselves? Have we not been told that it is different, that no one has an explanation of its causes? Have we not also been informed that it is peculiar in that it is world-wide in nature? To begin with, for the last hundred years most major depressions have been world-wide in character. In his recent volume Economic Stabilization In An Unbalanced World, Professor Hansen states (p. 112): "The current depression constitutes one link in the long chain of major depressions. It requires, in so far, no explanation other than the general theory of the business cycle as such. The exceptional severity of the depression, however, is to be explained partly by the drastic deflation of prices, partly by certain structural changes in the capitalistic system * * * and partly by a special combination of circumstances growing out of the postwar readjustments."

The business cycle is, fundamentally, a cycle in the production of all kinds of fixed capital, the creation of productive capacity. In other words, the prosperity phase of the cycle is coextensive with the investment of large sums in all types of construction, not only of factories, plants and machinery, but of public utility, transportation and highway projects. Public buildings as well as offices, apartments and residences would come under this category, if it is broadly interpreted. The enlargement of productive capacity for agricultural and raw material products must also be included. The funds to make such expansion possible come from the savings of investors, "ploughing back of earnings" and the extension of loans by banks. The driving force behind the expansion is the expectation of profit making, a driving force which is to the highest degree individualistic, and is the antithesis of collective planning.

Sooner or later there comes a time when it is realized that the possibilities of profit making from further expansion must decline. This may be due to the fact that the products turned out by the additional capacity can not be sold without cutting prices. Or, it may result from a decline in available funds seeking investment. Again, banks may find it necessary to curtail loans, because of declining bank reserves, thereby restricting purchasing power and causing a decline in prices.

If there is any thread which we can follow through the maze of recent events it is probably this: The enlargement of all kinds of productive capacity, partly by the process of debt creation, is largely responsible for what we term prosperity. The creditors are, for the most part, investors and banks. In looking for the cause of the present breakdown we must discover why the amount of funds being loaned or seeking investment declined, thereby bringing about a decrease in the flow of purchasing power through industries into the hands of final consumers. This, probably, is the central point of attack, since the result was a collapse in the world price level. This collapse wrecked profit-making possibilities, and eventually made the burden of debt payments an almost impossible one to bear.

Let us then look for the causes of the catastrophic decline in world prices. Prices, in the last analysis, are a result of the impact of commodities against available purchasing power. If the total purchasing power, which has its source in the incomes received by individuals, does not keep pace with the flow of commodities to the market, the price level falls. In gold-standard countries the amount of purchasing power available depends upon the supply of gold in bank reserves, for these reserves set the limit to which bank credit may be expanded. When banks make loans and investments they really create purchasing power in the form of deposits and bank-note issues. If gold is, for any reason, drained out of the banks, the country involved must, if it wishes to remain on the gold standard, suffer a decline in purchasing power, for the banks must contract deposits and note issues. Prices, therefore, must fall.

Prior to 1929 the United States had been furnishing nations all over the world with purchasing power in the form of loans. From 1921 to 1929 our investors purchased securities of foreign corporations and governments and invested directly in industries in these countries to such an extent that they became indebted to us in the amount of over $15,000,000,000. This was in addition to the loans made by our Government during the war, the present worth of which is estimated at nearly $8,000,000,000. Indirectly, by this method we furnished Germany with the means of paying reparations, and other nations with the means of buying goods from us and also of repaying war debts as well as meeting interest payments. Just so long as American funds flowed out all over the world in this manner business activity continued at a high level. It had long been realized by a large number of American economists that if anything happened to stop this process of lending by the United States trouble would shortly follow. It did.

American lending began to decline rapidly in 1928 for several reasons. One was that in a number of countries part of the borrowings had been used to create additional productive capacity of all kinds. But by 1928 it was becoming evident that further opportunities for profitable investment were declining. While a large portion of the loans had been used for purposes which were economically sound, a minor part had not been so wisely utilized. In other words, the amount of investment had become so large that it became harder and harder to find justifiable uses for additional American funds.

With this gradual stoppage of the flow of purchasing power from this country to others they began to feel the growing burden of debt payments. Their obligations to us could be met in one of three ways: (1) By shipping gold, (2) by selling us commodities or services, or (3) by further borrowing. Further borrowing in large amounts from us was temporarily impossible. Had we been more willing to receive payment in the form of commodities there would have been a partial solution. But our high tariff wall made this difficult. We were not the only sinners in this respect, for since the war the rise of economic nationalism all over the world has led to the erection of higher and higher tariff barriers. All countries seem to wish to sell, but few wish freely to buy. But America's position as a great creditor nation made our tariff policy particularly destructive to world prosperity. Our debtors, as a result of their efforts to pay us, were forced to see the exchange rates rise to the gold export point and their gold flow out to us.

Previous to 1928 we had already received large amounts of gold from other countries. One by one, following the war, most of the important nations had returned to some form of the gold standard. Many of them, however, remained in a precarious position. When gold again began to be received by the United States in large amounts in 1928 most of the nations exporting it were forced to contract bank credit. France, because of a favorable balance of payments, also received large sums in gold from her debtors. Except in the United States and France, and for a short time in Germany, prices had been slowly drifting downward since 1925. In 1929 they began to fall more rapidly. France had kept her prices up partly by an inflation of bank-note issues, and partly by stabilizing the franc at a point which forced prices up. Our large imports of gold following the war had made it possible to erect such a pyramid of bank credit that our prices remained above those in most European countries. As a matter of fact, prices rose in the United States from 1927 until early in 1929 when in most of the other nations they were falling. It was the tremendous growth of bank credit in the United States based upon gold imports that had created a large part of our ability to make foreign loans.

Speculation on the New York Stock Exchange gave the final blow. As the desire to buy securities swept like mad from one end of this country to another, our new investments abroad diminished almost to the vanishing point. Then, many foreign speculators entered the fray. They began to buy stocks in New York, an additional weight was thrown upon their foreign exchanges, and more gold came to us. Interest rates rose rapidly not only in New York but in every important money center in the world. Where there were some remaining projects for expansion in other countries which might have been feasible, the rapid rise in the rate of interest which had to be paid to secure funds practically compelled the suspension of further construction.

The price decline evident in all European countries except France continued with gradually increasing force. What has now come to be called maldistribution of the world's gold supply was showing its malevolent hand. Most foreign countries found bank credit contraction necessary if they were to remain on gold, since their gold base was now smaller. Our large export balance had been supported by foreign loans; now the loans had decreased. Heavy expenditures by American tourists abroad, the last sustaining force, decreased greatly in 1931 and the collapse of the world price level was accelerated.

The higher price level of American goods also caused a decrease in demand for our products abroad. Our high tariff lessened greatly the ability of other countries to sell to us. By preventing large imports we prevented large exports. Our prices also collapsed. Having made it most difficult for our debtors to pay us, we naturally have ceased to collect a large part of our debts. Finally, in 1930, we added the final touch in the form of the Smoot-Hawley Tariff Act. No competent economist advocates a sudden adoption of free trade, but a lowering, rather than a raising, of the tariff was the step indicated by sound economic principles.

It is clear now that the stock market crash in October, 1929, was not the primary cause of the depression. The crash was largely an effect of a decline in business activity already under way, and the pressure of long continued high interest rates, which destroyed profit-making possibilities in stock speculation on a market driven to almost unbelievably high levels. Losses suffered by speculators, however, destroyed a portion of their buying power. While this was offset in large part by profits made by others, what happened was a shift in demand which had almost as detrimental an effect as a total decline in buying power would have brought about.

Additional causes of the depression may be mentioned. In many areas the productive capacity devoted to raising agricultural and raw material products had increased greatly. Part of this increase was due to various restrictive measures which attempted to keep up prices of coffee, rubber, tin, or other commodities by limiting the amount exported or produced. By sustaining prices in controlled areas, production in uncontrolled areas grew rapidly and helped to break the market. Cartels, combines, and international agreements with regard to prices and output covering other commodities also had the same effect. Artificially high prices, therefore, led to a growth in production, and prices were subjected to drastic pressure.

Once business activity started on its downward course in the United States, other weaknesses became evident. The overdevelopment of installment selling became a depressing influence. Consumers had mortgaged such a large part of their future income that current buying power suffered. A number of American industries had expanded their productive capacity to a greater extent than had been realized. Other industries suffered from a decline in their export market. Bank failures, already large in the period from 1921 to 1928, increased greatly in numbers. The tying up of billions of deposits destroyed large amounts of purchasing power and deepened the depression. The burden of debt payments became gradually heavier. The Smoot-Hawley tariff intensified this problem for foreign countries. A severe international financial crisis, beginning in Austria and spreading to Germany and England, developed in the summer of 1931. Most of the leading nations were forced to suspend gold payments.

Then a breakdown of confidence in American banking led to extensive hoarding. The rush for liquidity on the part of individual banks brought about a severe contraction in loans and investments. The individual bank feels that it has no other course open to it if it is to be in a position to meet the sudden demands of frightened depositors. But the concentrated effect of such a deflationary policy has been to deepen and prolong the depression. This is a good example of how conditions which are the effects of the early progress of a depression may become causal factors increasing the severity of the decline.

The present depression resembles, in many respects, the long depressions of the forties and the seventies. Each of these lasted from five to six years, and from each of them eventually we recovered. What is needed now is a change in banking policy directed toward an expansion of bank credit. In a competitive banking system it is difficult to bring this about except by a very gradual process of restoration of confidence. Courageous leadership by prominent bankers, business men, and the Federal reserve banks was, until lately, decidedly lacking. The Reconstruction Finance Corporation act and the Glass-Steagall Banking Act were helpful measures. The increase in the purchases of Government securities by the reserve banks during recent months may constitute the turning point in the depression in the United States, if the surplus bank reserves thus created are wisely and effectively utilized.

It is frequently stated that there is, now, little or no demand for bank credit. This, however, would appear to be an exaggeration. The tests applied for the extension of bank credit at the present time are such that many borrowers simply can not meet these rigorous requirements under present conditions. What is needed is more willingness on the part of banks and other lenders to assume some risk. An expansion of bank credit leading to some rise in the price level would do much to restore greater business activity, and lessen the burden of debt payments. If bankers are unable to bring this about, the proposal to permit the Reconstruction Finance Corporation to lend to private corporations must be adopted. The unwarranted hysteria over the balancing of the Federal Budget is now subsiding. An intelligent program for public construction (the amount proposed in the Wagner bill represents the minimum which would be beneficial) could be of some assistance in initiating recovery. Large exports of gold from this country since last September may eventually lead to an expansion of bank credit in European countries with the result that recovery may first become evident there.

With regard to the international situation certain steps are imperative. Tariffs which all over the world are throttling trade between nations must be lowered. The reparations and war debts obligations must again be revised downwards, and a moratorium of at least five years duration should be declared on these payments. Loans to other countries for useful purposes must again be granted. We must get ready to receive a surplus of merchandise imports, for we are now a mature creditor nation. Cooperation between central banks must be encouraged, for the world is an economic unit. Economic isolation is not desirable or possible.

Finally, for the future, those who administer the Federal reserve system must be willing to exercise leadership. They must develop a central banking policy whose object is control and not mere passivity. Individual bankers and Federal reserve banks must apply more rigorous checks on the expansion and use of bank credit during a period of prosperity. A program for prevention of future crises must center around this point of attack.

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THE UNIVERSITY OF BUFFALO,
*February 18, 1933.*

Hon. REED SMOOT,
*Chairman Finance Committee,*
*United States Senate, Washington, D. C.*

DEAR SENATOR SMOOT: As I promised in my recent letter, I am sending several published comments of mine on the depression. The two newspaper articles may present a somewhat different point of view from some opinions expressed before your committee. When people criticize congress and the Senate for not doing more they should remember that so much advice has been given that our representatives would have to be supergeniuses to distinguish between sound and false suggestions. I should like to see what a congress of 500 leading financiers and business men would accomplish. I doubt whether they could do one bit better, if as well.

I have no desire to add to the confusion, and I am submitting the accompanying comments for what they may be worth. From reading newspaper reports of the suggestions made before your committee I doubt whether you have received much real assistance so far.

I can not see that merely balancing the Budget is going to start recovery. The remedies should, it seems to me, center around methods of getting more buying power into the hands of the consumers. Ordinarily, bank loans are the chief source of buying power, but with the Michigan experience in everyone's mind I doubt whether bankers will feel like increasing their loans for some time to come. If we could stand still long enough in one place we might get the forces of recovery started. But just when we think we have achieved stability, something blows up somewhere, and down we go again.

Nearly everyone seems to wish prices to rise, but the usual method of bringing this about (by expansion of bank loans) seems to be impossible to rely upon. I am driven to the conclusion that we shall have to use drastic methods. It is true that we may, if we wish, force reduction of the debt burden, and ultimately get to a point where we can recover. But this process may drag on for years. The result is not pleasant to contemplate.

Someone, somehow, somewhere must either buy or make it possible for others to buy. About the only agency which can do this is the Government or the Reconstruction Finance Corporation. That is why, as a last resort, I have concluded that inflationary measures are necessary, as I wrote Senator Thomas. If inflation can not be controlled, and I would not favor it otherwise, then I can see no alternative but a long, slow, painful process of deflation, hoping that somewhere we shall reach a bottom. The growing feeling that we should now drag down everything that is still up to the level of everything at the bottom seems to me a counsel of despair.

If we can start prices up, profit making possibilities will emerge, and employment and incomes will increase. Governmental revenues will likewise increase and budgets will again approach a balance. Profit-making possibilities constitute the central explanation of what has been happening, and these fluctuate with prices. Rising prices give a stimulus to business and lighten debt and tax burdens.

But prices still continue to fall in the United States and the havoc grows accordingly. England and Sweden have stabilized their price levels and are in better condition, I believe, for having done so. Until prices stop declining in the United States we can not say we are on the road to recovery. The price level depends upon the amount of buying power available to take goods off the market. Therefore, buying power must increase if prices are to rise.

If we decide, however, to deflate further, of which I see no need, we should call off the Reconstruction Finance Corporation and all other agencies which are trying to hold up the railroads, banks, etc., in order to get it over as soon as possible. Whether debt burdens are heavy depends upon the activity of business and this depends upon such a relationship between costs and prices that profits are possible. But when prices constantly decline costs cannot be reduced rapidly enough to catch up. Consequently, I would prefer concentrating attention upon forcing out more buying power in order to start prices up. Were thing too high 1929? Only, if the prive level stays down. It is a relative matter. Certainly, a recovery in prices will rescue many dangerous situations.

I have taught and preached against currency inflation for years; I know the history of inflation and the dangers. But, between further deflation, and an attempt at a controlled inflation program I prefer the latter, I would rather trust controlled inflation, than gold.

I have said nothing about war debts, tariffs, reciprocal trade agreements, etc. These would be helpful, but time is important and to rectify these takes much time. Inflation might drive us, temporarily, off gold, but I think there is a great deal of superstition about gold. This, again, runs contrary to what most of your witnesses say.

If after reading this you think I can be of any service, I think I could manage to come to Washington, at any time named by you. I am reluctant to do so because I am not confident that my views are absolutely sound. You have probably had too many contradictory statements already.

Very respectfully,

Charles S. Tippetts,
*Professor of Economics.*

EXPANSION OF LOANS BY BANKS DECLARED KEY TO PROSPERITY—IF PAST EXPERIENCE IS REPEATED, RECOVERY DUE IN 1933, SAYS UNIVERSITY OF BUFFALO PROFESSOR

(By CHARLES S. TIPPETTS, professor of economics, University of Buffalo)

Probably the worst depressions the United States has experienced in the past century were those of the forties and the seventies. Each of these lasted over five years. The depression of the nineties was somewhat less serious because it was not continuous. The year 1895 constituted a breathing spell between two periods of bad business.

If past experience is to be repeated, we should, by the end of 1933, be definitely on the road to recovery. We have, in our past history, never continued on the downward road for much more than four years. Will 1933 conform to the record of the past or will it establish a new precedent for the length of American depressions?

Whether or not 1933 will be a year of recovery depends very largely upon the ability of the banking system to expand its loans to industry and trade. The banks actually create the vast majority of the purchasing power of the country by furnishing funds through the medium of loans.

SITUATION IN DEADLOCK

These loans give rise to deposits which are transferred from hand to hand through the use of checking accounts. Thus, the banking system itself creates, by lending, the major portion of its demand deposits.

If we are to regain a high level of international prosperity, it will be necessary to reduce considerably the payments of foreign countries to us on the war debts. Attempts to make the reparation and war debt payments, in the face of terrific obstacles, was one of the major causes of this depression. They are inextricably related and can not be treated separately. The American people wish to retain our high tariff and collect the debts. But they can not do both; they must choose between one or the other.

At present, the situation is in a deadlock. Bankers claim that they can not increase their loans until business recovers. But, business can not recover substantially until the banks again feel free to furnish the funds which will make recovery possible.

What is needed is an increase in the ability of consumers to purchase commodities. When banks make loans for the purpose of replenishing depleted inventories or manufacturing, these loans furnish the additional purchasing power needed to start an upswing. As the process is repeated, the purchasing power of the consumers increases until business gradually returns to a much higher state of activity.

PRICE LEVELS WEAKENED

Because the panic among bank depositors last year forced banks to become as liquid as possible, it has been difficult to break the deadlock. The contraction of bank credit during the last two years by over $10,000,000,000 drove the price level still lower, wrecked the possibilities of profitmaking and increased the difficulties of the bank's. In other words, to meet the demands of frightened depositors, the banks collectively followed a deflationary policy which eventually weakened their position still further. There can be little real prosperity until the process is reversed, and banks resume their normal functions.

If the banking system can not expand its loans, further deflation may occur, forcing still more wreckage. To avoid this is the chief problem of 1933. The Reconstruction Finance Corporation has, on the whole, been of great value, but it should have been given the power to make loans to individuals and corporations to fill the gap caused by deflation of bank credit.

WAR DEBT REDUCTIONS URGED

The open-market operations of the Federal reserve banks, in purchasing $1,000,000,000 worth of Government securities, has, so far, proved disappointing because the expected use of the surplus reserves to expand loans has not so far resulted. The widespread purchase of Government securities by commercial banks has been beneficial from the standpoint of the credit of the Federal Government, but it has been done partly at the expense of bank loans.

## Balanced Budget Not Necessary to Recovery, University of Buffalo Economist Holds—Desirable Only if Effected Without too Great a Burden on Taxpayers—Sound Economics to Borrow With Condition of United States Credit, He Contends

(By Charles S. Tippetts, professor of economics, University of Buffalo)

The American people have been told many times during recent months that there can be little possibility of recovery from the depression until the Budget of the Federal Government has been successfully balanced. This statement has come not only from leading bankers and business men, but also from Congressmen, Senators, and others who occupy high places in the political life of this country.

If it is true, then all of our energies should be devoted to this task. If it is not true, we should discover this fact before we indulge in another period of wild histeria on the subject.

It is my belief that the importance attached to a balanced Federal Budget is much exaggerated. I realize that this runs contrary to popular opinion, but, nevertheless, I believe it to be true. Let us recall that we had experienced a year and a half of depression before signs of an unbalanced Budget began to appear. As a matter of fact, as a means of preventing the deepening of the depression, we lowered Federal income taxes in 1930. Not until late in 1931 did the problem of an unbalanced Budget become a serious one. An unbalanced Budget was, therefore, not a cause of the depression. It was the increase in the breadth and severity of the depression which lessened Government revenues and brought about the dislocation of the Budget.

### BALANCE IS DESIRABLE

Do not conclude that I do not believe a balanced Budget to be desirable. It is desirable, but only if it can be accomplished without adding to the present back-breaking burdens of the taxpayers. Wasteful expenditures should not, of course, be countenanced. But it is difficult to agree upon which expenditures are wasteful and which are not. The Budget may be balanced either by decreasing expenditures by increasing revenues through taxation, or by the use of both methods at the same time. If these means do not bring about a balance the deficit may be met by the sale of Government bonds, i. e. borrowing.

Is it necessary to balance the Budget of the Federal Government in the middle of a severe depression? The answer is that it is perfectly proper to secure the necessary funds through borrowing, as long as the credit of the Federal Government makes borrowing possible at a reasonable rate of interest. Governments should tax heavily during a period of prosperity, in order to have a surplus with which to retire outstanding bonds. We retired nearly ten billions in bonds from 1921 to 1929, but now we see that instead of lowering income-tax rates during this period we should have kept them high and retired several billion dollars more of Liberty bonds.

### BORROWING SOUND ECONOMICS

During a depression the Federal Government should not attempt to increase taxes by huge amounts, except on high incomes. It is sound economics to meet the deficit by borrowing. We must now ask ourselves whether the credit of the Federal Government has become so seriously impaired that it can no longer borrow?

In spite of the fact that over $4,000,000,000 have been added to the debt of the National Government during the depression it is still possible to borrow at extremely low rates. Short-time issues have been floated recently at a price which brings to the purchaser hardly any return at all upon his investment. Long-time issues can now be sold with an interest return of approximately 2½ per cent. In other words, although we are well along into the fourth year of the depression the credit of the Federal Government still stands practically unimpaired. The National Government is, therefore, still in a position to borrow large sums in order to meet its deficit.

### NO REASON FOR HYSTERICS

We find, consequently, no reason to become hysterical or indulge in an unwarranted panic even if the Government can not slash expenditures and increase its income so as to make both end meet. Leading figures in American life, aided in lamentable fashion by a portion of the press, did their best last spring to drive us into a frenzy of fear. They prophesied disaster unless a balanced Budget emerged from Congress. Such a campaign is very likely to deepen and prolong the depression.

If what we need is a return of public confidence, let us not repeat this episode. Let us not belabor Congress for being a bunch of dupes and idiots. If Congress is stupid the blame lies with those who elected its members. Congressmen would behave better and accomplish much more if the business organizations of this country would stop their perpetual lobbying and interference at Washington.

What I have said regarding national finances does not apply, of course, to a State, county, or city which as exhausted its borrowing power. That governmental unit has no choice; it must either reduce expenditures or increase taxes. If the community is already overburdened with taxes, and many are, a reduction in expenditures is the only way out. After a certain point, an increase in taxes brings in a smaller total return, for the reason that an increasing number of taxpayers can not meet the additional taxes and lose their property.

### OPPOSES SALES TAX

To return to the National Government. Additional sources of tax revenue can be tapped. Much larger income taxes on the higher brackets are possible, but too much revenue from this source should not be expected. Incomes dry up rapidly during bad times. It is a maxim of taxation that the income tax is a broken reed in a depression. One step is necessary and that is to remove the tax-exemption privilege from securities. The beer tax is another prospective source of revenue, but like most other taxes levied during a depression it will prove disappointing. It would, however, help. One tax that must not be levied is the general sales tax. That is not the way out of the depression, but an excellent way to reduce buying power further.

Some reduction in expenditures can be accomplished at Washington, but how much is uncertain. It may be possible to reduce interest payments on the public debt, by refunding outstanding bonds into securities bearing a lower interest rate. Any large decrease in expenditures must center around appropriations for the Veterans' Bureau and the Army and Navy. If much saving is to be accomplished, it must be effected there. The prospects are not too encouraging. But we must not become frightened, since the credit of the Federal Government is still far, far from being ruined. Just as it was the depression which unbalanced the Budget, a business recovery will balance it again. Balancing the Budget, therefore, is not the foundation stone for recovery.

(A letter and statement submitted by Prof. Willford I. King, New York City, are here printed in full as follows:)

FEBRUARY 16, 1933.

Mr. WILLFORD I. KING,
*Professor of Economics,*
*New York University, New York City.*

DEAR PROFESSOR KING: This will acknowledge receipt of your letter of February 11, inclosing a copy of an article giving your views concerning the immediate causes of the present depression.

I shall be glad to bring your communication to the attention of the Finance Committee.

Yours sincerely,

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NEW YORK UNIVERSITY,
*New York, February 11, 1933.*

Hon. REED SMOOT,
*Chairman, Committee on Finance, United States Senate,*
*Washington, D. C.*

DEAR SIR: In reply to your letter of February 8 I inclose a reprint of an article appearing in the proceedings of the American Statistical Association in which I have set forth my views concerning the immediate causes of the present depression and possible legislative remedies. As I see it, two steps are now needed to remedy the situation in which we find ourselves:

1. The unemployed ought to be set to work under Government supervision producing the commodities which they themselves consume. The wages paid

should be in scrip and the scrip should be valued according to the amount of product turned out. A plan for accomplishing this end has been worked out by Prof. Frank D. Graham, of Princeton University, and is described in his book The Abolition of Unemployment.

2. A hasty statistical study should be made to ascertain, approximately, the weighted average date at which debts now outstanding were contracted. The commodity price level should be raised to the level existing at the date so determined. Such an increase of the price level would work the minimum degree of injustice to debtors and creditors alike. Two feasible methods of raising the price level and stabilizing it at the desired level, when that level has been attained, are given on pages 229 and 230 of the inclosed article on the Immediate Cause of the Business Cycle.

I also inclose a copy of a bill which I have drafted which, if adopted, would put the second plan into operation.

If, after the material which I inclose has been considered by your committee, you feel that I could be of assistance to you by coming to Washington, I shall be very glad to do so at a time convenient to you. My convenience would be best suited by appearing before the committee on Tuesday, Thursday, or Saturday but if it is not possible to arrange for a hearing on one of these days I could come on almost any day except Monday.

Very respectfully,

WILLFORD I. KING,
*Professor of Economics.*

The only satisfactory cure for unemployment is employment, and that in occupations similar to those for which people are trained, and not in some utterly unfamiliar lines of work. But how can such employment be secured?

To accomplish this end we need to surmount obstacles preventing normal employment. Two of these obstacles are:

1. There is a shortage of bank credit.
2. The normal exchange of money for goods and money for labor is blocked.

Can these obstacles be overcome?

In his book, The Abolition of Unemployment, Prof. Frank D. Graham of Princeton University has outlined various ways of setting the unemployed to work. The methods suggested are logical and constitute a great tribute to Professor Graham's genius. What is needed is to devise ways of putting these principles into operation promptly.

After careful consideration of this problem, it appears that it is possible to adapt the plan devised by Mr. D. C. Prince of the General Electric Co. of Philadelphia and modified by Prof. Frank D. Graham and Prof. J. Douglas Brown of Princeton University in such a way that it may be fitted to the relief machinery now existing in the various States. This adaptation is designed to secure the cooperation of many merchants and manufacturers in stimulating business, securing large profits for themselves, and setting the unemployed to work. Were these ends accomplished, it would no longer be necessary to raise huge funds for unemployment relief. The adapted plan is presented in the accompanying memorandum.

I hope that you can find time to study the plan and give me the benefit of suggestions and criticisms that occur to you.

Very sincerely yours,

WILLFORD I. KING,
*Professor of Economics.*

## A Plan for Multiplying Relief Funds and Stimulating Employment

(Modification by Willford I. King of Frank D. Graham's plan)

Requires no legislation but merely calls for the voluntary cooperation of a group of merchants and a group of manufacturers with the public relief organization.

### I. PRELIMINARY STEPS

A. All merchants of the State *having high credit ratings* shall be asked to join the Business Stimulation League. To become a member of this association the merchant must, however, agree to do three things:

1. To accept at face value, in payment for any goods in stock, notes issued by the emergency unemployment fund. Goods exchanged for these notes shall be sold at the same prices as goods exchanged for cash.

2. To order each month for the next eight months, *in addition to his normal volume of purchases*, goods equal in value to the amount of emergency unemployment notes which he took in during the preceding month.

3. Unless his receipts of emergency unemployment fund notes amount to more than one-fourth of his total sales for the preceding month, he shall agree to purchase from members of the Business Stimulation League goods totaling in value at least *twice* the amount of emergency unemployment fund notes which he took in during the month immediately preceding.

When he is billed for these goods he shall make payment through the emergency unemployment league, offering in payment those notes of the league which he has collected and covering the balance in cash or in his own note, payable to the emergency unemployment fund and due in six months from date, with interest at 6 per cent.

NOTE.—The italicized provisions in this and the two preceding sections are the very essence of the plan. Unless they are carried out, the plan will accomplish little.

The plan would work even if only Sears Roebuck or Montgomery Ward became a member. A member department store in each sizable city would make the plan workable. It would work if several chains selling different lines of goods entered the league. If only individual small dealers joined, a large number would be required.

B. All manufacturers of the State shall be asked to join the business stimulation league. Every manufacturer joining this league shall pledge himself to accept, at face value, in payment for any of his products, notes issued by the emergency unemployment fund. The plan could not be put into operation until manufacturers producing a wide variety of commodities used largely by the working classes had joined the league.

C. Hereafter, the emergency unemployment fund shall pay out no cash for unemployment relief, but shall make all such payments by issuing non-interest bearing notes in small denominations payable one year from date. The fund shall, at all times, keep on deposit in a bank cash sufficient to pay all notes outstanding. By thus substituting its notes for cash, unemployment relief will make no drain upon the reserves of the banks of the State. Those merchants public spirited enough to join the business stimulation league will get the trade of the unemployed.

The notes will be individually signed and will require indorsement by each person transferring them. In form, they will be as follows:

NEW YORK, N. Y., *March 16, 1933.*

For value received, the emergency unemployment fund promises to pay to the bearer of this note one year from date, without interest, $5. Each person transferring this note must indorse it. This note will be accepted at face value in payment of any debts owed to members of the business Stimulation League.

EMERGENCY UNEMPLOYMENT LEAGUE,
By W. M. JONES, *Treasurer.*

The reason for requiring indorsement by each holder is to prevent counterfeiting. The face value of the note will be punched in the paper thus preventing raising the amount of the note.

D. The notes paid out to recipients of relief will soon be used to buy goods from the merchants belonging to the Business Stimulation League. The amount of goods thus paid for will enable each merchant to estimate roughly how much and what kind of new business he can hope for through the working of this plan.

## II. HOW EMPLOYMENT WILL BE INCREASED

A. A merchant taking in during a month $2,000 of emergency unemployment fund notes, will, according to his agreement, order not only his normal amount of goods but will also order, in addition, another $2,000 worth, thus making up an aggregate order for at least $4,000 worth of goods to be purchased from wholesalers or manufacturers belonging to the Business Stimulation League.

B. When the goods are delivered to the merchant and he is billed for them he will, normally, send to the emergency unemployment fund $2,000 in emergency unemployment fund notes, and his own note for $2,000 due in 6 months with interest at 6 per cent. The unemployment fund will sell the merchant's note to its bank, receiving for it a cash deposit roughly equal to the face value of his note. It will now itself issue $4,000 of new notes and pay for the goods ordered by the merchant from wholesalers or manufacturers.

C. The manufacturer receiving the $4,000 in unemployment relief fund notes will use them either to pay wages directly to employees, (paying no more than 50 per cent of any given employee's wage in such notes) or to pay bills for materials purchased from other members of the Business Stimulation League. These members will, in turn, pay out the notes as wages to their employees.

D. The notes received as wages will promptly be used by buy goods of merchants who are members of the Business Stimulation League.

#### III. HOW THIS PLAN WILL INCREASE BUSINESS

A. Each month the volume of notes issued by the Emergency Unemployment Fund will increase.

B. Therefore, the merchants receiving these notes, will, if they carry out their agreements, increase their orders for goods. Increased orders for goods will mean more workers taken on at the factories. The more workers employed, the less will be the necessity of granting charity, and the less will be the necessity of asking the taxpayers or the charitably inclined for contributions. The money saved by these contributors will mostly be used to buy goods, and hence will stimulate business.

#### IV. WHY THIS PLAN WILL INCREASE BUSINESS

A. Business is hampered today by the fear that goods, if produced, can not be sold at a profit. Under this plan, the merchants, being furnished an advance guide to prospective business, order in advance and thus set the wheels of business in motion.

B. Business is suffering from a lack of circulating credit. This plan turns the six months notes of merchants of good financial standing into circulating credit. The use of plenty of such credit would tend to offset the influences which have been forcing prices down.

#### V. STRONG FEATURES OF THE PLAN

A. Since the notes issued by the emergency unemployment fund are always covered 100 per cent by bank deposits, the notes are as safe as the banks in which deposits are kept.

B. Participating manufacturers are assured of a market for their extra production and are given a chance to gain much additional profit with little risk of loss.

C. Participating merchants also run little risk, for the goods purchased from them by those who have been unemployed will be largely staples, and, if any overstock of such articles is accidently accumulated, no serious trouble is likely to result.

If only a minor proportion of all merchants should decide to join the Business Stimulation League, those participating in the organization would profit heavily, since but a small number would share in the gains arising from the greatly increased volume of trade.

D. As unemployment disappears, the emergency unemployment fund can proceed to redeem its notes in cash, thus helping to prevent the development of another unsound boom.

## The Immediate Cause of the Business Cycle

By Willford I. King

To give a generalized explanation of the business cycle has been the endeavor of scores of economists and statisticians Many have believed the end attained, only to discover later that the explanation fitting so well the phenomena of some one particular oscillation in business activity proved entirely inadequate when applied to a cyclical movement occurring at another time. The failure of so many to reach the desired goal has led some of the ablest students of the subject to conclude that there is no single force or set of forces dominating cyclical movements in economic life, but that each individual cycle is a separate phenomenon depending upon a unique combination of forces. If these writers are correct, any attempt to explain the business cycle is obviously futile. We are instead, faced with the problem of explaining an infinite variety of business cycles.

When years of exhaustive research by leading economists lead to such conclusions, it may be the height of folly to continue further the quest for a generalized explanation of the cycle. However, the existence of so many characteristics common to numerous cyclical movements at various times and places leads the present writer to believe that, in spite of the testimony to the contrary, and also in spite of the fact that some of the ultmate forces behind the business cycle are still admittedly obscure, it is not only possible but probable that there does exist a single set of forces which are, in the main, immediately responsible for practically all major cyclical movements. He has the temerity to hold further that it is now possible to catalogue some of these forces.

The particular theory of the business cycle which appears recently to have found most favor with the public is that of over-production. Its popularity is doubtless to be accounted for mainly by the publicity which has been given to the remarkable growth, after 1920, in average output per man-hour in many fields of industry To the layman it has seemed natural enough to suppose that, by 1929, the market had been oversupplied with goods, and that this oversupply caused the ensuing crash.

As a matter of fact, in June, 1929, there appeared to be plenty of money available to buy the entire volume of goods then being turned out. Inequality in the distribution of income showed no tendency to limit buying power and clog the wheels of industry. Neither overproduction nor underconsumption was in evidence. The stocks of finished goods in the possession of producers were not unduly large. New machinery had not thrown any considerable proportion of our would-be workers into idleness. Producers had apparently succeeded in guessing fairly well at what kinds and amounts of goods the buyers wanted. There was no considerable evidence of over-building, and over-capacity of plants did not seem to be a very serious problem. Rising costs had not cut profits down to any notable extent. Few seemed to be worrying about machinery being too efficient, working hours being too long, or demand for goods being saturated. Industry was, in fact, functioning with gratifying smoothness. Not till six months or more later, when the depression was already well advanced, did the hobgoblin, Overproduction, appear on the scene. To ascribe the depression to overproduction is, then, an excellent illustration of the common error of confusing cause and effect. The cart has been put before the horse.

That the whole idea of overproduction is based upon the fallacious view that the total demand for goods is a fixed quantity, must be apparent to any economist who considers the question carefully. Since human wants are instatiable and since the sale of one product makes available the funds necessary for the purchase of other products, it seems evident that a general saturation of the market for goods is impossible.

While this fact is usually recognized by economists, many hold that the real cause of the present depression has not been general overproduction but rather overproduction of a few basic things, like cotton, wheat, copper, coffee, rubber, silk and sugar. Advocates of this theory contend that, while there is plenty of demand for these articles at a very low price, the market will not absorb the supply at prices high enough to cover costs of production, and that this fact has dislocated our entire economic system. To defend this theory it is necessary to close one's eyes to the fact that our oversupplies of wheat and cotton have been present for a number of years and that they did not prevent the development of the boom of 1928–29. No oversupply of copper was apparent while business conditions continued active. Since we are buyers of coffee, sugar, silk, and rubber, the cheaper these are, the more we gain. However, Carl Snyder, the leading authority on production statistics has exposed so effectively the fallacies of the overproduction theory that, to go into the matter more fully at this time, seems superfluous.

A number of prominent academic and business economists tell us that this depression has been brought about by maladjustments in business and industry, and that we are now witnessing the necessary but painful process of eliminating superfluous plants and inefficient producers. This hypothesis is difficult to disprove statistically but it is equally difficult to demonstrate. It seems to overlook the fact that the weeding-out process goes on in time of prosperity as well as in time of depression. Furthermore, when depression comes, both the efficient and the inefficient suffer. In 1929, most of the leading industrial concerns were in excellent financial condition, heavy reserves having been accumulated during the long period of prosperity which they had been experiencing. Since that date, these reserves have been largely wiped out and not a few strong companies have either failed or been brought to the verge of bankruptcy.

Apparently, the depression, instead of serving as a device for eliminating the weak and preserving the strong has brought weakness all along the line. Furthermore, if the change from prosperity to depression were caused by maladjustments in industry, by growing inefficiency in production, or by the introduction of new machinery, we would expect the process to be a gradual one. The truth is that the decline is often both sudden and drastic. For example, in June, 1929, our factories were very active. By December, their rate of production had declined more than 20 per cent. To ascribe this change to any slow moving evolutionary process seems illogical. One must instead look for a force which is capable of acting with great intensity.

The experience of 1929 seems to show that the force producing the decline in that year was not connected with supply factors. Our factories, our railways, our mines were all in excellent condition to turn out the types of goods demanded by their customers.

What then led to the crash?

The answer is: "Demand suddenly failed." Between June and December, 1929, according to figures taken from pages 28 to 67 of the United States Survey of Current Business for August, 1930, new orders for various classes of goods shrank by the following percentages: Hosiery 19, knit underwear 23, finished cotton goods 17, fabricated structural steel 8, fabricated steel plate 49, steel boilers 39, steel shelving 23, steel castings 5, cast iron square boilers 3, radiaotrs 10, steam pumps 22, steel sheets 24, malleable castings 34, stokers 33, machine tools 43, electric hoists 19, electric cranes 38, wood working machinery 39, lavatories 34, sinks 41, miscellaneous enameled ware 40, electric motors 9, miscellaneous electric goods 15, electric furnaces 52, oil burners 44, General Motors automobiles 80, book paper 3, sales books 20, box board 21, building contracts 48, Douglas fir lumber 32. The only increases noted in this list were cotton textiles 32 per cent, steel business furniture 1 per cent, cast-iron round boilers 1 per cent, foundry equipment 17 per cent, and wire cloth 37 per cent. The fact may also be noted that the operating revenues of railways declined 12 per cent during the half year. Of course, some of the declines were seasonal but, normally, new orders in December to take care of spring business are probably about equal to new orders in June to accommodate the autumn trade. How then is this sudden and drastic shrinkage in demand to be explained?

The only plausible explanation seems to be that the forces responsible were psychological rather than physical. Ideas are contagious and, like some infectious disease, sweep over an entire nation with surprising rapidity and are then carried to foreign lands. In the United States in the early autumn of 1929, public opinion as to the outlook for the future suddenly changed. Faith in the "New Era" gave way, and when it did, the "New Era" tumbled to destruction.

It was primarily this change from confidence to doubt—from optimism to pessimism—which caused such a radical decline in the volume of orders for goods. There was, however, present another causal factor besides unreasoning fear. This other causal factor was increasing lack of ability to continue buying at the rate prevailing during the early part of 1929.

This latter force will perhaps be better understood if attention is first focussed upon the relation between the national income and the buying capacity of the nation.

The aggregate income of the people of the Nation is relatively stable. Thus, in the 20 years from 1909 to 1928, there were only 5 years in which this income, when measured in dollars having constant purchasing power, did not show an increase, the only decline of any consequence being that occurring between 1917 and 1921. This decline was apparently caused, first, by our participation in the World War; second, by the reconstruction of our industries made necessary by the return of peace; and third, by the serious disturbance to our industry resulting from currency inflation both here and abroad. Under reasonably normal conditions, the aggregate of realized income departs surprisingly little from a smooth trend.

That the national income fluctuates less than the total volume of production is probably explained primarily by variability in the lag between production and resulting income. To illustrate this variability, we may consider the case of the income derived from a wheat farm. Let us suppose that the wheat is harvested in July and that the entire crop is sold by the farmer at once. This does not mean that the effect of the wheat crop on the national income terminates immediately. The insurance company which owns the mortgage on the farm may receive in January as interest part of the receipts from the wheat crop. This interest money may be distributed as a dividend to stockholders in March. The chain evidently continues indefinitely. Clearly, then, the movements of the national income are by no means synchronous with the movements of production, even though the income total is obviously dependent upon the volume of production. The income figures, therefore, resemble a moving average of the production figures.

We may assume the present normal realized income of all the people of the Nation to be $90,000,000,000. Were we existing in a "stationary state," there would be no growth of population and no saving, hence the aggregate value of direct or consumption goods purchased annually would likewise be $90,000,000,000 yearly. Our actual economic life is, however, highly dynamic. We are unable to predict for the future the courses of prices, the demands for products in different industries, the demands for products of individual concern, or production costs. Because of this uncertainty concerning the future, and because of our desire to get ahead financially, most of us feel it necessary to save part of our respective incomes. All of us together save in the average year perhaps $10,000,000,000 out of the $90,000,000,000 aggregate of realized income and use the remaining $80,000,000,000 to purchase direct or consumption goods.

To say that we spend for consumption $80,000,000,000 per year on the average is very far from being the same thing as saying that we spend this amount in each year. The fact is that the actual amount spent varies greatly from year to year. An obvious reason for variation is that the national income is not constant. There is, however, another reason, which is perhaps even more marked in its effects, but which is frequently overlooked. This second reason is a change in national sentiment from optimism to pessimism, or vice versa. Optimism normally leads to free spending, pessimism to parsimony.

Whenever a wave of optimism sweeps the country, most individuals minimize the danger of future troubles and magnify future opportunities. The hope of securing easy profits leads business men to expand operations, and this means buying more materials for construction or more goods for stock. Individuals, feeling that their future incomes are reasonably secure, purchase new automobiles, radios, houses, clothing, and other durable goods of all descriptions. Before the period of optimism has long continued, a large proportion of business concerns and individuals find themselves spending more than their incomes. To do so, they must draw on accumulated savings. In many instances, these savings soon prove inadequate to cover their demands for goods, and, to make the desired purchases, it is necessary either to borrow money or to buy goods on credit. As the tendency to buy on credit spreads, the total volume of orders for goods soon comes to exceed the national income. In early 1929, for example, we may have been making purchases of goods and securities at a rate of $100,000,000,000 or even $110,000,000,000 per annum, although our total realized income was not much over $90,000,000,000 per year.

The contention may be advanced that, since for every dollar borrowed there must be a dollar lent, the whole line of reasoning here presented is fallacious. It must be admitted that if Brown, who has been planning to buy a $1,000 automobile, loans the $1,000 to Jones who spends it for furniture, the total demand for goods is not increased. This transaction is, however, not typical. The usual procedure is for Smith to order an automobile, paying a fraction of the value in cash and mortgaging his future income for the balance. The note which he gives to the automobile dealer is discounted and eventually is converted into a bank loan. Now one of the peculiar functions of a bank is to create circulating credit. When a bank loans money, it does not thereby curtail the total national demand for commodities, for the bank was not in the market for commodities. What really happens is that the bank creates a supply of circulating credit, known as deposits subject to check. These deposits virtually constitute an additional supply of money. Between 1924 and 1929 the volume of such demand deposits in banks belonging to the Federal reserve system increased by more than one and one-half billions of dollars. More significant, however, is the fact that, during the same period, the velocity of circulation of the whole twelve to fourteen billions of deposits increased nearly 70 per cent. The extent to which the banks of New York City, alone, enabled individuals and firms to buy beyond their incomes is also indicated by the $5,000,000,000 expansion, occurring during the period just mentioned, in the volume of their loans to brokers.

As the volume of loan-financed purchases grows, and as the velocity of circulation of demand bank deposits increases, prices rise, and this upward movement intensifies the spirit of optimism already prevailing. More and more orders for goods and securities are placed by both individuals and corporations.

Obviously, when credit extension results in increased sales by retailers and wholesalers, factories are immediately called upon to furnish more goods. When the unfilled orders on the books of factories increase in volume, the factories call for more workers. Before the boom has continued long, the supply of well-qualified workers, willing to work at prevailing wage rates, has been absorbed. If the wave of optimism rises still higher, the unusual demand for goods leads employers to raise wage scales. These higher wage rates entice into the field of "money-making" a considerable number of persons not normally classed among the gainfully occupied. For example, married women, aged and infirm men, and boys and girls usually in school enter industry to take advantage of the abnormally high wage rates prevailing. They come, however, reluctantly and must be paid heavily in comparison to their efficiency. Wage costs per unit of output therefore rise.

During boom periods, producers find, in fact, that costs of all types tend to advance, for, in order to secure the supplies needed to keep production at peak, some of these supplies must be purchased from producers ranking well below the maximum of efficiency. Similarly, interest rates tend to rise, partly because, in order to supply the capital necessary to finance a boom, saving must be encouraged among a class of persons whose desires to spend are relatively strong.

These rising expenses of production have often erroneously been supposed to be responsible for the crash. As a matter of fact, however, they apparently have little to do with bringing about the collapse, for profits normally remain satisfactory as long as orders from buyers continue to pour in. In so far as responsibility for the business cycle is concerned, rising costs must, then, be regarded primarily as resultants rather than causal phenomena.

However, as costs of production rise, producers tend to mark up the prices of their products. The result, which has often been noted, is that, in the later stages of the boom, although the total value of industrial output grows steadily, there is but little expansion in the physical volume of the product.

What terminates the upward movement of the cycle? To this question no convincing categorical answer can, at present, be given. It may be argued that increases in the prices of finished goods eventually frighten the buyers and produce a "buyers' strike." There is probably some truth in this hypothesis, though doubtless rising prices tend almost as often to stimulate buying through the fear that prices will go still higher as they do frighten buyers because the prices seem too high. Rising prices of finished products probably tend to bring about a collapse of the boom mainly because income, being sluggish in its movements, does not rise as fast as the prices of goods. Therefore, the volume of goods which can be purchased with the income available to consumers shrinks, and orders tend to fall off. If consumers insist on purchasing the same volume of goods as previously, they can do so only by going into debt.

The probabilities are that, at the inception of any boom period, nearly every adult has at his command credit sufficient to enable him either to borrow money or to buy goods on time. This command of credit may be only a few cents or it may run into many millions of dollars. As long as a person has additional credit available, he is in a position to spend more than his income. Business concerns are, in this respect, in the same position as individuals.

Nothing can be clearer, however, than that, if expenditures continue to exceed income, the time must eventually arrive when all available credit will be exausted. If we are correct in our assumption that booms are made possible solely by the fact that large numbers of people are spending more than their incomes, it follows that no boom can continue indefinitely for the simple reason that, one by one, the buyers will come to the end of their credit. If, during a boom, when the national income is $90,000,000,000, buyers are placing orders for $110,000,000,000 worth of goods annually, they are, as a group, going into debt $20,000,000,000 deeper each year. If half of them exhaust their credit, the remainder can not spend at a $110,000,000,000 but perhaps only at a $100,000,000,000 rate. This, however, means a shrinkage in orders of $10,000,000,000. Such a shrinkage is probably large enough to wreck any boom.

One is not justified in assuming from the discussion in the preceding paragraph that the collapse of the boom is always, or even usually, due to credit exhaustion. This is merely the force that is sure to act if no other force intervenes at an earlier date to cause a lessening of that spirit of optimism which is essential to the continuance of the boom. Whenever, for any reason, logical or absurd, a spirit of doubt becomes widespread, the knell of the boom is sounded, for this spirit of doubt will lead many to stop buying on credit and some will actually begin saving. This means a reduction in the total value of goods ordered.

When the total money volume of orders for goods diminisheds, it is evident that either prices must fall or factories must curtail production. Curtailment means laying off workers.

If either prices are cut or workers laid off, confidence in the future continuance of the boom will be severely shaken. Many persons will sell securities. Others will cancel orders for goods already given. More will stop buying articles not needed for immediate use.

This change in sentiment and buying policy acts like a snowball rolling down hill. As it gathers volume and accumulates momentum, panic results. Prices fall rapidly. Real estate and securities are sacrificed, not because the owners wish to sell, but because they are compelled to sell. The selling forces prices still lower and this new decline causes additional forced selling.

Not only do falling prices cause forced selling, they also lead to postponement of buying by those persons who believe that prices will go still lower and who are also in a position to wait. This postponement of buying likewise accentuates the price decline.

Declining prices make business unprofitable. They also lessen the value of collateral and make it difficult for business men to borrow. Though interest rates on loans accompanied by highly acceptable security fall very low, lenders are chary of lending on ordinary security, and credit is scarce for enterprises involving any considerable degree of risk. Finding it impossible to sell goods at prices sufficient to cover cost of production, entrepreneurs curtail operations and lay off workers. As workers cease to draw their customary wages, the national income is materially reduced. Soon dividends are passed, and this reduces the national income still further. Furthermore, the ratio of the value of commodity purchases to the national income declines, for now people in general are engaged in paying off debts or accumulating savings—in other words, they are, on the average, spending less than their respective incomes. As savings accumulate, few people wish to borrow and many wish to lend. The more general becomes the habit of saving rather than buying, the greater the number of the enterprises which must shut down and the more numerous the workers who must be discharged.

Why do we not then eventually arrive at the situation in which industry is at a standstill and everyone is starving? The answer seems to be that two safety valves prevent this dire outcome. First, no matter how pessimistic people become there always exists a list of goods to be bought which they consider so essential that they will buy them as long as they have the funds to pay for them. In the United States, therefore, even in times of extreme depression, sales of the more staple foods and articles of clothing decline realtively little. Second, in a fertile country like the United States it is possible for almost everyone to extract a living directly from the soil. When other sources of income fail, there is, therefore, a tendency to migrate to the farm and live on the products of the land. "Hard times" in this country are, then, never likely to become as hard as they may in countries which nature has less abundantly endowed.

According to the theory just expounded, changes in general optimism or pessimism cause people to order goods valued sometimes at much more and sometimes at much less than the national income, and it is these changes in the volume of goods demanded which are immediately responsible for the business cycle. If this theory is correct, it relegates to the discard many of the most widely held beliefs concerning the origin of the business cycle as, for example, the circuit flow of money theory, the maldistribution of income theory, the overproduction theory, the new machinery theory, the planless production theory, the maladjustment of production theory, the rising costs and shrinking profits theory, the excess of producers' goods theory, and a whole host of others less widely held.

The sweeping statement just made does not mean that numerous miscellaneous forces may not increase or diminish the intensity of the fluctuations. Thus it would be surprising indeed if, in some cases, a business depression was not made worse by crop failures, or by the aftermaths of war. The suggestion here made is that, while these auxiliary forces affect various cycle waves differently, the variable use of credit by purchasers of goods is a very important causal factor in the case of nearly every cycle wave.

The explanation here essayed is, however, avowedly incomplete. While it purports to cover all cycles, it leaves unsolved at least one of the most fundamental questions concerning every cycle. The fundamental problem still defying solution is why these ups and downs of sentiment and business activity occur at intervals which have a marked tendency toward uniformity, the typical wave length being some 39 or 40 months.[1] No explanation of the nature of the busi-

[1] For proof of this fact, see the article by the present writer in The Annalist of May 1, 1931. It is entitled "Has the Business Cycle a Definite Wave Length?"

ness cycle can pretend to be complete which fails to clear up this mystery. Jevons said we must look to sun spots for the clue. Similarly, Prof. Henry L. Moore tells us that rainfall cycles are responsible. Perhaps the explanation does lie in natural forces. Perhaps, on the other hand, the real cause is some peculiarity of the human mind which forces it to move from optimism to pessimism, or vice versa, in a rather definite time interval.

Even though we do not understand all the forces underlying the cycle, this is far from saying that we can do nothing to control its movements.

We do not yet know the nature of electricity, yet we are successful in making electricity serve our needs. Perhaps, then, an understanding of nothing but the mechanics of the business cycle will enable us to control it, even though we do not completely fathom its nature.

To those interested in the advancement of human welfare, the theory here set forth as to how the cycle operates is perhaps considerably less discouraging than many of the rival theories, for, apparently, it does not imply that, in order to mitigate the evil effects of depressions, we must rebuilt the foundations of our economic system. It does not, for example, assume that we have too much equipment, that our industries are too productive, that our system of business enterprise is fundamentally wrong in nature, that we must either control all our activities through cartels or government commissions or else have all enterprises taken over by the state. It does not tell us that thrift is pernicious and competition ruinous. It does not even hold that depressions are economic house cleanings, essential if our national domicile is not to become unduly cluttered with obsolete equipment and enterprises.

Granted, however, that depressions are due mainly to overoptimism and overuse of credit, what, if anything, can be done to lessen their severity? Opinions will doubtless differ on this point, but certain facts in past experience seem to warrant the view that it may be possible to exercise a very considerable degree of control.

Advocates of direct action would probably say that, if buying on credit is to blame, buying on credit should be limited or forbidden. To do this would, however, mean placing serious limitations upon freedom of contract, a policy which would doubtless come into immediate conflict with the Constitution, and would, furthermore, be at odds with all our traditions. It appears, therefore, that practical considerations make it imperative to attack the problem indirectly.

Let us begin our consideration of the problem of regulating the cycle by analyzing the situation in 1929. Production was progressing satisfactorily but not feverishly. The financial condition of business was excellent. Commodity prices were but slightly inflated. Stock prices, however, were absurdly high, many issues selling at 25 to 40 times earnings. The velocity of circulation of bank deposits was far above normal. Most of our excess indebtedness and most of our monetary fever centered in the stock market. A radical decline in stock values was then inevitable, even though painful. Presumably, also, a slight downward adjustment of commodity prices and wages was necessary in order to enable the normally expended fraction of the national income to cover production. The recession occurring up to the end of 1929 seems therefore to have been normal and did not call for remedial measures. By this date, most stocks, outside of a few of the blue chips and public utilities, were selling at reasonable ratios to earnings.

However, as later events showed, liquidation had then only begun. Nevertheless, what has happened since January 1, 1930 appears to have been due almost entirely to unreasonable fear and pessimism. The effects of the decline have been almost wholly pernicious. Could this secondary and most disastrous part of the fall in the cycle have been prevented?

The probabilities are that, had proper measures been adopted, optimism could have been reestablished early in 1930. Two forms of assurance were necessary; first, assurance to employees that they would not lose their jobs; second, assurance to business men and to consumers that there would be no further general decline in prices. Had the second form of assurance been definite, the need for the first would have been much less intense, but would, nevertheless, have been necessary. With these two assurances there would have been little reason for buyers to reduce their volume of purchases far below their respective incomes. With a stable volume of buying there would have been no reason to lay off employees, business earnings would have been maintained, dividends would have been secure, and the national income would not have been seriously reduced.

For stabilizing employment no direct method has yet been proposed which promises to be both simple and effective. The attempt to remedy unemployment after it has developed by means of public work may often result in little more than giving one unemployed man a job at the expense of another. Is it not, indeed, probable that, whenever the money raised either by taxation or popular subscription results in the contributors reducing their purchases of production goods, new unemployment is created as fast as the old unemployment is remedied? May it not well be true that, unless the contributed money comes from funds which would otherwise not have been used in the immediate future to further production, no net gain in the volume of employment results?

The best direct measures for stablizing employment are, then, apparently those which are preventive rather than curative. Something can doubtless be accomplished by putting pressure upon each employer to guarantee a stable volume of employment in his enterprise. Compelling each employer during boom periods either to lay aside a large reserve fund, or to pay taxes to cover the cost of furnishing public employment during the preceding depression would lessen the tendency toward undue expansion. The expenditure of accumulated reserve funds in periods of depression would increase the demand for goods at such times and would also provide considerable stocks of commodities which could not be marketed until business again became active. The marketing of these stored-up commodities would tend to prevent prices from rising unduly in times of prosperity.

There seems to be little doubt that, if every able-bodied would-be worker were assured by the Government, in advance, that employment, even at low wages, would be available at all times, the tendency on his part to stop buying when depression appears would be far less marked than at present. Since stabilization of industry is so essential to the public weal, it seems then that the guaranteeing of steady employment at a wage at least somewhat above the subsistence level, ought to be one of the prime functions of government.

Direct measures for stabilizing employment are, however, at best difficult to carry out effectively. Fortunately, there is another method of contributing to the stabilization of industry, which is, by comparison, simplicity itself. This method consists in manipulating the supply of money and deposit currency in such a way as to offset variations in the velocity of circulation, thus keeping the price level constant.

Were the public assured that the average of all prices would, under no circumstances, be allowed to deviate materially from a fixed level, there would certainly be much less probability either that exuberant optimism would develop wild booms or that unreasoning waves of pessimism would drag us down into disastrous business depressions.

Suppose, for example, that, in 1928, when the stock market was pursuing a runaway course and instalment buying was pushing orders for goods well above the national income, the Federal Government had rapidly withdrawn money from circulation. Would such action not have dampened the ardor of the public, prevented the mad orgy of speculation which followed, and reduced the tendency to expand plant capacity in some lines so far that the products of those industries could not be marketed when the people came to spend less than the national income? Suppose further that, in 1930, when prices began to plunge downward precipitously, the proper Federal authorities had begun vigorously to pump new money into circulation. Would not this process have started prices upward, restored confidence, or optimism, and brought business back to normal by the middle of 1931? The most probable answer to each of these questions seems to be "Yes."

Economists are familiar with several ways of manipulating the money supply, any one of which would keep the price level on an even keel. The two simplest devices which have yet been proposed for use by the Federal authorities are:

1. Whenever the price level is below normal, let the Treasury buy Government bonds with greenbacks and then retire the bonds. When the price rises above normal, exchange bonds for greenbacks, retiring the greenbacks.

2. Whenever the price level is below normal let the Federal reserve banks buy securities with Federal reserve credit or notes. Whenever the price level rises above normal reverse the process.

To be effective under all conditions, both of these plans would needs give aurhority to the regulating body to vary the price of gold, or, in other words, to change the weight of the gold dollar. Only in this manner could reserves be protected and a gold backing for the currency be pernamently guaranteed.

The difficulties in the way of gaining the benefits of price stability must be regarded as mainly political rather than economic. The opposition to such stability does not, however, lie in the fact that a fixed price level would injure any powerful section of the voters. Instability is allowed to continue mainly because of ignorance, conservatism, inertia, and prejudice. Until these are overcome, the chances of really making much headway in our endeavors to lessen the evil results of depression are, unfortunately, relatively slight.

(A telegram received from Hon. John W. Davis is here printed in full, as follows:)

NEW YORK, N. Y.,
*February 3, 1933.*

Hon. REED SMOOT,
*United States Senate:*

I have your telegram, and would be only too happy to give the committee any assistance in my power. Am constrained to say, however, that I have nothing to offer, either of fact or theory, that has not already been exhaustively discussed. As the depression is not due to any single cause, unless it be human folly, I am sure it can not be cured by any single remedy. I have long since ceased to believe in governmental miracles or legislative cure-alls. To my mind the most helpful thing Congress can do is to devote itself to the obvious things that lie close at hand trusting the future for further guidance. Among these things, I put (1) balancing the Budget by radical and drastic economy and general taxes, including a sales tax if no better plan is offered; (2) reducing the swollen and excessive appropriations to veterans; (3) revising the tariff with a deliberate purpose of promoting foreign trade; (4) readjusting the foreign debt settlements; (5) repealing the eighteenth amendment; (6) abolishing, consolidating, and reducing Government agencies and governmental activities. Such a program is capable of accomplishment. The country, in my judgment, is more in need of surgery than of opiates.

JOHN W. DAVIS.

(A letter and statement received from Mr. Lamont M. Cochran, Long Island, N. Y., is here printed in full as follows:)

HEWLETT, LONG ISLAND, N. Y., *March 2, 1933.*

Hon. REED SMOOT,
*Chairman Committe on Finance, United States Senate,*
*Washington, D. C.*

DEAR SIR: As requested in your letter of February 8, I inclose herewith a brief covering my views on the depression.

Very truly yours,

LAMONT M. COCHRAN.

The fate met by the governments of other nations and the results of our November elections, all prove that no government is strong enough to withstand the strain of severe, unrelieved, economical pressure, unless the people of the nation have confidence in their government and believe that it is properly constituted to meet the emergency. The people of the United States are impatiently awaiting proof that their newly chosen leaders have the statesmanship, patriotism, and courage to subbordinate their personal and factional ambitions to the national welfare, in order to quickly find a solution of the Nation's pressing problems.

The fear and uncertainty, in evidence everywhere, has one of its roots in the growing conviction that our Government is too unwieldy and rigid successfully to cope with the emergency at home, and that it is still less fitted to cope with it abroad. If we are to avoid catastrophe, immediate proof must be given to the people that they have leaders who have the courage and authority to cut through to the heart of the situation. Forces already in motion will be accelerated by further futile discussion, by quibbling over technicalities, and by questioning the constitutionality of much-needed reform. The masses, out of sheer desperation, will take the law into their hands. Those who are shirking the responsibility of applying basic corrective measures, dare not gamble on the temper of a mass movement or endeavor to predict what will be left intact when it has subsided.

The best way to protect constitutional government, in any crisis, is to vest in the President the widest possible emergency powers, permitting him to conscript the services of such men as may be needed and direct their combined efforts in the most effective manner. War-time organization should be resorted to when necessary. The people would make greater sacrifices without complaint if they felt that their sacrifices were not being made in vain. They now demand a leader who will lead.

The homes of the people and, in so far as possible, other private property should be protected by an extension of temporary relief measures. These measures can not be continued indefinitely and the prompt application of basic remedies is imperative.

It has been pointed out that although the volume of currency outstanding has been maintained at a high level, the amount of bank or credit money has been reduced by billions of dollars. One of the reasons for the determined effort of sound companies with salable assets, to pay off bank loans, and their refusal to borrow money repayable at short notice, is the fear of being called upon to repay loans at a time when it is inconvenient or impossible to do so. There is much work that could profitably be done now, which must wait until longer-term financing can be conveniently arranged. The Government must help the banks carry the burden of long-term financing until liquidity ceases to be their primary consideration. The Government should facilitate borrowing by banks against long-term obligations.

Our position on war debts should change with the circumstances surrounding them. We must not hastily revise these debts without a complete understanding as to how any change in the bargain may affect us in the future. The fact that we hold bonds supporting the debt owed to us should enable us to feel secure that the debt will not die a natural death unless revised before the June payment is due. The threat of selling their bonds in the open market should be sufficient to persuade our debtors to cooperate with us in the interest of world recovery, instead of creating further disorder for the purpose of forcing an unjust revision. We must not allow ourselves to be jockeyed into a position where we will surrender these bonds for a smaller amount of similar, although no better secured, promises to pay, to be sold to our citizens under the delusion that we are receiving a lump-sum payment from our debtors. Our debtors can not make a lump-sum payment in proportion to their capacity to pay over a period of time. Moreover, we must not allow a foreign bond issue to interfere with the ability of our Government to borrow large amounts in this market for emergency needs.

It is evident that the demonetization of silver and the willful depreciation of the pound sterling has depressed the world price of commodities, thereby placing England in a favorable position to demand drastic reduction of her debt. We should not pay England to return to the gold standard unless she is also willing to reverse her policy of depressing the price of silver by dumping the silver reserves of the Indian Government on the market. England must eventually return to the gold standard for her own interests. The mines of the British Empire produce most of the gold mined to-day. As commodity prices fall the value of their gold production increases, but if the British thought that we were ready to abandon the gold standard they would be the first to point out the necessity of universal support for it. It is worthy of note that British mines supply a relatively small part of the world's silver production, which provides another reason for England's opposition to the use of silver as a basic metal money. When England has obtained a large debt reduction and has further increased her gold holdings by drawing gold from India through exchange manipulation, she will stabilize the pound. In the meantime we must continue to suffer unless we defend ourselves. The threat of serious economic warfare may be the best way to force cooperation.

It is futile to restore the depreciated gold currencies to their former standards unless the monetary value of silver is first restored. The demonetization of silver is the first link in the chain of currency depreciation. Most of the world's troubles, economic and political, can be traced to the demonetization of silver. The war between Japan and China can be traced directly to the adverse effect of low silver upon the trade of Japan and the world. It created a desperate condition in Japan which made it possible for the military leaders to gain, for their mad imperialistic ambitions, the partial support of Japanese business interests as well as that of the people.

In considering our debtors' capacity to pay, we should carefully investigate all means of receiving payment other than through the transfer of gold. For example, we could allow England to return to us the silver we sold to her during the war. In our next war we may be obliged to purchase supplies from our debtors and it would be prudent to leave part of the debt outstanding as an open credit on which we could draw in payment for goods when required. England

and France request debt revision similar to that allowed Germany in the Lausanne agreement. They reduced Germany's debt to 10 cents on the dollar and expect us to accord them a similar reduction. If we revise the debt on those terms we will be permitting England and France to transfer German's war debt to us. Our industry will be burdened with taxes so heavy as to make our return to prosperity impossible. Even our expenditures for defense will have to be reduced below the level of safety as a means of balancing the budget. England and France will still retain the former German colonies, which have been valued at several times the amount due us, and they will have improved their competitive position by placing the United States and Germany under handicaps too large to overcome. Who can say what our debtors' capacity to pay will be in 10 or 20 years?

If it is necessary to cancel part of the war debt to obtain the cooperation of England and France in our efforts to prevent the Japanese from retaining any part of Manchuria, or fortifying their mandated islands, that would be money well spent. The statement by General Bliss, in a letter to President Wilson in 1919, to the effect that if we abandon a part of China to Japan we are sowing dragon teeth, is just as true to-day as it was then. Possession of Manchuria will double Japan's war power. If we are not successful in stopping Japan through our immediate recognition and cooperation with Russia and by also cooperating with England and France, we will be obliged to withdraw from the Oriental markets which have great potential value.

Furthermore, we will be forced to spend on defense hundreds of millions of dollars more than an economic boycott would cost. Cotton, our main export to Japan, would be consumed by other mills, which would fill the requirements now supplied by Japanese mills. We could also use cotton in place of the silk now imported from Japan. The economic structure of Japan is dependent upon the manufacture and export of cotton goods and the export of raw silk to the United States. The Japanese could not withstand the pressure of a general boycott because they are in no condition to wage war at this time. If, in her present condition, Japan is ready to defy the world how can war be avoided if she is given an opportunity to consolidate her gains in Manchuria? Now is the psychological moment to take concerted action against Japan if we would save ourselves future bloodshed, under conditions far more unfavorable to us than the present ones.

Balancing the Budget is important from the standpoint of confidence, but the confidence of the people can be restored if they are convinced that no unnecessary expenditures are made. A distinction should be made between ordinary expenditures and emergency expenditures part of which may be recovered. A drastic slash in necessary expenditures, or an unreasonable increase in taxes, may cause more disturbance than the financing of necessary expenditure by bond issues. An appeal could be made to the partiotism of the people for bond subscriptions as we did during the war. After prices have risen, higher taxes can be levied and the Budget balanced without disturbing business.

All agree that higher prices for commodities are necessary to halt the depression. Adjustments between the prices of various commodities and services can be scientifically aided after a higher level has been reached. Adjusting to the present price level would cause the destruction of our financial structure. Unless basic remedies are applied, without further delay, prices will not rise in time to enable us to avert that disaster.

The records show that after every large gold discovery, prices rose as the effect of rapidly increasing the stocks of metal used as a base for money. Gold from India and increased production of gold in Africa and Canada, will very slowly raise the price level but we can not wait for that slow process. We can, however, add to the world's supply of basic or metal money, in the same way that an important gold discovery would, by restoring silver to its former place as a basic metal money.

To have sound money does not mean that we must blindly continue, without any alteration, our present technic of operating the gold standard. In fact the preservation of the system of using gold as a base for money requires changes in our present methods. Maldistribution of gold has caused the breakdown of the international gold standard. If we value the gold standard we must redistribute part of the overconcentrated gold stocks. We can hardly be expected to set up an international gold fund, without receiving some concrete compensation. We could, however, exchange part of our gold for silver. The exchange of a small portion of our gold stocks for silver would cause a reversal of the flight from silver as a basic money. By causing the world's stock of 11,000,000,000,000 ounces of silver to be again used as money and as a gold equivalent, the pressure on the badly distributed stocks of gold would be relieved. The insane desire of nations and individuals for gold at any price would cease.

There are many plans or combinations of plans that could be satisfactorily adopted and they will all work in some degree, for the simple reasons that money is 90 per cent psychological and because it is a universal human characteristic to discard what others discard and accumulate what others accumulate. All that is required to start the movement now is for some important country to begin accumulating silver in the world market and others will imitate it. The action of accumulating silver and again using it as a money metal will cause an immediate fall in the value of gold in terms of commodities in the same way as a large gold strike would.

Any measures for raising the foreign exchanges in terms of dollars, should be made effective before we revise the war debts, as that would greatly increase our debtors' ability to pay. Compared with the British we are babes in the woods in matters of money and exchange. There are probably not a dozen men in the United States who have a thorough, theoretical understanding of the money question combined with practical experience in foreign exchange. Very few people understand how or why the depreciation of an important country's money in the international exchange market has such a great, adverse effect upon the welfare of other countries. There is no denying the presence of the adverse effects regardless of whether the depreciated currency is based on silver or on gold. The views of an expert, Mr. Rene Leon, have been heard before the Committee on Finance, but it is doubtful if they were fully understood or properly valued.

We are just beginning to learn what a timid thing credit is and we have seen how easily confidence can be destroyed by the publication of the results of an investigation or that of the list of banks borrowing from the Reconstruction Finance Corporation. It is imprudent to discuss in Congress, for broadcast to the world, the delicate subject of monetary regulation. A leader has been chosen; provide him with practical experts for advisers and vest in him the authority to do what must be done without further public discussion. Place an airtight moratorium on the publication of the results of investigations. The orators and investigators can be given an opportunity to show their ability after the struggle is over and the crisis is past.

LAMONT M. COCHRAN.

(A letter and brief submitted by Prof. Morris A. Copeland, Ann Arbor, Mich., is here printed in full as follows:)

UNIVERSITY OF MICHIGAN,
*Ann Arbor, March 1, 1933.*

Hon. REED SMOOT,
*Chairman Committee on Finance,*
*United States Senate, Washington, D. C.*

DEAR SIR: Inclosed herewith, I beg to submit in response to your letter of February 8, a brief on the causes of the present depression and possible legislative remedies.

Sincerely yours,

MORRIS A. COPELAND,
*Economics Department.*

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A BRIEF SUBMITTED TO THE UNITED STATES COMMITTEE ON FINANCE, CONCERNING THE CAUSES OF THE PRESENT DEPRESSION AND POSSIBLE LEGISLATIVE REMEDIES

## CAUSES OF THE DEPRESSION

To understand the depression we must recognize fi st of all certain general characteristics of our existing economic organization:

I. (*a*) When business activity is on the increase, that increase is for a time cumulative and self-supporting. Prosperity is contagious, and tends to spread and to increase.

(*b*) Such business expansion does not continue indefinitely. It may generate conditions that tend to bring it to a halt, or that make its continuance more precarious. Thus in 1929 the high interest rates during the stock market boom cut off the credit which supported our foreign markets and the market for new residential construction.

II. (*a*) Once inaugurated, a business contraction tends for a time to be cumulative and to continue of its own momentum. Business contraction is contagious, and tends to spread and to continue.

(*b*) Such contraction does not necessarily continue indefinitely. It may generate conditions and compel readjustments that either tend to bring about a revival or are favorable to the development of a revival.

These processes of cumulative expansion, turning point, cumulative recession, and turning point constitute the "business cycle." Most economists agree that a depression is not an isolated phenomenon but part of this characteristic of our existing system that we call the "business cycle." Economists disagree chiefly as to the relative importances of different factors, but most economists would agree that different factors are prominent in different cycles.

I will suggest four factors that seem to me to have been prominent in making the recession of business that began in 1929 peculiarly severe:

(1) Unlike the mild recessions of 1924 and 1927 the current recession has been world-wide. A local recession is likely to be stopped by an improved "balance of trade" with other countries, a world depression is not.

(2) The rapid development of new world sources of raw materials and new techniques of production has made necessary far-reaching economic readjustments, and has thrown many parts of our economic machine out of gear. Technological unemployment has resulted, and the plight of the farmer has been seriously aggravated. The sharp, wide-spread price declines fostered by the new production areas and new techniques (so widespread that the decline of prices has become seriously cumulative) have made debts contracted at the 1929 level severe and even impossible burdens in many quarters.

(3) 1929 contrasts with 1920 in the large stock of up-to-date buildings and equipment on hand at the start of the recession. Hence, private construction activity has not promoted an early revival as it did in 1922. Incidentally, the construction industry is hampered by the failure of construction costs to decline as much as many other prices.

(4) Since the war the United States has become increasingly a creditor nation, but our economic system is still adjusted to an annual "export balance of trade." During the post-war decade the market for our exports was largely supported by loans abroad. Foreign credit standing does not encourage further foreign loans, and without them our export market lacks support.

In addition to these four factors it is to be noted that this is the first prolonged depression the United States has experienced since it has become a highly industrialized nation without a frontier. For such a nation a prolonged depression is inevitably more difficult than for one such as we were in the seventies or nineties.

Measures for dealing with the situation fall into two general classes: (*a*) Those needed immediately to relieve suffering, to promote readjustments necessary to recovery, and to give a definite impetus to revival and (*b*) those designed to moderate the severity of future recessions, and to facilitate readjustments which will necessarily be slow.

## FALSE LEADS

A number of immediate measures have been proposed which are not likely to do much good, and which may easily do considerable harm. Among these are the following:

(1) Inflation by currency tinkering has been proposed in a variety of forms. Such tinkering at the worst will destroy confidence, augment instability, and perpetrate injustice. At best it will prove largely ineffective, and will delay and hamper constructive measures. Increasing the quantity of currency issued alone will not increase the circulation of currency, and currency must circulate to be effective. Increasing credit funds will not conjure up borrowers of good credit standing, so long as nothing is done to rehabilitate that standing. Making loans to shaky enterprises only puts off the day of reckoning, makes the reckoning more stringent when it comes and works injustice to creditors, as the experience of the Reconstruction Finance Corporation has already shown. Decreasing the weight of the dollar, so far as it can be effective, will have its chief effects through depreciating our exchanges, and so stimulating exports and curtailing imports. With other countries also depressed and striving to protect themselves, such a move is almost certain to provoke reprisals all around. It is therefore likely to increase international instability, and retard the process of world recovery without helping the United States. Our medium of exchange is certainly not functioning satisfactorily, and is badly in need of repair, but such measures as issuing more dollars, offering easy credit, and debasing the currency are more likely to do a

great deal of harm than to accomplish any good. (Some of these points I have elaborated in the hearings before the Senate Committee on Banking and Currency on H. R. 11499 and S. 4429, May, 1932.)

(2) Increasing tariffs to offset the effects of depreciated foreign currencies and to give us a more favorable balance of trade is a policy which under present conditions is likely to defeat its own ends. When we were a debtor nation and a much smaller item in the world economy than we are to-day, we could hope selfishly to give a stimulus to domestic business by restricting imports, especially if at the time the rest of the commercial world were not severely depressed. Because Europe could pay for the excess of our exports over our imports with the interest on what we owed her and have something left to lend us, we were formerly able to decrease our imports by raising the tariff without curtailing Europe's ability to purchase our exports; and because we were a small item in world trade the increase in our domestic business resulting from the more favorable balance of our trade helped us without seriously impairing European trade. But our growth and our becoming a creditor nation have changed matters. To-day decreasing our imports by whatever means (a tariff or a depreciation of our currency) will involve decreasing our exports, because the world owes us money and can no longer buy from us on credit. Even if this weren't the case, our vast size would make the attempt to revive our trade by the tariff rather like trying to make the tail wag the dog.

Because of the changed conditions a higher tariff policy would be ineffective for the United States. In any case such a policy is purely selfish and is an unenlightened form of selfishness, when it is almost certain to provoke reprisals. Trying to revive a depressed world by a general increase in tariffs is exactly as senseless as trying to revive it by a general increase in freight rates—the two policies, a general increase in tariffs and a general increase in freight rates, would have nearly the same effects. A general lowering of traiffs would be more favorable to world revival.

## SOUND MONEY

What is needed in the monetary field to promote revival is not abandonment of sound money by mere inflation in any of its guises, but the actual attainment of "sound money" in a sense of the word "money" that includes all of our customary medium of exchange. The largest part of that medium of exchange, and the part that does nearly 90 per cent of all money work ordinarily, is "deposit currency" or the individual demand deposits of our banking system. Sound deposit currency is essential to business recovery. The Congress has recognized bank notes as currency and undertaken to make them sound. Checking accounts are as truly a part of our currency system as bank notes, and they are a much larger part. It is patent to-day that a considerable fraction of the Nation's deposit currency is not in a sound condition. Whatever the causes of this condition—and the condition is far too widespread to be laid entirely to bad bank management—it is properly the concern of the Congress to see that our deposit currency is sound. The situation is too urgent to await the development of a considered, long-time policy. Half-way measures are more likely to aggravate the situation than to help it. As an emergency measure demand deposits at least, and probably time deposits, too, should be guaranteed by the Federal Government. Immediate action is imperative. The unsoundness of one bank's issue of deposit currency jeopardizes the soundness of the deposit currency of many others. If there is delay, the situation is likely to become more acute.

The condition of our banks has been weakened by actual and prospective defaults on the part of many whose debts are bank assets—defaults which are in large part the result of the depression. Unless an unbelievably rapid business recovery should take place, further defaults will continue still further to undermine the basis of our deposit currency for several months at the very least. That the precarious condition of bank deposits directly affects those parts of our currency system which are popularly regarded as money is evidenced by the decline in our monetary gold stock, which began in mid-January and last week amounted to $51,000,000. (Week ending February 21.) Such measures, as the fractional freezing of deposits, are likely to accentuate this decline. The gold standard is threatened, if immediate drastic action in the form of underwriting deposits is not undertaken.

(This proposal has been elaborated in a memorial to the Congress prepared by Professors Sharfman, Watkins, Griffin, Rodkey, and Paton, of the University of Michigan.)

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REHABILITATION OF INDIVIDUAL CREDIT

One of the most important hindrances to business recovery is the poor credit standing of borrowers who need funds to carry on business. A vast total of indebtedness contracted under a régime of prosperity and higher prices has been made so burdensome by the rapid decline of prices and the present low volume of business and employment as to endanger the solvency of many honest and efficient businesses and persons. Even if business were prosperous to-day, on something like the present level of prices, many ownership equities would be practically wiped out by the fixed debts incurred in a period of higher prices. The extremity of the situation in various agricultural communities needs no comment, but it is by no means confined to agriculture, and its pervasiveness if reflected in the precarious condition of our banks.

The international debt situation, moreover, is one part of the same picture, in another part of which we see domestic foreclosure sales dominated or prevented by mob rule. Moratoria only delay the day of reckoning, and leave domestic debtors without the credit standing necessary to carry on business, and foreign countries without the credit standing needed to buy American exports. Debts readjustments are necessary, however painful the processes of readjustment may be to all concerned. For the readjustment and composition of debts within the United States existing agencies are far from adequate. They are slow, costly and too often wasteful. They were not intended to meet a wholesale readjustment problem such as the country is faced with to-day. If left to existing agencies the very size of the problem will mean that it will be many years before adjustments now needed are completed. But prompt readjustments will greatly aid business recovery, while postponement of readjustments means postponement of business recovery. The Federal Government is probably not in a position to compel readjustments, but it can greatly facilitate voluntary readjustments by providing a system of emergency adjustment agencies. And such a system, headed by a national board or commission could do a good deal to encourage such adjustments and guide them into wise forms, and it can develop a consistent national policy of debt readjustment. Such a system should be made the court of first resort for cases of actual and prospective defaults in payments, and it might be made to aid and expedite actual bankruptcy proceedings. A national emergency system of debt readjustment agencies is urgently needed to facilitate financial readjustments and so hasten business revival. (This point I have elaborated in a memorandum already submitted. A copy is herewith inclosed.)

A BUSINESSLIKE BUDGET POLICY

Much of the discussion of the Federal Budget has been vitiated by a fundamental confusion. Every good business accounting system distinguishes carefully between current expenses and capital expenditures: Government accounting does not yet make this distinction clearly. It is meaningless to urge on Congress the balancing of the Budget without accurately distinguishing current expenses and capital expenditures. The Budget of current expenses should be balanced with current revenues, and vigorous measures should be undertaken promptly to that end. All reasonable economies in the current costs of Government should be made. Legitimate obligations to veterans and other past public servants should be fully discharged, but it is believed that this end is not inconsistent with a considerable paring of the pension appropriation. If additional taxes are needed to meet current expenses, a sales tax on common necessities should be avoided, because it places the burden on those least able to bear it, and those especial ill-fitted to bear it at present. Capital expenditures are not properly chargeable against current revenues, and emergency outlays are properly spread over the current Budgets of a number of years. The advisability of emergency outlays and capital expenditures is not dependent on this year's revenues. It would help to restore public confidence and clarify our thinking, if a businesslike distinct-tion between current expenses and capital expenditures could be made in the Federal Budget.

EMERGENCY RELIEF

The increasing needs for relief expenditures to help those who, because of long continued unemployment or business difficulties, have exhausted their savings, and the decreased ability of local governments and charitable agencies to provide such relief, places an immediate responsibility upon the Federal Government to assist in providing such relief by an emergency appropriation along the lines of the Costigan-LaFollette bill. Such an outlay is not properly to be charged entirely against current Government revenues, but because of its emergency character should be amortized over a period of years. Quite apart from humanitarian considerations, it would be poor economy to allow a considerable part of our human productive resources to go without adequate maintenance, when they are, through no fault of their own, deprived of the opportunity to support themselves by societys failure to use their services.

### PUBLIC IMPROVEMENTS

If we were to embark upon an important war tomorrow, orders for the munitions and supplies of war could be financed by the Government and would stimulate a revival and expansion of industrial-activity. The mild but worldwide depression of 1914 was brought to an end in this way. Although there is no clear historical precedent in the short period of world history since business cycles became a marked characteristic of industrial civilization, one would be foolish to doubt that even a severe depression could be converted into a period of business expansion and full-time employment by war orders.

Fortunately the destructive direction of expenditure is not the essential feature of such stimulation of recovery. Three features, which are essential may be noted: (1) The volume of orders must be large. (2) The orders must draw upon a considerable range of industries for raw materials, supplies, and accessory services. (3) Business men must be given adequate reason to expect that the augmented volume of orders will continue for a period of months. The Federal Government is in a position to fulfill all three of these conditions by a constructive developmental program. No other agency is in such a position.

So long as the United States possessed a considerable amount of new resources awaiting development, relief from a prolonged depression might be brought about by the development of those resources. This situation is epitomized in the advice "Go West, young man." To-day we must look largely, not to an extensive development into new territory, but to a more intensive development in regions already occupied. Because of the present condition of private and local government credit brought about by the depression and the decline of prices, we can not rely on individual initiative or local public spirit to undertake a sufficient volume of such intensive developments in the form of "self-liquidating" projects. Federal initiative and Federal aid are needed.

The types of public projects which might be used have been often enumerated. They include: Safety improvements such as the elimination of grade crossings, public-school buildings, improved housing for the poor, regional development projects, and many other types of public improvement. To develop and put into operation such a grogram as would be needed to stimulate business revival, will take considerable time, but it will not be hastened by further delay, and it will not be made easier by a continuation of the depression

Apart from the purpose of stimulating business revival each project should be judged not in terms of balancing the Budget in a sense which confuses current expenses and capital expenditures, but on its merits as a project in the public interest and on the basis of economy—is the present an economical time to undertake such a project? There is good reason to believe that considering both costs of financing and costs of construction the present is an economical time to undertake such a project. Both types of costs are usually lower in a depression than in the ensuing period of business expansion.

If we could finance a major war now without inhibiting the necessary business activity by tightening the money market unduly (and if we could not, it is a serious indictment of our national defense) we can also finance a constructive developmental program. But in financing such a program we shall probably need to have recourse to measures similar to those of war-time finance—to a prosperity bond campaign.

### OTHER MEASURES

There are numerous other measures which might be undertaken in the present emergency. In my opinion those outlined above are the most urgent. The present, however, is the time in which to give attention to more permanent measures that will make for greater economic stability in the future. Among the measures of this type which merit serious cosnsideration are:

(1) Raising the standards for commercial and savings banks, and providing security of deposits, possibly through some well-considered form of deposit insurance.

(2) Development of a constructive policy of rural land utilization.

(3) Encouragement of State unemployment insurance on the American or "differential premium" plan.

(4) Development of adequate controls of investment credit.

MORRIS A. COPELAND,
*Ann Arbor, Mich.*

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A PROPOSAL FOR DEALING WITH THE DEBT EMERGENCY

NOTE.—Only the economic aspects will be emphasized in outlining this proposal. The writer's inadequacy in dealing with the legal aspects is fully recognized and parts of the proposal may be impracticable because of legal considerations.

The objects of the act here proposed are:

I. To aid in the development of a national policy adequate to meet the existing debt emergency.

II. To provide convenient channels for the readjustments, by voluntary agreements, of debts which have been made unduly burdensome by the rapid decline of prices, by the present depression, and by other factors beyond the control of the debtors.

III. To prevent, so far as possible, the hardships and wastes which are likely to result from the existence of such debts in the absence of such channels.

IV. To encourage such readjustments by voluntary agreement.

V. To provide agencies to advise both debtors and creditors as to how best safeguard their interests in the present emergency, by and in making such agreements.

VI. To promote uniformity in the methods of meeting the debt emergency among the several States, and to provide for cooperation between Federal and State agencies in meeting it.

The act should be temporary, say applicable for a period of two years with the possibility of continuation by presidential proclamation. An emergency debt adjustment commission consisting of five or seven members should be created. An adequate appropriation would be essential, probably an appropriation running into seven figures.

In general it seems desirable that the commission should have broad powers. The following powers and duties are suggested:

(1) To set up mediation boards and to appoint mediation agents. The commission would presumably district the country for the purpose of setting up general mediation boards or agents in each locality. It might decide to set up special functioning boards or agents either nationally or on a district basis for special classes of debtors for example: (*a*) Private business corporations; (*b*) commercial and savings banks, (*c*) local government units.)

(2) To delegate at its discretion powers and duties to these agencies or to existing agencies, such as State debt mediating agencies, the Interstate Commerce Commission, State insurance commissions.

(3) To develop and maintain a consistent and well-coordinated policy on debt mediation.

(4) To initiate and receive complaints and receive declarations of financial embarrassment. (Its jurisdiction might well include all debtors who are natural persons subject to or resident in the United States, and all debtors who are corporations of similar de jure persons created by the Federal or State Governments; or such de jure persons (created by foreign governments) who maintain an office or branch in the United States. It is intended to empower the commission to consider the case of any debtor who because of the general price decline or because of the business depression finds the meeting of his debts as they fall due a severe hardship, or finds his financial solvency in danger, and that the commission should attend to those cases first wherein the hardship is most severe or the danger of insolvency is greatest.)

(5) To endeavor to secure a voluntary agreement among the parties in interest for the revision and composition of the debts, and in case of private business corporations to secure a voluntary agreement for a plan of administrative and financial reorganization.

(6) To approve or disapprove voluntary agreements so made and in the case of disapproval to use its influence against the agreement.

(7) To secure the cooperation of State and local governments.

The legal status of the commission's action in connection with cases that come before it will only be indicated in general terms. The commission would need the power to compel attendance and testimony and the production of relevant documentary matter. So far as possible, actions in the courts to collect debts and petitions in bankruptcy should not be permitted until the case has been handled by the commission. In a case dismissed by the commission, if appeal is taken to court, the findings of the commission should, at least in certain classes of cases, become part of the court record.

In formulating a policy and in suggesting a basis for voluntary agreements between debtors and creditors in cases that come before it, the commission should have in mind inter alia the following considerations:

I. The changes in the prices of goods and services since the date when a long-term contract was entered into, which affect the financial condition of the debtor and the value of the debts if paid to the creditors, may have been largely beyond the control of either debtor or creditor, and may have been anticipated by neither party to the contract. A general price decline increases the cost of payment by the debtor as measured in physical quantities of commodities, and increases the value of the payment to the creditor as measured in physical quantities of commodities, although the increase in cost and increase in value may not be the same, since the two parties may be interested in different commodities. The changes in the commodity values or costs of two debts incurred at different times may be different.

II. The decreased abilities of some debtors to pay their debts may be largely due to and in proportion to price changes. The decreased abilities of other debtors to pay their debts may be largely due to decreases in the physical volumes of sales or of employment. Conditions beyond the control of the debtor affecting his ability to pay his debts may in one case be temporary, in another relatively permanent.

III. The debt emergency is greatly complicated by the existence of debtors who are also creditors—banks, insurance companies, etc. Readjustments of items due to them, and losses on such items necessarily affect their ability to meet their obligations to their creditors. This complication makes the development of a consistent policy by the commission a matter of prime importance.

IV. Although creditors holding pledges of specific properties may have legal priority over other private creditors in the settlement of their claims against a debtor, these obligations because of the length of time since they were incurred may have increased in the commodity cost and commodity value of their settlement as much as or even more than other obligations.

V. Where the financial difficulties of a debtor are largely due to conditions beyond his control, as indicated by the number of businessses of the same type as the debtor's in such difficulties, a voluntary downward adjustment of debt may yield the creditor a larger sum than he could get by attempting to collect through the courts.

VI. In view of man's inability to forecast the future course of prices long-term contracts for money payments made hereafter are more likely to protect the interests of both creditor and debtor, if each payment to be made is specified not as a sum of money in dollars, but as such a sum multiplied by a correction factor. This correction factor should represent the ratio of an appropriate specified price or price index at the date of payment to said price or price index at the date of entering into the contract. The Bureau of Labor Statistics index of wholesale commodity prices affords a reasonably satisfactory basis for computing such correction factors for many types of contract. For some types of contract, a single commodity price such as that of wheat may be preferable.

It would seem wise to make use of the commission and its agencies to serve the interests of both creditors and debtors by facilitating bankruptcy proceedings, and by improving the administration of bankrupt properties and expediting the process of liquidation. It is suggested tentatively:

(1) That the commission make nominations of liquidating personnel.

(2) That it might advise bankruptcy courts on matters of liquidation management.

(3) That it might have access to the accounts of properties in the process of liquidation during the liquidation period, and might audit such accounts.

(4) That it might call the attention of the Department of Justice or other appropriate agency to cases of dishonesty or gross negligence on the part of the liquidating personnel.

(5) That in certain cases some liquidation processes such as the proving of debts might be begun while the case is before the commission.

(A letter received from John Ise, Lawrence, Kans., is here printed in full as follows:)

LAWRENCE, KANS., *February 28, 1933.*

Hon. REED SMOOT,
*United States Senate, Washington, D. C.*

DEAR SENATOR SMOOT: I am sorry that I shall be unable to appear before your committee on the economic situation; but the financial situation here makes it impossible to make the trip. I shall however be able to indicate briefly what I believe to be a reasonable course to pursue in regard to the depression.

It would be my judgment that one of the most important causes of the depression is the high tariff, which has shut off foreign trade, and has therefore cut off the farmer's foreign market for his stuff. The first step to restore prosperity would seem to be to restore the foreign market for our surplus wheat and meat products; and of course this can be done only by accepting what the European countries have to trade us for our surplus agricultural products. The tariff should be reduced immediately and drastically, in fact the ideal toward which we should aim would be almost absolute free trade. Our international position as a creditor country suggests the same procedure, since we can receive payment of the debts due us only if we accept goods. If the United States refuses to accept goods—as we do at present—the debtor countries have no alternative but repudiation of the debts, and will, of course, be justified in repudiating their debts.

A second step should be to secure a better distribution of the wealth of the country, as our depression is no doubt caused in part by the fact that there is insufficient purchasing power in the great mass of the people. This could be done by a drastic increase in the income tax, especially in the higher brackets; and by a drastic inheritance tax. It is unfortunate that we are so late in putting this into effect, as it would of course have been much more effective put into effect when there were more high incomes and high inheritances; but it would have a good effect now.

Coupled with this there should be an extensive program of public works, financed partly as above indicated, and partly by an issue of bonds, or by a capital levy, or by both. My own preference would be for the capital levy, since it would not leave us with an increased debt burden, when debts are already one of the most important causes of the depression.

As one item in the public works program, the Government should take over and reforest a large area of marginal land. Some of this is already in the hands of the States, and more could be taken over at a very moderate cost. If we should undertake to reforest an area of perhaps 50,000,000 acres, we would in that way provide employment, get a better distribution of income, reduce the agricultural surplus, and provide for the long-time development of the country. In some cases it would be possible to have the farmers on the farms reforest part of it, or all of it; in some cases the States could be induced or encouraged to do the reforestation, and in some cases the Federal Government could do it.

On the question of inflation, I do not think we can see so clearly. There are undoubtedly strong arguments against inflation. I am highly doubtful whether we shall be able to get out of the depression on the present price level—at least within any future that I care to think about—and I think we may easily be forced to inflate. It is evident that if the present situation continues for a few years longer many of the ordinary processes of law will be abandoned, in the debt-ridden agricultural sections of the Middle West; and it is highly doubtful whether inflation offers more dangers than the present situation. At any rate, unless the price level can be raised considerably the country will continue indistress. Also, if there is to be inflation it should come soon, before too much of the farm land and other mortgaged wealth has changed hands. Whether it is too late even now, to do any good by inflation, is a serious question. At the very least the Government should decide immediately what policy it will pursue. whether it should proceed on the present price level, or whether it should assume a higher one. If the former, it should cut all Government salaries about 40 per cent, cut the income of bond holders to the same extent, and the principal of the bonds similarly. In other words, it should get all items of expense down to the new price level.

My own judgment is that a reduction of the tariff to 5 or 10 per cent, a $10,000,000,000 program of reforestation and public works, a high income and inheritance tax—up to the levels of England or Germany—a capital levy to finance the program of public works, and proper adjustment of the price level, would bring us out of the depression within a year or two. It is clear that the situation demands drastic remedies. Putting talcum powder on a cancer will not do any good. We have tried that sort of thing too long.

Very cordially yours,

JOHN ISE.

# APPENDIX

## Statement of Hon. George W. Armstrong, Fort Worth, Tex., and Natchez, Miss.

### PRELIMINARY

I am 66 years of age, reside in Fort Worth, Tex., where I have lived for the past 45 years, and I am a manufacturer and farmer, I am president and owner of the Texas Steel Co. which manufactures reinforcing concrete bars, steel castings, and oil-well supplies. I am also the owner of 30 plantations in the State of Mississippi, comprising about 30,000 acres. The Texas Steel Co. and also my plantations are mortgaged for more than their present value.

I pretend to have some knowledge of the money question and of political economy. In 1922 I wrote The Crime of '20 which revealed to the public for the first time the minutes of the meeting of the Federal Reserve Board and Advisory Council of May 15, 1920, that decreed the deflation which brought upon America and the world the catastrophe of 1920. I have since written Truth (two volumes); The Calamity of '30, Its Cause and the Remedy, and A State Currency System—To Hell With Wall Street. These books revealed to the public for the first time the enormous hoarding of our moneys by the Federal Reserve System, and the fact that we now have in actual circulation of all kinds of money, including Federal reserve notes, only about $1,250,000,000 or about $10 per capita instead of about $38 as stated in the official reports of the Comptroller and the Treasury Department.

### THE CAUSE OF THIS DEPRESSION

It is my understanding that the subject matter of your investigation is the cause of this depression and the remedies that will correct it. I have covered both of these subjects rather fully in my book The Calamity of '30, a copy of which I will be glad to furnish complimentary to any member of the committee or of Congress who is sufficiently interested to read it. I will here make only a very condensed statement with but little argument, of the conclusions of this book.

It must be obvious to you that the cause of this depression is the deflation of all values as measured by the dollar; or stated conversely, the inflation of the dollar. If that is the cause, then the remedy is equally obvious that this condition can only be corrected by reversing the process and by deflating the dollar and inflating all values as measured by the dollar—and your conclusions and recommendations should, therefore, be the best and quickest method of accomplishing this desired result.

The deflation of 1930 has been brought about through the operations of the Federal Reserve System in precisely the same manner that this System brought about the deflation of 1920, viz, by the contraction and hoarding of money and credit and by advancing the discount rate. The deflation of 1920 was brought about, as stated in the official minutes of the deflation meeting of the Federal reserve authorities on May 15, 1920, for the avowed purpose of "checking the vicious circle of increasing prices and wages." The deflation of 1930 was brought about by the same System for the purpose as stated in the press and in the Federal reserve bulletins of that time, of checking speculation on the exchanges. The methods used to bring about both deflations were precisely the same, viz, the contraction and hoarding of money and credit, and advancing the discount rate.

I have stated that the volume of money in circulation is only about $10 per capita. This statement is based upon the last annual report of the Comptroller of the Currency showing that the approximately 19,000 National and State banks have in their vaults less than $800,000,000—or as I recall the figures, actually $743,000,000. This represents all the money that is in circulation except the money in the tills and pockets of the people. The only estimate I have seen of this amount is one by Mr. McCoy of the Treasury Department some years ago estimating it at $440,000,000. This is surely a liberal estimate. I think your own observation will convince you that the people have less than half as much money in their pockets as the banks have in their vaults. Accepting this estimate, however, as being correct, there is actually about $1,250,000,000 in circulation—or $10 per capita.

In many of the States there is only $3 or $4 per capita in circulation. In Texas we have about $5 per capita in circulation. The volume of money in circulation is so limited that people are unable to conduct their ordinary small transactions in currency. There is no credit obtainable from any source except from the Reconstruction Finance Corporation and other governmental agencies, and except also for certain kinds of self-liquidating transactions.

The crying need is to correct this situation quickly and thoroughly. The best method for that purpose is to pay the adjusted compensation due the soldiers, in Treasury certificates and to make these certificates tenderable for debt and taxes. The effect will be to get new money in circulation in every nook and corner of the land, because the veterans are everywhere. This will restore buying power to the people, credit power to the banks, and values and prices and wages.

### GOLD STANDARD

My book "The Calamity of '30" contains a true story of the machinations of the international bankers following the Versailles Treaty in bringing about the restoration of the gold standard throughout the world. All of the countries of the world except the United States, have been forced to abandon it. The truth is we have not been on the gold standard since the establishment of the Federal Reserve System in 1913, but it has been used as a pretext to keep up the value of the dollar. If we had no other money except gold, and our gold was permitted to circulate, we would have approximately three times as much money in circulation as we now have, with the result that all values and prices would be approximately three times more than they now are, and the burden of debt and taxation three times less.

Practically the entire amount of our gold is hoarded by the New York Federal Reserve Bank in its vaults reported to be 80 feet below sea level. So far as its usefulness is concerned it had as well be at the bottom of an uncharted sea. The Congress has only recently compelled by law under heavy penalty, the bringing into the Federal Reserve System for hoarding, the small remnant of gold in circulation. There can be no possible purpose other than hoarding, since the Federal Reserve System and the Treasury will not pay out gold, and if they should pay out gold the recipient would be under the duty to return it at once and would be subject to a fine of $10,000 and 10 years' imprisonment if he failed to do so.

Of what service, pray tell me, is this gold if it can not be used? In the name of common sense, what reason can there be for a convertible gold note if the holder of the note is not permitted to have it redeemed in gold?

The gold standard has been throughout the ages but a pretext of the banking fraternity to limit the volume of money. They fear that without this artificial limitation the governments will respond to the call of the people for cheaper money and for higher prices for their services and products. It is the inborn, ingrained fear that is transmitted from banker to banker and from father to son. This fear is fundamentally a fear on the part of the rich and the conservative of the people and of popular government.

They hold up their hands in holy horror and point to the French assignat and the German mark as dreadful examples. But during the periods of inflation in France and Germany the people were prosperous and happy; it was only when the bankers succeeded in bringing about deflation that the people became poor and miserable. There is no occasion for America following in the footsteps of France and Germany, and nobody desires that that be done. The Congress can establish through the exercise of its constitutional duty, such value for money and for property and service as will be fair alike to creditor and debtor, and to the money lenders and the people. To say that Congress will not do so is to argue that our republican form of government is a failure.

Since the establishment of the Federal Reserve System, our standard, or yardstick of value, has been a manipulated one dependent upon the will and judgment of the Federal reserve management. The standard is now manipulated by the open-market committee of the Federal Reserve System, of which the Governor of the New York Federal Reserve Bank is chairman and manager. The result of this managed currency is that we now have three times as much gold in storage as we had prior to the World War, and about one third the money we then had in circulation.

It is absolutely impossible for America to maintain the gold standard, or higher value for its money than the other leading commercial countries of the world. Such condition will inevitably bankrupt the manufacturers and farmers of the country and pauperize the majority of the American people. The American exporter, whether of farm or manufactured products, must bear the burden of the difference in the exchange value between the dollar and the moneys of the importing countries, which means that the farmer and the laborer must pay the premium on the dollar. The farmers and manufacturers of countries having cheaper moneys have a cheaper cost of production, with the result that they can undersell the American producer in the American market. It is a necessary first step on the road to recovery to bring the value of the dollar down to a parity with the moneys of other leading nations of the world, which can only be done by increasing the number of dollars in circulation.

### SILVER

While metallic money is no longer of any consequence in itself, silver should be restored to the ancient and established ratio of approximately 16 to 1 for the dual reason that it will increase our volume of money and increase the demand for our exportable surpluses. Silver is the money of more than half the people of the world. To the extent that the value of their money is increased as compared with the dollar, their buying power and demand for our products are correspondingly increased. Besides, the restoration of silver will approximately double the volume of our money, which will increase prices and wages and reduce the burden of debt and taxation correspondingly.

We do not need to have any world conference to regulate our own financial policy. If we remonetize silver at the ratio of 16 to 1 the leading commercial countries of the world will be compelled to do so, otherwise the silver-using countries will buy our products in preference to those of other countries for the simple reason that their money will buy more of our goods.

The ratio of 16 to 1 is not only the ratio that we formerly maintained, but it is the established ratio throughout the ages for most of the commercial nations. It is less than the ratio of production of silver as compared with gold. This ratio is now and has been for several hundred years at about 13 to 1, with the result that the ratio of the stock of silver money and bullion in the world to the stock of gold money and bullion is about 13 to 1.

### FEDERAL RESERVE SYSTEM

As important as are the payment of adjusted compensation to the soldiers, the abandonment of the so-called gold standard, and the remonetization of silver—none of these measures nor all of them together will bring about permanent prosperity in this country so long as the Federal reserve management has the power to hoard, expand, and contract currency and credit, and to thereby manipulate the price and wage level.

No matter how much money is put in circulation nor of what kind it is, it will soon be gathered in and hoarded in the vaults of the Federal reserve banks. The cheapening of gold by reducing the gold content of the dollar will not increase the volume of money in circulation; it will only debase gold that is hoarded and in storage in the vaults of the Federal reserve system.

The Federal reserve system has developed into a vast hoarding machine and price and wage regulating bureau. It is responsible for two of the world's major calamities, viz, those of 1920 and 1930, and there can be no enduring prosperity until this system is abolished or radically reformed. The Congress should prohibit under heavy penalty (and not legalize, as proposed by the Glass bill) the open market operations of the system, should destroy its power to expand and contract currency and credit, and Congress should resume its constitutional power and duty to "coin money and regulate the value thereof."

I respectfully suggest that the Government should cause to be retired and canceled the stockholdings of the member banks, should abolish the Federal Reserve Board and Advisory Council, and make each district Federal reserve bank a separate and independent bank under local control. The surplus of the system, which, under the terms of the act, belongs to the Government as a franchise tax, is now considerably in excess of its capital stock and it is sufficient for the operation of a legitimate banking system. This system should be operated as a banking system purely, and for all banks, both State and national.

The Congress should immediately ascertain the true volume of money that is now in actual circulation and the volume of money required to restore and maintain the price and wage level of 1920; it should cause such volume of money to be put in circulation as quickly as possible and should take the necessary steps to insure that this volume is kept in circulation and is increased with the increase in population and the needs of the people.

The Treasury estimate of the volume of money in circulation makes no deduction for our money that circulates in other countries and for money lost or destroyed by fire during the last 150 years, except $1,000,000 destroyed by the Chicago fire. The estimated volume in circulation is grossly overstated, and it should be more definitely ascertained.

It cannot be disputed that the general price and wage level in any country depends wholly upon the volume of money in circulation, provided a tariff is levied sufficiently high to protect this level against the cheap products of countries having cheaper moneys. That, as stated by John Stuart Mill, is the "key" to the whole money question, and there can be no understanding of that question without a thorough understanding of the fundamental principle.

## INFLATION AND DEFLATION

The 1920 price and wage level is a just one to both creditor and debtor, because the greater part of our bonded and other indebtedness was incurred when the value of the dollar was substantially at that level. We then had what the "money changers" regard as violent inflation; we now admittedly have deflation. The difference between conditions then and now represents the difference between inflation and deflation. There were then no bread lines, no farm problems, no unbalanced budgets, no insolvent debtors, no bank failures, and no overproduction. Indeed, the Federal reserve authorities complained (as shown in their official minutes of the fatal meeting of May 15, 1920) that there was not sufficient production and that it was necessary to bring down values in order to increase production. History records the fact that the greatest advancement in the arts and in our civilization have been during inflationary periods.

Our national wealth in 1919–20 was estimated at about 500 billion dollars, our debts at about 150 billion, and our national income at about 95 billion. I have seen no recent estimate of our national wealth, but on the basis of the present value on the dollar it could not exceed 150 billion. Our national indebtedness is estimated at about 200 billion, our national income at about 35 billion, and our bill for taxes and interest at about the same figure. Our inherent wealth is the same; we have the same land, factories, and transportation facilities that we then had. The difference in the situation is due wholly to the appreciation of the dollar—the yardstick of value.

On the basis of the present value of the dollar we are obviously insolvent as a people and as a nation. It is obvious, too, that the only way we can restore our solvency is by cheapening the dollar—or, stated conversey, by increasing values and prices and wages—and this can only be accomplished by getting more dollars in circulation. There is no other way and no possible substitute.

It is generally conceded that the banks should maintain a minimum cash reserve of 10 percent of their deposits. The 19,000 National and State banks of the United States have an average cash reserve of only about 1 per cent. The last report of the Comptroller of the Currency shows that the deposit liabilities of all the banks of the United States are about 40 billion dollars and they they have in their vaults of cash and currency of all kinds, including Federal reserve notes, less than 800 million—which is less than 1 per cent. (NOTE.—I apologize to the committee for not stating these figures exact. This argument has been prepared at my plantation in Mississippi, and it has been necessary for me to get it up rather hurriendly in order to reach the clerk in time to be included in the published report of the hearings.)

If all of the depositors of all the banks had called for their money when the banks were recently reopened, every one of them would have had to close again within 3 days; all of them together could have paid only 1 percent. The President and his Secretary of the Treasury struck down the helpless and unfortunate victim and not the designing and guilty culprit—the Federal Reserve System.

The banks that rendered the greatest service to their customers as a rule had the greatest amount of uncollectible paper and the least amount of cash, and many of those banks have not been permitted to reopen—particularly if they are State banks. Many of these unfortunate bankers sacrificed themselves instead of their customers, with the result that many of them are suicides, or under indictment and in disgrace. Behind them and their bankrupt banks stand a horde of bankrupt customers who have been bankrupted because they, too, have sought to contribute to the production of goods and to the public welfare and have borrowed money for those purposes.

Please permit me to observe that it is not necessary to bring pressure to bear to force the State banks to join the Federal Reserve System if the System is made attractive to the average banker—if it is by law transformed from a tyrannical master to a faithful servant as it was originally intended to be.

### FREE THE STATES

The Congress should immediately repeal the 10 percent tax against State bank notes in order that the States may protect themselves against such a catastrophe as we now have. If the Congress provides a sufficient volume of money and continues to perform that duty faithfully and intelligently and with due regard to the interest of the great masses of the people, there will be no occasion for the people of the States to employ this power, but it should nevertheless exist as a protection to them.

We had four State banks with power to issue currency at the time the national constitution was written and this system prevailed up to 1866 when it was stricken down by the 10 percent tax. At that time there were more than 1,200 State banks with power to issue currency, and the national banking system had only recently been adopted. The change was made when the South was prostrate and not represented in the Congress. Nevertheless, the act passed the Lower House of Congress by a majority of only one vote—or rather, there was a tie vote—and the deciding vote was cast by the Speaker. It was sustained by the Supreme Court when there were only 8 members of the Court, and 3 of them dissented in an unanswerable argument.

The history of the State currency system is a creditable one. We had only 2 major depressions comparable to those of 1920 and 1930, and 1 of those resulted from Jackson's veto of the charter of the Second Bank of the United States. With the exception of the banks of three or four States, their currency systems were sound and there were no bank failures of any consequence. There were fewer bank failures during the almost 100 years that we had the State system, than there have been in the last 18 months under our present national system. The repeal of the 10 percent tax tax against State bank notes was one of the original cardinal principles of the Democratic Party even as late as the platform upon which Grover Cleveland was elected the second time.

### ALTERNATIVE REMEDIES

If the present situation is the legitimate fruit of capitalism, if capitalism means money princes and kings for the "money changers" and pauperism and slavery for the masses of the people, then it must be destroyed; and almost any substitute is better than present-day capitalism.

I suggest as alternative remedies: That we have a "Jubilee Year" such as the Jews had every 50 years; that the Congress cause to be canceled all mortgaged debts and bonds and thereby give the debtor a "new deal" and a new chance in life; that a graduated inheritance tax be imposed upon all gifts and inheritances that will limit the inheritance to $1,000,000. It is my information that the French rate is 99 percent on inheritances of more than $1,000,000. I respectfully suggest that the rate should be 99 percent on inheritances in excess of $500,000 and that the proceeds of the tax should be divided equitably between the National and State Governments. This is substantially the method that the ancient civilizations of Greece and Rome adopted and the adoption of which prolonged the life of both of these empires.

### CONCLUSION

If either of the remedies here proposed is adopted, the problems that now face the President, the Congress, and the people will melt away like thin mist. The Budgets of the National and State Governments will be quickly balanced, the bread lines will disappear, the crime wave will end, and the buying power and solvency of the people will be restored, and they will be prosperous and happy. There are no other remedies by which these desired ends can be accomplished. There are no other roads out of this terrible morass except revolution. One or the other of these remedies must be adopted or revolution is inevitable.

I say this as a firm believer in our Constitution and in the capitalistic system and as a lifelong Democrat. President Roosevelt is reported to have stated to the farm representatives that he proposed to cause to be put in circulation a sufficient volume of money to give every man a job who desired it. This can be done; and if it is done, he will go down in history as one of our greatest Presidents.

His record to date has been disappointing. Everything that he and the Congress have done has been deflationary. He apparently clings to the gold standard and opposes the remonetization of silver. He has delegated to the Federal Reserve management the power to relieve the very depression that it created. With all of the hullabaloo about increasing the currency, they put in circulation $9,471,000, or 7 cents per capita, in pursuance of the Emergency Act. But they withdrew from circulation during the period between March 15 and 22, $376,460,000, or about $3 per capita.

He has caused to be closed up a large number of banks, because they haven't enough of the small amount of money in circulation to pay their depositors, thereby further deflating credit. The Reconstruction Finance Corporation is aiding in the reorganization of these closed banks on condition that they nationalize. He has been appointed an autocrat to deflate the helpless Government employees and pensioners. He advocates a farm-relief measure that he admits is an experiment, when the farmer is in no condition for further experiments and there is no need for further experimentation.

This is not a "new deal"; it is the same old Hoover deal dressed up differently. It does not help the "forgotten man." This is more deflation and not less, and the more deflation we have the worse conditions will become. I repeat, there is and can be no relief without inflation—or "reflation", if you prefer that word.

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## THIS DEPRESSION AND HOW TO END IT

(By S. A. Baldus)

### Part I. Depression Street—The Diagnosis

Let it be understood at the outset that I am not an economist—that is to say, I belong to no school; to no group; to no party. I have no pet theories to expound; no hereditary prejudices to defend; no personal interests to exploit; no propaganda to promote; no axes to grind. I am merely a student of economics; for 30 years it has been my hobby. I am what might be called an independent economic thinker; unorthodox perhaps, but, let us hope, not a heretic. I do my own thinking, my own reflecting, my own reasoning, relentlessly pursuing my ratiocinations wherever they may lead; but always adhering to the fundamental principles; and letting the chips fall where they may.

It is these things that have persuaded me into believing that perhaps the independent analysis I have made, and the conclusions I have arrived at with regard to the present economic and financial situation, may have enough merit in them to earn for them your thoughtful consideration; and I beg leave respectfully to submit them to you today.

I come to you, gentlemen, with a modest plan and some specifications, not for a new system but how to save the old one, which, despite its many excesses and abuses, has served us rather well in past years.

Please hear me to the end with patience and indulgence and without interruptions, and if you do, I'll promise you that you will hear at least a few things you may never have heard before; things that I hope will direct your minds into entirely new channels of thought. I'll be as brief as I can. I will confine myself to the matter immediately before us; and exclude everything not vital or germane to the subject.

### THE COUNTRY IS SICK

It is generally admitted that our country is economically and financially sick—gravely ill. On that one point there seems to be universal agreement. But as regards the precise nature of the illness from which the patient is suffering, what caused it, and what can or must be done about it, there seems to be a wide divergence of opinion.

Before we can hope to restore him to complete health, we must endeavor to determine what ails the patient, and what caused his malady, which seems to be not only physical but mental and moral as well.

What you have done in the past few weeks has been very fine, and is very encouraging; but do not deceive yourselves. The patient is still very sick, and will be confined to his bed for some time to come. He has responded splendidly to the change of doctors, and the new nurses, and the so different treatment you are giving him. You have changed his bed linens—sheets and pillows; you have given him a new bedpan. You are giving him daily alcohol rubs. You are allowing him to sit up for a little while each day, propped up with pillows. You've even rolled into the sick room a nice invalid's wheel chair; and you encourage him by pointing to it ever so often, and telling him that he'll soon be able to sit in it, and wheel himself out on the porch—and into the sunshine.

Oh, yes. All this and maybe more. But the chart at the foot of his bed tells a different story. The patient is by no means out of danger. He is far from being convalescent; and his ultimate recovery is by no means certain. He has made some progress within recent weeks—but the possibility of a relapse hangs menacingly over him. Let us diagnose his illness. Let us study the history of his case.

### WHAT'S WRONG

On August 21, 1932, Roger W. Babson, apostle of optimism, and considered by many as an economic major prophet, in an interview said that "American business is climbing out of the valley of depression and should be back to normal by 1934."

Now, this is too long to wait. We simply can't wait another year or two. Something must be done, and that without delay.

But what?

That's the question I'm going to try to answer, and I hope you will pardon me if I become a trifle pedagogic. The seriousness of the subject, and the gravity of the situation, demand it.

Without any further waste of words—what ails the country? What's happened? What's gone wrong? What has brought the car of commerce to a stop; and why do the transports of trade lie idle? What caused the closing of mills and mines, factories and shops? What brought about the collapse in the stock market—the tremendous drop in stock prices? The shrinkage in real estate values? In farm values? How can we explain the piling up of frozen assets? The thousands of bank failures? The billions of losses to the depositors? The interest defaults on bonds, notes, and mortgages? The tax delinquencies? The bankruptcies, foreclosures, receiverships? The ruination of millions of investors, and speculators alike? What swept away the savings of millions of men and women? What shattered the faith and smashed the confidence of the people?

### THE ANSWER

To all these questions there is but one answer. All our present economic troubles and financial difficulties are the cumulative result and necessary culmination of a prolonged orgy of wild and reckless inflation. There is one fundamental cause—primary, immediate, and ultimate—that explains why the nation is economically sick and financially in a critical and deplorable condition. It can be summarized in the one word—"inflation."

For 30 years I've been a student of economics, and all our national problems. For 30 years I've watched the economic and financial developments of our country; and I've written hundreds of editorials and articles, pamphlets, and even a book, exposing the fundamental unsoundness of our system; stressing its underlying fallacies; condemning its abuses and excesses; excoriating the falsity of our logic; pointing out the error of our ways; and warning the country that there is bound to be a day of reckoning—that a debacle is inevitable.

More than 20 years ago I predicted the utter collapse of our economic and financial system. My guess was that it would come around A.D. 1915. But the war intervened, and temporarily retarded the current of events that lead inevitably and calculably to disaster.

The war, furthermore, gave us a new lease on life; and incidentally taught us a few more inflation tricks, which enabled us, by sundry artifices, devices, and deceptions, to postpone the day of reckoning a while longer. And we succeeded in doing this until towards the end of 1928. Then the depression began to make itself felt. The culmination came in October 1929, when the stock market collapsed; and "O, what a fall was there, my countrymen!"

Inflation is the root of all our present troubles. Gentlemen, I've written an entire book on and around the subject of inflation. Naturally, I can't tell you all that's in that book in a few minutes and I'll not attempt it. I can't give you all my computations and reasoning on which my conclusions are based. But I'll try to tell you in as few words as possible just what inflation means, and what bearing it has on our present difficulties and problems.

CORPORATE INFLATION

Definitely speaking, this depression did not come suddenly upon us; nor out of a clear sky; it began just 32 years ago, or, to be accurate, it began April 1, 1901, when the United States Steel Corporation was organized, and its promotors dumped into the speculative market an issue of approximately $1,000,000,000 of water stock—$1,000,000,000 of so-called "securities"—behind which there were absolutely no assets; created by a stroke of the pen, out of nothing; $1,000,000,000 of fictitious "wealth" and on which nonexisting "wealth" the public has been compelled to pay interest ever since.

The story of the organization of this cormorant corporation is a matter of record, from which I need give only a few data.

Among the 10 or 12 competing companies consolidated into the U.S. Steel Corporation was the National Tube Co., operating 17 mills. Mr. J. Pierpont Morgan had employed Julian Kennedy, "a capable engineer of long experience in the construction and operation of steel works, both in America and Europe and Asia," to make an estimate of the value of the properties. Mr. Kennedy reported to Mr. Morgan that the actual value of the National Tube Co.'s plants did not exceed $19,000,000. In spite of this fair valuation, Mr. Morgan capitalized these plants at $80,000,000.

(Parenthetically I may say in passing, that Mr. Morgan, for his "valued services," received as compensation securities of this concern aggregating $20,000,000, or one million more than the total value of all the 17 tube plants.)

Another concern taken into the combine was the Federal Steel Co., whose actual property was estimated worth $33,000,000. Yet $200,000,000 of securities were issued against it.

Against the properties of the Carnegie Co., whose actual value its owner, Mr. Andrew Carnegie, had sworn did not exceed $75,610,104.06, the United States Steel Corporation issued $492,000,000 of its securities.

For every $100 of actual value of the American Steel and Wire Co. the report shows that $528.20 of securities were issued. And so on.

All other corporations, all consolidations, combines, mergers, etc., during the past 32 years were "put over" precisely in this same fashion. Plant values and actual investment were discarded as a basis for securities issues. The sky was the limit.

There are, of course, no collected statistics upon which we could base a fairly accurate estimate; but my own conclusion (and it isn't a wild guess, either) is that for every dollar of real value or actual investment represented in the corporate properties of all kinds—industrial plants, transportation systems, public utilities, etc.—$3 of inflation have been arbitrarily added.

### INFLATION OF FARM PROPERTIES

This ratio of $1 actual investment or natural, normal value, and $3 inflation, is apparent in all our statistics with regard to corporate properties. Multiply this by 25 or 30 billion and you'll get an idea of what has taken place. But what is still more obvious is the fact that inflation—tremendous, terrific, and violent—has taken place within a period of less than 30 years—and applies to all properties.

Let us take a glance at the statistics for farm properties in the United States (land, buildings, equipment, livestock, etc.).

| | Value of farm property |
|---|---|
| 1900 | $20,439,901,164 |
| 1910 | 40,991,449,094 |
| 1920 | 80,500,000,000 |

Today the value of farm properties is estimated at approximately 58 billion.

### REAL ESTATE INFLATION

A similar "rise in value" is, of course, predicable for what classifies as urban real estate—land and buildings. Without going into a lengthy discussion, the increase in inflated real-estate valuation has been enormous—fully equalling, if not exceeding in the aggregate, the inflation ratio predicable of corporations and farm properties.

### NATIONAL "WEALTH" STATISTICS

But the most illuminating and conclusive summary of the inflation story—showing how we arbitrarily "wrote up" values—we find in our national wealth statistics.

According to the United States census statistics, the national wealth in 1880 was $43,642,000,000; and in 1890 it was $65,037,000,000, an average increase of $2,140,000,000 a year.

By 1895 the national wealth had risen to $77,000,000,000, an average increase of $2,400,000,000 a year.

By 1900, five years later, it had mounted to $88,517,000,000, which was at the rate of about $2,750,000,000.

These increases in the Nation's wealth seem to me reasonable, natural, and normal. Then we entered upon our wild inflation career.

Now observe.

By 1904, four years later, our national wealth had mounted to $107,104,211,917, an increase at the rate of $4,600,000,000 a year.

By 1912 our wealth had risen to $187,739,071,090, which was at the tremendous rate of increase of about 10 billion dollars a year.

In 1913, according to the statistics of the National Industrial Conference Board, our national wealth was $190,713,000,000.

By 1920, according to the same authority, our wealth had risen to $488,692,000,000, an increase during the 7-year period from 1913 to 1920, at the rate of $42,000,000,000 a year.

It is only fair to say that the National Industrial Conference Board afterwards gave us a more conservative estimate. Its estimate of the national wealth in 1925 was $362,000,000,000, which still represents an annual increase of nearly $15,000,000,000. Wealth does not pile up that fast, gentlemen; most of it was inflation.

Today our national wealth estate is $360,000,000,000. My estimate is that of the $360,000,000,000 of our so-called national wealth, 160 billion is sheer inflation. And when I say this I think I'm exceedingly conservative. One hundred and sixty billion dollars of inflation without any assets behind it.

WHY INFLATION IS WRONG

Why do I condemn inflation?

Because it is on the inflated valuations and not on the actual value—or actual investment—that costs are figured and profits computed. Because it is on the inflated valuations of their properties that landlords are collecting rents, farmers estimate the prices of their products, railroads fix their freight and transportation rates, public utilities their rates, and manufacturers the prices of their commodities.

Figuring only 5 percent on the 160 billion inflation, the consumers of service or commodities have been paying approximately $8,000,000,000 a year over and above what they should have paid.

The one point I want to stress to you today is this, that inflation is directly responsible for a 300 percent increase in the prices of living commodities. All the other evils follow from this.

THE THREE CARDINAL POINTS

There are three things that I predicate and must prove to you:

1. Inflation is responsible for a 300 percent increase in the prices of living commodities in less than 30 years.

2. This 300 percent increase in the prices of living commodities has seriously disturbed the exchange value and purchasing power of money.

3. This 300 percent increase in the prices of living commodities has converted what was once a perfectly healthy 100-cent dollar into a 25-cent dollar.

Frankly, as I see it, unless we correct what's actually wrong, there is no hope for our economic salvation or financial redemption. Let's proceed with the proof.

INCREASES IN COMMODITY PRICES

The increase in commodity prices synchronizes exactly with the inauguration of the inflation system. My studies on this subject date back to 1896. In 1896 the dollar had its greatest purchasing power; prices were comparatively low. In 1897 the trust era began. Immediately, in order to earn dividends and reap profits on the inflated valuation of the industries that had been overcapitalized, it was necessary to increase prices. Prices, for many living commodities, were raised, in the beginning slowly and cautiously, a cent or two at a time. By 1913 the cost of living had increased a round 100 percent. The unit of goods that could be bought in 1896 for $1, now cost $2.

What was the effect on the dollar? This—the dollar that in 1896 had a 100-cent purchasing power, now had only half the purchasing power; it had become a 50-cent dollar.

Some of you may recall that around 1912 and 1913, things economically began to wobble; price increases had about reached the limit; it wasn't possible to raise them much higher. There was considerable discontent and unrest, not only among the wage earners, but people generally. Financially speaking, it was clear that we were headed for the rocks. According to my computations, the smash was due about 1915. But in 1914 the European war broke, and so for the next few years the war was blamed for the disturbed conditions. Commercially speaking, we remained in status quo, until we actually got into the war ourselves. Then things began to hum. Prices went sky high. By 1920, prices in general had risen a round 100 percent over the 1913 prices. But taking the 1896 prices as basic, prices in 1920 were 300 percent higher than in 1896, an increase of 300 percent in 25 years.

In other words, the unit of commodities that could be bought for $1 in 1896, cost $2 in 1913, and $4 in 1920. Needless to say, I am not speaking of any individual items; I am speaking of living commodities in the aggregate, which, of course, includes the item of rent.

According to Dun's Index number, the wholesale price of 300 articles in 1896 was $74.32, whereas in 1920 the price of these same 300 articles were $260.41. Bradstreet's Index number showed that the prices of 157 commodities, which could be bought for $591 in 1896, had risen to $2,087 in February 1920.

It is claimed by some that prices have again reached the 1913 level. This may be true for a few groups of commodities, particularly food products, but it isn't true for all commodities. I'd go no further than to say that, all things considered, maybe our dollar at the present moment is a 33-cent dollar as compared with 1896.

But these lower prices are admittedly a temporary condition. A few months ago there was an upturn in the prices of some commodities, and this upturn was immediately hailed as the beginning of a change for the better.

Hundreds of writers on the subject, including economists, have said that there'll be no recovery until prices are raised. The idea is pretty general that business recovery means higher prices, and that higher prices signify business recovery. It is clear that those who maintain this have their eyes glued on the 1920 price level. Not until prices rise again to the maximum level, will they be satisfied; and I shall keep this "price-raising" design before me as I talk to you today.

### THE FUTILITY OF PRICE INCREASES

I know that there are those who would like to get up on their toes to defend price increases, all price increases, of the past, present, and future. And if they did, I'm sure they wouldn't say a single thing I haven't heard before; they wouldn't advance a single argument with which I am not familiar. But wait. I'm not through. To reassure you, let me say that I'm not really condemning price increases so much as I'm trying to show you the hopeless futility of them.

I want to prove to you that price increases have not, and do not, and cannot benefit you, or me, or anyone, in the slightest degree. The average business man thinks that the more he gets for his particular commodity the better off he is. He's wrong. For a good many years now we've all been laboring under the impression that the higher the prices the more profit one can make, and the richer one will become. My friends, that's a delusion and a snare.

If you alone could raise your prices 100, 200, 300 percent—yes, then you would be immensely benefited by the higher prices. But when everybody raises prices the thing is reduced to its lowest common denominator; and to an absurdity.

### PRICE INCREASES—NO REAL ADVANTAGE

If only a few could raise their prices and maintain them, then undoubtedly the few would be benefited; but when all raise their prices, no advantage accrues to anybody. It becomes a self-cancelling system. Let me illustrate:

If A makes an article that he sells to B for a dollar at a profit of 25 cents; and B makes an article that he sells to A for a dollar, with a profit of 25 cents per unit, they are both doing a profitable business.

Suddenly, under one pretext or another, A raises his price to $2; then B must necessarily do likewise, but no advantage whatever accrues either to A or B; the profit remains practically the same.

The following year A and B look at their books; they find that they have done a 100 percent greater volume of business in terms of dollars. They can't understand why, in point of profit, they seem to be no better off than when they sold their goods to each other at the $1 price.

So both A and B raise their prices to $4 a unit; but still there is no commensurate increase in their profits. A three times greater money volume of business ought to assure them a three times greater money profit, but their books do not show any commensurate increase in profits.

Then they scratch their heads and decide to institute a series of economies, chief among which is always the cutting of wages; and so they maintain themselves on this new basis until labor trouble in their plants becomes acute. Also, on account of their radical price increases, and the lower wages they are paying, their sales necessarily drop off. And the landlord raises his rent; and, all in all, they've got a lot of worries they didn't have before.

I do not want to pursue this subject to its logical conclusion. I merely want to show that when business arbitrarily increases prices—and all price increases are more or less arbitrary—business is building on sand, and is accumulating a lot of grief for itself.

### PRICE INCREASES DISTURB THE VALUE OF MONEY

All this is preliminary to what I want to say most emphatically, namely, that there is only one thing on earth that destroys the integrity of the dollar; that lowers the exchange value of money, that reduces its purchasing power, and that is "price increases." I want that to sink in. There is only one thing on God's green earth that lowers the exchange value of money, only one thing under the sun that reduces its purchasing power, and that is "raising prices."

From 1896 to 1920 prices increased a round 300 percent, or at the the average rate of 100 percent every 8 or 9 years. And this is the explanation of all our trouble. We are doing business—and have been doing business ever since 1920—with a 25-cent dollar, a dollar that has only a 25-cent exchange value or purchasing power, as compared with the dollar 30 or 35 years ago.

### A 25-CENT DOLLAR AN ANOMALY

Now, a 25-cent dollar is an anomaly in economics. We insist on calling it a dollar, and it is, as far as appearances are concerned, truly a dollar. The Government has so designated it by printing cr stamping on its face the legend "one dollar", and it is legal tender for that amount. But in point of exchange value, or purchasing power, it is worth only 25 cents as compared with its exchange value or purchasing power 30 or 35 years ago.

One of the most flagrant fallacies that has creqt into our economic literature, and whose constant repetition has completely corrupted all our economic thinking, is that the value of the dollar determines prices. It is just the other way around. It is prices that determine the value of the dollar. When prices go up, the purchasing power of the dollar decreases; when prices go down, the purchasing power of the dollar increases. It hasn't the rise or fall of the quicksilver in the thermometer that causes the rise or drop in the temperature; it is the rise or drop in the temperature that causes the rise or fall of the quicksilver.

### OUR STANDARD DOLLAR

Nothing has happened to the dollar. The dollar is as sound today as it ever was. Let no one deceive you on that score. The gold dollar contains just as many grains (23.22) of gold today as it did 25 or 50 years ago. The intrinsic or legally inherent value of the dollar is the same; only the exchange value, the purchasing power, of the dollar has been reduced by the simple process of raising prices 300 per cent, and so compelling us to pay $4 (92.88 grains of gold) for the same unit of commodities which formerly could be bought for $1 (23.22 grains of gold).

Here is where the correction must be made. Not in the dollar, but in the prices of commodities. Until this is grasped by everybody there is no hope of amelioration. Until a rational price adjustment has been made, tampering with the dollar or inflating the currency, will only aggravate our troubles and multiply our difficulties.

Senator Borah recently declared that our dollar is a "dishonest dollar." I beg to disagree with the distinguished Senator. It isn't our dollar that is dishonest; it is our prices that are dishonest; it is our inflated prices that have made a bum out of our dollar; it is inflated prices (an increase of 300 per cent in 30 years—100 per cent every 10 years) that have made a derelict out of what was once a perfectly respectable measure of value, and a perfectly decent medium of exchange.

### OUR MONETARY SYSTEM IS ALL RIGHT

It isn't our monetary system that's wrong; leave it alone! It's our price system that's wrong! And unless we wake up to a realization of what has actually happened, our whole financial, economic, monetary system is doomed. Nothing can save it!

Of all the foolish statements made during the past 3 years, the glib one that "we'll recover because we've had depressions in former years and have always recovered", should be awarded the prize. Nearly everyone who has written or spoken about the depression, or suggested a cure or remedy, has referred to the country as being sick. And that's right, too. But evidently they have lost sight of the fact that sick people do not always recover. A man may recover from an apopletic stroke, even from a second and third stroke, but the fourth may be his last. He may have pneumonia oftener than once; but the third or fourth time it is likely to prove fatal. He may have heart disease and recover from every attack, but ultimately one of them will carry him off.

The real solution, and by all odds the simplest and quickest way out of a tight place, is, not to multiply the number of 25 cent dollars, currency or silver, but to raise the exchange value or purchasing power of the existing number of dollars of whatever kind of currency, to a 100-cent value. This can be done only in one way, namely, by lowering prices of all living commodities to a point that will reestablish the 100-cent value of the dollar.

### INFLATION PROPOSALS

There are today before the country sundry inflationary proposals, each of which, in the opinion of its advocates, will cure what ails us.

There are some who sincerely believe that inflation of the currency is the proper remedy.

Others just as sincerely believe that equally good, and even better, results can be achieved by the remonetization of silver.

Others, just as sincere, hold that going off the gold standard will work the miracle.

Again, others talk of revaluing gold, considering an ounce of gold now valued at $20 plus as worth $40 plus.

Again, others favor reducing the gold content of the dollar.

Again, others speak of a commodity dollar that will accommodate itself from day to day to price fluctuations.

And so forth.

Now, I'm not here to criticize or challenge any of these proposals, though it has occurred to me that if they are all equally meritorious, why not adopt them all and give those most concerned their choice as to which one they care to take advantage of.

But what I do want to remark is this: I have observed that every proposal made is based on the idea of raising prices. In my humble judgment the very worst action that we could possibly take, especially at this critical time, is to raise prices.

To argue that a general commodity price increase is our only salvation is about as logical as to say that the way to cure a man suffering from rheumatism is to increase the swelling in his legs and feet—to increase his agony; or, if he is afflicted with high blood pressure, to feed him foods and subject him to excitement that will inevitably increase his blood pressure; or if he has a high fever, the correct thing to do is to try to raise his temperature; or if he is in a state of coma, to administer opiates or hit him over the head with a hammer.

Muddled thinking is as much to blame for the fix we are in as is our selfishness. Our collective cupidity and gigantic greed got us into this mess: it is our aggregae asininity and stupendous stupidity that prevent us from getting out of it.

Commercially speaking, especially if we come to our senses, we will recover; but the rapidity of recovery depends entirely upon our speedy return to sanity. Beyond a doubt the country will survive; but to save itself, business must divorce itself from inflation. The two cannot thrive side by side. They are mutually destructive. Inflation is an economic crime. Inflation is responsible for a 300 percent increase in the prices of living commodities; inflation has given us a 25-cent value dollar. There you have it!

### WE CAN'T "GET AWAY" WITH IT

The country has been "getting away with it," after a fashion, for 30 years; but it will not be possible to repeat the performance during the next 30 years. Of that I am convinced; of that I am certain.

But has the country been getting away with it? I, for one, considering the precarious condition we find ourselves in today, seriously question it. For the last 30 years we have been shouting from the housetops and in the market places that we are the richest Nation in the world.

Are we? Well, let's see: In 1900 our national wealth was said be, in round numbers, 90 billion dollars ($88,517,000,000). In 1930 the statistics accredit the National with the possession of 360 billions of wealth.

Now, keep in mind that we have substituted a 25-cent dollar for a 100-cent dollar. Consequently, in point of quantity, we are exceedingly wealthy, but in point of exchange value or purchasing power, we are no better off today than we were 30 or 35 years ago. The 360 billion dollars with which we credit ourselves today have no greater exchange value or purchasing power than the 90 billion dollars had 30 years ago.

### OUR INFLATED TAX BILL

Moreover, for all these years we've made ourselves believe that we are three times richer than we really are. And all these years the tax collector has been keeping tab on us. In 1900 the tax bill of the people of the United States amounted to less than 3 billion dollars; in 1930 it had reached the enormous total of 12 billion dollars. And yet there is every reason in the world why we should be paying $4 of taxes for every $1 of taxes we paid 30 years ago for the same quantity and quality of goods and service.

In terms of dollars, business has been demanding $4 where only $1 was demanded 30 or 35 years ago. Then why shouldn't the tax collector do likewise? Indeed he has no alternative. We, not he, placed this fictitious valuation on our "wealth"—on our properties, on our productive plants, on our farms, on our real estate.

The truth is we are paying our taxes with 25-cent dollars, and we shall continue to do this until we change the 25-cent dollar once more to a 100-cent dollar. Minor economies may temporarily reduce the size of our tax bill. Through the partial substitution of a general sales tax—Federal and State—for a direct income tax, and sundry other desperate devices, we may delude ourselves into the belief that our taxes are not so bad; but in reality the burden of taxes will grow heavier with the passing of the years.

### WE HAVE DECEIVED OURSELVES

Economists are clever at inventing terms to take the sting out of unpleasant facts. Thus they distinguish between nominal wages (the amount) and real wages (what the wages will buy). Let us apply this same distinction to our collective wealth and our individual riches.

The man who estimates his wealth at, say, a million, in reality, that is to say, in terms of exchange value or purchasing power, is worth only one fourth of that amount, or $250,000. And so on down the line.

The man who considers himself worth $100,000, actually is worth only $25,000.

The man who nominally is worth $20,000, actually is worth only $5,000. And so on!

Whichever way we turn our scrutiny we encounter the same premises that force the same conclusions. Investments made, bonds purchased, volume of business transacted, rentals collected, income received, and profits made, all must be computed on the basis of a 25-cent value of the dollar in terms of exchange value or purchasing power.

In 1896, $250 had a purchasing power equal to $1,000 today; but a $1,000 insurance policy taken out in 1896, and paid in 1920, let us say, had no greater exchange value or purchasing power than $250 had in 1896. Why, we've gone backward, not forward!

The business man has been misled into believing that under the inflation system his books show a considerably greater money volume of business transacted; and this is true, in point of quantity; but unless he can show $4 of profit for every $1 of profit in former years, he has not improved his condition one iota.

Today manufacturers must borrow $4 for every $1 they borowed 25 or 30 years ago for the same unit of production; also they pay four times as much interest on their larger volume of borrowings.

If that is true, then surely the bankers are the one group of individuals who have benefited by the inflation system. They do a volume of business three times greater than they would have done under a more conservative system; and logically it follows that their profit is three times greater. Correct! if you consider quantity as the summum bonum. But their profits must be computed in 25-cent dollars. From which it can be seen that even the bankers derive no benefit from the inflation system. (And out of charity I'll not say a word about the billions of "frozen assets"—inflated assets, assets of a mythical value—now reposing in ever so many banks.)

The stock exchange and investment houses imagine that because they do maybe four times as much business as they did 25 years ago they are making four times as much money. But I want to tell them that they are fooling themselves, for the four times greater profit must be computed in terms of 25-cent dollars. Let them think that over!

AUTOHYPNOSIS

Oh, gentlemen, all these years we've only been deceiving ourselves; we have been throwing dust into our own eyes. We have deluded ourselves; we are suffering from self-hypnosis.

Isn't it silly to pretend that a given commodity was produced in a plant that cost $400,000, when in reality it was made in a plant that cost only $100,000?

Isn' it the height of folly to demand prices on the country's collective commodities, computed on the fiction that they were produced in plants costing, let us say, $100,000,000,000, when, as a matter of fact, only about $25,000,000,000 were actually invested in these plants?

Isn't it silly to reward capital that was never really put into productive properties; just as silly as if a manufacturer employing a thousand men were to pay wages to another 1,000 men who did no work in his factory?

Isn't it silly to continue to demand rents on an inflated valuation of properties on the theory that land values, materials, and labor costs have risen, when as a matter of fact 90 percent (and that's conservative) of all the buildings were put up at a time when land was cheap, and building material and labor low?

Isn't it silly that farm land, reasonably worth $100 to $150 an acre, should rise in price to $300, $400, and $450 an acre?

Isn't it silly that a building lot that could have been bought in 1896 for 1,500, cost $6,000 in 1920?

Isn't it silly that the building that could have been put up for $5,000 in 1896, cost $20,000 in 1920?

Isn't it silly—but why lengthen the list? I have said enough to show that the inflation system under which we have been operating for the past 30 or 35 years, is without justification. It cannot survive. It may continue for a while longer, in a groggy kind of way, but ultimately it will destroy itself and bring ruin to all of us. That must not be allowed to happen. And I'm here to say to you it can be avoided if we are willing to use our heads.

Good will, common sense, ordinary honesty, simple decency—that's all that's needed to bring us out of the wilderness of despair into the land of promise and hope.

## Part II. Prosperity Boulevard—the Cure

MY PROPOSAL

Well, what is the solution? What do I propose? This: We have ample proof that every cent of increase in prices lowers, by that much, the exchange value, or purchasing power, of money, whether that money be called capital, wages, investment, insurance, rent, interest, dividends, or profit. Which being the case, it follows of necessity that not higher prices but lower prices are the remedy for what ails us today. The only question is to what level to go in order to straighten out our badly tangled economic and financial affairs.

I have given much serious thought to this subject, and after due deliberation I have fixed on the 1913 price level as eminently fair and reasonable to all concerned.

First of all, the 1913 price level is just about midway between the low point of 1896 and the prices of 1926.

Moreover, a recent graph prepared by Bradstreet, showing the average purchasing power of gold from 1892 to 1932, fixes the purchasing power of gold in 1913 at 100.

Then, too, it makes liberal allowance for a legitimate increase in capital investment on account of normal growth since 1896.

(But it makes no allowance for abnormal development and against which an enormous debt of many billions is chargeable. The penalty for senseless overexpansion, wherever it can be predicated, must be paid. I do not see how it can be avoided. Honest mistakes can be rectified; but I know of no way to insure immunity from the logical consequences of deliberate folly.)

All these things combined suggest the 1913 level of prices as a fair and logical compromise. Of course, if anyone can show that the price level of some other year would be fairer, more reasonable, and more scientific, I have an open mind. But for the present, let us tentatively adopt the 1913 price level as a basis for our computations.

### THREE THINGS THAT MUST BE DONE

With this agreed upon, here is what we must do if we want to end the depression, and inaugurate a long season of prosperity and good times:

First: Let us universally adopt the 1913 prices as basic and standard.

Second: Let us pledge ourselves to the maintenance of this basic and standard price level. This will stabilize prices, which is the crux of the matter.

Third: With these two things determined upon—namely, a basic and standard price level and stabilized prices for practically all commodities—the exchange value of the dollar automatically becomes fixed, the purchasing power of money becomes permanized. With these assurances we are then justified to officially declare that our dollar is and shall be permanently a 100-cent dollar—and that all subsequent adjustments shall be made on that basis: A 100-cent dollar with a 100-cent exchange value and imbued with a 100-cent purchasing power.

With all the emphasis at my command I lay down this fundamental principle of which you must not lose sight even for a moment—stabilization of prices is the only thing that will stabilize the value of money. Changes in prices, whether sudden or violent, gradual or drastic, inevitably disturb the value of the dollar and the purchasing power of money.

In saying this I admit that price fluctuations for some commodities may be unavoidable, and in some cases desirable or even necessary, but speaking generally, I maintain that the fluctuations up or down for practically all manufactured commodities can be controlled so as not to exceed, let us say, from 5 to 10 or 15 percent, in either direction.

The establishment by universal agreement and the acceptance of the 1913 prices as basic by all concerned, will automatically reinstate the 100-cent dollar by regulating its exchange value and stabilizing its purchasing power.

There is no miracle here, gentlemen; nothing more than a common-sense readjustment, which will revitalize our present vitiated medium of exchange and nefarious measure of value. Once established, and universally adopted, nothing can appreciably disturb the equilibrium of the value of money except drastic price changes; and all that I'm saying is to stress the utter uselessness and folly of any such future attempt.

### BASIC AND STABLE PRICES

You may ask: How will going back to the 1913 prices restore the 100-cent value of the dollar?

I answer that the mere declaration that the 1913 prices are and shall be basic and remain stable, will accomplish that. I lay down this simple principle:

For every commodity, for every product, for every service, there is what might be called a fair, reasonable, natural, and normal price—and which people are willing to pay. Raise that price and one of two things will happen; either people will stop buying, or if it is an absolute necessity they will materially curtail their consumption. Self interest ought to persuade us to endeavor to determine what the fair, reasonable, natural, and normal price is for all commodities, and for every service, and make it basic. If today we are somewhat muddled as to the significance and importance of a basic price, we have our index number experts to thank for it. They have repeatedly and quite arbitrarily changed the index number basis, for what reasons, or by whose order, or by what authority, I have never been able to satisfy myself. I am dealing with the fact—easily proved from the records. Thirty years ago the 1896 prices were used by the index number experts as basic. Then suddenly they dropped the 1896 prices, and the 1913 prices were adopted as basic;

later they were dropped. At present most index number tables I have seen use the 1926 prices as basic.

If the index number compilers had continued to use the 1896 prices as basic for their computations, we would have the complete story of price changes, and the absolute proof that prices advanced around 300 percent in 25 or 30 years—or an average of 100 percent every 8, 9, or 10 years—a phenomenon that carries with it its own curse and condemnation. And the penalty must be paid by the generation concerned. We are paying the penalty now!

THE FIRST STEP

The three fundamental things agreed to by all, namely: 1. Adoption of the 1913 prices as basic and standard; 2. There stabilization; 3. Permanently imbueing the dollar with a 100-cent exchange value or purchasing power—steps must immediately be taken to eliminate every factor that has produced the drastic depreciation in the purchasing power and the exchange value of money; and to eradicate as intelligently and expeditiously as possible all the wrongs and abuses that were inaugurated 30 or so years ago, and which have been permitted to grow to alarming magnitude, and develop to their present ruinous proportions.

The rehabilitation of the dollar presupposes the removal of the causes which changed the 100-cent dollar to a 25-cent dollar. This implies the "writing down" of inflated valuations of all properties, to somewhere near their actual or natural normal value.

CORPORATE STOCK

I haven't the time to enter upon a lengthy discussion of all inflated valuations, including farms and real estate. I shall confine myself to a brief consideration of the inflated corporate properties.

Three years ago, when stocks were at the peak, I would have hesitated to make this suggestion, for a proposal to pull "values" down from their dizzy height to what might be called a more normal level, would have met with almost universal condemnation.

Today, however, I do not hesitate, for the fates have performed the trick; the thing is fait accompli—an accomplished fact. The collapse in stocks was not a collapse in values; it was merely a collapse in prices—a drop from an artificially inflated and absurdly high point, to a more natural and normal level. Water seeks its level.

On September 1, 1929, the value of the stocks listed on the New York Stock Exchange was approximately $90,000,000,000 ($89,668,276,854).

On July 1, 1932, the market price of these same stocks was less than $16,000,000,000 ($15,633,479,577)—a drop of $74,000,000,000.

Within recent months the price of these self-same stocks has been fluctuating somewhere around 20 and 22 billion dollars—which is considerably nearer their actual value.

My proposal is that we accept this lower price as a value basis not, however, for the purpose of starting the inflation ball rolling again, but to proceed from there on with the inauguration of our lower-price system.

Once more let me stress that a return to the 1913 prices would automatically reinstate the 100-cent dollar. Keep that in mind! Today we have a 25-cent dollar, a dollar whose exchange value or purchasing power is only 25 percent of what it was 30 years ago. All right! Let's see what effect this rehabilitation of the dollar would have on the stock situation.

When all the stocks listed on the New York Stock Exchange were at their height—$90,000,000,000—they had an exchange value or purchasing power of approximately $22,000,000,000.

Today the market price of these same stocks is approximately $22,000,000,000. Computed on the basis of a 25-cent dollar, these $22,000,000,000 have an exchange value or purchasing power equivalent to about $5,500,000,000.

But under my proposal—substituting a 100-cent dollar for the present 25-cent dollar—by the simple process of reducing prices to the 1913 level—the 22 billion dollars would acquire a 22 billion dollar exchange value or purchasing power.

In other words, if my proposal is adopted the owners of these stocks would actually recover all their losses, for, the exchange value and purchasing power of their present holdings, amounting to $22,000,000,000, would be just as great as they were when their holdings amount to $90,000,000,000.

Here we have a genuine miracle of finance of the first order, linked to which are two other major miracles, viz:

1. Corporations now staggering under a crushing load of over-capitalization could decently "write off" their inflated valuations without loss to themselves or injustice to their stockholders; and

2. Banks loaded up with congealed collateral, which, in the main, are depreciated stocks deposited against loans made on an exaggerated valuation—would be enabled to take the thaw out of practically all their so-called "frozen assets," which would become liquid again, and that, too, without any material loss either to banks or borrowers.

Mark you this, too! If stocks were to go up, slowly and conservatively (I hope it will be slowly and conservatively), every additional dollar rise in price will add a full 100-cent exchange value and purchasing power to your present holdings; whereas, under the present system, only 25 cents of exchange value or purchasing power would accrue to you for every dollar rise in price.

I know all this sounds strange to you. Nobody has ever told you anything like this before. And some of you may think I'm all wrong; but all I ask of you is that tonight or tomorrow, or the day after, you give an hour or two to this subject (I've given years to it) and figure it out for yourself.

There are quite a few other things I'd like to comment on while on the subject of stocks and the stock market—brokerage and investment houses, banks, etc.—but I must hurry on. Some other time, maybe!

### THE COUNTRY'S COLLECTIVE DEBTS

Now, gentlemen, prepare for a shock! Sit tight in your chairs! Hold your breaths! For my proposal is intended not only to salvage and give a decent value to what still remains of our assets; it also contemplates a readjustment of the country's debts as well.

The national wealth amounts to $360,000,000,000.

I maintain that of this amount 160 billion is fictitious—sheer inflation. That leaves $200,000,000,000 of actual assets.

Now, the collective debts of the country are said to be in excess of $200,000,000,000; some have put it as high as $250,000,000,000. I'm going to accept the more conservative figure; let's say 200 billion! What does that mean? It means that the $200,000,000,000 of assets are mortgaged to the limit. We are broke!

Wealth has been defined as the difference between assets and liabilities. Our national assets are $200,000,000,000, our national liabilities, $200,000,000,000. What is our wealth? And where is it? Who's got it? To whom does it belong? Answer that yourself!

Now, let's look at this subject from another angle.

What does the item of inflation, the fictitious valuation of productive properties, mean to the people of the United States? It mean this:

As I've already told you, they are charged at least 5 percent on the 160 billions of inflation—or $8,000,000,000 a year. Now add to this 5 percent on a $200,000,000,000 debt, or $10,000,000,000 a year, and you have a total of $18,000,000,000.

Now, just to be conservative, let us deduct 6 billion—let us say that the total charge on the two items, inflation and debt, costs the public 12 billion a year—and I think that's exceedingly conservative—and the mystery that hangs about the present depression begins to disappear.

But I'm not going to go into that now. Let me proceed with my proposal, and let's take things as we find them.

I propose that whatever the actual amount of all debts may be and of whatever kind, I propose cutting in half all debts, contracts, and obligations, public and private, involving money payment.

This, of course, like every other arrangement included in my proposal, presupposes universal agreement and general acceptance. There must be no exception, and it must be followed all the way through.

Once more! Keep in mind that the adjustment here proposed implies the substitution of a 100-cent dollar for the 25-cent dollar with which we have contracted (and presumably paid) debt and obligations within recent years.

### COMMERCIAL DEBTS

Quite a proposal, isn't it? But I think it's perfectly sound. Let us see what would be the effect of uch an adjustment on commercial debts—bills payable and bills receivable. Here is the case, briefly stated:

Now listen attentively! If the firm of Smith & Co. sold to Brown & Co. 100 units of goods at, say, $2,000, and Brown & Co. sold to Smith & Co. 2,000 units at, say, $2,000, the mutual payment of their bills would involve a total money transfer of $4,000. But considering that the present dollar has only a 25-cent purchasing power, the $4,000 actually have an aggregate value of only $1,000.

Now, if Brown & Co. cuts Smith & Co.'s bill 50 per cent, to $1,000, and Smith & Co. cuts Brown & Co.'s bill 50 percent, to $1,000, a total of $2,000 would change hands between them, but with this difference: Their $2,000, under my proposal, would actually have a $2,000 purchasing power.

Which is better for Smith & Co. and Brown & Co.—to receive each $2,000 with only, in fact, a 25-cent purchasing power ($500), or to "compromise" for $1,000—but with every dollar imbued with a 100-cent purchasing power?

Now, let us assume, in the aggregate, $4,000,000,000 of mutual commercial debts. If fully paid, with dollars that have only a 25-cent purchasing power, as is the case at present, the $4,000,000,000 will have an aggregate exchange value or purchasing power of only $1,000,000,000. Whereas under the plan proposed, namely, reducing the amount of the debt by one half, or to $2,000,000,000, but payable with dollars having a 100-cent purchasing power, not only will all debts be paid in full but there will have been created $1,000,000,000 of additional purchasing power as a fund and stimulus for a new volume of business. This point alone, if there were nothing else to commend it, ought to win for itself serious consideration.

### NOTES, BONDS, AND MORTGAGES

This same principle would be applied to all borrowings and lendings, all contracts and obligations involving money transfers. It would include notes, bonds, and mortgages—even insurance policies and premiums.

I'll try to illustrate just as briefly and as simply as possible how the adjustment would work out. Once more keep in mind the difference between a 100-cent dollar and our present 25-cent dollar.

### FARM MORTGAGES

1. The mortgages on farms aggregate 9½ to 10 billion dollars. Let us say 10 billion to make it easy figuring. Under the present arrangement—of a 25-cent dollar—the $10,000,000,000 have an exchange value or purchasing power of $2,500,000,000.

Under my arrangement the 10 billion dollars would be cut in half—reduced to 5 billions. But on the new basis of a 100-cent dollar, the 5 billion dollars would actually have an exchange value or purchasing power of 5 billion 100-cent dollars.

I think the farmers will welcome this suggestion—receive it, as it were, with open arms. The best that has been offered them thus far is a temporary extension, or moratorium. Ultimately they must pay in full. My proposal is an adjustment of their difficulties, a lifting of the crushing burden that is now weighing them down and ruining many of them.

### URBAN REAL-ESTATE MORTGAGES

2. The mortgages on urban real estate amount to 36 billion dollars. On the present 25-cent dollar basis they have an exchange value of 9 billion dollars.

Under my arrangement the 36 billion indebtedness would be reduced to 18 billion, but every dollar would have a full 100-cent exchange value.

If the investors who bought "gold bonds" (what a jest! gold bonds payable in gold!) will receive in the aggregate 25 cents on the dollar they will be exceedingly lucky. (And the dollars they salvage will be 25-cent dollars.) Under my proposal they would receive back 50 percent, but every dollar would have a 100-cent value. Here is an opportunity for them to recover their losses, not in quantity but in exchange value and purchasing power.

GOVERNMENT BONDS

3. There are 20 billion dollars of Government bonds in existence. Their value on a 25-cent dollar basis is 5 billion dollars. Under my proposal they would be cut in half—namely, to 10 billion—but every dollar would have a 100-cent exchange value and purchasing power.

I'll pause here long enough to remind the people of the United States that Government bonds are not an investment. They, the people, the bondholders themselves, are taxed in order that the Government may pay them the interest and the principal. Oh, can't they see that the quicker the public debt is reduced and liquidated the better off they'll be? I have stressed this over and over in my pamphlet on "War Debts and Their Redemption", and in my editorials.

MUNICIPAL BONDS

4. There are approximately 16 billion dollars of State, county, and municipal bonds. Their exchange value, on the 25-cent dollar basis of computation, is one fourth of that, or 4 billion dollars. I propose to reduce them by one half, or to 8 billion, but each dollar will have a 100-cent value.

What I said about Government bonds applies also to municipal bonds. The people, ultimately the bondholders themselves, pay both the interest and principal of all such bonds, through the medium of taxes. Their own intelligence ought to make them see that.

CORPORATION BONDS

5. According to a recent statement, there are nearly 40 billion dollars ($39,195,000,000) of domestic corporation bonds afloat. On the basis of the 25-cent dollar they have an exchange value of 10 billion dollars. I propose to reduce them to 20 billion, but imbuing every dollar with a 100-cent exchange value or purchasing power.

I need only add that the cutting in half of all valid bonds should be done on the basis of their face or original value and not on the basis of their present market price.

At any rate, under my proposal all bondholders would receive fairer treatment than has been accorded them under the sundry reorganization schemes put into effect during the past 2 years.

I would follow the same method with regard to notes, and insurance policies, and whatever debts, contracts, or obligations may be in existence.

ANCILLARY ADJUSTMENTS

And I wouldn't stop there. I'd go a step further. Now smile, for I have good news for you. I'd cut your tax bill in half. Last year the taxes of all kinds amounted to 12 billion dollars. Under my proposal your tax bill could and would be reduced by 50 percent. All Government appropriations could be reduced by one half, for $1 would do the work of $2. That's the way I'd balance the budget.

How do you like that?

And what else can we do? Let's see. Anything else? Oh, yes! All the goods on the shelves of merchants could be marked down 50 percent, and they could sell them at the marked-down price and be better off, make a bigger profit computed not in quantity, but in exchange value or purchasing power, than is possible under existing conditions and under our present high-price system.

All manufactured goods, all factory inventories could profitably be put into the market on this lower price basis.

What else? I would materially reduce rentals. Gentlemen, the chain stores have been blamed for putting thousands of merchants and small stores out of business. It is my belief that most of them were driven out of business, not by chain stores, but on account of excessively high rents. I would adjust all rents on this new basis.

And I would reduce all rates, freight and transportation rates, advertising rates, telephone rates, electric light and power rates, etc., in the same proportion.

And so forth. Wherever adjustment is possible and necessary, there the adjustment shall be made.

And let me whisper this: I am not an internationalist; and I'm certainly not a cancellationist. I do not favor transferring Europe's debts from the shoulders of the people of Europe to the backs of the people of the United States, for that is what cancellation really means; but merely in passing and in parentheses—and to show the possibilities of what I am trying to propose, I would be willing to readjust the obligations of our foreign debtors on the basis here suggested. Europe owes us 11 billion dollars. Without injustice to the American people we could cut that debt in half if we adopt the principles I'm propounding.

And most foreign bonds, now in default, could be reinstated and salvaged to the holders by this same procedure.

### THE WAGE QUESTION

On the question of wages, I shall say only a few words at this time. In the plan here discussed I include, of course, a readjustment of wage rates and scales. But in the readjustment under the new economics I am preaching, let us keep this dominant thought before us. The purchasing power of money is the important thing. But equally important is the purchasing ability of the people. Consequently, the aim should be not to curtail but to increase the purchasing ability of the wage earners, the people, by paying them, not a minimum but a maximum of wages. The greater the amount of wages paid, the greater will be the purchasing ability of the wage earners. That is self-evident. It is only by striving to bring this about that we shall succeed in laying the solid foundation for a progressive and permanent prosperity. Enlightened self-interest should be a sufficient motive.

We are confronted with several grave problems that cry out loudly for solution. The most important of these is the unemployment problem. Twelve million people are out of work. Even with complete recovery it is my opinion that, under existing conditions, some three or four million workers will remain permanently without work. The wages and salaries of those working have been cut from 25 to 75 percent—the average is probably in excess of 40 percent. We boast that we have developed mass production. There is only one thing that will put practically all men and women back to work, and that is our determination to develop mass consumption. This can be done in only one way, viz, by inaugurating a system of wages and salaries that will permanently increase the purchasing ability of the people.

The principle of the wage and salary adjustment should also be applied to fees, rates, stipends, honoraria, etc. But these, and many other things that must be handled, will be taken up each in its turn.

### THE PURCHASING POWER AND EXCHANGE VALUE OF MONEY

Thanks to the stupid inflation system, we have been computing our wealth, individual and collective, and our income and profits, by the number of dollars; from now on I propose that they shall be gaged, not by their bulk or size or quantity, but by their exchange value or purchasing power. Not the quantity of money, but what it will buy, is the important thing. Is that so hard to understand?

Under the present arrangement, $1,000, whether in the shape of a note, bond, mortgage, or insurance policy, when paid, will give the holder only $250 of exchange value or purchasing power as compared with the value of money 30 years ago.

Under my proposal that $1,000 will be reduced to $500, but its exchange value or purchasing power, on account of a lower level of prices, will be $500—an increase of 100 percent in exchange value or purchasing power.

And (don't sneeze at this) paying interest on $500 instead of $1,000 has its advantages. And receiving interest payments and dividends, to say nothing of fees, stipends, bonuses, salaries, and wages, in money that is worth 100 cents on the dollar, instead of 25 cents as at present, is three times better than we have now.

Gentlemen, I'm trying to tell the country how to get out of the hole we are in and how to get out of the danger zone with a whole skin.

One of the most amusing war cartoons by Bairnsfather showed two British Tommies who had taken refuge in a shell hole. Says one to the other: "This is a 'ell of a 'ole." His comrade replied: "If you know a better 'ole than this one, go to it."

Anyway you figure it, the arrangement I propose offers benefits to creditors and debtors alike that none of the "remedies" suggested or applied thus far can give.

HOW TO GO ABOUT IT

The plan that I am discussing here can be put into effect by voluntary and mutual agreements entered into under the supreme national generalship of a small group of, say, 10 or 12 or 15 or 20 men—but who must be of the highest type; men of vision, imagination, and farsightedness—able, honest; honorable, upright, and who shall have plenary and absolute powers.

I am unwilling to admit that such men cannot be found in the Nation; and, being found, I am confident that they can be trusted to perform their work wisely, prudently, unselfishly, and justly.

The only legislation that is needed is an enabling act that will confer power on those selected and legalize everything that is done under this proposal.

Two things, however, I recommend as necessary for the transition from the old to the new system:

1. That a 60- or 90-day moratorium be declared on all debts.
2. That the stock exchange shall be closed for the same length of time.

But these are bridges we'll cross when we get to them.

LET'S MAKE UP OUR MINDS

First, let's make up our minds. We will have to decide whether we are going to wreck the whole country in a desperate and impossible endeavor to maintain the stupid fiction that our dollar is a 100-cent dollar, when in reality it is only a 25-cent dollar; or whether we will face the facts and do whatever is necessary to save ourselves from the cumulative consequences of our collective cupidity and folly.

Every panic we have had in the past 50 years (and every future panic) and every period of depression that will visit us with increasing frequency in the years to come (unless we deliberately change it along the lines here suggested) is only paying another installment on the terrifically huge inflation and debt bill with which we've burdened ourselves; and these payments, if continued for a few years longer, will ultimately ruin us—all of us.

Gentlemen, the robot we have made has a gun in his hand and will blow off our heads, if we don't watch out!

A MERE OUTLINE

Needless to say, I realize that I have touched only a few of the high spots, in my attempt to show the possibilities of the proposed plan. That is all that anyone, discussing a complicated subject that has a thousand angles, ten thousand ramifications, and a hundred thousand intricacies, can hope to do.

Therefore let it be understood that in this brief summary of a rational readjustment plan, in this mere outline of a sane reorganization program, in this discussion of fundamental principles, I have said nothing of sundry necessary and fundamental reforms that must accompany any intelligent reconstruction effort.

It is opportune, though, to intimate that the principal reform must take place in the minds and hearts of all of us, but especially in the minds and hearts of our captains of finance and industry, our bankers, our brokers, our industrialists, our entrepreneurs, our business men, our leaders of thought, our statesmen, economists, and editors.

I repeat, good will, common sense, ordinary honesty, simple decency, these are the things that will get us out of the mess we are in; and restore faith in ourselves, and bring back the now badly shaken confidence of the people—in brief, end the depression period.

LEADERSHIP

To start the ball rolling, leadership is needed—leaders who are men of character and courage, of proved probity and tried ability. Given a national reorganization committee, a supreme board of directors of 10, 12, 15, or 20 men, we can accomplish what must be done. We have these men; let's call them into service. And having accepted, let them dedicate their God-given talents for the complete attainment of the sane purposes here set forth.

If you are at all impressed with my proposal, I should like to venture to suggest the chairman of this committee or board—a man I've never met, nor even seen; a man who probably doesn't know I'm on earth; a man whose name some of you may have heard: I mean the Honorable Alfred Emmanuel Smith—in whose integrity and ability the whole Nation has abiding faith and complete confidence.

Such a committee or board under the chairmanship of such a leader, with the whole-hearted support of the President of the United States and the complete cooperation of Congress, would be able, within a year's time (or at most two) to carry this country successfully through the most critical period and desperate crisis in its history.

The organization of such a committee or board, under the chairmanship of such a leader, would make possible the early discontinuance and orderly liquidation of the Reconstruction Finance Corporation—a consummation devoutly to be wished; it would remove the necessity for further Federal or State relief for the unemployed and those in distress; for, I'm not afraid to predict that within 90 days after the committee or board gets into action, smoke will ascend like incense from every factory and mill smokestack in the land; our streets will be filled with men and women—not looking for work or begging, but going to work, or returning to their homes, from work; our stores will be crowded, not with shoppers but with buyers; our farmers will take on new courage; our banks will settle down to a normal volume of business; our railroads will prosper as never before; hotels, restaurants, and theaters throughout the land will do a thriving business. The depression will be over; and a new era of real and lasting prosperity will have begun.

Nil desperandum! The ship of state, and all its passengers and cargo, can be saved—if we have the will and the guts to do it.

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## Statement of Edward B. Benjamin, President Maginnis Cotton Mills, New Orleans, La.

### CAUSE AND CORRECTION OF THE DEPRESSION

The first essential in the correction of the present situation is a complete and sure understanding of the cause or causes thereof. In my opinion, our President hit the nail on the head when in one of his most important campaign speeches he attributed this depression to the collapse of extended speculation in securities. I first wish to amplify the President's statement in this regard.

More than 1,000,000,000 shares changed hands on the New York Stock Exchange in 1929. Nearly half a billion shares were traded in on the New York Curb Exchange the same year. Evaluating these stocks at probable averages, and taking into consideration sales on local exchanges, over-the-counter sales, and bond trading, the sum total of security trading in the United States for that one year probably exceeded $200,000,000,000. The Census Bureau estimated the total wealth of the United States in 1929 at about $384,000,000,000. Thus a fantastic situation confronted us: the volume of our security speculation approximated half our national wealth. In effect, every other home, every other farm, every other factory, every other everything in this broad land was sucked into this speculative maelstrom of 1929.

Bearing these facts in mind, let us reconstruct the economic scene as it stood just prior to the great climax of 1929. The bubble of wide-spread real-estate speculation had already been pricked a year or two before. For years we had been confronted with an agrarian problem, as had most of the other populous sections of the world. The much-discussed issues of European reparations and reconstruction had been with us ever since the war. To a considerable extent the spread of the chain store and the building up of great corporate structures had already displaced the small merchant and small producer. And by 1929 the high-tariff wall of traditional policy had been surrounding the United States for decades—a fact particularly important to bear in mind in view of the swollen number of amateur and professional economists who attribute the depression to the tariff.

Notwithstanding these many apparently adverse factors, all of them regarded by one authority or another as prime causes of our present depression, 1929 saw this country reach what was perhaps the highest peak of prosperity any nation ever attained. We can measure this by either of two yardsticks: By the mass product of our Nation's activity or by the real income from labor—the return in services and commodities.

It is doubtful whether many of us appreciate the enormous steady growth of our industrial output in the decades 1909–29.[1] The census figures on this are fairly staggering. Moreover, the last 10 years of the period also saw a decidedly downward trend in prices and in the so-called "price indices." This meant not only we were producing vastly greater quantities of goods than ever before, but that these were available at lower prices.[2] Although our city dwellers and factory workers as a rule enjoyed greater prosperity at this time than did the farmers, peak figures for national production and consumption showed a tremendous general prosperity. Years of advancing stock-market quotations had inspired the country as a whole with the greatest confidence. The wheels of industry were revolving at full speed. Material plenty for our people was at hand.

Just what happened to alter these prospects? We know business in the United States reached its peak prosperity in July, 1929. Then it began very slightly to taper off. But it was from October 1929 on the entire picture was to change with our stock-market collapse. Probably a sales movement on the part of our big trust companies gave the first real downward impetus to the stock market. Or, as others may have it, European investors, viewing the spectacle from without, felt the time was ripe for profit-taking on their American investments. It is also likely some of our very rich, returning to desks from protracted vacations in the fall of 1929, felt it no longer paid to "hold everything." Probably all three factors were operative. But with the market crash of October 1929 a general decline in securities began, and along with this declining market industrial and economic activity tapered off to the recent low level of prostration.

Many as have been the causes advanced for our present depression—tariffs, overproduction, whatnot—the simple theory that the collapse of a nation-wide speculative bubble alone can bring with it the collapse of a nation's prosperity has scarcely been more than suggested. Long prior to the debacle of recent years, the belief had come to be generally accepted that stock market action "predict" the course of a nation's prosperity. This point of view was shared by the leading economists of our great universities and the statisticians of our business forecasting services. Reading the economic history of the United States for decade back, the fact clearly show changes in business prosperity corresponding to the tone of the stock market. However, this admitted synchronism was not held to show cause and effect. That this cause-and-effect relation does exist can be determined in the opinion of the writer by a careful examination of the complex processes by which commodities and services are distributed in a highly organized society such as ours, and by a full appreciation of the part confidence plays in our Nation's prosperity.

In modern economic life, only a very small portion of commodities produced by a nation pass directly from producer to consumer. Even those commodities used in the raw state must be brokered, wholesaled, and retailed before going into consumption, whereas manufactured goods pass from the raw state through one or more manufacturing stages before being jobbed and/or retailed. All of this means that our necessities of life are bought and sold, and bought and sold over again, often several times, before coming to our door, our wardrobe, our table. In other words, the judgment of man intervenes time and time again between us and our commodities. As compared with the mass of our people, the intervening agents are few in number. In this respect our commerce and industry resemble a flask with a small mouth. Only that gets into the flask which passes the mouth, the latter representing those business heads who plan, purchase, manufacture, and distribute for the Nation.

In formulating the policy of our business men, in shaping their judgment of future values, nothing begins to compare in impotrance with our security markets. For decades and long before the advent of popular statistical services, shrewd business has regarded the stock market, consciously or uncon-

[1] Bureau of the Census, Manufactures, 1929, Industry Series.
[2] U.S. Department of Labor, Bureau of Labor Statistics, Bulletin No. 521.

sciously, as the barometer whereby a policy of action or watchful waiting has to be gaged. When stocks rise, even on minor flurries such as the Hoover campaign boom of last summer, business is accelerated. When stock prices crash—even if this be for no other reason than that a number of persons believe further advances are out of the question—a cycle of reduced industrial activity is immediately initiated. Orders to the producer-units for commodities and services promptly shrink in number and in size because, confidence in values having been shaken, the Nation's business heads begin to restrict their purchasing policies even in advance of purchase restrictions by the consuming public. The unfortunate cycle so started grows and extends over months and months. The decreased demand which constricts production in one plant affects many another plant supplying it. A wage cut to reduce expenses under curtailed plant operation constricts the purchasing power of labor. Transportation activities become curtailed in keeping with the decreased production of commodities. By the time such phenomena have extended through a nation's economic structure and have been repeated two or three times, things reach the pass where we find them today.

To cap the climax, the concatenation of our banking order with our industrial and financial functions must be borne in mind. With the deflation of security and commodity values reaching deep into the portfolios of our banks, constriction of credit takes place, and the picture of demoralization is complete

We need look no farther for explanation of the current depression than this bursting of a Nation-wide speculative bubble. A great many liberal-minded persons lay our trouble on the tariff. To such folk the thought of free international trade has the glamour of an ideal, like disarmament. But the facts are our international trade has never been a matter of sufficient moment to affect our national prosperity as a whole. In 1929 the sum total of our business in the United States, other than security trading, probably reached the monstrous figure of $250,000,000,000. At no time have our exports exceeded about 5½ billions a year. Obviously, therefore, with exports amounting only to about 2 percent of our total national business, such concern over the tariff in relation to prosperity as a whole is irrelevant.

Overproduction as a cause of depression likewise fails to stand the test of close scrutiny. The growth in productivity of this Nation in the decades (1909–29) previously referred to was a gradual and orderly development, with the product of the Nation's activity definitely passing into consumption. This situation might have continued indefinitely. The constant trend of modern productivity is to lower the cost of the output. Many commodities are available today at a fraction of their former price as a result of inventiveness and increased efficiency of production. In the case of a self-contained nation such as our own, consumption is only limited by our ability to produce and general overproduction can be regarded as an impossibility, provided our economic life is not radically disturbed.

Having defined the malady, the question of remedy arises. We need two kinds of remedies in this instance.

First. Amelioratives and restoratives for the present stages of the malady.

Second. The correction of a tendency toward the malady to prevent recurrence thereof.

My suggestions listed below under the heading of "Rehabilitation" cover the first type of remedy. The subsequent part of my program styled "Valorization", is intended to provide the ultimate safeguards against recurrence.

### REHABILITATION

1. The present situation in this country is tantamount to war, or certainly to the after effects of war. Millions of people are distressed. Various forms of attempted aid are not coordinated as well as they should be. The President should appoint a rehabilitation board to function in assisting him much as did the War Industries Board during the war.

2. The rehabilitation board should first seek to limit imports to commodities not produced in this country. Buying at home will put many thousands of people back to work. In times like the present the first thought must be for our own. While the cost to us of domestic products may be somewhat higher initially, the saving in the long run will be considerable through the reemployment of thousands, and the elimination of these thousands from community, State, or Federal support. Every great nation today is endeavoring to limit imports to produce employment for its own people.

For those who raise the hue and cry, "How can our exports be paid for", it should be pointed out that we are compelled to buy a large number of exotic products, tea, coffee, rubber, etc. Our exports can be paid for in credits on the countries sending these necessary imports to us.

3. Direct relief to the unemployed should be standardized and increased if financially possible. If this Nation can borrow three or four billions from abroad for this purpose, the effect would be salutory in more ways than one.

Incidentally, money spent for food, clothing, rents, will engage a great many more hands in production than a similar amount spent for producer's goods—steel, cement, etc. If three or four billions were available to distribute to the people of this country on the basis of sheer need, it is possible the distribution of the first two billions would so prime the pump of production and prosperity, that further direct relief could end there. Consumer's goods as a rule require more labor and are bulkier to handle than producer's goods. Not only does a million dollars' worth of shoes or hats require more direct labor to produce it than does a million dollars of steel or cement, but considerable more labor is involved in the transportation and distribution of the former. These facts should be borne in mind in planning relief.

4. Farm relief through the domestic allotment plan, or some equivalent, should be at once inducted.

5. A campaign of public education in economics should be undertaken. The cause of this depression should be definitely and emphatically branded as speculation. People should be made to understand that not the existing economic order is at fault, but our tendency to gamble in that order. The program for eliminating speculation mentioned below, the sure safeguard for the future, should be legislated at once. Such legislation would in itself have an enormous psychological benefit in definitely labelling the cause and principal corrective of present evils. Much of the present demoralization comes from uncertainty as to just what has happened. Explaining the past logically and clearly and setting up safeguards will do much to allay fears for the future.

## VALORIZATION

The cure for a recurrent illness lies naturally in the correction of a tendency toward that illness. Wide-spread gambling in a nation's tools of production is a comparatively new phenomenon, an outgrowth of the industrial revolution. It arises from the peculiarly fluid form capital has acquired under conditions of highly organized corporate manufacture and commerce, accompanied by the development of wide-spread means of instantaneous communication. Comparatively little social significance has hitherto been attached to the operation of our exchanges and to the wide-spread interest of the public in security trading. Much has been said of the "vice" of stock gambling from the high ground of morality; but the thought that uncontrolled gambling in the proprietorship shares of our tools of production should be ended as a simple guarantee of economic security is a new one.

There are laws in this country prohibiting the sale of narcotics. In the final analysis, is there any difference between the effects of a habit-forming drug and the effects of a notion that a security can be worth 20, 30, or even 40 times its earning power? Mob phychology periodically alters the judgment of our whole people as completely as indulgence in the most powerful of narcotics could do so. Therefore, we are impelled, while not "under the influence", to set up standards for ourselves which will safeguard us against financial auto-narcosis and auto-intoxication.

A program designed to meet this end has been designated by the writer as "valorization." The term is one of convenience rather than definition. The six distinct steps which this program comprises will be dealt with separately. They are—

1. Strict supervision of security trading and of the conduct of exchanges should be delegated to a Federal securities commission. This body should put into effect rigid accounting practices in corporations doing interstate business and should operate as a court of jurisdiction on such corporation practices as affect the marketing of securities.

2. The primary function of the Federal commission should be to define price standards based on past earnings, above which standards security-trading on exchanges would be prohibited. Thus it might be decided that industrial shares can safely be traded in up to 10 times their earnings. Whatever the

figure, the earning standards decided on should be fixed and rigid, to supply a brake on trading. This would not prevent advances in securities, but would prevent advances based on speculation, as under this arrangement enhancement in security values could result only from a factual increase in earnings.

3. In order to prevent bootlegging in securities at prices above the safe earning standards set by the commission, and likewise to prevent illicit trading in puts and calls, laws should be enacted making a vendor liable for damages to a purchaser when a security is sold at a price above the safe earning standards set by the Federal commission.

4. The proposed Federal commission should issue frequent bulletins dealing directly with specific security issues, pointing out the various factors in the situations concerned and endeavoring, through the creation of a full and complete understanding on the part of the investing public, to "valorize" securities at all times. In the long run, this policy, when coupled with those mentioned above, would replace purely speculative purchases with genuine investment.

5. Taxation can likewise be trained on security trading to wipe out its speculative aspect. A graduated scale of taxes on security sales can be set up whereby quick turnovers are so heavily taxed as to be made practically prohibitive. In this way the scalping of petty traders, a purely parasitic function can be done away with.

6. As a final step in "valorizing" security trading, short selling must be ended once and for all. A necessary supervisory force to this end would be cheap at any price, through the prevention of the easiest method of market demoralization. Every sale of a security should be a legitimate one, a simply normal transaction of some one selling out an interest in a business to some new investor. The stock arguments put forward in defense of short selling are all based on the existence of a highly speculative type of security trading. Once trading is "valorized" through the institution of safe earning standards and the other devices mentioned above, there will be absolutely no need for the so-called "cushions", "buffers", "technical correctives" and so on, which short selling is supposed to provide.

There is no doubt the volume of security trading would be materially diminished by the legislation and supervision herein set forth. The entire aspect of security trading would be changed, as speculation was replaced by legitimate investment. Unquestionably, a great many persons now employed in brokerage offices and security exchanges would be displaced from their present positions. But the gain to the country as a whole through the introduction of an era of rationalization in finance would be so monumental as to offset, many times over, the loss to these few individuals.

The time element must not be lost sight of, however, in the taking of steps to reform. Any legislation looking to the creation of a Federal commission with supervisory powers as outlined above should take effect not earlier than the year 1935. Such legislation should be put through now, however, so that the necessary adjustments in values, methods, and organization may take place slowly and properly over a period of 20 to 24 months. Incidentally a program of valorization when understood should serve to boost stock prices probably in advance of justifying business conditions. People would buy into our soundest and most promising corporations to avoid any disability to do this later through the induction of earning standards and other elements of the valorization program.

It is the writer's belief the elimination of security speculation would create an area of very real economic stability in this country. No other form of gambling would have the same virulence and pernicious potency. Land cannot be quoted on a ticker tape. It is costly to carry and hard to deliver. Its utility and prospects are pretty definitely limited; its probable value does not overlap all bounds of imagination. However, should real-estate speculation become anything of a national menace upon the elimination of security gambling, taxation as suggested on security sales could be brought to bear as a positive curb.

Based on all the foregoing facts, the sine qua non of any attempt to eliminate the industrial cycle and give the country a normally stabilized prosperity must be the elimination of the Nation's habit of irresponsible gambling in its tools of production. If these tools of production were used legitimately in the United

States of America, there would be not limit to the advance of our national standard of living. We are not subject to plague or famine. Not only can we be regarded economically as a self-contained and self-sufficient Nation, but with our resources and products so infinitely varied our business tone as a whole should always be healthy. A solution must be found for the agrarian problem, and certain industrial reforms are needed. As a Nation, however, we are inconceivably rich when gaged by our productive capacity. With the progress of the arts, and with a normal uninterrupted healthy tone to our business life, a truly golden era might indeed soon be realized in this land of plenty. But the one great perequisite is lacking—a serious concerted procedure to rationalize the business life of our Nation, and to prevent for all time the recurrence of gigantic speculative booms in security values followed by the crash of deflation with its attendant demoralization and suffering.

This prerequisite can be supplied by the program of valorization herein outlined.

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STATEMENT BY HARRY GUNNISON BROWN, PROFESSOR OF ECONOMICS AND FINANCE, UNIVERSITY OF MISSOURI

We are suffering from bank credit restriction or deflation, and falling prices. No remedy is adequate that does not provide for rising prices, to be succeeded by a stabilized price level. But rising prices at the expense of curtailed output and further unemployment are purchased too dearly. The rising prices must come from increased demand and purchasing power, not from decreased supply. And if we do not provide the increased purchasing power, this will be because of unwillingness. It will not be because the job is impossible.

In the minds of the uncompromising deflation theorists, the cure for deflation is more deflation. They desire a more complete "liquidation" as a basis for recovery. Lower wages, lower prices, and a weeding out of all mortgaged farmers and other debtors who cannot pay their debts at a low price level, who are thus financially "unsound" is, in this view, a "healthy" process. But who is "unsound"? The answer is, Anyone whose debts are about as great as or slightly greater than the sale value of his property. And the farther we reduce prices and property values, the more titular owners there are whose debts exceed or equal such values. Conceivably we might deflate and reduce values so far that anyone who owed anything whatever, even the smallest debt, would be "unsound." Deflation to weed out the "unsound" is as ridiculous logically as it is merciless morally. Deflation makes "unsound" many thousands of debtors whose property, if there were no deflation, would be safely worth far more than their debts. What shall we say to those conservatively minded financiers who defend the policies which led to deflation, yet who think that inflation is necessarily artificial and unjustifiable interference with normal economic processes?

A major cause of the depression—in my opinion the outstanding cause so far as the United States is concerned—is an inept policy of those in charge of our Federal Reserve System. I believe it can be shown conclusively that the policy followed was definitely and unnecessarily deflationary and tended to produce depression. Those in charge of the System give no evidence of understanding the tremendous control they can exercise over our business prosperity. Apparently they are quite capable of doing, innocently and uncomprehendingly, the very things that conduce to the pitiful disasters of depression.

The new administration must beware. For these men, through following again such policies as they have followed in recent years, and which they have not admitted to be mistaken despite the resulting widespread ruin, may discredit Mr. Roosevelt just as effectively as the results of their policy have discredited Mr. Hoover, and may lead to Mr. Roosevelt's being repudiated at the polls quite as overwhelmingly. Will Mr. Roosevelt accept the advice of those who support such a policy?

To any self-styled "practical" men who support such a policy, we need only reply that such "practical" men have been permitted to run our economic system for the past several years and, by their "practicality", have ruined many of us and well-nigh ruined most of us.

Suppose we were back in the period of prosperity of 1924–29. Suppose, then, that some mysterious force spirited away a third of every person's money and bank-deposit account. Would not the demand for goods and for labor necessarily decline? Until prices, wages, and rentals fell greatly would there not inevitably be dull business, unemployed labor, and idle factories?

But without tracing these consequences further, let us turn to the possible influence of the Federal Reserve System on business prosperity.

The Federal Reserve System has the power to bring prosperity to an end and to plunge the country—and perhaps the world, since the financial position of the United States is so dominant—into severe depression. Suppose it sells securities on the open market. The buyers of these securities write checks to pay for them. These checks on various banks throughout the country go to the Federal Reserve banks for the securities the latter have sold. The checks must be subtracted from the credit balances of the various member banks with the Federal Reserve banks. In other words, the reserves of the member banks are reduced and they must therefore reduce loans to their customers. If they attempt to increase their credits with the Federal Reserve banks through rediscounting, this can be discouraged by high rates of rediscount charged by the Federal Reserve banks. In practical effect the Federal Reserve banks are then drawing money out of circulation and burying it in their own vaults.

A sufficiently persistent policy of this sort must inevitably decrease the demand for goods and for labor and must bring dullness of trade, falling prices and unemployment. It is ridiculous to deny that a wholesale withdrawal of money and bank credit from the channels of trade would have an effect on business and on prices. Our Federal Reserve System has power to do such things to us. Do those in charge of it acknowledge that they possess such power and that they are responsible for exercising it wisely?

There is considerable evidence that members of the Federal Reserve Board have no real comprehension of their relation to the price level and to business. Let me quote here from testimony by Mr. Adolph C. Miller, a member of the Board, before the Committee on Banking and Currency of the House of Representatives, in May of 1928:

"The CHAIRMAN. I notice this, Dr. Miller, that following the activities of the Board in the spring of 1923, the wholesale price level went down until, say, September of 1923, to about 97 or 98, which was followed by some irregularity later on in the year and in the early part of 1924, but in midsummer of 1924 the wholesale price level reached the low point of about 95. Was that lowering to that point of 95 the direct result of the activities that were taken by the Federal Reserve Board in the early part of 1923?

"Dr. MILLER. I would say emphatically no; emphatically no. I would say that prices were down at that time primarily because they went up so high in the previous period and that the whole movement of prices in this period was one toward the ascertainment of a new level. The prices themselves were, so to speak, finding their new level."

Is it necessary to remark that prices are not alive and that they can not find their level as a woodchuck finds its hole? Monetary policies of inflation and deflation, including policies of central banks, do influence prices and do influence general business conditions.

If a majority of the members of the Federal Reserve Board held such opinions as this, it is not surprising that they followed, in 1929, a depression-producing policy. It is not surprising that they did not heed—perhaps, they did not know of—the warning testimony of Dr. Gustav Cassel, internationally known Swedish economist, in May of 1928, before the same Banking and Currency Committee of the House of Representatives (just two days after Mr. Miller's testimony):

"The CHAIRMAN. In connection with the practical situation that confronts us here now, we are in the midst of what has been termed a 'speculative situation.' Yesterday the Federal Reserve Bank of New York raised its rates. Brokers' loans were reported to have increased $150,000,000 in the report that was issued yesterday. Much attention is being directed to the volume of brokers' loans and its effect on the whole monetary situation.

"We would be very glad to have your opinion on that present situation, if you care to express it.

"Dr. CASSEL. Well, Mr. Chairman, I am very glad that you ask me this question, because it gives me an opportunity to show how the aim of checking this speculation, from the point of view of stabilizing the money of this country, is an outside interest, involving the monetary policy in great difficulties. If you had not that speculative tendency in the New York Stock Exchange, the Federal Reserve banks here in this country, I understand, would be able to keep a 3½ or 4 percent rate of discount. Now, there is this stock speculation, and to meet that the Federal reserve bank in New York feels it is obliged to raise the rate of discount to 4½ percent. That is, I assume, not at all done for monetary purposes; that is a measure entirely outside of the normal province of the Federal Reserve System, which is to regulate the currency of the country; but there seems to be a popular demand that the Federal Reserve System should mend all difficulties arising in the country and particularly fulfill the function of keeping the speculators in New York within reasonable limits. I think that is unsound.

"It would be a great benefit to the country if some means could be devised by which it would be possible to limit speculation on the New York Stock Exchange without increasing the Federal Reserve bank's rates, because such increases may be very unwelcome. They may disturb the whole monetary policy, and it may have an effect on the general level of prices that will result in a depression in production in this country, followed by a decrease of employment, all only for the purpose of combating some speculators in New York."

Yet in 1929 the Federal Reserve banks not only sold securities on the open market but charged still higher rediscount rates than those of 1928 which Cassel had criticized, and higher rediscount rates than had been charged at any time since 1921. Were these high rates charged in a desperate attempt to break the stock market? The stock market, indeed, did break but so did business in general. And business has been depressed ever since.

A restriction of credit certainly must make for business depression if prices fall, unless and until production costs, such as wages and rentals, also fall. But credit restriction must bring business depression no less certainly if prices do not fall. For a decrease of means of purchase, imposed on dealers by bankers' restrictions, must certainly decrease the demand for goods. Who will venture to assert, then, that the sharp credit restriction by the Federal Reserve banks in 1929, had no repercussions on business? Will the members of the Federal Board make bold to tell us that sharp credit restriction had and could have no depressive effect on business? If so, why not restrict credit sharply all the time!

However, and regardless of the matter of justification for the high rediscount rates of 1929, a radical and sufficient reversal of policy at the first sign of dull business, before extended depression began to cause widespread failures, might well have brought us quickly back to prosperity. For a sufficient easing of credit and the purchasing of eligible securities in the open market would have increased purchasing power and would have tended to stimulate business.

But what reason could we have to hope for a sufficiently radical and courageous reversal of policy from a Federal Reserve Board which does not admit that its policy is at all a controlling influence on the level of prices or on business? Some too slow and inadequate reversal of policy was indeed attempted, but in the first half of 1931, despite widespread depression, we find a tendency for the Federal Reserve banks again to dispose of securities and so to draw money into their vaults.

It is true that in 1932, at long last, the Federal Reserve System did follow for several months, a policy of heavy buying of United States Government securities. And because this did not bring rise of prices and restoration of prosperity, there are some who insist that such a policy is futile. The fact is that by 1932 the accumulating forces of depression were too great to be overcome except by a stronger policy. Dull business and falling prices were causing numerous failures. Farmers, and men in many other businesses, could not pay their obligations to their banks. Banks were failing and, in failing, were thereby wiping out the purchasing power of their depositors. Money was being hoarded by banks as well as by individuals. Business men were afraid to borrow to buy goods. Sound banks which had loanable assets were afraid to lend except on the most unquestionable security. What wonder that all these forces were sufficient to offset, and more than offset, whatever effects the open-market purchases of 1932 might otherwise have produced! But perhaps without those open-market purchases even worse disasters would have come upon us.

President Hoover had everything to gain by preventing or quickly ending the depression. That he did not insist, through his Secretary of the Treasury and the appointed members of the Federal Reserve Board, on the adoption of the necessary measures, can be explained only on the hypothesis that the principles involved were beyond his understanding. And so he has stood, a helpless and puzzled figure, amid the spreading devastation, from time to time supporting some inconsequential remedy, and finally seeing himself and his party overwhelmingly repudiated at the polls.

But let not the new administration be overconfident. We have no evidence of a real change of opinion on the part of the Federal Reserve Board. It may continue to follow a deflationary policy or (not much better) a policy which offers no help and lets the accumulating forces of the depression work themselves out to the bitter end. Or it may, after we have enjoyed a few years of renewed activity, again precipitate us into depression. In either case the ascendency of the Democrats will be short lived. For an outraged electorate, however little it may understand the financial causes of depression, will be likely to have little patience with an administration or a political party which cannot find any way out. To increase the volume of money and bank credit circulation in a way which some conservatives are pleased to criticize as "inflation," may, indeed, bring a very small amount of temporary opposition to the administration's policy. But, as Frank R. Kent points out in his Political Behavior, "Prosperity absorbs all criticism." If a policy of definitely increasing circulating credit and currency leads to restoration of prosperity, the administration responsible for that policy will gain overwhelming popular support. Continued deflation, on the other hand, will cause more unemployment, more ruin of debtors, more bank failures, and increasing discontent.

There may, even yet, be a possibility that a really courageous Federal Reserve policy could bring us out of the depression. But in view of the accumulation of depressive influence, definite cooperation from the United States Treasury may now be essential. Fear has become so ubiquitous among the banks that many of them are unwilling not only to lend but even to purchase securities which they would once have regarded as first class. But almost any banker would feel safe in purchasing bonds and notes of the United States. If, therefore, the Government would borrow extensively, i.e., sell bonds and short-term notes to the banks and spend the money and checking accounts so realized, in various public works and otherwise, the volume of purchasing would be increased and recovery would be very greatly promoted.

For the Government to sell its bonds to citizens, if thus it merely secures, for spending, money which the citizens would otherwise themselves spend, would not meet the need, for this would not increase total spending, would not increase the demand for goods, and so would not promote recovery. But to sell Government bonds to the banks and thereby to get, for spending, checking accounts which otherwise would not be in existence, or Federal Reserve notes which would otherwise not be issued at all, or, even money which would otherwise be kept as excess idle bank reserves, would really increase the volume of spending and would definitely stimulate business.

If the above is a correct view, then the constant insistence that the Federal Government balance the Budget (interpreted to mean that it shall not borrow) is altogether mistaken. On the contrary, the Government definitely should borrow in order to facilitate the putting of new and additional purchasing power into circulation. When Government pays its civil servants or pays for any sort of public works by funds raised by taxation, the purchasing power of the taxed citizens is reduced by as much as the purchasing power of the Government is increased. In periods of prosperity this is as it should be. But at this time of acute depression it is desirable that Government spending be increased without compelling a corresponding decrease of expenditure by taxpayers.

To those conservatives who object to such borrowing and spending by Government, it should be pointed out that such borrowing was indulged in during 1917, 1918, and 1919 and that business activity was pronounced during nearly all of that period. If our financial conservatives insist that borrowing was then done under the pressure of war, let it be replied that we now need to wage war against depression. If Government borrowing and spending stimulated business in the war period, it will also stimulate business now. And, once we are rescued from the vicious circle of falling prices and business and bank failures, and from our depression psychology, the ordinary borrowing and spending of business, with proper stabilizing control from the Federal reserve system, should insure a continuance of prosperity.

But if, through such a policy, the new administration may expect to restore normal business and to rescue those who are now hopelessly in debt, this expectation can be realized only if the Government borrowing policy is not balked by an unsympathetic Federal Reserve Board. For the Federal Reserve System might, if it chose, withdraw circulating medium from the business community into its own vaults, by high rediscount rates and by selling securities on the open market, even faster than it was advancing funds to a borrowing Government. And, in view of the pronouncements and recent policy of the present Federal Reserve Board, there is no security against having any prosperity-restoring policy of the new administration rendered entirely nugatory by the Board, unless the President, through his power of removal, compels a right policy.

Those who have been responsible for Federal Reserve policy since 1929 are in no position to argue that the proposals here made are not "practical." These men obviously have not been able to devise any policy to prevent or to terminate the depression. They may, of course, argue that since they do not know how to prevent such calamities as we have suffered, therefore nobody knows. But, certainly, if control of our credit system has any significant relation to the problem—and there is overwhelming reason to believe it does—then it is high time we began to follow a different kind of policy from the kind that the present Federal Reserve Board seems to have considered "practical."

For the benefit of any who may think that the opinions of our usually conservative leading bankers are of especial weight in this matter or that a successful banker, is, ipso facto, an ideal choice for a position on the Federal Reserve Board, it may be worth while to contrast the requirements of central banking policy with the requirements of policy for the ordinary bank. In truth the requirements are so far different that experience in the successful management of the ordinary bank may be a definite disqualification for the management of a central bank or the control of Federal Reserve policy. In case of threatened crisis and depression, the ordinary bank must make its loans with unusual circumspection and must endeavor to get its resources into the most liquid possible form, in order that it may thereby be able to meet demands of its depositors and protect them against loss. But in the case of danger of crisis and depression, the business of a central bank or a central banking system should be to make loans at lower rates and more freely than before, to endeavor to put more money and checking accounts into circulation rather than to draw money into its own vaults, and so to prevent threatened depression from becoming actual and serious depression. A prosperous banker, or a student of banking of the old school, might therefore be the one type of person who would be a dismal failure in the management of central banking policy and might bring upon us just the kind of calamity that we are now suffering.

And now we come to the sacred cow of American monetary policy, viz, the gold standard. For the question is certain to be raised whether a deliberate policy of pumping more purchasing power into circulation and so raising the price level will not necessitate going off the gold standard. For, in the opinion of our more conservative financial advisors, it seems that however widely gold fluctuates in value, however great the ruin this fluctuation imposes on debtors who must pay back money of far more purchasing power than they borrowed, and however greatly insistence on a rapidly appreciating gold standard increases unemployment and distress among the masses, nevertheless nothing must be done either to abandon the gold standard or to make it more stable. A proposal to require the Federal Reserve system to use its powers so as to restore the predepression price level and thereafter to keep it stable was contemptuously referred to by Mr. Hoover as a proposal for a "rubber dollar." By implication, the present wildly gyrating dollar is of constant or stable value, not a rubber dollar at all.

But as a matter of fact we can, if we so desire, bring up the price level, restore prosperity and stabilize thereafter at this higher price level, while yet maintaining the parity of all our money with gold. It is true that a period of rising prices in the United States might tend to a considerable outflow of gold to foreign countries. Such an outflow of gold might help to promote recovery abroad as well as here. But any such outflow of gold can be stopped by an embargo on gold exports. And such an embargo, if it accompanies a definite increase of the domestic price level, will at once raise the domestic price of any farm crop having an international market and a world price, such as wheat or cotton.

For when our higher domestic prices cause Americans to look abroad for lower-priced goods of various sorts, they can not pay for these goods through an exportation of gold and must attempt to do so through the purchase of drafts on foreign banking centers. These drafts will inevitably rise in price and thus the price which exporters can secure on the drafts (drawn on foreign purchasers of wheat or corn or cotton) they sell, must rise. Thus, an increase of domestic prices, coupled with prohibition of gold exports, must raise the prices in American dollars of the farmers' products. Perhaps as a long-run policy it would be well to abandon the idea of a fixed weight of gold back of the dollar and adopt a policy of stabilizing the purchasing power of the dollar through open-market purchases and sales of securities and gold.

Credit and currency expansion is the right road to farm relief. Such expansion will remedy unemployment, draw back into the cities at least such surplus agricultural labor as the depression has driven to the farms, and raise the prices of agricultural products. Various marketing costs, such as transportation rates, which have not fallen as much as prices generally have fallen, also will not rise so much, and, therefore, a correspondingly larger part of the price rise will go to farmers.

We have gold enough now to support any reasonable amount of bank credit and to bring back the price level to something like that of the years 1924–29, while still maintaining domestically the gold standard. If we are unwilling to leave the gold standard, then a Presidential embargo on gold shipments ought certainly to be possible in any period of appreciation of the value of gold. Otherwise we are at the mercy of the rest of the world in case of any future "world scramble" for gold. For any such condition would, by causing tremendous gold exports, compel us, if we would remain on the gold standard, to restrict our credit sharply in order to maintain redemption, and such credit restriction would again precipitate crisis and severe depression.

But while we ought to have some adequate method of protecting ourselves from deflation and business depression in case of any future "world scramble" for gold, it appears that in the case of this particular "gold scramble" we have been not so much sinned against as sinning. For years, after the Great War, our financial position and strength was probably the greatest in the world. The policy of our Federal Reserve System was probably a dominant influence on the level of prices not only in the United States but in other gold-standard countries. The sharp credit restriction by our Federal Reserve banks in 1929 undoubtedly had its repercussions in foreign countries. There was, in 1929 and 1930, a considerable flow of gold to the United States. In a number of the foreign countries the choice seemed to be whether to lose the gold reserves of their central banks, to restrict credit sharply enough and bring prices down enough, with accompanying more acute business depression, so as to prevent loss of these gold reserves, or to go off of the gold standard. For a time, most of them suffered credit restriction and increasing business depression. But, finally, many of them gave up the struggle to maintain the gold standard under such difficulties and ceased to attempt redeeming their money and bank deposits in gold. But is it not a reasonable conclusion that the credit restriction, business depression, and falling prices suffered in Europe since 1929 have been due, at least in considerable measure, to the wide-spreading influence of our own inept central banking policy? If this conclusion is a right one, then the overturn of the labor cabinet in England, the rise of Hitlerism in Germany, and perhaps other events of more or less ominous import, may be the unforeseen consequences of, the results of a discontent really engendered by, a policy of our Federal Reserve Board entered upon with not the slightest premonition of its likely political consequences as well as with no apparent comprehension of its purely economic significance.

Whatever else we do, we must institute such control of our money and banking mechanism that it cannot be used to bring us again to such distresses as we are now suffering. We are literally at the mercy—as to our fortunes, our jobs, the care and education of our children—of a Federal Reserve Board which has the power to bring on business depression at almost any time, which has shown that it does not know how to prevent such depression, and which has evinced no support for legislation by Congress that would direct the Board to follow a policy of stabilizing instead of a policy of unstabilizing business and the general price level. Will the new administration, like the old, be guided by the advice of men who have approved of the Federal Reserve policy since 1929 and who, if they offer any criticism at all, content themselves with blaming the Federal Reserve authorities for not restricting credit sharply even sooner than they did—and this notwithstanding the fact that commodity prices were not rising? If a slump in the stock market for any reason whatever should tend to decrease bank credit, such effect should be immediately counteracted by low rediscount rates and a policy of open-market purchases on the part of the Federal Reserve banks. But if each seemingly unjustifiable rise in stock-exchange prices is to be the signal for a sharp and persistent country-wide restriction of credit by the Federal Reserve banks, then we may well begin to wonder whether the country can ever hope to enjoy any considerable period of sustained prosperity.

I should like to take this opportunity to express my dissent from the proposal that in order to raise agricultural prices the Government pay a rent for the holding of land out of use. This suggestion recalls recent attempts in some of our States to maintain the price of gasoline by compelling cessation of production from oil wells. Will we be likewise urged, before long, to attempt a rescue for businesses in cities by paying land speculators to hold city lots out of use?

Every really competent student of economics knows that the more land is withdrawn from production the poorer become the opportunities of the laboring man. The resources to which he may devote his labor are artificially decreased. The area on which labor can be employed is reduced. Greater unemployment must result unless and until labor consents to a reduction of wages. A decline of prices consequent on business depression seems to give rise to a variety of schemes to help out the owners of property by increasing the burdens and handicaps of those who own nothing at all.

In England there is a powerful movement, having the support of the majority of Laborites and Liberals, to increase the tax on bare-land values. The fact that such values are produced almost entirely by community development rather than by the individual is not the only argument urged for this policy.

It is contended also that by such a policy land speculation will be discouraged, the area of employment enlarged, and wages increased. "Idle land", they say, "makes idle men." But at the same time we in America are being urged to adopt direct Government encouragement for the withholding of land from production. Because of our interest in owners of farms, oil wells, and, perhaps, other property, are we going to overlook completely the needs of propertlyless wage workers and put upon these, who can least afford to bear it, the entire burden of the depression?

A policy of sufficient credit and currency expansion, coupled with success in securing general agreements to reduce barriers to international trade, and, along with these, stern repression of monopoly in the production of goods farmers must buy, ought to make obviously uncalled for any such uneconomic and unfair measure as this of taxing wage earners to raise money that will be used in reducing their opportunities for employment. Let us restore prosperity, and increase of jobs will again draw many workers to the city. Let us not try to accomplish this purpose by reducing present opportunities in the country for laborers and, perhaps, for tenant farmers, while paying rentals out of the consumer's dollar to landowners who will cooerate in a policy thus injurious to the laborers. Can it possibly be the case that in this period of distress Congress and the administration will consent to employ only inconsequential and harmful specifics and will persist in neglecting the one thing most important?

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STATEMENT OF DAVID CUSHMAN COYLE, CONSULTING ENGINEER, NEW YORK

It seems unnecessary to suggest measures for the promotion of economic recovery, since the administration is evidently provided with a sound and adequate program. The most essential steps may, however, meet with opposition; and the economic principles which make such measures necessary need to be discussed and emphasized at every opportunity.

Three stages of Federal action may be distinguished. The first is that in which the Government consolidates its position; the second is the advance; the third will be the stabilization of prosperity.

Before a program of advance could be undertaken it was necessary to get control over the banks and potentially over the securities markets, so that neither public panic nor financial manipulation can force the closing of the banks. This object has already been accomplished. Financial pressure cannot be put directly on the Government either by exporting gold, by forcing liquidation of debts, or by frightening bank depositors into withdrawing their deposits. The Government can quickly establish any regulations necessary to protect its program.

Moreover, the Government has proved its ability to reduce waste and to resist the veterans' lobby. These measures, though directly injurious to business, have laid the foundation for a large increase of Federal expenditure, now that the country knows the money will be carefully and honestly spent. The program of advance must necessarily take the form of very large expenditures for public works and services, outside of the regular operating Budget.

Prosperity depends on a continuous supply of consumer buying power; money which accumulates in large incomes or capital funds must be continuously redistributed to the smaller incomes, or else the market for business necessarily dries up. Previous depressions have ended when this distribution recommenced through a revival of commercial investment which created employment and distributed wages to the building industry. This process is blocked this time by the following facts: (1) The new investments would be new business debts, and business still has left from the last boom an undeflated debt burden greater than it can carry. In previous depressions the mortality of capital was sufficient to make room for a large mass of new investment, but this time the required volume of bankruptcy was more than the country was emotionally able to endure. Measures were taken to prevent the collapse of capital structures. These measures may have prevented serious disorder, but they also blocked the possibility of enough new investment to restore prosperity. (2) The accelerating rate of technological advance renders it impossible to give enough employment on building new machinery to overcome the unemployment caused by the new machinery itself.

Capital funds must therefore be dissipated by direct spending in sufficient volume to provide business with a market without saddling business with large new debt burdens.

Just as business cannot stand the effects of a recovery depending on large capital investment, so also it cannot stand a recovery based on self-liquidating public work. Self-liquidating works have the same effect as business debt, because they drain off consumer buying power and reduce the buying market. There is no escape from the economic law that sound investment cannot be more than what business can carry, and that all other accumulated funds must be dissipated by spending or they will automatically dissipate themselves by bankruptcies.

This economic law is contrary to what has been believed to be "sound" finance. There will therefore be sincere opposition from those who consider it unsound to dissipate capital funds without setting up an equal volume of new debt.' This opposition must be overcome or it will emasculate the program by causing the growth of a new debt structure resting on the consumer, thereby leading inevitably to a new collapse of business.

The natural automatic adjustments of society to a high and increasing rate of mechanical productivity have become inadequate, and require to be deliberately fostered by Federal action. Shorter working time, the minimum wage, the restriction of child labor, and a generous old-age pension system are valuable and necessary palliatives. The fundamental adjustment, however, must necessarily lie in a rapid growth and in deliberate conservation of the service markets. The production of mterial goods can never employ more than a small percentage of our available labor. The surplus must necessrily be employed in cultural and quasi-cultural services, most of them generally classed as luxuries. The private luxury market, on which business now so largely depends, is excessively unstable, falling off severely in depression. Until the people are habituated to a high rate of personal spending, the market can be stabilized only if the Government serves as agent for collecting and spending a large percentage of the national income. Moreover, by proper tax exemptions, the Government can and should force a large volume of contributions into semi-public service institutions. For this reason public expenditure and institutional expenditure supported by tax-exempt contributions must greatly increase in the future if there is to be any hope of stabilizing business.

This, too, is contrary to what has been thought to be "sound" finance, and will be sincerely resisted by those who still think in terms of a system of low productivity. The resistance of these financial influences must be overcome, or business can never attain a stable prosperity in this country.

The process of financing an adequate program of public works in advance of the revenues necessary to pay for them involves certain dangers that are not generally recognized. If the bonds issued for this purpose are sold to the public for cash, the effect will be deflationary, and will largely counteract the stimulating effect of the public work itself. Moreover, if after the return of prosperity the bonds held by the public are paid off, the effect will be inflationary, tending to create a dangerous boom in the securities markets. On the other hand, if the bonds were to be sold entirely to the Federal Reserve, and paid for by an expansion of credit and currency, no deflationary effect would occur, and the stimulating effect of public works would be wholly operative. Again, when the bonds were paid off in good times, the effect would be deflationary, and would tend to prevent any tendency to a runaway inflation such as occurred in 1929. If it is necessary for psychological reasons to sell part of the bond issue to the public, the inflation of Federal Reserve credit or notes will no doubt be managed so as to avoid a collapse of the general bond market. The other half of the process, however, is more likely to be misunderstood. In order to prevent the inflation from running away as it did in the last boom, it will be necessary to collect taxes from capital funds while the bonds are being paid, so as to cause no net increase of free capital in the hands of the public due to such payment. Otherwise the inflationary effect of Federal bond payments will be added to the other dangerous currents against which the Federal Reserve is forced to struggle at such a time.

Here, too, the necessary policies are contrary to what has been thought to be "sound finance." Financial opinion will generally favor the minimum of inflation during depression and the minimum of deflation during prosperity. So far as financial influences prevail, there is danger that measures for promoting recovery may be rendered ineffective; and if recovery is obtained, such influences are liable to result in failure to control the inflation.

When prosperity has been restored through a bold program of Federal expenditure it can be preserved only if two permanent policies are adopted. The first is a large and increasing program of nonself-liquidating public services. In order to find an adequate outlet for the volume of expenditure required to keep business in sound condition it may be necessary not only to devise new and enlarged forms of public service, but to reduce or abolish many fees and charges now collected by the Government. Federal subsidy of local water supplies and bridges and reduction of postal rates are possible examples.

The second necessary policy is a shifting of tax burdens to the upper brackets of incomes and inheritances and reduction of taxes on business, on real estate, and on the consumer generally. If this policy is adopted on an adequate scale it will conserve the market for goods and services and will postpone the growth of the capital structure to the point where it can destroy business by the excessive increase of overhead. On the other hand, any attempt to relieve large incomes either by "spreading" the tax burden or by self-liquidation cannot have any other result than to repeat the events of 1929–33.

Here, again, the policies necessary to preserve prosperity are contrary to the accepted principles of "sound" finance and will be sincerely condemned in many quarters. Unless the resistance from financial sources can be successfully overcome, it will be impossible to prevent the history of the last decade from repeating itself in more violent form.

Finally the principles involved in the "balanced Budget" need to be fully understood. When the Federal expenditure is very much in excess of its receipts the result is stimulating to business, and tends to cause a large increase of Federal income and the reduction of the deficit. When the expenditures are reduced the tendency is to depress business, reduce receipts, and increase the deficit. It follows that when a Federal deficit appears expenditures should be increased on such a scale as to restore prosperity and wipe out the deficit. The situation resembles war in the fact that a spending program on a scale insufficient to destroy the depression is totally lost and serves only to use up Federal credit. It also follows that when a surplus appears taxes should be largely increased, so as to prevent inflation of the securities markets and the destruction of prosperity. The general principle is that in hard times the fiscal policy should aim at a very large deficit and in good times at a very large surplus, arriving at an approximate balance over a complete cycle.

This economic principle is also contrary to what has been believed to be "sound" finance. Financial opinion leans to the policy of reducing taxes in good times and reducing expenditures in hard times, a policy the results of which have been disastrous to business. Business cannot be placed on a sound basis of stability unless the influence of old-fashioned financial opinion in this respect is successfully resisted.

The foregoing statements of economic law, proved to be correct by the course of events since the war, are offered in the hope that they may be of assistance in buttressing the policies of the present administration which are required for curing the depression and stabilizing the subsequent period of prosperity. They illustrate the fundamental fact that the interests of finance and those of business are incompatible and that if this Government is to succeed it must succeed in protecting business against the influence of finance. In a highly productive economic system, in contrast to one in its pioneer stage, "sound" finance and sound business cannot exist together. If "sound" finance is attempted, the event has shown that business is wrecked and the system is wrecked. There is no way to make the system operate except to give business the right of way and force finance to conform to the needs of business.

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STATEMENT OF HENRY S. DENNISON, PRESIDENT DENNISON MANUFACTURING CO., FRAMINGHAM, MASS.

THE CYCLE 1927–32

The study of business cycles is still young and we know as yet too little about their real character to give a full or dependable description of them. Presuming, however, upon the rights and prerogatives of an amateur, I shall attempt a rough and somewhat hypothetical description.

Each cycle has features in which it resembles others, and each has unique combinations of factors. In general it would seem that an increase in almost any part of our economic activity results in freer buying, larger employment, more borrowing, heavier investments. It is as if this activity were reaching for the maximum development which is possible in any given community; in a broad and somewhat charitable mood it might be called the pressure for the advancement of civilization. But the combination of competitive rivalry and a quite imperfect knowledge causes this reaching to turn into an overreaching, which even under perfectly healthy conditions results in a slowing up and holding back, as if in the search for a normal rate of progress. The time lag between cause and effect in economic activity slows up the adjustment of the normal rate and considerably exaggerates the swings and underswings, causing alternating periods of hypernormal and subnormal activity. Part of the time economic, political, and social health is relatively good, this overreaching is relatively mild and its reaction correspondingly so. It would seem from the history of the past as if, left entirely to themselves, these simpler cyclic factors result in a total swing which runs over a period of 40 months. But they are never left wholly to themselves. Some of the time these simpler forces are practically overwhelmed by others.

It is possible to draw a useful picture of the economic forces of the past hundred years if we use the conception of a series of waves overlapping and interacting. It is not, however, a useful picture if the analogy is carried too far; or if it is thought that these various wave series are regular or fixed and established in their character. Such a picture can only pretend to be a rough and inadequate approximation of the truth.

In the first place, there are the usual cyclical waves averaging something like 40 months in length; and by themselves running perhaps 7 or 8 percent in height above and below average. On the surface of these waves there are the short seasonal wavelets, but these for our purposes can be overlooked since the technique of statistical description of the cyclical pattern has been so far developed that it can be shown independently of the seasonal swings. Underrunning these cyclical waves there are a variety of others. There are the waves of agricultural production, which have been variously estimated as of 7-, 9-, and 11-year lengths. It is certain that there is no conformity, or complete causal dependence between these waves and the cyclical waves. Nevertheless, it is upon them, as upon some others to be noted later, that the cyclical waves perform. Secondly, there are the great swings of the wholesale price levels, which since the Napoleonic Wars have shown a total swing of about 50 years, running down for approximately 30 and up for 20. We are now upon the third down-swing since the Napoleonic wars; but with so few in the records, and records in any case being so inadequate, with these waves particularly it is unsafe to figure upon any regularity or any inevitability. They can, of course, be taken as the waves of the value of gold as well as the waves of the general wholesale price level. And while the relation between the quantity of gold and the price level is by no means definitely settled as yet, it is significant to notice that the gold stocks of the world increased 22 percent between 1905 and 1910, 20 percent between 1910 and 1915, 18 percent between 1915 and 1920, 10 percent between 1920 and 1925, and 10 percent between 1925 and 1930. To intensify the unfortunate results of this last small increase it must be borne in mind that something like 30 countries went onto the gold standard between 1922 and 1930.

Thirdly, there is a highly speculative but, nevertheless, quite possible great secular trend centuries in length toward and away from relative security. It is possible that one trough of this wave can be placed prior to the Renaissance, rising steadily upward toward pioneering and insecurity, and reaching its top somewhere toward the end of the last century. The wave character of this movement can very easily be questioned. It is, in fact, very doubtful indeed; but what is less doubtful is that the closing of the most available and most inviting open lands at the end of the nineteenth century (those of the United States) has certainly made a vital difference in the minds of men and to the relative risks and penalties involved in rapid rates of change, in pioneering, and in the logic of laissez-faire.

And, finally, there are the random perturbations in economic affairs such as the plagues and famines of nature, the wars of political units, and other social and political overturns. These might be likened to tidal waves, which certainly as yet seem to show no regularity but which vitally affect and condition the behavior of all the other sorts.

Again you should be warned that this is a mere analogy and that it oversimplifies the situation. It is certain that these economic results cannot be simple physical and arithmetical summations of various wave motions, even granting that the wave motions exist. Affairs in the economic world as in the psychological react upon each other in too complex a fashion for any such simple picture. It can be, however, fairly safely assumed for this picture that the fall of any given wave is seriously affected, if not totally conditioned by its rise; and that it is during the rise that we must expect to take the most effective steps for any cures and mitigations of the evils of the fall. You should be further warned that these movements are all aggregates of a great many separate factors, and that among the separate factors individual cases will run wholly counter to the statistical average of the total.

Granting all the imperfections of this picture, it will, nevertheless, be interesting to attempt to fit the cycle of 1927–32 into it. What were the ground swells upon which the simple cylical recession, beginning in the middle of 1929, imposed itself. In the first place there was the great tidal wave of war, receding, but still affecting the world economic situation. Secondly, there was the receding price curve, which from a trough in 1897 had found its peak in 1920. Thirdly, there was the receding curve of agricultural prosperity, relative to the prosperity of commerce and industry. Fourthly, there was an advancing wave of political stability, although from what may be called a very low trough in 1923, nevertheless advancing, I think it is safe to say. Fifthly, there was an increasing difficulty growing in international commodity exchange, through reparations and noncommercial debts and through the growth and intensifications of tariffs, which thickened the economic streams and lent it a viscosity of rather unusual strength, for modern times at least. Sixthly, there was a very rapid acceleration in the rates of increase in productive efficiency. And seventh, a decided increase in the proportion of the total income of the civilized world which was destined to be devoted to investment channels as against that proportion which was destined to be devoted to the purchase of consumers goods; and this in spite of the widely advertised absolute increase in per capita consumption spending; in other words, in the standards of living of the masses.

This last statement is so counter to the belief which gained strong currency up to 1929, and since, that certain figures should be given in support of it. In the first place there is an analysis of manufacturing costs on the basis of 1923 as 100 which shows that in 1929 the selling price was 90, cost of material 87, cost of labor 84, overhead and profits 102. Secondly, there are the rewards in the manufacturing world per unit of product taking 1899 as 100.

The figures show for 1923 that the producer of materials got 109, the laborer 120, and the salaried workers and owners 118; while in 1929 the three parallel figures are 99, 111, and 126. Thirdly, the net profits of corporations of 1½ billion dollars in 1923 increased to $2,650,000,000 in 1929. This showed an increase of 14 percent per unit of product. And, fourthly, between 1922 and 1929 the average rate of increase per year in the real earnings of all employed workers was 2.2 percent, but for the dividend disbursements as drawn from the internal revenue figures 12.3 percent, while the dividends of industrials alone showed annual average rates of increase of 21.3 percent. When in addition to these figures it is remembered that all this happened at a time of great increase in productivity, during which the true need was for rapid increase in consuming power rather than investing power, we can show, I think, one peculiarly powerful set of stresses and strains which were being set up to meet the simple cyclical fall of 1929 and intensify it.

In this review of seven underlying factors, there are many unfavorable conditions; yet before blaming their aggregation for present conditions we must remember that in 1924 and 1927 when commercial and industrial factors underwent, also, the true typical cylical recession, most of these underlying conditions were there and some were worse. There must be something more, then, to look for if we are to account for the immensely greater severity of the recession of 1929 over the two previous ones.

That this missing factor cannot be found in the nature of the commercial and industrial rise and fall itself seems to me to be clear from the fact that its rise was only 18 months long, whereas the average period of rise between 1871 and 1896 was 23 months, a period which experienced, also, a fall in the general price level. In extent the rise of commercial and industrial factors was less than average. In 102 out of 113 series which represent the operating end of business, they were less than average, and in only 10 were they more. Yet when the recession got fully under way 70 of these series showed more than the average decline; 18 up to the middle of 1931 had made all-time records; and only 40 showed less than average; many of these by this time must have shown more.

There seem to have been no important commodity price inflation. Wholesale prices, in fact, dropped from a basis of 100 in 1925 year by year to 97, 92, 94, and 93 in 1929. Retail prices from 100 in 1925 through 100, 98, 97, to 97 in 1929. That certain rather extraordinary projects in valorization of prices held up individual cases is admitted, but in view of the general fall during this period it is pretty hard to see how valorization can be credited or debited very heavily with the severity of the recession.

That there was no abnormal activity in industry, of the sort that is rather loosely called overproduction, seems to be indicated when the inventories of 253 corporations, upon which records can be gotten are compared. In 1927 these inventories taken at 100 against sales at 100 showed in the end of 1928 inventories of 104 against sales of 112; at the end of 1929 inventories of 117 against sales of 122. Inventories, of course, can be expected to move with sales, and if they move at a less rapid rate it is hard to see where the case of general overproduction can find its basis. In the great raw materials there are only a few cases of heavy increases until December of 1929, at which time the recession had already well set in.

The volume of production increased from 1922 to 1929 at the average rate of 3.8 percent per year as against 3.2 percent for the years 1901 to 1913. On a per-capita-of-population basis these figures are 2.3 percent for the later period against 1.3 percent for the earlier. If in any given community general purchasing power were to be reasonably maintained, it would be difficult to believe that the rate of 2.3 percent per year was too high to be assimilated by a rising standard of living; but even if it is somewhat too high, it is difficult indeed to believe that it is so excessively high as to have had any considerable share in causing the tremendous collapse and readjustment which has occurred since 1929.

On no way of figuring it can it seem reasonable that general overproduction occurred to any such extent as to be given any large share of the blame for the intensity of the recent depression. It may well be judged to have brought about its beginning in the usual way in which recessions in business have so many times in the past begun. But all figures seem to indicate that if this were the principal factor in the situation the recession would have been mild and not very long lived.

It is difficult indeed to get any facts upon which to examine the question as to whether our capacity to produce has been built up to an excessive degree. There is much to substantiate the belief that in a progressing and competitive system the theoretical capacity is always very largely in excess of production. In many lines the figures that are given of percentage utilization of capacity seldom exceed 70 percent, even at the best of times. As to the increase in production capacity during the past 6 or 7 years the figures are slight and not every reliable. The sales of the machinery trades in the years 1923, 1925, 1927, and 1929, run in index figures: 91, 100, 106, and 123; against production figures of 96, 100, 107, and 121, which are the figures for total production of the country. But the figures for industrial building do show a tremendous increase in 1929. For the 4 years mentioned, they run: 99, 100, 117, and 166.

The construction industry as a whole shows rather odd behavior with relation to the other industries. It was very high before the cycle began and ran high through the depression of 1924 and 1927, but it dropped early in 1928, showed a slight spurt at the most active time of 1929, and then a very heavy drop. It is residential building which is the chief factor in these figures; the others show rather more usual behavior, except, of course, for the great increase in industrial building in 1929. The heavy drop in the construction industry is, of course, an intensifier of depression as it is always, but the lack of any rise in the total construction in 1928 and 1929 is a somewhat modifying factor against inflationary activity. On the whole, the construction industry must be judged, I think, as an effect rather than a cause, although the minute the recession began it greatly intensified the difficulties.

It is when we turn from the strictly operating end of the business world to the stock market and the financial events associated with it that strikingly abnormal conditions appear. The facts are too familiar to need repetition, but one or two contrasts are worth noting.

I said above that 102 out of 113 operating factors rose less than the average to the peak of 1929, but, on the other hand, almost all factors connected with the stock market rose more than double the average, and the rise in the prices of stock beat all of the Dow Jones records, which run to 1897, and Macaulay's partial records which run back to 1857. The rather notable stock-market cycle of 1900 to 1903 showed a rise of 34 on the Dow Jones scale, while this recent cycle showed a rise of 99.

While the wholesale price index was running down from 1925 to 1929 from 100 to 93, common stock prices went up 100, 111, 132, 167, and 212, while the total value of stock sales ran 100, 113, 149, 251, and 316. And it must be remembered that these figures are averages for the year, not peaks at the high point of the years. And with regard to stock prices it must be remembered that while in the material commodity market increases in price finally induce reduction in sales, in the stock market there is a powerful and long continued influence for increase in prices to induce excessive sales.

Some economists who followed closely the course of prices and quantities in the commodity market were puzzled by their relatively moderate increase in the face of the increasing volumes of credit during this prerecession period. The quantity theorists faced growing skepticism. But when a price index is made up not only of commodities but of commodities and common stocks as well, it compares rather curiously with the index of bank credits. The figures of the two from 1925 to 1929 are as follows: For a combination of commodity and stock prices, 100, 101, 102, 110, and 118; and for bank credits, 100, 106, 110, 117, and 120. While this correlation may not be very close it is certainly strikingly closer than when commodity prices alone are considered since they receded during this period.

All sorts of evidence, in fact, shows that the increased credit volume was devoting itself very largely to the securities and real-estate market. As one example, the reports from member banks show between 1922 and 1927, out of a total increase in loans and investments of 7 billions, 3 in investments, 3 in collateral loans, and only 1 in commercial loans. By the end of 1926, 60 percent of the earnings assets of these member banks were engaged directly or indirectly in the capital markets. From 1922 to 1929 the average annual increase of commercial credit was 3.2 percent; of credits directly related to the security markets, 8.1 percent (and it must be remembered that this is a repeated annual increase); and to the urban real-estate markets, 12.5 percent.

The effects of this tremendous inflation in the financial world were widespread. On the purchase of commodities there was created an artificial demand based on nonrecurrent income, or at times on an imaginary or paper income, which was capable of a swift and sharp retraction. On the development of new productive capacity it offered an immense temptation to overcapitalize, and having capital to build, expand, or to merge high cost producers with their stronger competitors. On the commodity price level there was a slight influence through the tempting ease with which valorization schemes could be financed. On operating management there was a very serious influence by distracting attention from the hourly job of making a company good inside to the playing with its stock on the market outside. It is more than possible that the market inflation was partly if not largely responsible for the diminution in residential building in 1928, for certainly in many cases people withheld from intended building in the hopes of making a lot more money by investing what they had in the market for a rise. And its effects were not least on the international situation, for it has been estimated that of the 10½ billions we lent abroad since the war, 5 billions came back to the stock market directly or indirectly through the call-money market. It is in any case certain that the sharp reductions in lending abroad which occurred in 1928 were not unrelated to the enormously inviting opportunities for gains on money placed nearer home.

To sum up:

1. Almost all the strictly commercial and industrial factors, the so-called "factors of the operating business world", were moderate in their rise from 1927 to 1929, and the cycle started its recession in June 1929, among these factors, moderately and from no greatly inflated level.

2. But the stock and real-estate market inflation itself, and the banking that went with it (and some went a long ways) was of record proportions, at least for the 80 years during which we have records enough even to guess at.

3. Average and normal business recession in June 1929, was the signal for the bursting of the stock-market bubble, and this bursting thereafter has deeply intensified all recessional factors.

This collapse in the economic health of the world occurred at the time when most of the underlying constitution factors were seriously unfavorable. First and most important, it occurred upon a descending long-term trend of prices; second, upon conditions of agricultural stress, both as to prices and capital values; third, upon a structure of international finance which was improving, to be sure, but which was by no means solid; fourth, upon increasing resistances to the flow of commodities through rising tariffs; fifth, it occurred after sveral years during which, in spite of the rising standard of living of the masses, there was a largely increased proportion of the produced wealth going to the well to do and, hence, in considerable proportion into investment channels, and this just at a time when improved technique of all sorts was making our chief need consuming power rather than renewed investments; sixth, as is now clearly evident, it fell upon a banking management far below the high level of fine professional standards with which bankers have been credited and which we have a right to expect that they should assume.

Granting conditions to have been something as I have outlined, is there anything in the world that can be done about it? It must be admitted at once that we know very much too little for any complete answer, but we do know, I think, enough to point out some very definite directions of effort and directions in which further study might result in fairly prompt conclusions.

(*a*) In the first place there is the problem of the general long-range swings of the price level. There is a strong presumption of its relation to the gold supply or, rather, to the credit currency which so far has been built upon gold. This is clearly an international problem, a problem for which the Bank of International Settlement, or a group of international bankers through the B.I.S. seems the most practical means through which relief could come.

(*b*) There is the striking fact of sheer and pyramided gambling in stock markets. We may not yet know how to control this, but our recent experience seems to give us grounds to believe that few other measures will be any good at all unless we can invent some devices through which a limiting influence can be exerted upon these markets. They have their proper economic function, as is well known, but through the years previous to 1929 it is not an unfair estimate that their proper economic function exercised about 5 percent of the time and 95 percent was given up to what is no more nor less than a gambling game.

(*c*) There is obviously the need of international political stability. The close interlocking of nations in economic actuality has made it an absolute necessity from the economic point of view, as it always was a necessity from the moralistic point of view, to do everything that anybody can do to make war less likely in the future.

(*d*) We must recognize and make more clearly and widely known the modern need for consumption funds as against investment funds and, hence, the advantages of considerable and larger proportions of the national income turning into the channels through which they are mostly likely to flow smoothly and with maximum regularity into consumption spending. This is the old oversaving theory in a new aspect, and it gives to the high-wage doctrine its fundamental, cool, long-range economic validity, in addition to whatever it may have had of a sentimental, political, or moralistic nature.

(*e*) Our structure for deposit banking must be strengthened. When something like two billions of deposits is tied up by failures, affecting something like 5,000,000 people, it is about time to recognize that the deposit account has by habituation come to be considered currency just as truly as pieces of paper printed in green and bearing Government stamps and signatures. It seems to me inevitable that the day must come when deposit accounts are insured, and the only question is through what steps can this be brought about gradually and most effectively. And it must be recognized that when deposit banking is tackled as a problem, investment banking is related to it.

(*f*) It is time, also, for a reassessment of all our theories and prejudices relating to tariffs; and from an international angle, not because to be international minded is to be holy, but because economic society, which is now the overwhelming aspect of society in the so-called civilized world, flows over, by, and through all national boundaries, binding inextricably the economic good of each modern nation into the good of all nations.

(*g*) It is time, too, for a reappraisal of the good and evil elements of unrestricted competition. Such an elemental analysis will give us factual material upon which to invent ways by which the good in competition can be held and the evil[1] lessened. We have so far been satisfied with the mere slogan that competition is the life of trade; but this, like most slogans, says little or nothing. We know that food is the life of man; and we know, also, that food of the wrong sort, in excess, or in undue proportions, can be the death of man.

These examples of possible fields of action do not, of course, pretend to be complete. They are only suggestive; there are other possibilities in addition to them, in which anyone who is not so deeply discouraged that he will not act at all can find food for thought and opportunities for service.

## A 5-YEAR PLAN FOR PLANNING

There has been a great deal of careful thought recently given to the question of establishing some sort of a national economic council to undertake some degree of economic planning. And it has been given not only by theoretical men but by practical men as well. The report of the Senate hearings of Senator La Follette's committee last fall, a recent issue of the Annals, and a short pamphlet by von Haan, present a very large and varied amount of material on the subject.

Objections to beginning such a project seem to classify themselves under five heads—first, that cycles and crises are inevitable, and that it is not only useless to attempt to deal with them but harmful; second, that government should have less and less to do with business, and that economic planning even of the most limited sort would constitute, or would invite, intrusion of government into business affairs; third, that planning requires an intimate knowledge of every detail of economic activity, and a foreknowledge of the future, as well; and that since these are impossible, planning itself is useless or worse; fourth, the communists' objection that no planning is possible until the whole capitalist system is swept away; and fifth, the opposite objection that laissez-faire individualism contains within itself an automatic planning superior in the long run to any other.

The first objection, that cyclical catastrophes are inevitable, is inherent in the temperaments of certain men, and especially deeply imbedded if they happen to be in relatively comfortable economic circumstances or are of the

[1] As an example—and a most important one—the evils arising from the fact the most competition is now blindfold. The social losses from panicky estimates of what competitors can do and survive are very large. Open, full, universal, quarterly accounts would revolutionize while preserving competition.

sort who would gamble upon themselves to win out no matter what happens. It is practically valueless to attempt to argue against such temperaments or such circumstances; but to men of other temper such a fatalistic attitude is of too much of a piece with the earlier attitude toward the great plagues as acts of God. These men will admit that it may turn out to be impossible to do as much as we should like, but will maintain that if business leaders fail to make any attempt whatever they would be left defenseless when some day under great stress an enraged populace will call them to account.

Argument against the second type, that government must keep hands off business, is only a little less useless when addressed to men deeply ingrained with the idea that business and government are two separate or separable segments of the total social structure, notwithstanding the fact that a large majoriy of just these men are eager enough for government interference when they can see it react in their own favor. To men of broader perspective and richer historical knowledge it is more likely to appear that the fields of economics and politics in the last few hundred years have interpenetrated more and more intimately with every step in the development of the industrial system, the credit structure, and the facility of communication; that the fields, in fact, have never been separate or clearly separable, and that they are becoming less and less so with every year that passes. To such men any attempts to keep government out of business at any or all costs are likely to be as fruitless as Canute's edict against the rising tide. To them the crucial problem is the steady and progressive reorganization of governmental structure, so that its necessary influence upon economic life may contain less of harm and more of good.

The third objection, that men are not wise enough to plan, arises from a very common confusion of planning with a plan, and, moreover, with an interpretation even of the word plan, in terms of those plans which are most widely known to us, to wit, plans for a house or specifications for a machine. But as a matter of fact even finished plans are not necessarily thus rigid and specific. Only in those sectors of the engineering sciences where the objective can be clearly known and where all intermediate factors and materials are likewise known, can plans be so fixed. In most of the other fields of life they run in gradual steps away from this rigidity into the extremes of vagueness and flexibility. And planning is necessarily more flexible than the plans it may succeed in making. For planning must first explore its field of knowledge and determine the extent to which any given plan can be made specific before it attempts to draw up and plan at all.

The objection of the loyal Russian is partly an expression of his loyalty. But it, too, interprets the word planning so as to exclude any but complete and all-inclusive plans. When we plan for railroads so that they may operate more effectively, it is to the soviet devotee no plan at all, since it makes no plan for busses, trucks, or coastwise steamers. Obviously, however, his objections to planning as such is of little real import to him; his deeper conviction is that the ills of capitalism are of the essence of capitalism, not to be overcome by evolutionary methods, but only by the revolutionary overthrow of capitalism itself. In this conviction he rejoices when we wallow in all the ills of individualism and thus bring closer the "blessed day of revolution."

But granting him the benefit of every doubt in his reading of the evidence of history, there still remains upon his main contention a doubt too vital to allow any American lover of mankind to fold his hands for what in this country may be 2 generations, or 5, or 10.

The fifth objection, that of the Lazy Fairies, will detain us here a short time only. To give their automatic-planning system a test we must first have a system of laissez faire, and that, moreover, in a modern world where frontiers of pioneer settlement are no longer wide open. We must, for example, eliminate virtually all tariffs at home and abroad, abolish the I.C.C. and the Federal Reserve Board, reduce to insignificance the economic efforts of taxation and of the issuance and retirement of Government bonds, and make other minor alterations. Putter once with a delicate automatic system and it becomes more delicate, and no longer automatic.

Planning is no new or mysterious process in our lives. We are always planning, whether it is to go to work tomorrow morning or take some kind of vacation next year. Plans can be for a long time ahead or for the next few moments; they can be specific, or vague; they can be written on paper or contained in the planner's head; and they can represent a persistent purpose, or have as little compelling force upon action as day dreams. Planning, therefore, is nothing to be feared because it will force us into a strait-jacket; if it attempted to do so in a field where harm would result, it would simply be bad planning. The good plan will adapt its degree of flexibility, its length of time span, and its measures to impel action, all to the full circumstances which surround the situation it deals with.

The degree of flexibility of any plan, and the extent to which it goes into detail, will be determined largely by the correctness with which the essential factors in the given situation can be known and future reactions foreseen. Yearly budgets are good examples of plans which can be flexible or rigid, and, also, of some of the difficulties which may arise when they are too flexible or too rigid.

The proper length of time span will depend partly upon the possibilities of foresight, and very largely upon the natural or usual lengths of the cycles in the fields covered. For example, the yearly plan is appropriate for any matters connected with agriculture in the temperate zone, but for measures which are to influence industrial and commercial affairs, the year is inadequate; a period at least sufficient to cover the typical 40-month span of the industrial cycle must be chosen. Taxation is an example of an influence which has a very material effect upon business and industry; and taxation is subject merely to annual planning, whereas the business situation upon which it imposes itself varies with fair regularity over something like a 4-year period and is, therefore, sometimes too heavily, sometimes too lightly, burdened by taxation.

Not even with national planning are all plans necessarily to be thought of as written. There will probably be, for example, a great deal of educational work necessary which will be undertaken not as a part of any specific plan but which will turn out to be, nevertheless, just as much a part of some future plan as if it had been written at the outset. But the value of writing down a plan in black and white is considerable even where the plan itself cannot be complete or specific. For in even the attempt to write down a highly imperfect plan, the imperfections become more obvious and definite and hence show the needs for further information, or further education, or whatever they may be. Only by writing down vague and imperfect plans and attempting to make them clear can we learn to make better ones. An example can be chosen again from the field of budgeting where it is now fairly well understood that in order to get a really good budget some 3 or 4 years must be spent making concise, definite, but very bad budgets, and learning from each as experience shows where the bad spots are. The civil service is another example of the possibilities of definite and planned action in opening the way to better action; for however imperfect the examinations for civil service may be, they are at least down on paper; they can be seen and, if one cares to study hard enough, their imperfections may become known; whereas the method of choosing Government employees by the hit-or-miss method, hundreds of different people acting from hundreds of different motives each time, gives no opportunity whatever for perfecting the machinery.

The methods used to put plans into effect will vary, also, with the circumstances of each case. In national planning many of the proposals will require congressional action; but even with these it will be a practical question each time whether the project is merely to be left upon the doorsteps of Congress, or whether educative or other measures will be appropriate to the circumstances in order to advance action upon them. But likewise it will be a function of national planning to guide the actions of the business world; and here very real and practical questions will offer themselves as to the best method of getting such plans into effect. Certainly at the early stages any measures approaching compulsion will be impossible; but it is not usually realized that measures for persuasion should be as carefully considered as methods for compulsion. In the Senate's committee hearings it was brought out as an objection to national planning that even if dangerous situations were made known and advice given concernig them, the advice was not taken, as, for example, when in 1928 the overbuilding in Chicago was widely recognized and definitely stated by several responsible people, with no results at all upon the newer projects for building. Likewise with agriculture, when all sorts of powerful statements are made about the overproduction of certain crops there is no visible response in reduced acreage; and when warnings are given by the Department of Commerce of the increase of stocks or of overequipment in certain industries, seldom has any slowing up of the growth in production or productive equipment been noticeable. But this is bad planning, for it should be recognized that when the natural economic forces in an individualistic system are working strongly in one direction, words of advice and warning are as the wind blowing in the trees; and it should be further recognized that more harm than good is done by issuing warnings which can not in the nature of the case be followed.

For repeated warnings which can not in the nature of the case be followed will turn into the cry of "wolf" and make it impossible that future and better calculated warnings can be heeded. To get any of its plans followed out a national board will have to induce action, and of all the means imaginable to this end exhortation is the poorest. In its subtle and difficult problems it is more likely that a successful planning board will accomplish its ends by taking into consultation representatives of the people, or of the organizations involved, and giving them a large share in working out the facts of the situation and the resulting plans, so that they may gain that depth of understanding that comes from taking part in creation. With thoroughness and patience shown in its preliminary work, it is not too much to expect that a real planning board will be able to invent and discover methods of enforcement a thousand times better than exhortations and warnings.

To summarize what planning really means, I want to quote some parts of the article written by Hugo von Haan in the Annals:

"Planning aims at * * * the avoidance of rapid and excessive changes in economic life.

"Planning follows the law of extension from the narrower to the broader.

"Planning is to be based on planning units. These are: Geographical units, regions: economic units, industries; and political units, nations.

"Planning is not limited in time (like most of the plans), but represents a permanent way of concerted doing.

"Planning breaks away from crystallized habits and from the opinion that economics, industry, business (and), production * * * are ends in themselves, and sets its objective outside, over them, in the steady rise of the general standard of living.

"Planning, therefore, can not be entirely economic nor entirely social, but must be social-economic in character.

"Planning believes in evolution, not in revolution, and therefore adopts a policy of patience, which counts progress in terms not of years nor of decades but of generations, in conformity with a greater plan." Our national planning will by its nature aim at evolution, not revolution. It will have to do with an organic entity, with that group of human beings, human institutions, and human habit patterns which we call the United States of today; and its problem will, therefore, be of organic growth, partly of emergent evolution into the fields of the new, and, hence, a vital part of its technique must be recognized as experiment. Its final objective, therefore, will be somewhat vague and general, a statement of direction of effort rather than a goal. From the economic point of view it can, perhaps, be stated as a steadily, if slowly, rising general standard of living with the maximum possible freedom from large and abrupt fluctuations. From the broader social point of view we can at the moment, perhaps, state a general objective in no more precise terms than the attainment of fuller and deeper life for larger and larger numbers of people.

The problem of national planning is therefore not how to jump from complete laissez-faire to complete social control. We haven't, and never have had, the one, and haven't, and probably never will have the other. The problem will be how, in spite of existing obstacles, to take the most practical steps away from known evils and in the general direction of the broadest good. National planning would never attempt to decide whether laissez-faire individualism is in itself good or evil. It will attempt to discover, rather, in the present situation, whatever one may call it, the factors of good and the factors of evil, and propose such measures as will tend to eliminate or mitigate the evil factors one by one.

No one can pretend to be able to lay out in advance the various methods which a planning council would use to induce action, but some general comments upon the possibilities of such action can be made. In the first place, as I have already said, the members of the council must realize that truth does not of itself prevail. As a matter of fact, perhaps, it never has, or only when it has been driven home to the people by some near genius. Therefore the council will give advice only after considering the limitations of human comprehension, the limitations imposed by the habit patterns of thought, and the limitations imposed by self-interest. They must increase steadily the range of understanding of the business public and of the total public before they can hope to have influence. This understanding they must build before they can hope any proposals for compulsory action will be of real effect. It is the building up of understanding which is of principal importance.

For this reason, because much will depend upon their prestige, it is of the essence that the law which sets them up definitely frees them from any requirements to report on any specific subject, no matter who may ask for such report. It is clear to see, for example, that if in the first year any executive or Congress should ask for a report upon the tariff, the game would be up. Nothing could be said by them which would not injure their prestige with too large a section of the prejudiced public beyond hope of recovery.

But prestige even when gained must be held, and understanding even when won must be continually refreshed. Therefore it is probable that they will take the course of sending special reports to and taking into special consultation various types of organizations of business men; that they will maintain relationships with executive branches of the Government and with congressional committees. For this purpose, and to make this a continuous and organized activity, they should have a department for publicity. The word is unfortunate, because the publicity of such an organization as this would be far removed from the usual ballyhoo of publicity departments. Theirs would be, in fact, a difficult project in adult education. Nevertheless, in the true sense of the word it would be continuous publicity and could not be expected to succeed unless a permanent part of its organization were formed to see that it was carried on.

Their influence upon Congress is of essential importance, but I do not see that the technique of building up an influential relationship with Congress is far removed from that of building up such a relationship with various branches of the business world. If it is once understood that prestige and influence must be earned and rearned, the technique of developing it will not be too difficult. Again I repeat that if they are to build up such influence, they, themselves, must be the judges of what they undertake to study and upon what they decide to report, first, second, third, and all the time. They must not be required to issue reports upon any specific subject. If Congress or the executives need any such thing, and the council prefers not to undertake it, Congress and the executives have the same possibilities that they have today to set up special organizations for the purpose.

In the Senate hearings the statement recurs that such an organization as this must build from the bottom up rather than from the top down. It is certain that they must build from the bottom up, but it is equally certain, I think, that they must build from the top down. They must, that is to say, gain this growing understanding and attitude of cooperation in the business world, and in the legislative and executive branches of the Government; but they must, also, build their council into a piece of machinery for leadership. Understanding, cooperation, better organization—all the measures which build from the bottom up—will mightily increase their effectiveness, but out of such development there is not one chance in a thousand that leadership will grow. The council must appreciate that it is upon them that the responsibility for leadership in their field rests. The business community may be made more ready to respond to such leadership, but under competitive conditions we have no right to expect leadership to grow in and of the business community. For this leadership we must look to the national economic or planning council.

Planning on any considerable scale is itself a pretty large undertaking and, therefore, itself needs planning. For this reason I have given as the title of this talk "A Five-Year Plan for Planning." I want to attempt now to formulate such a plan, not because it will necessarily be the one which will be followed, but because it puts a proposition before us in concise and realistic fashion, so that its merits can be weighed and its deficiencies corrected. I am proposing activities for each of the first 5 years, and in each I am proposing certain subjects for action by the planning board or council. This point I think of major importance, for although there will be many subjects to which considerable study must be devoted before action can be taken, it would be most unfortunate to have such a council start for the first 1 or 2 years upon study projects alone. It is humanly difficult, always, to come out from a study in a mood for action. That mood, and the habit of that mood, must be developed from the very beginning. And for each year, also, I have suggested subjects for study, but it should be clearly understood that "study" does not mean that the planning board itself, through its own organization, will undertake all the studies. There are a number of organizations in the country, like the national bureau and the conference board and many others, with which it can cooperate or to which it can assign certain projects or parts of them. Moreover, projects for study should be understood in each case to be projects, also, for conference with appropriate associations or individuals in the business and political world, so that as many as possible of the factors vital for effective action will be brought into the discussion to take an active part in the working out of the proposal later to be developed.

### Program First Year

#### FOR ACTION

1. Public works and their financing over 5- or 10-year periods: A considerable amount of the study necessary to face this proposition has already been done. A recent book by Loucks is a compendium. There is no reason why, within a year from the time the planning board is organized, there should not be specific recommendations ready.
2. The development of the evolution of trade associations and other organizations: The effort should be made at once to evolve a new conception of and to develop a better and fuller working of trade associations on their present lines. For example, for the increase of budgeting among their members, of simplification and standardization, of uniform cost accounting, and of regularization of operation and employment.

#### FOR STUDY AND ACTION

1. Finance and credit: Many steps will be necessary here, and some, it is wholly reasonable to believe, it will be possible to suggest within the first year. Such steps as the strengthening of the Federal Reserve Board, and of the whole banking structure, are cases in point. In addition, there should be a study of the dynamics of the credit-currency system, not merely in its long run but primarily in its short run trends; and along with it a study of the relation of our national finance to international finance, and the relation of international finance to export and import trade.
2. The organization of some single industry: This will take some advance study, but before the year is out there ought to be definite plans for its organization; and the industry to be chosen would seem, without any question, to be the coal industry, or, more likely, the soft-coal industry. There should be developed by the planning board a definite scheme for a 10-year organization of this industry, which should allow its return to a more freely organized form at the end of that time—or if it should then turn out that the whole country is being better served, a continuation of the firmer type of organization.

#### FOR STUDY

1. Taxation: The primary purpose of such a study should not be so much on the revenue aspects of taxation as on the economic effects of the varieties of taxation commonly used, or other forms which might be used. Taxation for this purpose should be classified with relation to its different general economic effects over various separate sectors of the cycle, and each classification considered with regard to the possibility of planning such taxation not over merely annual periods but preferably over periods of from 5 to 10 years in length.
2. An intensive study of business cycles, with especial effort to segregate the cause and effects of the separate cycles: The industrial-commercial, the speculative, the agricultural, the long-time monetary cycles, and others.

3. Stock speculation: The deviations from long-run values in the case of separate stocks, and their various effects, as, for example, their effect in concealing the true valuation of savings, i. e., the true "price of capital."
4. A study of stock market cycles.
5. A study of the housing problem.

## Program Second Year

### FOR ACTION

1. Develop further the field and influence of trade and other associations.
2. Initiate the full organization of some second industry, such as and for example, the textile industry or the oil industry.

### FOR STUDY

1. Bring together in conferences men with statistical knowledge and men with practical knowledge in order to make more clear the practical application of statistical facts and the gaps in our statistical knowledge that must be filled before such applications can be made.
2. A study of the distribution of commodities: The technique of distribution, the extent and distribution of inventories, and the the cost of distribution.
3. The distribution of wealth and of income.
4. The quantity and trends of productive equipment, and incidental to this the beginning of a study of the effects of additional quanta of equipment upon the total valuation of such equipment in any given productive field.

## Program Third Year

### FOR ACTION

1. The organization of some third industry: It is too early now to make any specific suggestions. Certainly, experience in the fields of coal, and perhaps of textiles or oil, should point the way better than we can now know how to point it.
2. The beginnings of definite interpretations of statistical data.
3. Housing proposals based on first-year studies.

### FOR STUDY AND ACTION

1. The beginnings of a limitation of speculative excesses in the stock market.
2. Proposals for the betterment of antitrust laws.

### FOR STUDY

1. Agricultural problems—especially effects of capitalizing future in agricultural land values.
2. The relative flow of the income stream and the investment stream both in and out, that is, both from the point of view of sources and expenditures; and the influences effecting the relative flow of these streams.
3. Land speculation, its extent and its effects.
4. The problems of power production.

## Program for Fourth Year

### FOR ACTION

1. Establish under appropriate supervision the beginnings of the use of limited authority by trade and other business associations.
2. Establish open and uniform quarterly accounting by all public corporations.
3. Proposals for taxation based on the first year's study.

### FOR STUDY AND ACTION

1. A permanent organization for crisis relief; primarily, of course, economic crisis, but it is possible that natural crises, such as floods and the like, can be included.

FOR STUDY

1. An analysis of the elements of competition, with the specific purpose of disclosing exactly what elements are good and what are bad. And especially the effects of secrecy in turning competition into war.
2. The effects of labor and factory laws in this country.
3. A study of the elements and possibilities of business forecasting.
4. Tariffs and their effects.

### Program for Fifth Year

FOR ACTION

1. Business forecasting.
2. The oversight and guidance of production and of price limitation.

Here is the bogey which most critics of economic planning now fear, but after four years of action and study there should not be much left to be afraid of. In any case it is no proof that prices could not to some extent be regulated simply because in the past prices have been tinkered with, with evil effects. Moreover, any regulation of prices which was exercised without the specific idea of making the most money possible for those who exercised the regulation would be quite a different matter from most of the price controls we have known in the past. And it is a fair presumption that selling below cost or below reason is not so very much better than selling above a reasonable price. It is probable that price regulation with the view of holding up prices would only be indulged in during part of the recession phase of the business cycle, not even over the whole recession phase.

3. Proposals for government oversight of power production.
4. Measures proposed as a result of agricultural study.

FOR STUDY

It would obviously now be premature to attempt to set down projects for study in the fifth year. If any were needed from which to take a choice there would be no great difficulty in filling pages.

In a very broad generalization, this program puts into effect two main purposes: First, by getting the necessary knowledge and action to relate our economic society to our political society—openly and organically, not surreptitiously and guiltily; and second, to furnish to the individual factors in the business world more and better organized knowledge of present and past situations. This second objective purposes to improve for the business world its "memory", which Mr. Wiggin, in his testimony before the Senate committee, said the business world did not possess and never would.

In the light of this specific program and its generalization it will be pertinent to quote Mr. Lorwin's report of the purposes for which the German Economic Council was established:

1. To complete the structure of democracy by adequate representation of its economic factors.
2. To get for the Government broad and expert advice.
3. To work out an integration through national action which could take account of the many economic differences in different parts of the Nation.
4. To organize and legalize lobbying.

In accounting for the reputed lack of success of the German Council, Mr. Lorwin lays it first to the jealousy of Parliament; second, to the representative character of the council, and particularly to its size, which ran over 350; third, to the peculiarly difficult situation of Europe during the years of its establishment; and fourth, to the ebb of the spirit of democracy in Europe and the rise of the practice of dictatorship.

Yet, in spite of the general allegation of nonsuccess, Mr. Lorwin feels there have been very real successes to record to the credit of European councils—through their influence on legislation, which has been real if not very well known through their general educational influence; and finally through the fact that they have brought together, almost for the first time, great and conflicting economic factors, and developed the beginning of a better mutual understanding and tolerance among them.

Now in view of such a 5-year plan for planning, what would be the appropriate type of organization to carry it on? The essential specifications of the job are, first, the ability to decide what preliminary information is needed;

second, the ability to see that that information is gathered and digested; third, and most important, to determine upon definite constructive measures which should so influence the behavior of the country, that the objectives sought will be gained; and, fourth, to have influence and ability enough to get the measures put into effect. This job has then what we usually call the essentials of executive action, and so must be carried on by a relatively small group, probably five or seven men, certainly no more than nine. In itself, it can not hope to be representative; as a matter of fact there should be upon it no representation of interests. While it would be well to have among its members a range of knowledge, it would be important to avoid intense specialization of knowledge. Not one in a hundred of their proposals for action will fall within the field of any one specialty; most of them will cover, in one way or another, practically all fields. Hence, the ideal group would be, let us say, seven men, each of whom had had the bulk of his experience in a somewhat different field from the others, but each with a range of knowledge and imagination enough to put his specialty in its place.

Most of the proposals for an economic council agree upon this relatively small body, but many add to it a large representative council, or congress of business; but both European experience and common sense seem to indicate that this is hardly the way to get a proper background for the smaller planning board. They should be expected, rather, to invite and inspire regional organizations; organizations of whole trades which would include trade associations, representatives of the unorganized members, representatives of their customers, and labor; and organizations with whom could be discussed State and municipal problems as they came up. In addition to these there are already in existence hundreds of organizations with which they would be expected to keep in touch through consultation and reports. They should, in fact, from the very beginning be expected to use to the greatest practicable extent the existing services, associations, and instruments for research, for mutual education and understanding, and for effective action. It is very likely that from the beginning some special provision should be made for relationships between this body and the Federal Trade Commission.

Obviously, it is upon the character of the personnel of a group of 5, 7, or 9 men which the whole success of the undertaking will rest. They must clearly be full-time men; no part of this task is such that one can give the casual attention to it which part-time service invites. They must, therefore, be most carefully selected before being appointed. Who can do this? Suggestions have been made of considerable variety but most men have finally decided that the only possible means of selection is through the appointive power of the President of the United States. Yet this is no ordinary appointive job, and the President should be specifically expected to make the widest possible preliminary reference to the people of the country and to the business organizations of the country. They should be invited to partake as much as possible, by sending in names of men, not to represent them, but of men who can represent the country.

It might be well that the President should choose one only at first, and together with him choose the second, with them a third. They must obviously be men of broad knowledge of keen regard for public good, without strong prejudices in favor of any part of the public, men of professional attitude and standards, of thorough training in scientific methods, realistic, independent, and, hence, men who may be expected to exert effective public influence. Probably the richest field in which to look for such is among professional men who have had close connection with business, and in that new and growing field of business professionalism; economists like Stewart; engineer-business men like Flanders; analytical accountants like Ernst; highly trained trade association managers like Compton; a working political scientist like Merriam; and so on.

Such a group, given power to get essential information and equipped with a relatively small permanent staff but given financial power enough to establish special ad hoc staffs as needed, and to call upon and perhaps to assist financially some of the established research organizations, should be able to make a strong beginning. They would be men with sense enough to realize that there will be no way for them to gain public confidenc except by earning it. Previous standing can only give them a good start, and they will, therefore, have to plan their planning program so that those measures for whose success wide public confidence is almost solely essential, would be necessarily postponed until this confidence has been earned. They would be men of constructive temper rather than studious; the student they can hire or get help from in the earlier stages; they, themselves, must know how to use the fruits of study, by turning it into cogent and powerful proposal for action.

STATEMENT OF WALLACE B. DONHAM, DEAN OF THE HARVARD GRADUATE SCHOOL OF BUSINESS ADMINISTRTION

The problem which we face is the restoration of equilibrium in our Nation. This involves a study of the conditions surrounding great social groups like the farmer, the unemployed, etc., and efforts to restore the equilibrium of these groups and in so doing to restore the equilibrium of the Nation. The only practicable method of handling such a problem as the farm problem is the method of trial and error, because no one can with assurance say that any particular scheme will work. Any corporation facing such a problem would approach it by trial and error, with perfect willingness to revise any plan or to give up any part of the plan which turned out to be unsuccessful. The only way a nation can effectively try experiments is by large concentration of power either in the executive or in the executive with the backing of a small committee which has power. This applies to most of the problems of equilibrium. For this reason I advocate large power in a highly concentrated group—in the President either with his customary administrative assitsants or with the support of a small committee including in its membership representatives of Congress, of our university social scientists, and of men of affairs. Such a committee, if constituted, should represent very diversified points of view even within the groups which I have mentioned above.

Any plan for stabilizing a particular social group will secure its effectiveness largely because it is carried into effect simultaneously with other plans to stabilize other social groups. These plans must be related together. There are a few points which I would emphasize.

First. Most important of all we should keep control of our own problems in our own hands. If in this time of wild fluctuations we make international trade adjustments by treaties or agreements with other nations which fix many elements in the situation, we may easily lose this control to such extent that solution of our domestic problems becomes impossible. Reciprocal trade arrangements should always be made with this difficulty in mind. Treaties are hard to change. I am convinced that our great problems of stability can only be solved by trial and error and that to solve them we must keep control of our policies.

Second. We should seek by experiment a method of handling the farm problem so that prices of farm products now exported will be divided, the home prices being above the international price level. The international price level is beyond our control.

I am not at the present moment interested in limitation of output of export crops because industry is not able to absorb men. The sociological objections to limiting output when industry cannot absorb men are very great and limitation of output can wait until we have stabilized the industrial group. At the present time limitation of output of particular commodities seems to me the very way to cause distress in other commodities.

Third. Similarly we need specific treatment of particular farm products which are not exported so that their production and prices are properly related to the rest of the community.

In some way or other the farmers must be restored to their old relative price relationships or there is no prosperity in this country. We have some 40 million people directly and indirectly dependent on farming. Under present conditions they on the average need most of their income for either taxes or interest and in detail a large part of them are bankrupt. The increased debt and tax burden resulting from lower price levels has to be relieved if this group is to get back to a position of stability. The proposed debt relief will help. If a program doing these things can be put through it will restore the farmers as buyers.

Fourth. The Government should seek to bring about a labor shortage instead of an unemployment crisis as rapidly as possible. Curing the farm problem would do much but this will not put all our labor in industry back to work.

I believe that we should as a permanent policy regulate hours of labor so that the work goes around at all times. That is, we should regulate them to an elastic index of employment. It is a blot on our intelligence that today we have no proper labor statistics in this country. Any first step, therefore, would have to be arbitrary. Moreover, we have allowed the business situation to sag to such a point that actually making the present work go around would give each laborer too little employment. Some arbitrary point should be selected for experimental purposes but without any idea that such a point was fixed for good.

My belief is that we should adopt temporarily the American Federation of Labor program of regulating by Federal law hours of labor of the individual (not the factory) to 6 hours a day, 5 days in the week. The bill should provide in itself for a more elastic method, modifying those hours when conditions justify. It is all guesswork, but my own guess is that with the present state of technological development we are unlikely to find more work in industry than 6 hours a day, 5 days a week. The limiting factor under such a plan would be man power and not machinery. This is, I think, essential and the only basis I see for keeping employment in step with technological progress.

Fifth. Because we have allowed busines to sag so far, the introduction of new purchasing power will probably be necessary before the rest of the employment difficulties can be solved and before buiness can be prosperous. Some of this new purchasing power will come from the restoration of confidence. I fear that not enough will come in this way, and that it will not be widely enough distributed so that our men can be kept busy. I think in addition we need—

(*a*) Government works selected not with reference to their self-liquidating character but with reference to putting the maximum number of people at work both on the jobs and in providing new materials for the jobs.

(*b*) I am much interested in M. C. Rorty's plan for giving bonuses for private and public construction.

(*c*) Credit expansion probably futile now, would, I believe, help greatly if hours of labor were limited as suggested above.

(*d*) If a program such as I have suggested does not, in fact, complete the desired result and put men back at work to a sufficient extent, I think the Government should keep on the job of stimulating purchasing and employment until the machine is started again.

I am afraid of methods for introducing new purchasing power not accompanied by farm relief and limitation of hours of labor. This depression is too serious to rely on artificially created purchasing power alone.

Sixth. The missing link in the above program is that it contains no explicit way of accomplishing high wages without which a mass production civilization cannot maintain itself. The mass of people must be able to buy to support mass production. Wages have sagged during this depression, and there is a lot of entirely proper opposition by particular concerns to increasing wages. The only way to get wages up is by general social forces.

We have the recent experience that the war created a labor shortage and brought about rapid and, in general, I think, not excessive increase in wages. We should use that experience and run our affairs indefinitely on the basis of a labor shortage. That is, if we determine hours with reference to an elastic index, they should be so determined that employers are competing slightly for labor. This is necessary to bring employment to the group over 50 years of age and to men who are not quite as good as others. It would also enable manufacturers to raise wages. Steady social pressure for higher wages is, I think, the only correlative which can offset the steady advance in technology and management.

Seventh. This thesis involves a theory of the function of government. The last 3 years has been a period when individual initiative and energy and ability were powerless. In a society like ours when this condition arises there is no possible way out except through government action. Stability in the nature of a moving equilibrium is essential to progress. It is, I think, clear that the Government's primary job is to preserve the economic framework from fluctuations so violent that they exceed proper margins of safety and practically make it impossible for the individual to function. In other words, the Government alone can free the individual. The things I have outlined are designed as continuous attacks on the instability of social groups until such social groups reach not a static condition but a reasonable equilibrium which releases individual powers.

I do not believe this depression is one which can be handled on the theory of preserving what we have until time has a chance to cure it. I think it needs political leadership directed in such lines as I have mentioned. There may well be better specific measures than those outlined, but I am confident the general philosophy of the approach is sound.

Eighth. I am convinced that the solution of our problem must be found primarily at home and not by following any will-o'-the-wisp of internationalism which assumes the ability to get decisions out of the nations of the world or gives up the control essential to planning for stability at the one point where we have the power to exercise controls, namely, at and within this Nation's borders.

This whole thesis I have elaborated in an address I made at the Wharton Alumni Institute, Philadelphia, on March 23, 1933. It is now being published as a supplement to the April number of the Harvard Business Review. I attach this address as well as Mr. Rorty's plan as the exhibits to this statement.

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STATEMENT OF ERNEST G. DRAPER, PRESIDENT AMERICAN ASSOCIATION FOR LABOR LEGISLATION, NEW YORK CITY

It would be presumptuous for me to speak with authority upon such a vast subject as the causes and cures for this depression. However, there is one phase of the depression which deeply interests me and upon which I have devoted a great deal of thought. It is the problem of unemployment. I hope that I may be given the privilege of discussing this problem briefly and suggesting possible ways whereby the volume of unemployment might be lessened by various legislative remedies.

I. A Nation-wide system of public employment offices, impartially and adequately serving both workers and employers, is one of the most needed steps in the direction of a permanent program of unemployment prevention. By assisting workers to find jobs and employers to find workers such a system will reduce to a minimum the time men and machinery stand needlessly idle. It will also make available information that will help employers to plan production more wisely and guide young workers in their choice of their trades. I am strongly convinced that the plan outlined in the bill introduced by Senator Wagner to provide for an integrated system of national, State, and local employment offices with financial encouragement and cooperative supervision by the Federal Government offers the most promising contribution yet proposed for developing a really adequate permanent public employment service.

II. The Government can also play a significant role in employment and business stabilization by intelligently planning its public works program so as to be prepared to throw the weight of public construction into the scales when most needed to maintain the Nation's economic balance. The Federal Government has made a beginning by the enactment of the Stabilization Act of 1931. If that act is administered with skill and foresight, the Government should be in a better position to act effectively when the next business depression arrives. There is, of course, need for legislation in the States to provide a basis for similar action by State and local governments. The Federal Government can encourage such State action by demonstrating in a practical way the advantages of advance planning.

III. Twelve years ago, at a legislative committee hearing in Wisconsin, it was my opportunity to speak as an employer in favor of compulsory unemployment compensation. The burden of my testimony before the committee was that the enactment of such legislation would focus the attention of employers upon methods to combat irregular employment and so diminish unemployment; and that diminished unemployment would mean stabilized industry, more even production, and freer opportunities to increase business profits.

I am today more than ever convinced of the soundness of that business judgment. Even if there were no examples to guide us, it is a matter of common sense that when placed under the sobering influence of having to pay part of the direct cost of unemployment, management will be much more careful to develop advance plans to stabilize employment; that managers generally will then do what only a few have done in the past. Think about and prepare for unemployment in good times as well as in bad. If there ever was a reasonable doubt of the need for this kind of permanent inducement, surely it has been dispelled by the collapse of our planless prosperity and the social degradation of our present plight.

But we need no longer resort to common sense alone in judging the merits of unemployment reserves as a business policy. The experience of American concerns which during the past decade have been far-sighted enough to put into operation voluntary plans for unemployment compensation or of dismissal wages, has amply proved the positive advantages of this device. The testimony of these pioneering employers uniformly shows that managers have thereby been stimulated to eliminate the wastes and inefficiencies which lead to and result from unemployment; that employees have gained a degree of security which is reflected in an improved morale and increased efficiency; and that consequently, the immediate cost of the plan is justified as a business investment. It is such evidence as this that has caused an increasing number of employers during this business crisis to recognize the merits of unemployment reserves. A few have even instituted new voluntary plans.

I suffer no illusion that the ideal of complete regularization of employment, or anything approaching it, can possibly be achieved by all employers under the varied sets of conditions which exist in industry. Nor will attempts at regularization by individual employers prevent entirely the recurrence of cyclical depressions. But I do wish to emphasize that to regularize employment, to the extent that it can be done, employers obviously need a new and sustained inducement. And when unemployment cannot be avoided, it is my conviction that employers should be prepared to assume the social responsibility of providing systematically for the workers they now from time to time carelessly cast aside until they need them again.

To my mind, a strong case can be made for unemployment reserves simply as a means of preventing destitution among those ready and willing to work, but for whom no work can be found. Surely it would be more efficient, more adequate, and more self-respecting than the haphazard devices we now employ. Moreover, it would remove from the taxpayer and the charitable a burden which should properly be charged to production costs just as effectively as industrial injuries under workmen's accident compensation now are. Faced as we are today with dwindling charity funds and exhaustion of tax resources, there is imperative need for the development of this third source of revenue in providing for unemployment relief.

I believe we must face the fact, however, that there is no hope of early and wide-spread adoption of unemployment reserve funds by American industry unless it is uniformly required of all business concerns by State legislation. The study of company plans made by Bryce M. Stewart of the Industrial Relations Counselors, Inc., has revealed that prior to the present emergency a mere baker's dozen of employers had set up such reserves. The recent announcement of a few additional voluntary plans should not be allowed to blind us to the validity of Mr. Stewart's conclusion that "a wide coverage of unemployment insurance * * * will come only through legislation." It is beyond my comprehension how anyone sincerely desirous of the prompt and general adoption of unemployment reserves by industry can oppose such legislation.

American plans for unemployment reserve funds legislation, such as the one proposed by the American Association for Labor Legislation, the similar plan enacted into law by Wisconsin in January 1932, and those now being proposed in bills in more than 20 State legislatures, seek merely to make State-wide what a few enlightened companies already have done of their own accord. They offer, moreover, the most promising direct stimulus to industrial stabilization that public authority is in a position to contribute. Such legislation will attack the problem of unemployment at its heart.

Congress can and should encourage the early adoption of State legislation providing for unemployment reserves. Senator Wagner, in his report as a member of the Senate Committee on Unemployment Insurance, has shown how this encouragement can be offered by means of income tax deductions to employers who set up unemployment reserves under State laws. Such an act of Congress, by its assistance to employees in those States which first enact this legislation, will effectively remove whatever basis there may be for the fear expressed by some cautious individuals that such laws may place employers at a disadvantage in interstate competition. States whose citizens are prepared to go forward now with this constructive method for dealing with our most urgent national problem are entitled to this reasonable aid from the Federal Government.

IV. It is a curious and rather shameful fact that whereas the Federal Government spends millions of dollars in furthering the activities of all kinds and conditions of commercial projects, there exists no single board or commission of any kind whose function it is to deal effectively with the great disease of industry—unemployment. Certain minor activities exist, such as the Federal Employment Service and various bureaus in the Department of Labor. But there is no central independent authority of any kind working on this problem.

Such a situation should be remedied, not only for the human misery involved, but for the economic waste involved also. If $700 per year represents the spending power of the average man in employment, and there are 10,000,000 now unemployed, then this country is losing at present approximately $7,000,000,000, which might otherwise go for the products of industry. Every million men put back to work means roughly $700,000,000 circulating through the channels of trade. It is easily conceivable that a central authority on unemployment, properly organized and effectively administered, could recommend legislation and encourage practices which might within a year cut our present number of unemployed into one half, or even more. It is probably too much to say that this could be done the first year. But it might be done. Certainly much more can be done by any such effective attack than can possibly be done under present circumstances where the problem is left to shift for itself or, at best, is hopelessly mired in the mud of political chicanery. To this end, it is recommended that a Federal board on unemployment be set up, according to some such plan as the following:

1. The Federal board on unemployment to have no mandatory powers, but like the Tariff Board, recommend to the President and to Congress such legislative measures and voluntary practices as will be feasible for the Federal Government or for the State governments to undertake in order to attack the problem of unemployment in more organized and more effective way than heretofore.

2. The Federal board on unemployment to consist of seven members, four of whom to be of the party in power and three of whom to be of the largest minority party. The Secretary of Labor to be an ex-officio member of the board. In addition, a technical advisor be provided for, whose duty it would be to prepare material asked for by the board and to suggest lines of activity for the board. This position of technical advisor to be a full-time position with compensation sufficient to attract the best economic brains in the country.

3. The Federal board on unemployment to work in cooperation with the Secretary of Labor (who is an ex-officio member of it), but to report only to Congress and to the President.

4. Present problems which such a board might study and report on now:

*a.* The Wagner bill for employment exchanges.

*b.* A proper Federal plan for public works at this stage of the depression.

*c.* Ways by which State employment exchanges might be improved.

*d.* Advisability of State compulsory unemployment reserves.

*e.* Advantages and disadvantages of the 5-day week, share-the-work plan, etc.

Let me emphasize the point that this board is not intended to be "just another commission." It is probably true that we have far too many incompetent, wasteful boards and commissions in Washington today. The point is, however, that this board, if properly administered, would be a productive institution. Insofar as it would promote the expansion of employment, in just such measure it would increase the productivity of all trade and the increased well-being of all wage earners. No one can seriously question the value to the people, over a period of many years, of the Interstate Commerce Commission. The field of the Federal board on unemployment would be even larger than that and might easily be even more effective in its influence on improving the condition of trade and the standards of life of working men in general.

March 10, 1933.

## Statement by Will Durant, Great Neck, N.Y.

### I. CAUSES

1. Technology and the nature of man: Our "Mississippi" of inventions has greatly increased the productive capacity of the average American; the economic system, through the natural inequality of men and the resultant concentration of wealth, has left the purchasing power of the people far behind their pro-

ductive power, despite the relatively high level of wages and salaries in America.

2. The war: A similar gap between popular production and consumption in other industrial nations led to surpluses of goods and capital, and drove these nations to compete for foreign markets and spheres of investment and control. War lies like an irrepressible seed in the very nature of our economic system. As England fought Germany in 1914, so America must, if our system cannot be changed, fight, first, Japan, and then the British Empire for the markets of the East. The War of 1914 helped to cause our depression by (*a*) destroying goods; (*b*) accumulating debts; (*c*) depreciating currencies; and (*d*) intensifying nationalism. Hence—

3. Expensive armaments, requiring a burdensome taxation; and

4. Tariff walls, obstructing trade and destroying the machinery for paying the—

5. International debts—an impossible burden because of the rise in the value of gold, the obstructions to trade, and the reduction of national incomes.

6. Domestic debts—an impossible burden because dollars worth approximately 100 cents when borrowed must, under present laws, be repaid in dollars worth 150 cents, by a debtor class, half of which is out of work. Hence the bankruptcy of the debtors, the consequent bankruptcy of one quarter of our banks, the practical bankruptcy of our mortgage companies, and the imminent bankruptcy of our insurance companies, unless the tide is changed.

7. Governmental extravagance, especially in the cities.

8. Revolutionary chaos, destroying political order and trade possibilities in China, Russia, India, and South America. Similar chaos is rising in Germany, and may appear in the United States.

## II. POSSIBLE REMEDIES

1. Inflation seems unavoidable, if we are to reduce that burden of internal debt which is stifling trade and ruining our banks and investments.

(*a*) The evils of inflation would probably be (1) a temporary reduction in the purchasing power of wage earners and the recipients of fixed incomes; and (2) the difficulty of controlling inflation. But the experience of France, Italy, and England indicates that this fear has been exaggerated in the interests of the creditor class, which likes the idea of being paid with the present exaggerated dollar.

(*b*) The advantages of inflation would probably be (1) To raise prices; therefore (2) To discourage hoarding, stimulate purchasing, and so aid employment; (3) To encourage manufacturing, and easier credits to manufacturers; (4) To reduce the burden of internal debt; (5) To protect what remains of our foreign trade from the competition of inflated currencies.

2. Reruralization: Since the advance of invention renders improbable the industrial reemployment of all the unemployed, some of the new currency should be used for—or bonds should be issued to finance—the establishment of as many unemployed families as are willing upon unused land; not with a view to competing with existing farms, but in an attempt to free these unemployed from the humiliation of charity by teaching them to grow food for their independent sustenance.

3. Reconstruction Finance Corporation loans to limited dividend, municipally regulated housing corporations for the replacement of city slums with modern but modest apartments.

4. The gradual redistribution of wealth by (*a*) High taxes on inheritances, incomes, and the export of capital; and (*b*) The removal of tax-exemptions from governmental securities.

5. The encouragement of employment by (*a*) Shortening the working day commensurately with technological advances; (*b*) Establishing legal minimum wages rising automatically with the price index; (*c*) Compulsory unemployment insurance; and (*d*) The establishment of employment agencies in all post offices.

6. The restoration of the credit system by (*a*) Removing the limits on postal savings, so offering a secure repository for the people's funds. In this way the Government could borrow directly from the people, and it might pay 3 percent on sums left for a year; (*b*) Regulating national banks, in their investments and procedures, to enable them collectively to guarantee their individual solvency; (*c*) Encouraging a similar application of the principle of in-

surance by the States to all State banks; (*d*) Governmental supervision and control of the credit system. Currencies are the roads of commerce, and should be kept open and safe like other public highways.

7. The promotion of international peace by (*a*) Tariff agreements with individual nations; (*b*) The reduction of intergovernmental debts—and, if possible, of international private debts—in proportion to the increased purchasing power of gold; (*c*) The conditional recognition of Russia; (*d*) Permanent international commissions to deal continuously with the recurrent causes of war: Foreign markets, investment spheres, food, fuel, raw materials, and trade routes; (*e*) A consequently practicable reduction of armaments.

8. The establishment of a national economic council to give unity, order and self-control to industry, to bring about, by agreement, higher levels of remuneration, thereby to raise the purchasing power of the public, and to rest the industry and prosperity of America not on the capture of foreign markets at the cost of war, but on our own market of 126,000,000 people.

9. The reconstruction of our economic system by (*a*) The maintenance of private ownership and operation of industry and agriculture, in order to utilize the productive incentives of personal ambition and family affection; but the control of the abuses of this highly productive system through (*b*) The legal recapture and retention of all the mineral, fuel, and power resources of the soil; (*c*) The unification and governmental control of all major means of transportation; and (*d*) Governmental credits to agricultural and industrial cooperatives, with a view to building peaceably a cooperative commonwealth free from that regimentation of men and minds which seems to go with complete governmental ownership of industry.

10. The reconstruction of democracy by (*a*) Requiring specific technical preparation for public office, through (1) A United States civil academy, corresponding to the United States Military Academy and the United States Naval Academy, training men and women, democratically selected from all the States, in the art and science of municipal and State administration; and through (2) Similar schools of government in all major universities. (*b*) Making this educational qualification for office thoroughly democratic by promoting equality of educational opportunity. Democracy should be redefined as meaning, not the equal right of all to hold office, but the equal right and opportunity of all to make themselves fit to hold office.

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## Plan for Economic Rehabilitation through Practical Relief for the Unemployed

(By William J. Ezickson, A.B., M.D., Philadelphia, Pa.)

### The Basis of Present Economic Difficulty

All informed economic, academic, and legislative thought is unanimous in their opinion that the basis of our long-continued economic difficulty is our inability to put to work our monetary reserve, resulting in a financial drought that is perilous to vast masses of our people.

It is also accepted universally as true, that credit, the instrument through which alone those monetary reserves can be employed in our mechanism of production and exchange, cannot be put to work involuntarily and against its will, nor can it be brought into active use by any form of pressure exerted by government, nor by means of any brute force.

The use of credit in our operations of production and exchange must arise as a voluntary act in response to demand for such use, and the development of a demand for the use of credit is totally dependent, in turn, upon a contingent expansion of general business activity.

Now, since the expansion of business activity is dependent upon an increased consumption of the products of industry, which, in turn, is dependent upon the contingent increase of the buying power of the people, and since the increase of that buying power is normally contingent upon an increase of employment, we find ourselves confronted by a cycle of events, each contingent upon another, and that before any effective results can be obtained from any effort to rehabilitate business, that cycle must be broken.

It is the continued existence of this cycle of events unbroken, which creates the paradox of millions suffering want and hunger in the midst of plenty, of millions of unemployed in the face of needs for food, clothing, and shelter that can not be satisfied for lack of an acceptable "medium of exchange."

It is plainly evident from those facts that all action must be directed and concentrated upon the one objective, to wit, to secure a steady and general increase in the consumption of goods. That to secure this, buying power must be injected into the circulatory system of the Nation, so that everyone will have the necessary means to purchase the food, clothing, shelter, and other services required to maintain the American standard of living.

We cannot wait until the operations of the business cycle produce jobs for the unemployed—for millions of them face starvation and are crushed with despair—millions of them will then be beyond employability because of age or technological conditions, and other millions will have passed the habit-forming years during which skill at their tasks and discipline must be acquired.

We must face the fact that in this great emergency Government can do literally nothing toward lifting the Nation out of this terrible financial drought. Only the people themselves, through their own voluntary action, can do that and they will do that if our Government will but place the means they shall use therefor within reach of all of them.

### HERE IS THE MEANS THE GOVERNMENT CAN PROVIDE

*The plan.*—1. Let the Congress of these United States authorize to be issued by the Treasury a series of noninterest bearing, self-liquidating trade certificates for the period of 1 year per series.

2. Let the said certificates be issued in denominations of $1 and their eventual redemption be had upon receipt by the Treasury of the face value of each such certificate, payable to the Treasury as hereinafter provided.

3. Let the people of the United States who shall receive those certificates in any manner, voluntarily impose a sales tax upon themselves, of not to exceed 2 cents per week, per dollar of face value of such certificate.

4. Let the Congress authorize the Postal Department to sell a sales tax stamp, which the bearer of such certificate shall purchase and affix to the reverse side of such certificate in the spaces provided therefor.

5. Let the Congress provide that such certificate shall be legal tender in the payment of all manner of private debt arising from exchange of goods or services, when the requisite stamps are affixed thereto and shall not be bankable.

6. Let the Congress provide that the face value of such certificate shall be paid to the final bearer who shall present the same for redemption to the Treasury or its agents with fifty-two sales tax stamps affixed as provided.

7. Let the Congress provide that the initiation of the circulation of each series of the said certificates shall be had by the distribution thereof, through the States to the already existing agencies dispensing relief, to the unemployed, in such amounts as will best serve to meet their needs for food, clothing, and shelter, and that the total sum of each such series of certificates to be issued monthly shall be that required to cover those needs.

8. Let the Congress provide for the limited issue of eight monthly series of such certificates, the redemption of every such series to be effected by the termination of the twentieth month from and after the issue of the first series thereof.

9. Let the Congress provide suitable administrative officers for the undertaking and appropriate such portion of the proceeds received from the voluntary sales tax paid by the people to such administrative expense, any remaining surplus to accrue to the Treasury.

### DYNAMICS OF THE PLAN AS A MEDIUM OF EXCHANGE

It is self-evident from the foregoing that the certificates to be issued by the Treasury, as provided, are intended to serve as an auxiliary medium of exchange in the United States pending their liquidation and redemption during the time and in the manner provided.

The form of these certificates shall be of such design as the Congress shall determine, but the face of the certificate shall bear words and figures similar to the following:

"The United States Treasury will pay to the bearer on demand, after receipt of the value represented by 52 stamps affixed to the reverse side hereof, the sum of $1 in lawful money of the United States.

"This certificate shall be legal tender in payment of all private debt arising from the exchange of goods and services during the period covered by each of the respective sales tax stamps affixed hereto and pending its redemption at the time and in the manner as provided by law.

"This certificate will not be legal tender in the payment of debt, taxes, or customs duties due the United States and is not bankable, except as specifically authorized by law therefor."

The circulation of the proposed auxiliary medium of exchange is initiated and maintained throughout the United States through the payment of unemployment relief therewith, in the manner previously set forth.

### SELF-LIQUIDATING REDEMPTION FEATURE OF THE AUXILIARY MEDIUM OF EXCHANGE

The Congress shall provide that sales tax stamps for the uses and purposes of this auxiliary medium of exchange shall be made available for purchase at all post offices in the United States, the proceeds of such sales tax stamps to be impounded in a redemption fund set up in the Treasury which shall be disbursed only for the purpose of retiring by redemption the certificate that shall be presented for payment in accord with the terms and provisions of the proposed auxiliary medium of exchange. These funds shall also be available in such amounts as the Congress shall prescribe for the payment of such administrative expense as may be incurred thereby.

The Congress, through means of this auxiliary medium of exchange—having placed within the grasp of all the people the most potent force available—buying power—which they themselves can create through their voluntary action and cooperation, and by its general use break the terrible financial drought from which the Nation suffers, and having given the people the one and only opportunity they need to help themselves, and to restore employment through rehabilitating general business activity in a normal manner and in the shortest possible period of time, and by a method that is beneficial to all and burdensome to none, the next step is the actual operation of the plan, a step that can be taken within 30 days from its authorization by the Congress.

Each person to whom any of these auxiliary medium of exchange trade certificates shall be distributed. shall purchase and affix to such certificate as a condition precedent to its circulation as legal tender for its face value, a sales tax stamp, and the recipient of such certificate, during the succeeding weeks in which such certificate shall be outstanding, shall likewise purchase such sales tax stamps and affix the same to the reverse side of such certificate and in the spaces provided for each weekly validation, as a condition precedent to the further circulation of such certificate as legal tender pending their eventual redemption.

In the event such certificate shall be outstanding for the period of 1 year from their date of issue, there shall be affixed thereto by its respective successive bearers, 52 sales tax stamps, and in the event the face value of the certificate shall be $1, the cash value of the sales tax stamps sold by Government therefor shall total $1.04 per such $1 trade certificate. And such trade certificate shall have automatically—through the voluntary act of the people in taxing themselves therefor—established a self-liquidating redemption fund.

### ECONOMIC SEQUENCES OF PLAN

It is proposed to issue this Auxiliary medium of exchange in series (monthly), and it is estimated that the full needs of the unemployed which are to be met therewith, approximate 100 millions of dollars monthly.

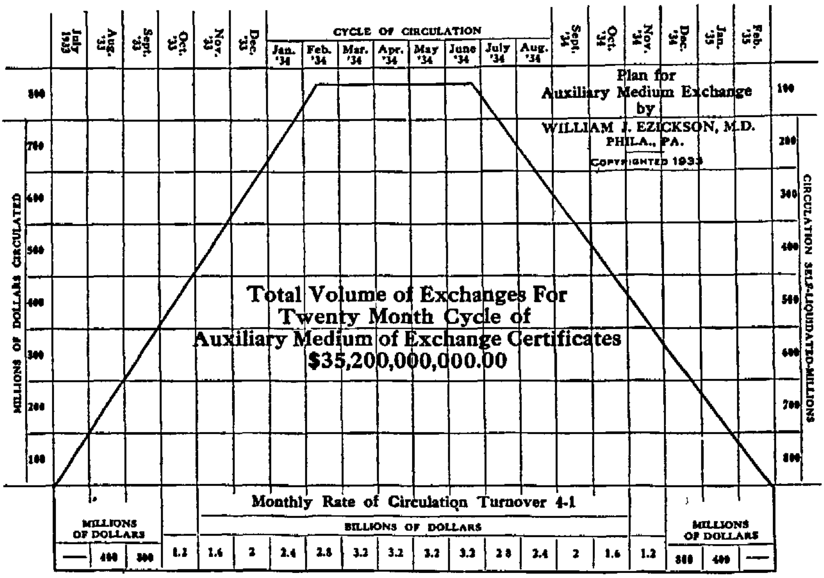
A total of eight successive monthly series are to be issued.

The total sum of trade certificates issued during the first 8 months will remain in circulation for an additional 4 months, when the first series issued will be retired by redemption through the operation of its self-liquidating feature. At the end of the twentieth month all the outstanding trade certificates will be similarly retired through the self-liquidation feature of the plan.

It is further estimated that each trade certificate so issued in this auxiliary medium of exchange plan will be used in exchange, a minimum of once per week, during the time it shall be outstanding. That, in turn, means goods and services purchased to the minimum amount of $400,000,000 during the first month the series shall be in circulation.

By the end of the eighth month, therefore, when the total sum of these trade certificates shall approximate $800,000,000 in circulation, the total volume of monthly exchanges for goods and services will approximate a minimum of $3,200,000,000—which shall continue in full volume until the end of the twelfth month—when the volume of exchanges will begin to decrease in an amount proportionate to the value of the series withdrawn from circulation by retirement and redemption.

But long before the eighth series of the proposed trade certificate shall have been put into circulation, the volume of buying power—previously injected into




the economic order—will have operated to cause such a tremendous increase in the general consumption of goods—with ensuing demand for new goods—as to compel industry to expand its activities to meet this new demand—thus bringing about those conditions that are so vitally essential in the present task—of putting our monetary reserves to work—through the expansion of our credit mechanism.

Thus, may the existing dangerous cycle of events be broken and the perilous financial drought be lifted—through the only medium possible in the absence of any abnormal event—the voluntary act of the people taken to help themselves.

The incidental advantages to government arising from a steady increase of revenue from a steadily expanding business activity in the Nation; the great advantages arising to industry through a measurable stabilization of the commodity price level and with it a corresponding stabilization of the purchasing power of the dollar; the tremendous advantages that will accrue to all agricultural interests through the vastly enhanced buying power of the Nation and its repercussion upon the price of all agricultural commodities; the great social advantages that will arise from the renewed spirit of hope, courage, and ambitions of our entire Nation; all those advantages are so self-evident that they require no presentation here.

If industry is to be left to recover its momentum through self-activating impulses, long delay in the return of any measurable degree of prosperity may be anticipated. In the meantime, millions of people cannot continue to suffer evils and wrongs thrust upon them by the operations of an economic system that cannot cure those evils; hence, if that system is to endure, delay in putting before the people the means with which to help themselves will prove doubly perilous.

There are those who would lead our people down the road to quick ruin, through inflation of our money, in the mistaken belief that more money will mean more buying power. Those who are informed know this is not true. But, in the absence of any other course, this road to ruin may be easily and ignorantly followed.

The Congress must give the people a chance to help themselvs. In the presence of the existing inability to put our great monetary reserves to work it has no other choice of means for this purpose but a plan of an auxiliary medium of exchange, which is respectfully submitted herewith.

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## Statement by H. L. Ferguson, Newport News, Va.

The international situation is, in my judgment, the largest single influence in keeping down commodity prices.

The foreign debts should be written down to a point within the capacity of the debtors to pay, which would, I believe, result in a marked increase in commodity prices. A moderate downward revision of tariffs would seem proper in this connection.

In my judgment, one of the biggest single factors which has not been commented upon at any length in this country has been the payment of artificially high salaries and wages, particularly by the railroads. For many years their wages have been higher relatively than in other industries and at the present time are completely out of line. Restoration of railroad credit and consequent buying power appear of prime importance.

The theory of high wages furnishing purchasing power and prosperity is untenable when applied to restricted groups. The disparity between wages of farmers and public-utility employees and city industrial workers is entirely too great for any economical system. It appears to me that the country people must be assisted both by an increase in price of what they sell and a decrease in price of what they buy.

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## Statement of David M. Figart, New York City

### SOME VIEWS ON THE PRESENT DEPRESSION

There seems to be fairly wide agreement that lack of purchasing power on the part of the people somehow has had a great deal to do with our present troubles. One theory is that too large a proportion of the earnings of industry, and of the savings of the people, went into capital equipment—such as factories, machinery, public works—and too little into the hands of potential consumers. The result was that the productive power of our industrial machine temporarily outstripped consuming power. Surpluses of goods began to pile up, factories began closing, thus curtailing an already inadequate market by reducing the purchasing power of the people upon whom the factories were dependent for their outlet. Every dollar shrinkage in wages meant a shrinkage of many dollars in the business of the country; every man laid off meant fear and anxiety among others.

There is also some measure of agreement on how to cure or prevent business recessions; but it is in broad general terms, such as the need for a redistribution of wealth, the need for greater purchasing power among consumers, the need for security of employment. When it comes to specific measures to be applied at this time, there is a wide divergence of opinion.

President Hoover tried to get industry to maintain wages; but when a manufacturer sees his sales falling off, the most natural thing in the world is for him to reduce output by laying off men. Some people feel that our industrial machine has become too efficient; but it does not seem right to blame a machine which gives us—or should give us—more goods with less effort, greater wealth with greater leisure; it would seem that the blame lies rather with the human errors made in distributing the wealth. Some, pointing to technological unemployment, urge the sharing of work; but the remedy for too little work is more work, not the same work redistributed. Nor is it changing the age, skill, or sex of the workers.

A great program of public works—if it could ever be put into force—might prove an excellent emergency measure; but, although it would increase employment and thus add to purchasing power, the route would be very circuitous, and hunger and want cannot wait. (The fact that such a program would add to future taxes would not seem to be a very strong argument against it; it is not improbable that the wisest policy a government could pursue in a depression would be to increase indebtedness, not try to decrease it; and it may be that the efforts to balance the national Budget at this time will prove unfortunate. Failing proper adjustment by industry itself between investment goods and consuming power, there remains only government which can impose artificial measures to restore the balance.)

Depressions work themselves out naturally, if one is content to wait for this. The decreased buying power of the community, due to cessation of wages and dividends, forces down the output of goods and price levels, and, supplemented by drawing upon savings, borrowing, and charity, ultimately exceeds the value of goods being manufactured. Inventories are then gradually exhausted and factories forced to reopen, bringing additional employment and increased buying power. The unfortunate thing is that the disease has not been eradicated; it is only the end of an epidemic. There has been a frightful business mortality, involving the loss of much of our wealth; the vast majority of us, on whom the prosperity of business depends, face the future in debt, with buying power curtailed for years to come. We must produce, but we may not consume. If, at the end of a depression, all indebtedness could be wiped out, we might look ahead with some confidence; but the significant thing about it is that the debts we owe are largely owed to institutions or individuals who are not potential consumers, and who, when we pay them, are obliged to invest in stocks or bonds, thus adding to capital equipment whether we need it or not. So that in the very process of liquidating the last depression, we lay the foundation for a future depression.

From every point of view, therefore, it becomes necessary to reconsider our attitude toward this question of purchasing power, which means—translated into everyday business terms—wages and dividends. This has never before hit us quite so forcibly because until recently there has always been unlimited scope in America for investment in capital goods. Temporarily, we are equipped with all the plant we need or can use. Our problem is not to build more factories—perhaps not even to modernize those we have—but to find a way to distribute the goods we are now equipped to turn out. Considering that the market is in our midst—those forty or fifty millions of our people who exist in poverty—the problem of distribution should not be very difficult.

Under a machine civilization great masses of the population gave up their liberty. They had a right to expect in exchange therefor a greater share of this world's goods, and, more important still, a greater degree of security, than they ever had before. The operation of this machine came into the power of those who from the very outset misinterpreted their trust; they forgot that they should be working for the good of all; they worked only for themselves. The result has been a great body of industrial slaves who, immediately they produce a sufficiency of the necessities of life, are prohibited from consuming their share.

The rights of the stockholder have been exaggrated out of all proportion to the rights of labor. A stockholder is one who invests capital for which he has no immediate use, in the expectation of earning a return through utilization of the knowledge and skill of others. If dividends cease, he still has his capital left. But let the wages of workers cease, and they have nothing to fall back upon; through no fault of their own—perhaps because of their very efficiency—they are suddenly deprived of the daily needs of life—food, clothing, shelter—for themselves and their dependents.

If we maintain that so-called " sound business methods " must take precedence over unspeakable human suffering, we are nevertheless forced to admit from an equally cold-blooded business standpoint that such a policy is suicidal. The stockholder who wants dividends, and who wants to preserve his capital, must first see that wages are maintained; for upon such purchasing power depends the market for the products made by his company. This is fundamental.

All wealth is the result of labor; and the right to consume wealth obviously arises simultaneously with its creation. When an excess of wanted goods accumulates, as in the period prior to this depression, it is because the right of the people to consume these goods has been for some reason withheld. Had a greater proportion of corporate earnings been distributed to consumers in prosperous years, and correspondingly less invested in plant extensions, demand might have been maintained at a level near the productive capacity of the country. Excess plant facilities thus represent purchasing power unwisely withheld from distribution, and now frozen into the form of corporate surpluses and reserves. This suggests two courses of action: First, to right the wrong unwittingly done to consumers; second, to prevent the recurrence of such a condition in future.

### A PROPOSED REMEDY FOR UNEMPLOYMENT

If we accept the principle of industry's responsibility to the community; if we admit the soundness of the principle of employing reserves accumulated in prosperity to carry us through periods of distress, as nature utilizes in winter the reserves accumulated in summer—then the utilization of corporate reserves in this time of national emergency would appear to be justified. Knowing that the output of labor increased far more rapidly than did labor's share in the product, then it would seem to be only fair to restore to labor that portion that was withheld, and to restore it now when lack of it means dire want.

It would appear that this could be done by thawing out for belated distribution the purchasing power frozen into corporate surpluses and reserves, through cooperation with the Reconstruction Finance Corporation, operating under slightly amended laws. What is proposed is, in effect, an industrial loan, with nominal interest and repayable out of future profits, made to the great basic industries of the country, secured by their physical assets, the proceeds to go directly to the reemployment of men who were formerly on their pay roll.

The capital of the country is largely represented by great manufacturing plants which are now idle. These have great potential but little present worth. The proposal involves an immediate and direct increase in purchasing power, and consequently in the consumption of products turned out by such plants. It is a challenge to industry to conserve its capital structure by restoring demand to predepression levels, rather than reconstructing industry to present depressed levels. It involves no increase in governmental tax burdens. It will restore price levels and at the same time bring relief to the debtor class. It will restore confidence in security of employment and tend to coax out hoarded purchasing power where it exists. It places upon industry itself, not upon charity, the responsibility for the welfare of its workers and their families, which is where it rightly belongs.

A decrease in wages of $2,300,000,000 from 1919 to 1921 was accompanied by a decrease in factory output of $18,600,000,000. A recovery in wages of $2,800,000,000 by 1923 was accompanied by a recovery in output of $16,800,000,000. A decrease in wages of $4,400,000,000 from 1929 to 1931 was accompanied by a decrease in output of $29,100,000,000. Yet those manufacturing plants which cut wages so drastically and destroyed their own market had, at the end of 1929, surplus and undivided profits amounting to nearly $20,000,000,000.

This proposition is not greatly unlike that of unemployment insurance, which, though it is a palliative and not a cure, will probably become standard practice until something better is found. If our major industries had adopted some such plan in past years, a portion of their surplus or reserves would have been carried now as "Unemployment insurance reserves", and would have been available for distribution. These same industries today have large reserves carried under some other name. The proposal, in effect, is to utilize a portion thereof just as if they had been accumulated for this specific emergency. The name is unimportant; the important thing is the actual existence of the reserves, and the part they can take in serving humanity by relieving distress.

Industry must definitely accept the responsibility of maintaining men in employment. There is no difference in principle between the duty of a bank to safeguard the deposits (past labor) of its clients, and the duty of industry to safeguard the employment (current labor) of its workers. The immediate need is to rehire the men who were fired, even if they have to engage in nonproductive labor for the time being. Where improved efficiency or improved machines within a plant displace labor it should be the responsibility of industry either to see that such labor is satisfactorily placed elsewhere, or that such increased efficiency is utilized in giving labor greater leisure, by retaining the same labor for less hours per day. We need not be concerned with how this would affect costs of production. The fetish of low costs has too often been the cause of disaster. Higher costs may mean higher returns to labor and consequently increased purchasing power. It makes no difference to a community, broadly speaking, whether a manufacturer sells an article for $1 or $2, so long as the amount of money the community spends on such articles is returned to the community by the manufacturer in the form of wages, dividends, and purchase of raw materials.

### TENTATIVE PLAN FOR PUTTING PROPOSAL INTO OPERATION

Any suggestion made without consulting competent legal, tax, and accounting experts must necessarily be tentative in form. But if the principles are right and just, a method of applying them surely can be found; if not in one way, then in another.

To recapitulate, the object of the plan is (*a*) to utilize corporate reserves, which represent purchasing power withheld from distribution and now frozen; (*b*) to increase consuming power directly and immediately; and (*c*) to make corporations responsible for the welfare of present and past employees, allocating the responsibility evenly over all industry.

It is suggested that a special tax equivalent to say 4 percent of 1932 gross income be levied on corporations, the proceeds of which to be utilized by the corporations themselves to reemploy labor formerly on pay roll.

Such reemployed labor to be used on nonproductive work, or to share the work available with part time and full pay, until demand is restored and normal working conditions in the factories are justified.

The effect of this would be a compulsory industrial unemployment insurance fund to meet a national emergency. Its administration would involve only such problems as must be met in any form of unemployment insurance.

Where corporations do not possess the necessary cash or liquid resources or do not wish to use their resources or weaken their financial position, the Reconstruction Finance Corporation could be empowered to give credit or advance funds at nominal interest up to the amount of the tax imposed, this indebtedness to be repaid out of future earnings.

To prevent corporations from collecting the amount of the tax imposed from the community by means of increased selling prices, provision could be made that no additions to corporate surplus or reserves would be sanctioned by the Treasury Department until the debt to the Reconstruction Finance Corporation was liquidated.

Corporations might be permitted to pay out earnings in wages and dividends up to some maximum. In other words, the Reconstruction Finance Corporation would not necessarily require corporations to repay the indebtedness immediately, provided the corporations were not withholding earnings and storing them up in reserves. The theory is that so long as earnings are being distributed, and not withheld, business must improve.

While the proceeds of such a tax should not be distributed in a lump sum, it might prove advisable to make a part thereof available to meet back bills for groceries, rent, etc., adjusted to the length of time a man has been unemployed.

The purpose of the tax is primarily to reemploy the unemployed; the proceeds should not be diverted in any way to wages for those now employed; and some check should be provided to prevent employers reducing wages payable out of earnings, at the expense of wages payable out of this special tax. One suggestion would be to forbid for a limited time and as an emergency measure, the dismissal of labor or reduction in wages.

The charge for funds advanced to corporations by the Reconstruction Finance Corporation should be as small as possible so that no heavy interest obligations would accumulate.

The plan should be carried out with as little interference with private business as possible. For example, if corporations wished to expand plant facilities from new stock issues, before repaying the Reconstruction Finance Corporation loans, they might be permitted to do so, even though such a proposal seemed generally unwise. Possibly they could be penalized by being charged a high rate of interest for their unpaid indebtedness.

In the case of a corporation which is now financially weak, and which could plead danger of being forced into receivership, provision might be made whereby the Reconstruction Finance Corporation eventually assumes this burden itself, relieving the corporation of the necessity for repaying the funds. Ths would be done only where it was a clear case of the operation of the law being responsible. The theory is that we will have done our best to bring a recovery in business, and prosperity for all industry. Failing some such recovery, the country must face taxation for unemployment relief, and it would be wiser to place this burden directly upon those industries in which unemployment exists; and if industry cannot bear it all, it can be met later out of the country's finances, when it will be less burdensome.

It would probably prove true that some corporation would obstruct the operation of the law as much as possible, and refuse to abide by its spirit. In such cases it might be feasible to amend the income tax law in such a way that corporations which could not provide satisfactory evidence of having restored a given wage level, would automatically come under certain higher and penalizing supertaxes on earnings when and as made.

It may be objected that an indebtedness of this kind would depress Wall Street stock values. This might or might not be so; for the creation of the indebtedness, repayable only at the corporation's convenience, would tend to restore normal business conditions and corporation earning power.

The working of the plan would tend to preserve a corporation's capital structure and restore the value of its assets. It is designed to build up demand to productive capacity rather than tear down previous values by reconstruction, thus creating unfair competition with those industries which have been soundly managed.

It is in effect the buying of factories on the installment plan. You have the plant capacity now, but pay for it in the future; your small competitor may not be burdened with extra plant capacity now, but he will have to set aside earnings to pay for extra capacity, if he wants it later on. There is one important difference, however, between this proposed installment plan for manufacturers and the installment plan for consumers. Private installment debts can only be settled in capital goods, a situation which contains elements of danger, as pointed out before. Corporate debts incurred under the plan suggested, by involving a direct contribution to purchasing power would reduce private indebtedness; and the repayment of the corporate debts would be in the nature of paying off mortgages, and would not add to capital equipment.

To supplement the duties of the income-tax officials, "business examiners" with responsibilities similar to those of "bank examiners" might be appointed with power to examine the financial position of a corporation at any time. The theory is that a company, like a bank, is in more serious need of investigation when it begins to make losses than when it makes so-called "excessive" profits. Also that it is far more important, as society is to-day organized, to safeguard employment (the day-to-day living expense of our people) than to safeguard bank deposits (the past savings of our people deposited in banks because they were not needed for immediate use).

It is suggested that the Reconstruction Finance Corporation might be empowered to issue notes, similar to Federal reserve notes, against the security of the industrial property involved. While this might be termed "inflation," it is basing currency on the country's finest assets and regulating the quantity to the business requirements of the country, a theory which would seem to be fundamentally sound; for as these notes were issued, they would immediately go into circulation in exchange for consumers' goods.

The plan is simply a means of converting the accumulated savings of the community, now arbitrarily held by industry in the form of "reserves," into consumable goods, and restoring to those who helped to produce the goods the unquestionable right to consume them.

While the looks of a balance sheet should have short shrift if it stood in the way of alleviating wide-spread misery, the effect of such a plan would not, in fact, alter corporate balance sheets to any startling degree. The gross income of corporations engaged in manufacturing only, as reported by the Treasury Department for 1929, was $72,000,000,000, and the "Surplus and undivided profits" amounted to $19,500,000,000, over 27 per cent. While gross income declined nearly $30,000,000,000 by 1931 there must have remained a very substantial amount under "Surplus and undivided profits." The longer business remains depressed the faster this item will shrink. It would be far better to risk a portion of it in constructive and logical measures to restore business.

The work of the Reconstruction Finance Corporation, laudable as it has been, is so far largely defensive. The plan proposed is constructive; it would mean launching an offensive against the depression.

### A SUGGESTION FOR REGULATING BUSINESS IN FUTURE

The other problem that is suggested by the foregoing analysis is how to prevent recurring periods of business stagnation. The most successful plan would seem to be the one that interfered least with our present methods of doing business. A central planning board, acting in a purely advisory capacity, might render invaluable service; but it is difficult to conceive an effective centralized control over industry, either from the standpoint of the ability of the men exercising such control or the willingness of American business men to be so dominated. Perhaps nothing so drastic is necessary.

The objects we want to achieve are to insure adequate purchasing power to enable our people to consume what they produce; to prevent excessive competition with all its waste; to discourage speculation; to protect our savings.

The main source of all these evils seems to be in certain business practices. Our corporations withhold from distribution an average of 40 per cent of earnings annually. The bulk of these find their way into plant expansion, oftentimes unnecessary. Such hidden assets are the foundation upon which Wall Street speculation is laid. With industry operating on the "profit system" and the mass-production theory, the diversion of this potential purchasing power from workers and stockholders into excess plant is necessarily followed by destructive competition, unemployment, suffering in the midst of plenty.

Much of this could be prevented, it is felt, if a few comparatively simple but basic changes were made in our corporation laws or in our Federal income-tax law, such as (*a*) the requirement of standard accounting practices; (*b*) the prohibiting of surplus and reserve funds beyond certain percentage of capital; (*c*) the prohibiting of plant expansion except from capital raised by new issues of stock; and (*d*) the establishing of unemployment insurance.

(*a*) The adoption of standard accounting practices, already widely urged, is a logical outgrowth of our present corporation laws.

(*b*) If corporations were not permitted to plow back earnings into plant expansion, this would, first of all, do away with those hidden assets on which speculation is based. Earnings would be paid out in the form of dividends and increased wages or wage bonuses. If an unduly large proportion went to stockholders, an income tax law would penalize the higher brackets; moreover, such a practice would make the corporation a target for competition. The tendency would be to increase the return to labor, which is what we need—for it is there that the vast potential market for goods remains unexploited. Furthermore, it would give back to the people the right to determine how much and in what manner they will save or spend—a function which industry has hitherto attempted to exercise, with unfortunate results.

(*c*) Were directors forced to approach the public for capital every time they desired to expand plant, they would make pretty certain of a sustained demand for their product before doing so, because such a practice would soon establish a tradition among investors of requiring corporations to show a history of earnings and dividend distributions. Attention of investors would be diverted from market appreciation to regularity in dividends. The tendency would be for stockholders to become more concerned in the management of their company, and reduction of earnings would soon be regarded as a danger signal. Obviously, earnings would be more secure, dividends more regular, the purchasing power of the community more stable, and—completing the circle—business more profitable.

(*d*) Experience already gained with unemployment insurance indicates that management is much more cautious in hiring and firing of men, and in drastic varying of production schedules. Competition would be less, business on a more even keel; and the very inauguration of the plan would tend to prevent development of conditions under which the plan would come into operation. This would bring back to business executives a sense of their responsibility, and of the responsibility of their corporations, to workers, and to the community. Should unforeseen conditions arise necessitating the laying off of men, their needs would be taken care of; starvation and distress would be eliminated, their morale unimpaired.

Our people are entitled to security, and a share in our national wealth proportionate to the individual contribution in creating it. For in the aggregate the people own and operate all the means of production.

With every family in economic security, with every child having proper educational facilities and a proper environment, the probability is that many of our most serious social problems would gradually disappear. One wonders if even the farm problem might not be solved. From an industrial standpoint, perhaps the most important byproduct would be a home-building movement such as this country has never seen. We had the cart before the horse when we urged home building at a time when unemployment was spreading rapidly. Job security must precede any such movement.

Life seems to be pretty much of a paradox. The more wealth you take from a rose bush, the more it gives. The most selfish attitude a man can adopt is to be unselfish. The most profitable course business can pursue is to pay out the profits which breed more profits. "There is that scattereth, and yet increaseth; and there is that withholdeth more than is meet, but it tendeth to poverty."

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### Statement of Edward A. Filene, Boston, Mass.

It seems to me that there could be no such disagreement as there is to-day, concerning the meaning of this depression and the way out, if it were not for some confusion of terms. We all want to know the facts of the existing situation; but if those facts are reported in misleading terms, or in terms which are capable of misconstruction, the facts become obscured. May I be pardoned, then, for noting in the beginning that one of the commonest assumptions concerning this depression, upon which most of the proposed remedial measures are based, while literally true, is not actually true. I mean the assumption that prices are lower now than they were in 1929.

In terms of money they are. In terms of human life they are not. I take it that this committee, in seeking a way out of this depression, is not so much interested in what becomes of money but in what happens to human beings; but the word "price" is used so loosely that focusing our attention upon the price level, instead of upon the human level, is likely to lead to all sorts of difficulties and disasters.

It is commonly said that prices are high in periods of prosperity and low in periods of depression. So they are, usually, if we refer to money prices. But how about actual prices—real prices? And how can we find out whether prices are really low or high?

We have all learned to make a distinction between real wages and money wages. Whether real wages are high or not depends not upon how many dollars a worker receives daily but upon how much those dollars will buy. Whether prices are low, likewise—at least as far as the masses of people are concerned—depends not upon the figures upon our price tags but upon how much those prices enable the masses to buy. No matter how low the money prices may be, real prices are surely not low if they are beyond the reach of the masses of American people.

Prices of many of the necessities of life, however, are now concededly beyond the reach of twenty-five or thirty million Americans, who have to depend on help of one sort or another. It is not to be supposed that those who are advocating measures to maintain or restore the price level really want to put prices beyond the reach of more Americans. I think we all want the same thing—lower real prices. We all want some arrangement by which more people will be enabled to buy more things.

Only if we understand this double meaning of price, however, and understand every time we used the word just which meaning we intend to convey, can we approach the problem with much hope of finding our way through.

While prices even of the necessities of life are now beyond the reach of a large part of the American people, money prices have fallen in many instances below the actual cost of production and distribution. I think we must all recognize that such a situation is unendurable. For goods are sold at money prices, and unless they can be sold for more than the cost of production and distribution, production and distribution must become demoralized.

Theoretically, there are two ways of correcting such a situation. One is to raise money prices above the cost of production and distribution. The other is to lower the cost of production and distribution below the level of existing prices.

For several years now, we have been trying the first way. My only objection to it is that it can't be done, and that all attempts to do it produce exactly what has been produced—putting real prices beyond the reach of more and more people.

There is no clash of class interests involved in this inquiry. And it is not a question of good or bad motives. I am certain, at least, that those who have proposed measures for the raising of money prices have the interests of the whole country at heart quite as much as anyone.

There was a time in American history when high prices for certain industrial products were temporarily advantageous to business. But that was when there was a ready market for the things which the industries in question were producing and offering for sale. But industrial processes were constantly improved; and when industry became so productive that it needed a mass market, it was necessary to lower the price of its products to get that mass market.

If any industry were sure of selling its whole output, then, raising prices would seem to be good business; although it would doubtless be good public policy, on the part of the Government, to see that such an industry could not charge prices which would obviously exploit the public. But there is no such problem before us today. Business is in depression today because the masses cannot buy enough, or fear to buy enough, to keep business going. If any step toward dispelling the depression is to be successful, it must be either in the direction of increasing the buying power of the masses, or of dispelling this prevailing fear.

Any effective action toward one of these goals, in fact, would necessarily bring us toward the other. Increase of buying power would automatically restore confidence. Increase of confidence would automatically restore buying, thus reviving industry and increasing mass buying power through increasing employment. Before making any definite recommendation, however, I wish to present one more question.

If production doubles, triples, or quadruples by the introduction of better methods, will it naturally tend to make things scarce? This may seem like a foolish question. In fact, it is a foolish question. But we are in a period of business depression today for the definite reason that business has been foolish.

Everybody will admit, I believe, that the discovery of better ways to do things will naturally make things more plentiful. This is natural law, and no natural law can be violated without incurring a natural penalty. Business depressions are not necessarily natural, but they naturally follow any violation of this natural law.

We business men discovered ways of increasing production, but we did not find ways of increasing distribution and buying at the same ratio. There were reasons why we did not do this, but natural law does not pay much attention to our excuses and explanations. Criminal courts may suspend punishment because of extenuating circumstances; but there is no court in nature which will suspend the consequences of any of our acts, or take note of how sorely we were tempted.

What happened was that we marvelously improved our system of production, and nature wouldn't wait for us to mark our money prices down accordingly. It wasn't that we weren't interested. We wanted to sell more goods than ever. We wanted to sell enough to keep the whole mechanism working at top speed. But every time we introduced a new method, we abandoned an old method, and if prices were brought down to the point indicated by the new method, we couldn't see how we could make any further profits out of the old method.

No one can blame us, surely, for failing to find a way of making profits out of a method which we had abandoned. But we had paid money to install the old method, as well as to install the new method, and we wanted returns now on all the money that had been invested. We thought we could fool nature, but something went wrong with our plans.

It simply isn't natural law to make goods with machinery which we have quit using or to make profits with capital which we have quit using. We can use the new machinery to produce new capital, and we can use the new capital to produce the new machinery, but when we write off the machinery, we must write off the capital, or natural law will step in and do it for us. This is the determining principle underlying the railroad problem with which you are dealing—but not only the railroad problem.

In other words, in every period of prosperity business habitually gets busy doing two things: First, increasing production by the use of better methods, and, secondly, building up a structure of capital and debt to take the place of the one which has recently fallen down. For every period of depression wipes out old capital and old debts, and until the liquidation is sufficiently complete, prosperity cannot set in again. When the liquidation has been completed, however, business is freed from the necessity of earning dividends on capital which is no longer in use, and, the system of production being more efficient than ever, business rises to new heights of prosperity.

During these periods of increasing prosperity business men almost uniformly demand that the political government shall keep its hands off, but it is continually employing new processes and abandoning old ones, while trying to make the new processes not only pay for themselves but pay for all the dead horses that are strewn along this path of progress. The inevitable result is that the time comes when property gets such a strangle-hold on functional industry that business cannot continue successfully until a large part of these burdensome debts is liquidated. When this necessity arises, however, business men almost uniformly reverse their attitude toward government and appeal to government to help maintain the structure of capital and debt and thus prevent the liquidations which are decreed by natural law.

In such an emergency, the usual appeal to government is to assist somehow in raising the level of commodity prices; and since business thinks at such times in terms of immediate expenses and financial obligations, not in terms of how the existing mechanism may best serve the interests of the masses of people, this appeal to help raise the price level is invariably accompanied by wage reductions, thus putting real prices beyond the reach of more and more consumers.

I am not one of those who believe that the political government can successfully regulate this business process. I believe it can and should cooperate with business in a way which will automatically work toward business prosperity; but if it attempts to assist business in the way in which many panic-stricken business leaders think that business can be assisted, the inevitable result must be to prolong depression, to create more unemployment, to keep the masses paying for dead horses instead of buying new motor cars, to put real prices of the necessities of life beyond the reach of more and more millions of people, and generally to injure the businesses which it seeks to help.

To avoid business depression—to escape from these violent, periodic breakdowns, resulting from failure to coordinate production, distribution, and finance—business should look upon liquidation as a necessary, normal process, and should be ready at all times to take losses when, because of changing conditions, the investments involved can render no further human service. I realize that it is asking a good deal of our business men to ask them to take this attitude. But the only alternative is to put up with these violent dpressions. Business health demands this constant liquidation. The economic body, no less than the physical body, must eliminate its dead cells if it is to keep in good condition.

Loans which cannot in their very nature result in the production of new wealth must be canceled or scaled down as soon as their futility is discovered, or business, in its attempt to pay interest on such loans, must withhold some of the service which it is physically equipped to give. It doesn't matter, when we consider the question according to the natural laws from which we cannot escape, whether these are foreign loans used to destroy wealth in war, or whether they are loans to our farmers, made on the supposition that farming was entering on a period of super-prosperity. It doesn't even matter from the standpoint of natural law what widows and orphans may be in possession of the bonds concerned. Natural law will see to it that interest cannot be paid on useless, foolish, or destructive loans except by taxing the mechanism of the production and distribution of wealth in such a way that it cannot give full, normal service to the consuming masses.

Our financial leaders seem to be quite generally convinced by this time that we should and must scale down our foreign debts. Unfortunately, this does not necessarily mean that the principle involved is understood. If it were understood by financial leaders generally, finance would not be in such a predicament as it is. The principle is that loans, to be successful, must be employed for useful purposes, and that they must be profitable alike to borrower and lender. Whatever our statutes may say about it, the only security for loans which is recognized by natural law is that the loan itself shall be constructive, and that borrower and lender shall cooperate in making it as easy as possible to collect the loan.

The only American financial institutions which, to my knowledge, have been expanding lately are the credit unions; and they have been expanding most rapidly, even in these depressed times, because their policies directly conform to these natural laws. Credit unions with assets now of over $50,000,000 and under the supervision of the same banking laws as other banks, have stood up when banks by the thousands went down; for in the credit unions, the borrower and the lender have had a common aim, and every possible effort has been made to reduce instead of increasing the interest rates. Although the loans of the credit unions generally have been accompanied by no security which the banks would recognize as security, their percentage of losses on such loans has been, in good times as well as bad, really negligible and therefore far less than the losses suffered by the banks in supposedly well-secured loans to us business men. I suggest a careful inquiry into the principles and practices of the credit unions, before any conclusive step is taken looking toward the reconstruction of American finance.

There is as yet an abundance of idle money in America, and an abundance of needed work-producing credit. But the money is not being used as capital, and is not available for use as work-giving capital, mainly for the reason that our whole society is charged with expenses from which society can not possibly receive any benefit. While the masses are so short of buying power that they can not consume the products of our improved machines, a large section of the population is still hoarding money individually or putting it in banks where it is not being constructively employed. It can not be constructively employed, in fact, unless the masses have adequate buying power; and because it can not be so employed, we have not only unemployment, but the fear of unemployment, both of which still further reduce buying and aggravate the whole situation.

Unemployment, at a conservative estimate, has for some time been costing America above a hundred million dollars a day. The unemployed produce nothing, whereas, if employed with modern machinery and under scientific management, they might be producing and in the main consuming much more than the volume of wealth represented by the figure stated. Instead of using our money and credit, however, to put the unemployed producing the things which the unemployed need, we have been using it in efforts to sustain a top-heavy structure of debt under which industry has found it impossible to operate profitably. By means of the Reconstruction Finance Corporation and other credit resources, we have hoped to keep the mechanism of industry going, and in the end to provide employment. The most that has been accomplished, however, and the most that could possibly be accomplished by approaching the problem from that angle, has been to defer necessary liquidation and maintain the stranglehold of property upon our industrial functions.

I say this as a believer in the institution of property. But such an approach to our problem constitutes an actual menace to the institution of property, and plays into the hands of Socialists, Communists, technocrats and others who can see nothing in the present situation excepting that we have built up a machine capable of supplying everybody with such an abundance of everything that we have all decided to sit down and starve to death.

To preserve social order is the first essential of government, but no social order which ignores social evolution can be preserved. Government therefore must deal not only with those efforts aimed to destoy the social order, but with those which aim, in the name of preserving the social order, to preserve all its unendurable burdens.

I believe that the reduction of wages and salaries is an even more important factor in prolonging and intensifying the present crisis than is even unemployment itself. I believe this so intensely that when the company of which I am president recently reduced wages and salaries, over my protest, I felt compelled to make a public statement that I believed the act to be a most unwise and unbusinesslike step. When I say "unbusinesslike," of course, I do not mean that it was unlike the policy of American business in general; nevertheless, any move which tends to reduce the buying power of the masses must be bad for business, and must tend to rob business of the mass market which is now vitally necessary for business success.

Unemployment and wage reductions must necessarily reduce buying, not only because the unemployed and those whose wages have been reduced, can not continue to buy as usual, but because other masses of people fear to buy as usual, and hoard their money instead. I know of no more effective single step toward dispelling this fear than unemployment insurance. I do not mean a dole. I mean unemployment insurance which will not only insure workers against destitution in the event of unemployment, but will tend to insure them against unemployment itself. The cost of this insurance should not be levied on the employers, in the present emergency, to the extent that it should when it is well underway and its business advantages are generally understood I say this because the times are excessively abnormal now, partly because of business failure to organize such unemployment insurance in days when it could have been done with relatively little difficulty. This system should be set up immediately, not merely to relieve the unemployed, but to give assurance to those who are hoarding that they need not hoard in order to be assured of at least the necessities of life.

In every State, however, in which an unemployment insurance system is set up, the greatest care should be taken to avoid one of the traps which may at any time turn unemployment insurance into a dole. Every unemployment insurance law should contain a clause giving employers the option of setting up their own unemployment insurance system, providing only that the benefits and safety of the funds are equal in every respect to those of the State system. The more alert and wideawake employers, then, would be certain to set up their own system, so as to escape paying for unemployment caused by less alert and less progressive employers. The more backward employers would rely upon the State system; and when unemployment developed, we could expect little from them in the way of providing new employment. The good business executives, on the other hand, to save the costs of paying unemployment insurance to their own unemployed, would seek better ways and new ways of employing all those who otherwise might be laid off. With such a set-up, I am confident, the bulk of Amelcan business would soon be in the hands of progressive, wideawake employers who were keenly conscious of the business necessity of maintaining employment. Inasmuch as unemployment is national in its effect, more State laws can not adequately cope with it; and Congress should go as far as it constitutionally can to bring about Nation-wide unemployment insurance of the right kind.

I do not presume to know what Congress might do in an effort toward making such legislation general. But I do know that such insurance would further prevent hoarding, restore confidence among the masses of potential buyers, and renew mass buying, without which business can no longer be successful. I am not suggesting additional governmental expenditures. I am suggesting simply that appropriations be employed constructvely to remedy or, better yet, prevent such situations as the present, which necessitates still greater expenditures for more relief. I know, of course, that relief is necessary, but it would be an excellent use of public money to disburse all aid to the unemployed through this unemployment insurance set up in each State; for the present system of unemployment relief is, at best, a dole, with the extreme disadvantage of carrying with it no suggestion of security, and nothing, therefore, to allay the fear which causes even those who have money to hoard it.

The attempt to treat unemployment as if it were a local matter has aggravated the situation incalculably. It is not a State matter. It is not even wholly a national matter; for the same fear which paralyzes buying on the one hand, and credit on the other, has disrupted world trade and is making international relations increasingly difficult.

The most common expression of this fear is the fear of war—a fear by which all the nations of the world seem driven to all sorts of violations of economic law, even when they know that they must suffer the penalty.

The whole world is suffering under the burden of armament, and there is scarcely a nation in the world that would not welcome world disarmament.

Nevertheless, all the nations are inhibited from any definite action toward the commonly desired goal, and our disarmament conferences seem to get almost nowhere. If we could but realize the extent to which the war problem, the unemployment problem, and this whole problem of business depression are the same problem, our Congress could, I am sure, take definite action at this time toward dispelling this world-wide fear which not only places upon each nation this great burden of armament, but causes each nation to conduct its business affairs in an absurdly expensive way.

Our own Nation is no exception. If our world trade had increased at the rate in which our technical ability to serve the world has increased, we would not find ourselves in the present plight. But our world trade was suddenly cut in two, and thereupon reduced again and again; not, however, because the other nations did not need our goods, not even because they had found ways of supplying all their own wants, but because they were trying to conduct their business as if they did not need any imports from other nations.

No nation, not even our own, was economically independent of the rest of the world; but the fear of war has caused every nation to try to become self-sustaining.

Now, at any previous stage of industrial development, such an attitude might be economically sound. But it is economically unsound now. To do our work most economically today, we must do it with a mass of machinery so large that, to operate it successfully there must be a great mass market. To employ mass production methods to serve a small market would be prohibitively expensive. On the other hand, if mass production methods are not employed, more expensive methods must be employed, which means that, even if wealth were equitably distributed, there would still be a relatively low standard of living generally. Where old-fashioned industrial methods are employed, however, there will be no equitable distribution of wealth. It remained for mass production to discover the necessity, not only of lowering prices so that a greater and greater number of people would buy more things, but of raising wages as better methods of production were discovered, so that masses of wage earners would have more buying power.

This attempt of all the nations to become economically self-sustaining does not permit the successful employment of genuine mass-production methods. Each nation is anxious, of course, to sell goods to other nations, but this is rendered impossible by simultaneous attempts to keep the goods of other nations out. Mass markets are destroyed, and uneconomical methods of production and distribution, which necessarily lower the standard of living everywhere, are employed. This is brought about, often, by governments which know that the economic principles involved are unsound. Tariffs and trade barriers are erected and "buy at home" propaganda is let loose because of the fear of war, in which event any nation which is not self-sustaining may be subjected to starvation or conquest by the enemy nation.

I trust, then, that this committee will not think that I am moralizing about world peace, or that I am drifting in the slightest degree from the business problem which is before it, when I speak of the business necessity of the present time for American cooperation with the other powers in a definite movement to reduce this world-wide fear of war. I refer particularly to the situation in Manchuria.

I believe that what I shall say on this problem will be as much in the interest of the Japanese people and of Japanese business, as it is in the interest of the American people and American business. But all of us must face the facts. For 15 years, the world has been trying to find a way to peace. Most of the nations have officially outlawed war, and are committed to policies of arbitration and conciliation; and the League of Nations, often with friendly, if unofficial cooperation by America, has struggled along year by year to set up some mechanism of peace. It has accomplished many things; but in the atmosphere of insecurity and suspicion in which it has necessarily labored, it has not yet convinced the people of any nation that it is safe to look to any sort of world understanding for its national safety. Each nation has therefore worked desperately for its own defenses, and, in spite of what all international movements could do to prevent it, the staggering burden of armament is greater than it was before the war.

Today the world is faced with a crisis which will determine whether there is or is not any possible world security to be expected from international agreements. I do not mean to indict Japan. Her course is quite understandable in the light of traditional diplomacy. Many of the great powers have, in the past, acted in much the same way. But this is not the past. This is a new time. This is a time when the prosperity of every nation, including our own, is obviously dependent upon removing the fear of war; and if Japan is permitted to continue in the course she is taking, no matter how it may be justified by ancient precedents, the people of every nation must become convinced that our international peace machinery is not to be relied upon, and they will turn more madly than ever toward the policy of national preparedness.

Such a policy, however, even if it did not eventuate in another world war, is necessarily deadly to business everywhere. The mere cost of the armaments is probably negligible compared with the cost involved in doing business in the way it must be done if the various nations continue their attempt to become self-sustaining instead of employing the economical mass production methods which cannot be employed successfully unless the barriers to international trade are removed.

America must not be misled by the fact that our country seems more nearly self-sustaining than any other, and that, even in normal times, our world trade is but a small percentage of our total production. That is, of course, fortunate, and enables America to do many things that other nations cannot do. But our world trade, nevertheless, constitutes a very important part of our business upon which a large part of our other business depends. One cannot afford to lose his right eye on the theory that it constitutes such a small percentage of his body. Not as a moralist, then, but as a business man anxious to help dispel the business depression under which all the nations are suffering, I urge upon this committee the necessity of our supporting the policy of the League of Nations as expressed in the Lytton Report, the report of the Committee of Nineteen, and by Secretary of State Stimson. I am stressing this for business reasons. If there were any conflict, of course, between business advantage and the common good, Congress should consider only the common good. But industrial advance has reached a stage where this cannot be true. Because our productive capacity has increased to a point which necessitates mass buying, and a constant raising, therefore, of the standard of living of the masses everywhere, the interests of business and the interests of the whole world have inescapably become one.

Without the cooperation of America, the League of Nations could probably do little toward removing this present menace to world security. I refuse to call it the Japanese menace. It is, as I see it, just a test case which, if it had not arisen in Japan's dealings with China, was bound, sooner or later, to arise somewhere. America is faced with the issue of whether or not we shall go on to a world of international understanding, or go back to a world in which military force is the only known law, and, in doing that, continue a situation in which this business depression will be indefinitely prolonged, in which supertariffs and supernationalism will go on destroying commerce—conditions under which we know by sad experience business cannot operate successfully and the masses cannot be served.

It is imperative, then, that America join with the other powers in whatever economic sanctions may be necessary to prevent the course which Japanese militarism has set out upon. Our failure to do this, especially if we were to permit the shipment of any military supplies from this country to Japan, could result only in continuing and intensifying this depression.

For the same reasons, although I shall not go into any details now, it is imperative, I believe, that we should immediately recognize the Government of Russia.

Few of our problems are merely ours any longer. Certainly we can not collect international debts when conditions in every nation are such that they can not find means of paying their debts. Nor is it enough merely to scale down these debts according to the capacity of the various nations to pay. What is necessary in such world cooperation that all nations may utilize their capacity to produce, a process which need be limited only by the capacity of the whole world to consume.

To-day almost all nations, including our own, are frantically trying to balance the National Budget, mainly because they have used their resources in ways that do not result in the production of wealth. Of course, the balancing of our National Budget is fundamental. Our failure to do so means destruction of our credit system and possibly of the gold basis of our money. The cry everywhere is to economize; but no adequate economy is possible unless the wealth-producing machinery is set in motion. This machinery can be set in motion, however, only by such measures as will establish security and promote mass buying. Such measures, if undertaken, will in themselves provide adequate security for the money or credit necessary for the undertaking.

Many proposals have been made to broaden the base of the income tax, not merely for purposes of revenue, but so that the masses generally will feel more responsibility toward Government. Many of these proposals, while decrying the principle of "soak the rich", definitely propose to "soak the poor." Any practical lowering at present of the standards of incomes to be taxed would not make the base broad enough to serve the ends desired. The effective way to bring everybody into the income-tax-paying class, is to take steps which will result in the masses generally having ample work, which means ample earning power—ample income.

The most dangerous, the worst of the proposals for additional taxation is the sales tax. No other tax so directly diminishes the buying power of the masses of our people, on which buying power depends our ability to use the best methods of production for our home markets and for export. It is claimed that it is proposed to levy only a very light sales tax. But can anyone doubt that once this tax is established nationally there will be a constant enormous pressure to substitute higher and higher sales taxes in place of high income taxes. Nor can it be doubted that if the National Government adopts the sales tax, State and municipal governments will also impose sales taxes. They have already begun.

There are no physical barriers to our increasing incomes to a point where they may properly be taxable. Every survey of our industrial capacity indicates that, if we were working at full capacity, we might be distributing wealth enough to everybody in America to qualify everybody as an income-tax payer on the basis of the existing laws. We are not so producing and distributing wealth, but are suffering widespread privation, in spite of our increased ability to produce, because it has not occurred to us as yet how to use our money and credit to achieve what all of us want to have achieved. I urge economy in Government expenditures as strongly as anyone. But there is little economy in simply paring down expenses; and budgets can not be balanced simply by increasing taxation. Real economy demands that we use our resources more effectively for the production and distribution of wealth. If we do that, we will have plenty of money and credit. We can balance our budgets while reducing taxation, if we can only make certain that the masses everywhere have ample incomes to be taxed.

Let me repeat. There is only one way by which the buying power of the masses can be safely and constantly increased; and that is by enlisting the masses in the most effective production of wealth—in other words, in making and distributing, by the best possible methods, the things which the masses most desire. Any public-works program which does not take this into consideration must measurably fail. Simply to find work for the masses is not enough; for, unless the workers receive high enough wages to enable them to buy extensively, business generally can not be profitable, and taxable income and taxable wealth can not be measurely increased. If they are given high wages, however, for work which is not intrinsically of great value, or their labor is not organized to do the work as efficiently as it can be done, the result will be an economic loan which must be made up by increased taxation.

Workmen want leisure as well as work; and they must have leisure if we are to use our machines to capacity. They must not only have the price to buy things, but the time to consume them. Not merely as an emergency measure, then, but as a perfectly reasonable business program, I have been urging upon American industry the 6 hour day and the 5-day week, with no reduction of wages unless the unit cost of production should rise. If this program were adopted, I am convinced that unit costs would fall, because of the irresistible pressure it would bring to bear toward reducing the great wastes which still exist in most of our production, and the almost incredible waste in distribution, and because of the enormously greater market which such a move would create. But if at the end of a trial period of, say, 6 to 9 months, the unit cost of production should be higher than before, wages must be correspondingly reduced until such time as the unit cost may be brought down. These unit costs surely can be reduced by conquering the great wastes that still exist in most of our production, and the incredibly greater wastes that exist in distribution.

To prevent a similar new debt burden being created, with the inevitable consequence of another violent depression, we must primarily employ our manpower, our machinery, our capital and credit, and our legislation for the production and distribution of buying power to the masses. Unless this is done, any attempt to remedy our distress can not meet with lasting success.

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## Statement of Irving Fisher, Professor of Economics, Yale University

I will be brief and refer, for a full expression of my views to Booms and Depressions (Adelphi Co.).

### OVERINDEBTEDNESS

According to my studies, this and other major depressions have been due in the first place to overindebtedness, however caused. In the present depression the overindebtedness came about chiefly because of the World War, both directly and indirectly. Directly our national debt rose because of the war from 1 billion to 25 billion. In 1929 it was 17 billion. The total Federal, State, and local debts increased from 6 billions to 30 billions in 1929. The public debts of other countries increased even faster, including the German reparation debt and the interallied debts, all contributing to the world overindebtedness. Indirectly, due to the war, were the farm mortgages of the win-the-war-with-wheat days and the investing abroad after the war for reconstruction. Another cause of debt was for investment in new inventions which were, in some degree also stimulated by the war.

It was largely these inventions which led to the speculative boom on the stock exchange, though there were other reasons also (see my Stock Market Crash and After, MacMillan). The total debts owing in the United States in 1929, I have estimated at 234 billions, including brokers' loans (10 billions), commercial bank loans (39), corporation debts (76) farm mortgages (10), nonfarm mortgages (37), private foreign loans (14) and several other categories. The total wealth of the United States in 1929 was estimated at 362 billions as compared with the 234 billions of debt. The ratio of debt to wealth was probably about 25 per cent greater than 10 years before.

### SWELLING THE DOLLAR

But that is only the beginning. The next and much more important step is the fall of prices, or as I much prefer to call it, the rise in the dollar. It was the overindebtedness which swelled the dollar. As soon as some overextended debtors begin liquidation, and throw their stocks and other securities and property on the market, prices are depressed, others overextended are forced to distress selling and soon there is a mad scramble to sell constituting a crash. Even worse is the deflationary effect of liquidating bank loans; for this means wiping out the deposits which rest on those loans, constituting a contraction of the circulating medium and tending powerfully to shrink prices.

### AND SWELLING DEBTS AGAIN

When prices crash or, in other words, when the value of the dollar swells, every dollar of debt still unpaid is that much harder to pay. That is, while the liquidation reduces the number of dollars owed it increases the size of each dollar still owed. Not only that, but when we try to liquidate so vast a debt as in 1929, the dollar swells faster than the number of dollars owed shrinks. That may seem amazing; but it is exactly what has happened and what must happen if the debt burden is big enough and if nothing is intentionally done to prevent the dollar from so swelling. In short, in such a situation, honeycombed with debt, the very effort to decrease debts increases them in terms of real things. The farmer who has paid off half his mortgage but whose prices for wheat have been reduced to one fourth of what they were, while he really owes only half his original debt in terms of dollars really owes his original debt in terms of wheat. Such liquidation is a mockery. It does not really liquidate but aggravates the debts. Overindebtedness is made worse.

THE OVERINDEBTEDNESS OF 1929 AND TODAY

Up to the time my Booms and Depressions was written a year ago, the 234 billions of debt of 1929 had been, in terms of current dollars, reduced to 197 billions, a reduction of 16 percent; but each dollar was 53 percent bigger in value or purchasing power than in 1929, so that in terms of the 1929 dollar the debt was not 197 billions, but 302 billions. This is 29 percent more than the original 234.

If these figures could be brought down to date we should find that the situation was worse. The dollar has now swelled 80 percent over the 1929 dollar and the debts (in current dollars) have fallen but little. It seems likely, though I have only rough statistics, that the present debt burden, measured in commodities, is greater than in 1929 by at least 40 percent. That may seem incredible; but I think it is more likely to be an understatement than an overstatement. Moreover, our national wealth and income are less than half of what they were in 1929.

THE MONEY ILLUSION HIDES THE FACTS

People who thinks things cannot be worse because they are so bad and that we must be scraping bottom are grossly misled. They count the dollars owed but do not measure them. They have the "money illusion" that a dollar is always the same. The Germans had the "money illusion" that the mark was always the same. It took the most terrible inflation in history to wake them up and it is taking the most terrible deflation in history to wake us up.

PREVENTABLE AND CURABLE

If his diagnosis is correct, we could have been spared this depression, for the most part, if the deflation had been prevented, and we can only spare ourselves further depression by stopping and reversing deflation.

This can be done and by many methods, as I have shown in Booms and Depressions and in Stamp Scrip. Among these methods is devaluing the gold dollar, buying bonds with United States notes or with Federal reserve credit, guaranteeing bank deposits for a time, accelerating money velocity by the Riefler plan or by stamp money or both, and subsidizing the reemployment of labor. As I write, I feel sure there is no time to lose.

THE ALTERNATIVE

The alternative is liquidation. This, as I have shown, has not yet begun. It would take years to do it and would require bankrupting banks, savings banks, like insurance companies, and railroads, with far more unemployment than now, with bloodshed and perhaps political revolution.

I do not expect this alternative to happen, for even if the Government should refuse voluntarily to reflate, it would, I believe, soon be forced to do so against its will, because it could not balance its budget. Deflation which has already "got" so many banks will soon "get" municipalities, and if Uncle Sam continues to try to save everyone else from bankruptcy it cannot be long before he will be faced with bankruptcy himself. Then the only way out will be reflation.

Between 1929 and 1933 wealth decreased greatly and debt decreased little; this is shown by the shaded columns. Real wealth decreased and real debt increased; this is shown by including the unshaded parts. The attempt to liquidate debts really increased them by increasing the dollar. The dollar could have been stabilized. It should now be stabilized after being restored.

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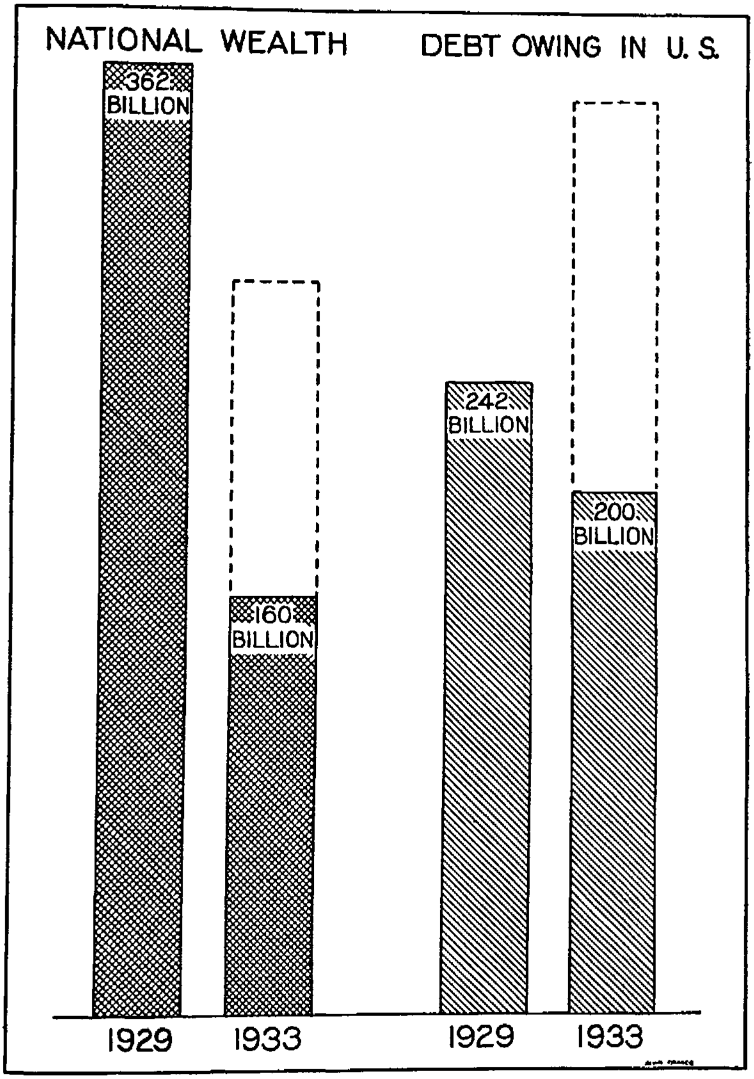
STATEMENT OF FRANKLIN FLICK

NEW YORK CITY, *March 6, 1933.*

At a time when the best minds of our country are endeavoring to be helpful in solving our present difficulties and providing ways and means to avoid such serious disturbances in the future, I welcome the opportunity to lay before you suggestions intended to assure "man"—in his relation to what I have elected to combine under the heading "The job" and "The savings" to the end that his fear of loss of these fundamentals may be permanently removed, and that he may never again experience such a calamity of unemployment and concern about his savings as has been his lot through this depression, which has threatened the very foundations of ordered and civilized representative government. Unless, from this calamity, we devise means to abate or eliminate




unemployment in the future and safeguard savings the laborious building of this great Nation and its established order and institutions which have thus far been civilization's greatest heritage are doomed, because fear possessing "man," in desperation he resorts to violence leading finally to chaos and ruin.

In presenting my views, I will be brief as possible, confining myself to fundamentals, just so that I may feel sure that my ideas are clearly understood. I will start with the premise that if a man is assured a job to the extent of an equal division of the available work among the workers and is guaranteed protection against the loss of his savings you have eliminated the two most potent elements of fear from human existence. Such distress as we are going through could not exist, and if at all, in a very modified form. The job and the bank account are the rocks of fear upon which our ship of prosperity is stranded.

How shall we proceed to handle the problem?

First, the job. Through Federal enactment we have coordinated National, State, and local workers' bureaus for Nation-wide cooperation throughout the Nation and established trade commissions and other agencies dealing with employment and trade. Expand these agencies into a national board of control composed of members, one third to be selected by the business interests of the country, one third by the working interests, and the remaining one third by the President. This agency would maintain up-to-the-minute information from every section of the entire country, covering the problems of demand and the workers available. It is then determined that every worker employed, each having his share of the work, the demand will be met by a work day of 6 hours. Let that be the decree of the board of control. If it should be 3 hours, or 8 or 9 or 10, let that be the decree. This likewise solves the question of overproduction because production is measured by demand. In times of heavy demand let the workers lay up against the day of a light demand. The arbitrary or legal fixing of so many hours of work per day or week is absolutely unscientific and can lead but to overproduction, underproduction, and upsets in our economic structure.

All sorts of machinery and labor-saving devices are certain to contribute to such upsets. It is ridiculous that the use of labor-saving machinery should be opposed as a remedy to prevent such upsets. Automatic labor-saving machinery should be encouraged to take from man's back the burden of labor and give him greater leisure and enable him to enjoy the social and spiritual values of life. The machine is for man—not man for the machine. If with the machine he can produce in 1 hour what it formerly took him 10 hours to produce by hand, let his pay be measured by the hand time and not machine time and our economic structure would remain stable, while giving to man the greater leisure to enjoy life and its values, which were created for him.

Then let there be a protection fund created and administered by this same control board to be contributed by both employer and employee to provide such necessary benefits for the workers in emergencies as would be agreed upon. The worker not to lose this benefit through change of employment or otherwise. Such funds should not remain with or under the supervision of the employer, whereby the same would be subject to the business hazard.

Some will urge this is socialistic, unconstitutional, and revolutionary. We should not be concerned with names or forms but with human values and proceed to properly provide therefor or we may have to reckon with a revolution of blood rather than reason. The "rights of man" is the issue, not outworn and obsolete systems.

Recognizing the right of man to an equal division of the available work, he must submit himself to scientific and humantarian mass regulation. If in times like the present our citizens insist that it is the duty of their Government to provide for them in their individual misfortunes then they must submit to mass regulation to the end that such conditions do not occur, since it is not a proper government function of self-governing people, but rather their obligation to so govern themselves as to obviate the necessity of government or private charity. There would be no occasion for either at the present time, as a burning public issue, if such regulation were in effect.

Second, the savings. Now that we have seen how the workers may be guaranteed against fear of unemployment, let us proceed to guarantee him against the fear of losing his savings. It has been urged that the Government could not undertake such a task. After all, our form of Government is "of the people, by the people, and for the people." We submit to taxation for every form of undertaking we deem of service to the people, including a deficit running into many millions of dollars annually for the Post Office Department. Why shouldn't we assume the responsibility to guarantee against fear of losing savings, even though it might result in some increase in taxation? This is so much more vital than that we should pay a little less for a postage stamp. But I contend that banking could be so supervised that there need be no concern of the taxpayers over removing the fear of loss to the depositor.

In the first place, money is a medium of exchange created and controlled by the Government. In the next place, the Government provides machinery in the form of banks to deal in its money and sets up rules and regulations for control and invites the people to make use of same. Then it would seem reasonable that the Government assume full resopnsibility for the proper management and safety of the banks or withdraw from what is so often a mere sham and create drastic laws whereby individual responsibility is held strictly accountable, but this would not eradicate fear from the minds of the depositors, so that is out.

Granting, then, that the function is one of Government responsibility, let us proceed to the method. In the first place all banks, State and National, should be required to be members of the Federal Reserve System. In the next place, this system should be charged with rigid examination of all such member banks and be responsible to the public for solvency. A bank liquidating corporation should be created. This corporation should assist any member bank if for any reason its assets should become temporarily frozen and aid in liquidating such assets so that the funds may be returned. Or if it would appear that the responsibility of the Government through its supervision had allowed a bank to become insolvent with no hope that its trouble may be overcome, let the bank be closed and taken over by the liquidating corporation and the depositors be immediately paid in full and the liquidating corporation take all the time necessary to liquidate the assets so as to avoid the losses involved in present-day hasty liquidation. This, together with stockholder liability, should practically assure the liquidating corporation against loss. To this might be added a capital or deposit tax to be paid to the liquidating corporation by each member bank. The system in itself, properly supervised, should practically protect the liquidating corporation against loss and should make a tax unnecessary, having in mind that the Government might as readily assume deficits in this department of government as well as others, especially in so vital a matter.

Something more could be said about a condition that has existed with many banks throughout this depression, i. e., refusal to make loans and the maintaining in some instances of nearly 100 percent liquidity. Authorities could be set up in each Federal Reserve bank district to control this condition, but if the foregoing provisions, relating first to the job and second to the savings, are in effect and fear is thus eradicated from the minds of the people, a condition may never arise causing the banks to also fear and refuse to loan.

Also, that we may never again experience an inflation in any line of business such as brought about the crash of the stock market in October 1929, empower the Federal Reserve bank in each district, subject to review by the Federal Reserve Board, to fix a proper proration and diversification of loans with respect to the entire capital, surplus, profits, and deposits, and when any one line of business has absorbed its permitted percentage, loans for that particular division of business to be curtailed or reduced in individual amounts and spread to a greater number of borrowers in the same division. This would permit the interest rate to remain normal. The arbitrary raising of the interest rate to discourage speculation in the stock market was unsound; it did not discourage speculation but it did penalize other legitimate and uninflated lines of business. It is often true in highly competitive business that the fraction of a percent on the interest rate is the difference between profit or loss to the concern. The interests of the people as a whole are once again the dominating issues of government.

Expanding this thought of Federal Reserve bank authority I propose that the Federal Reserve bank of each district become the hub of all the banks of the district, the relationship of the member banks being very much akin to that of branch banks. This provision would give banking all the benefits of branch organization devoid of private monopoly. Banking should be operated to serve the people rather than for private profit. I am not an advocate of present-day branch banking. I believe we should not only conserve but encourage individual initiative and effort as the most priceless heritage of our country. I would maintain the unit bank, but if necessary, go so far as to nominate one person in each bank directly responsible to the Federal Reserve bank. The Federal Reserve Board to be the supreme authority and final appeal.

These two issues, "the job" and "the savings", must be treated as one problem. The proposals are not impractical theories but sound and scientific principles that can be expanded from present basic standards. We conserve all we have thus far attained and build upon it as a sure foundation for our further progress in our struggle in behalf of the rights of man.

The subjects covered are so broad in their general application that the foregoing cannot be considered more than an introductory outline. I make the assertion that my position on these issues cannot be successfully refuted and would welcome the opportunity to appear before your committee for an exhaustive examination of my views.

I feel impelled to submit this for your consideration at this time, desiring to be helpful in the solution of some of our difficult problems. In November last I wrote a letter to the President embodying the views I have outlined herein.

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STATEMENT OF WILLIAM TRUFANT FOSTER, OF NEWTON, MASS.

All proposals for the solution of our economic problems should be related to our chief economic aim.

Our chief aim is the restoration of our volume of production and employment. Nothing that we can do on paper with statistics of debts, taxes, budgets, gold reserves, hours of labor, and the rest, is of much avail, unless the result is an increased annual output of real wealth to the value of at least 30 billion dollars—real wealth which we are now losing solely because we are not using our available productive resources, human and material.

The restoration of production and employment requires nothing but an adequate flow of purchasing power to the 90 per cent of our consumers who are eager to buy more, but who lack the buying power. Consumption regulates production. Consumption therefore regulates employment. All that business needs is a buyer. Even in the depths of this depression, abundant credit is available for the production of anything for which there is a market. The beer business, at the moment, is the best-known example. All producers are eager to increase pay rolls and production. They will do so the moment expansion is justified by consumer demand.

The necessary flow of consumer purchasing power does not come about as a result of natural law. It does not come about at all, in a period of depression, as long as we rely on each rugged individual. For 3 years we have waited, in vain, for private enterprise to put the necessary currency and credit into circulation. When private enterprise fails, public enterprise is our only resources. We can restore consumer purchasing power by collective action, and in no other way. Collective action means, necessarily, action by the Federal Government, for the Federal Government is the only agency which represents all of us, the only agency which is entrusted by the Constitution with the power to regulate the currency, the only agency which has had sufficent power, every day of this depression, to end the depression by placing adequate buying power in consumer's hands.

Some ways of distributing this buying power are better than other ways. Any way is better than no way.

The way which will yield the greatest value, dollar for dollar, is for the Federal Government to make available to the States, sufficient funds to restore education. The present scuttling of the schools—now Nation-wide and daily becoming worse in our hysterical demand for tax cutting at any cost—will leave the deepest scar, when this depression is over. We are making our children pay the heaviest penalties for the mistakes of their elders. We are balancing our budgets with unbalanced schools. The damage can never be repaired: no 10-year-old child will ever be 10 years old again. Moreover, for the purpose of sustaining the morale of the Nation, education is more needed than ever before. Closing our schools because there is a depression is like closing our hospitals because there is an epidemic.

Another way of getting the needed buying power into pay envelopes is through the construction of needed public works. This method was all but universally favored 5 years ago. It was advocated by Mr. Hoover, Mr. Coolidge, and Mr. Mellon. It was made a plank in the platform of the Democratic Party. It was indorsed by the annual conference of governors and by the American Federation of Labor. It has been approved by most economists for a generation. It is just as sound a policy today as it was before men became hysterical.

Still another way of achieving the purpose is through loans for self-liquidating projects. Most valuable to the people of all such projects are the rebuilding of city slums. In pursuing this policy, the Government should be aggressive, not hesitant; and it should make funds available at cost, not insist on 5½ percent interest. Its aims should be, not to make money, but to get buying power into circulation quickly in connection with the creation of wealth.

Insofar as dwellings, bridges, harbors, roads, power plants—and, for that matter, all public works—are created by the use of labor and materials which otherwise would be wasted, they cost the country nothing, no matter what financial figuring has to be done on pieces of paper.

A more immediate emergency means of putting men and money to work is through reforestation. This plan has great advantages; it can take idle men promptly out of our congested centers of population; it can provide jobs for which any able-bodied man is equipped; it can take marginal lands out of cultivation; it can prevent floods; and it can become, with the growth of the forests, partly self-liquidating.

As another spur to economic recovery we should adopt a policy which gives reasonable expectation of a settlement of foreign debts. The United States has persistently refused either to cancel the foreign debts, or to establish conditions under which the debts can be paid. If the decision is made to try to collect the debts, the United States must buy more abroad or sell less. It must either lower its own tariffs or restrict its own exports. I favor lowering of tariffs. The best course for both creditors and debtors is to make it possible for debtors to meet their obligations. But many persons in this country are loudly crying, "Buy American!" and just as loudly crying, "Collect every dollar of the foreign debt." We can take one of these courses or the other. We cannot take both.

The way the foreign-debt question is settled, however, is relatively unimportant. The paramount need is that it should be settled and settled quickly.

The national debt should be increased as far as is necessary to restore employment and production. An addition of many billions of dollars of national debt, incurred in achieving that aim, need not be harmful. When we have increased our annual output of real wealth to the value of $30,000,000, we have created the means of paying our debts. All debts and all taxes are paid in real wealth, insofar as they ever are paid. They never will be paid in this country unless the Government boldly puts into circulation enough purchasing power to bring about a sustained rise in the commodity price level and in the volume of production.

In the future we must prevent the oversaving and the underspending which are the chief causes of this depression. We can most easily prevent oversaving by higher taxes on large incomes, on profits, and on inheritances, and by the elimination of tax-exempt securities. These measures will tend to sustain consumer buying. They are demanded by arithmetic, no less than by social justice. It is impossible, as this country has demonstrated again and again, for the rich to save as much as they have been trying to save, and save anything that is worth saving. They can save idle factories and useless railroad cars; they can save empty office buildings and closed banks; they can save paper evidences of foreign loans; but as a class they can not save anything that is worth saving, above and beyond the amount that is made profitable by the increase of consumer buying. It is for the interests of the well to do—to protect them from the results of their own folly—that we should take from them a sufficient amount of their surplus to enable consumers to consume and business to operate at a profit. This is not "soaking the rich"; it is saving the rich. Incidentally, it is the only way to assure them the serenity and security which they do not enjoy at the present moment.

Still further to sustain consumer buying, and therefore prosperity, we should adopt some form of employment insurance and some form of health insurance. Both must be compulsory, or else fail to reach most of those who are in greatest need of such protection.

We should also sustain consumer buying by protecting the savings of consumers. Toward that end, we should bring all banks—including what are now State banks and private banks—under one Federal system, with uniform regulation, inspection, accounting, and reporting; and we should then set up a sufficient fund to guarantee all deposits. To this protection of consumer savings, we should add protection by means of Federal regulation of all security issues and Federal regulation of stock exchanges. We should deny each State the inalienable right of having as many fraudulent issues and as many bank failures as it pleases.

Once we have recovered our lost volume of employment and production, and largely restored the values of the assets of banks and insurance companies, in connection with a sustained, steady rise in the commodity price level, we should then make a stable commodity price level the conscious and avowed aim of Government fiscal policy. In pursuit of this aim, and the further aim of maintaining a market at par for all Federal Government securities, the Federal Reserve System and the Treasury Department should cooperate, as they have not cooperated in the past.

These aims cannot be achieved, however, without long-range planning of public works, Federal, State. and local. The main purpose of such planning should be to increase public payments to consumers, as soon as indexes of prices and employment show the beginnings of a slump, and to decrease such payments, as soon as prices begin to rise too rapidly. In spite of almost universal approval of this plan, and the definite and repeated commitment of the Hoover administration to it, the plan has never been tried. We have not yet had long range planning of public works. We have had instead long-range planning to plan to plan public works.

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## Sounder Money and Better Business

(By Benjamin Graham)

Herewith is presented a measure designed as a sound and effective means of raising and stabilizing the general price level. Such a development is generally recognized as the most important single requisite for the restoration of prosperity and employment. This plan avoids the chief defects of others, now before the country, in that:

1. It does not involve abandoning the gold standard, devaluing the dollar, coining silver at a high price, or issuing unsecured or bond-secured paper money.
2. It requires no governmental expenditures, borrowing, or guaranties.
3. It imposes no taxes.
4. It involves no changes of any kind in our political or economic system.

The propsed measure, on the other hand, will produce numerous and vital benefits. In ascending order of importance they are as follows:

1. It will improve the soundness of our existing currencies.
2. It attacks directly the central paradox of the present depression, namely, poverty from superabundance, by transforming our surplus of commodities from a cause of national disaster into a source of national strength.
3. It will establish a stable average price level for basic commodities and thus contribute signally to the maintenance of stable and prosperous business.
4. It supplies an effective mechanism by which the country's productive capacity can be utilized for its proper purpose, namely, to raise the standard of living of the American people.

There is still a fifth important advantage of special character:

5. The plan provides an acceptable method of solving the vexing problem of war debts.

The measure is not intended as a panacea, however. It does not guarantee employment for all, a profit for every business, or a satisfactory price for every product.

### DESCRIPTION OF THE MEASURE

Under present law, Federal Reserve notes are issuable against deposit of 40 percent in gold and 60 percent in eligible commercial paper, which may be obligations secured by warehouse receipts representing important commodities (termed "readily marketable staples"). It is proposed that this arrangement be supplemented by introducing the following three modifications:

A. In lieu of a single stored commodity, the 60 percent backing shall consist of commodity units of a fixed character, comprising proper relative amounts of all the basic storable commodities dealt in on public exchanges. The makeup of these composite units will be discussed in detail below. Such commodity units shall have a fixed value as a backing for the 60 cents of each dollar not covered by gold. This value will establish the average price level for all basic commodities taken together. The level shall be set at some figure between the present low point and the 1923–29 average. It is suggested that a figure be taken about midway between these limits, say at 75 per cent of the predepression average, as recently recommended by Sir Arthur Salter.

B. "Federal notes" shall be issued against the direct deposit of 40 per cent in gold and 60 per cent in the fixed commodity units.

C. Federal notes shall be redeemable at the holder's option in gold as at present, or in the combined gold and commodity units deposited against them.

The nature and operation of this plan will need to be discussed under various headings, as follows:

A. ITS BROADER AND MORE FUNDAMENTAL ASPECTS

I. The character of the additional currency.
II. How the higher price level will be established.
III. How the measure will relieve the depression.
IV. How the price level will be maintained on a stabilized basis.
V. How the measure will raise the national standard of living over the long-term future.

B. TECHNICAL CONSIDERATION

VI. The relation between a higher price level in this country and the international situation.
VII. How the plan may facilitate settlement of the foreign-debt problem.
VIII. How the commodities unit is established: Principles governing the selection of the commodities and determination of the amount of each in the unit.
IX. Physical aspects of the plan. Storage expense and deterioration.
X. Size of the Federal note issue and its effect upon the banking and currency picture.
XI. Relation between the stabilized price group and other price groups.
XII. The question of overproduction under the plan.

I. The currency provided as above will have the following characteristics: It will be redeemable in gold, as is all our present currency. It will have a direct gold backing as large as, or larger than, all of our present currency except god certificates. The present forms of currency and their backing are as follows:

| Name of currency | Backing | Amount outstanding Jan. 1, 1933 |
|---|---|---|
| Gold and gold certificates | 100 percent in gold | $1,069,000,000 |
| Silver, silver certificates, and U.S. Treasury notes. | 100 percent in silver at $1.30 per ounce (present value 25 cents per ounce). | 401,000,000 |
| Subsidiary silver and minor coin | Metallic content worth considerably less than face value. | 371,000,000 |
| National-bank notes and Federal Reserve bank notes. | 100 percent in U.S. Government bonds at par | 823,000,000 |
| Federal Reserve notes | 40 percent in gold; 60 percent in Government bonds or commercial paper (including paper backed by warehouse receipts for basic commodities). | 2,716,000,000 |
| U. S. notes | 40 percent in gold; no other deposited security | 295,000,000 |
| Proposed Federal notes | 40 percent in gold and 60 percent in commodity units having an average value in 1923–29 one third more than the face amount of the notes against them. | |
| Total | | 5,675,000,000 |

In view of the large gold backing, there should be no more difficulty in maintaining gold redemption for the Federal notes than for any of the other classes of currency, nos. 2 to 5 above. The part of the Federal notes not covered by gold will have a direct tangible backing consisting of those commodities which are vital to our daily needs and our economic life, in quantities proportionate to their relative importance. Since, in addition to being exchangeable for gold alone, these notes may be converted on presentation into the deposited gold and commodity units, the holders of this currency will have a fixed claim also upon basic goods more useful and hence more valuable than gold.

For this reason it is asserted that the plan will improve the soundness of our existing currency.

The Federal notes will be created on the basis of "free and unlimited coinage" of gold and commodity units at a fixed rate. This corresponds exactly to the present free and unlimited coinage of standard gold alone at the rate of 25.8 grains to the dollar. It differs radically, however, from the proposed coinage of silver at the rate of $1.30 per ounce, in that our plan does not establish a fixed money value for a single commodity at a level far above its current worth relative to all other commodities.

No currency will be issued under our plan against deposit of any single commodity, but only against deposit of complete units containing all the eligible commodities. Hence the price of single commodities is in nowise fixed, and each is free to fluctuate in accordance with variations in supply and demand. The price level is stabilized by fixing the value, not of individual commodities but of all basic commodities taken as a whole.

II. *How the higher price level will be established.*—As soon as this measure is made effective the price of commodities in general will advance to the new standard level. This will be brought about in the most direct manner possible. Specialists will purchase commodities on all the exchanges in appropriate amounts, and tender the resultant units, together with gold, in exchange for new notes. This buying will continue as long as the units can be bought for less than their "coinage value."

It will probably be desirable to establish the "standard level" by gradual stages over a period of say a year. This might be done by making the initial coinage value of units only slightly above the present price and advancing the value at the rate of say 4 per cent per month, until the "standard level" is reached. The advantage of such a course is twofold. First, it may prevent too violent an uprush of prices. Secondly, it may permit the Treasury to acquire a large quantity of commodity units at the early "coinage values", which will be considerably below the ultimate standard. At the beginning only 40 cents of Federal notes may be issued against a commodity unit later to be worth 60 cents. This will result in a substantial initial "profit" on the operation, in that the Treasury would be free to issue the additional 20 cents in currency without further deposit of commodity units. This "profit" will afford one of the three methods, to be discussed later, of meeting the administrative costs of the plan.

It is likely, however, that the public will anticipate the ultimate establishment of the standard level and its buying of commodities for a later assured profit will force up their price, more rapidly than contemplated in the above-described program. Since such an opportunity for profit will be open to all, its disadvantages, if any, are not serious.

The new standard price level will thus be promptly established by the operation of three major forces: (1) Direct buying of all commodities, (2) reduction in the surplus stocks of commodities by depositing them as backing for money, (3) increase in currency outstanding.

These developments will be of enormous benefit in the present economic crisis. The surplus stocks of all commodities, which are now a leading cause of unemployment and want, will be taken off the market and mobilized for later consumption as and when our full consuming power is restored. These commodities will no longer constitute a menace to our welfare, but will take their rightful position as national assets and national wealth, in the same way that the gold behind our currency is national wealth in the same way that our natural resources underground have always constituted national wealth.

III. *How the operation of the plan will speed the return of prosperity.*—The ability to turn basic goods into money at a respectable price will increase the rate of production of basic commodities above the present subnormal level, and increase employment in these fields. This will improve purchasing power among farmers, miners, and other raw material producers and their employees. The beneficial effect of this increased purchasing will communicate itself rapidly to the fields of manufacture, distribution, transportation and finance. A tremendous impetus will be given toward the complete restoration of prosperity in this country, for which we now have—and have had throughout this depression—every basic and tangible requisite.

For the reasons just detailed we repeat the assertion that the plan attacks directly the central paradox of the depression, namely, poverty caused by superabundance, by transforming our surplus of commodities from a cause of national disaster into a source of national strength.

IV. *Maintenance of the standard price level.*—After the standard level has been reached, it will be maintained automatically by the operation of the three forces which established it, or by their opposites. Should a businses recession send the price level down, an opportunity will be immediately presented to buy units and to turn them in at a profit. Hence such buying will appear on all the commodity exchanges; floating stocks of commodities will thereby be reduced, and the outstanding currency increased. The result will be the almost immediate return of general prices back to the standard level.

Conversely, if speculative activity should send prices up above the standard level, there will be a corresponding opportunity to redeem money for commodities at a profit. Specialists or "arbitrageurs" will sell commodities on all the exchanges and turn in Federal notes for commodity units to make delivery. The three corrective forces will now be (a) selling by specialists, (b) increase in the floating supply of commodities, and (c) decrease in the outstanding amount of Federal notes. The result of those forces must again be a rapid return of average prices to the standard level. (The mechanism just described corresponds exactly with that which under normal conditions maintains foreign exchange quotations between the gold shipment points.)

These compensating influences acting against either advances or declines from the standard levels will be so immediate and powerful that variations in either direction will be exceedingly small. A fixed average price level for basic commodities does not in itself assure continued prosperity, nor can it guard against depressions in weakly situated industries or against individual losses from mistakes of judgment. It may not be questioned, however, that a stable general price level will contribute powerfully toward the maintenance of stable and prosperous business. This outstanding advantage should follow from the adoption of this plan.

V. *How the plan will help raise the national standard of living over the long-term future.*—This aspect is not closely related to the immediate crisis, but it may well prove to be the most significant of all. General overproduction has been termed a theoretical impossibility, but it has proved also a practical and disastrous actuality. This has been due to the failure of effective purchasing power to keep pace with increasing production. Under the proposed measure, such a condition will result in the accumulation of commodity units and in a corresponding increase in currency. If this accumulation and increase continue persistently, it will mean that not enough of the national income is being expended or actually invested. This in turn will be a definite sign that the purchasing power of the consuming masses is smaller than is justified by our productive capacity and our actual production. Such unmistakable evidence will call for broad public policies designed to increase the relative purchasing power, and hence the standard of living, of our poorer citizens. This may be done through the extension of minimum wage laws, unemployment insurance, old-age pensions, and other welfare work already accepted in principle.

As the stored commodity units grow and then diminish in quantity, the system will operate as a huge overflow reservoir, or compensating mechanism, to maintain a reasonable equilibrium between the secular increase in our productive capacity and the secular increase in our consuming power. Under present conditions, when production in general outstrips consumption, the whole economic mechanism is thrown out of gear. Deflation and depression are the only remedies. The adjustment is always painful, sometimes protracted, and in this instance almost fatal. Under the proposed measure, excess production will accumulate without disturbance in the Federal Reserve warehouses, and it will remain there, safely mobilized, until our statesmanship succeeds in placing the equivalent buying power in the hands of those who need it and will spend it. We shall recur to this the most fundamental merit of the plan in our final brief discussion of the "danger" of general overproduction.

## TECHNICAL CONSIDERATIONS

VI, VII. *International aspects of the plan—Its relation to the problem of war debts.*—This heading is placed under technical rather than fundamental considerations because at bottom the United States has the resources and the financial power to save itself even though the rest of the world should commit economic suicide. International trade and international cooperation are immeasurably desirable; but our overshadowing problem is to increase production and consumption within our borders. If the plan proposed is sound we can protect ourselves to any extent necessary against external influences hostile to its success.

Such protection, however, should not be necessary. The whole world is anxious to restore the commodity price level. England has begged us to cooperate with her to that end. The plan can be made the basis for international cooperative action, looking to similar results in all countries "suffering" from an excess of commodities. Those having a shortage of commodities cannot, by their unaided acts, depress the international price level.

Assuming that such cooperation is not forthcoming, we may readily defend ourselves. The apparent dangers of the plan from an international standpoint are merely those which inhere in any effort to maintain higher prices in one country than in another. Goods threaten to flow into the higher price country and gold to flow out. But because we are a creditor nation we can take in a large amount of goods without losing gold; and under the system proposed the receipt of such commodities from abroad need have no demoralizing effect since they can form part of the stored commodity units. Moreover, to any extent necessary, we can impose compensating tariffs to protect our higher price level, in accordance with our consistent, though much-criticized policy.

By receiving commodity units in payment of debts due us from abroad, and by mobilizing them as backing for domestic currency, we should finally obtain some concrete enjoyment, instead of only headaches, out of our foreign investments. For eventually we can and shall find some way to consume these goods. This applies with particular force to the war debts, for it answers the plea of the foreign nations that they can find no means to pay us because we refuse to accept their goods. Our Government might well accept the annual debt installments in commodity units, against which it could issue currency, thus turning them into cash. It should not be necessary to require the 40 percent in gold, which we can supply out of our abundant holdings. Furthermore, if tariffs are imposed because of disparate prices, we should waive the tariff on commodity units sent us direct by foreign governments on war debt account. Assuming the war debts still exist, this should provide as practicable a way as any to discharge them.

VIII. *How the commodity unit is determined.*—Every commodity will be eligible for inclusion in the base, provided it meets prescribed requirements as to:

(*a*) Storability.

(*b*) Dealings on a public exchange, under approved regulations governing tenderable grades, price differentials, etc.

(*c*) Importance, i.e., a minimum value of production or consumption in the United States.

The object of these regulations will be to avoid discrimination between commodities and to establish as wide a base as is practicable under the physical limitations of the plan. The method of selecting relative quantities will in general correspond to the procedure in formulating weighted index numbers of commodity prices. It is proposed specifically that the relative amounts of the several commodities in the unit be made proportionate to the quantity produced or consumed in the United States, whichever is larger. Commodities not included at the inception of the plan can be made eligible later and added to the unit by means of a simple adjustment. Adjustments of quantities can also be made at infrequent intervals to reflect changes in relative production or consumption.

Assuming that a price level of 75 percent of the 1923–29 average is desired, and assuming also that 25 commodities, given in the appended list, are found to be eligible for inclusion in the unit, then the amount of each to be comprised in the unit will be ascertained as follows:

1. The aggregate production or consumption of each commodity in the United States for the years 1923 to 1929 is calculated and a 1-year average taken, This will establish the relative quantities of each commodity in the unit. For example, since there was nine times as much sugar as coffee consumed in this period, there will be nine times as much sugar as coffee in the unit.

2. The aggregate value at wholesale of all these commodities over the 7-year period is determined, and a 1-year average taken. This average will be found to be about 13½ billion dollars for the 25 commodities.

3. At a price level equal to only 75 cents of that obtaining in the base period, the aggregate value of all the products would be just about 10 billion dollars. Hence to find a commodity unit equal to $1, each of the

average production or consumption figures must merely be divided by 10 billion.

Examples: Average production of wheat was 825,000,000,000 bushels. Amount of wheat in a $1 commodity unit is therefore 825/10000=1/12 of a bushel.

Average imports of tin were 168,000,000 pounds. Amount of tin in the commodity unit is 168/10000 or 1/60 of a pound.

IX. Physical aspects of the plan: The plan will involve storage expense and small losses through deterioration. There is no interest charge on the value of the stored commodities. The costs may be met in three possible ways:

1. There may be a large original money "profit" from acquiring commodities at less than their ultimate value. If the conversion level is advanced gradually from 45 to 75, the average deposit price may be about 90 percent of the standard value. This would permit the issuance of up to 10 percent in additional currency to meet expenses, without creating an overissue. On the basis of one billion of currency issued prior to attaining the stabilization level, the "profit" available to meet expense would be no less than $110,000,000.

2. A "brassage" differential can be established between the issuing and redemption rate, which may produce a substantial income (or, as an alternative general procedure, the Treasury may be given the sole right to "coin" commodity units, being directed to do so whenever average prices fall below say 97 percent of the standard level).

3. If necessary, costs can be defrayed through an assessment upon the commodities benefited in proportion to their share of the expenses of the plan.

The losses through deterioration can be reduced through periodic substitutions of new crops for old, the latter going into consumption before they deteriorate. It should also be practicable to accept some commodities processed into more durable semifinished staples, e.g., wheat into flour, cotton into gray goods, etc. Proper differentials can be established between wheat and flour, etc., in the same way as between different tenderable grades of the same commodity.

In general the principle should be recognized that, since inclusion in the unit is of great benefit to the producers of a commodity, that industry should be called on to meet the physical problems, if any, of such inclusion. The commodity exchanges can be of prime assistance in this respect. Wherever such problems are insuperable the commodity must be excluded from the unit.

The only important difficulties herein may be encountered in the case of corn because of its rather complicated relation to meat products—especially pork and lard—and because of certain storage problems. These problems, however, are not very different from those which have to be met at the present time in connection with marketing and storage of corn and meats.

X. Size of the Federal note issue and its effect upon the banking and currency picture: The theoretical limit of the Federal note issue is determined by the gold available for the 40 percent reserve. The amount of gold in the country is about 4½ billions; that in the hands of the Federal Reserve banks is about 3⅓ billions. The latter amount will support a total note issue of over 8 billions. This means that up to $5,000,000,000 of commodity units can be taken off the market and used as a backing for currency. This calculation presupposes that the present reserve notes may be replaced by the new currency, to any extent necessary, in the normal course of banking procedure; and that the Federal notes will be held also as reserve against deposits by member banks under the "lawful money" provision of the present law.

We shall come nowhere near needing this theoretical upper limit of 8 billions of Federal notes. The 5 billions of commodities units involved in this sum would represent a half-year's production at prosperity rates. The stocks of most of the component items are now far less than this figure. A good part of these stocks must be held at various points in the productive process, and hence are not available for segregation as part of commodity units. A survey shows that in most cases the current stocks are only about one tenth to one fifth of a normal year's requirements. There are some exceptions, of course, notably wheat, cotton, copper, and rubber. But since only complete units can be deposited against currency issues, the floating supply of the scarcest items will, theoretically, determine the maximum number of units available. Certain special problems resulting from this point can be satisfactorily dealt with by accepting responsible future contracts to deliver as part of commodity units tendered, the currency equal to the money value of such contracts to be withheld until physical delivery is made.

In my opinion, the maximum currency emission likely to take place may be set at about $2\frac{1}{2}$ billion dollars, of which $1,000,000,000 must be represented by gold and $1\frac{1}{2}$ billions by commodity units. These units will represent some 60 days' production of all the component items. The effect of taking that volume of commodities off the market will be so stimulating in all directions that in a short time prices will probably rise above the standard level and commodities will begin to flow back into "circulation" against redemption of Federal notes. The automatic stabilization features of the plan would then be in actual operation.

It has been very properly asserted that we do not need more currency, as such. We need more purchasing power, whether it consists of cash or bank deposits. If the issue of Federal notes should be redundant, in the technical sense that it exceeds actual currency needs, the notes will pile up in the banks as cash held against deposits. Since cash is a nonearning asset, a large increase therein should impel making of loans or purchases of securities by the banks. This influence is similar to that from the receipt of large amounts of gold or from the recent increase in member bank reserves caused by the reserve bank's purchase of Government securities. The failure of credit actually to expand during the past year is due to the fact that the impetus to expansion was outweighed by more powerful deflationary forces. An increase in general business, produced under the plan by the rise in commodity prices and the actual purchase of goods and their removal from the markets, will check these deflationary influences and permit the normal consequence of large bank reserves—namely, a more liberal credit policy.

This would indeed be the result of any strong reflationary measure, not accompanied by impairment of confidence. The ultimate danger of such a policy—namely excessive expansion of business, speculation in commodities, and an undue rise in prices—are all avoided by the present proposal, because speculative advances will be promptly checked by the redemption of Federal notes and the sale of commodity units on all the exchanges.

XI. Relation between the stabilized price group and other prices: The plan stabilizes the wholesale price of basic commodities, taken together. How would other price levels be affected—e.g., wages, rents, prices of manufactured goods, and retail prices? Would any harmful disparities tend to develop? The answer is "No." The effect on wages would be beneficial, to the extent that better and more stable business improves wages. Otherwise, the relationship between the price level and the wage level should work out in the same manner as it has in the past. A similar observation applies to the price of manufactured goods, to rents, and to retail prices. These groups will not be as thoroughly stabilized as will be the average of basic commondities at wholesale, but they should be much more stable than in the past, and no new causes of price disparity should be created.

The plan will help correct a great disparity now existing between the present prices of the commodities in the unit and all other prices. Basic commodities have declined far more than have other prices. (Our table shows a present average of 44 percent of 1923–29 against Bureau of Standards index of 65 percent for 784 items including 70 percent for finished goods.) The improvement in their situation through the present plan should restore the price of basic goods to a more reasonable relationship with other prices—which is the prime object of the domestic allotment plan.

XII. The plan and overproduction: At first blush it may appear that the plan will result in disastrous overproduction. This has always been the vital defect of valorization schemes to fix the price of an individual commodity at higher than the preexisting level. The instant proposal, however, is not subject to this danger; in fact, its most essential merit is that it banishes the anomalous specter of general overproduction. It must always be borne in mind that the plan in no sense whatever seeks to fix the price of any single commodity. Hence, if more copper should be produced, for example, than business conditions justify, the price of copper will fall—as fall it should to prevent an uneconomic persistence in producing the wrong thing. The price of all the other commodities in the group will advance slightly to restore the standard level; thus setting in motion corrective forces somewhat helpful to the price of copper. The same would, of course, be true of any other commodity. If special measures are justified to correct the social consequences from an overproduction of wheat, cotton, etc. (as is contemplated by the allotment plan), such measures may be put into effect entirely independent of this proposal, and without affecting its operation but they should not be necessary, except possibly as to wheat, because of the corrective effect of this plan.

Hence our plan will in nowise contribute to perpetuating an unbalanced production of any single commodity. But, as far as overproduction in general is concerned, our thesis is that there should be no such thing. It exists in actuality through a defect in our economic mechanism. This defect our plan proposes to remedy, by mobilizing a temporary excess of commodities in such form that they cannot disorganize business and eventually will be turned into use and enjoyment.

In Joseph's time the overproduction of the 7 fat years was mobilized in this fashion to avert the famine threatened by the 7 lean years which followed. Our proposal involves going back to the same simple and concrete realities. Let us welcome and not fear years of plenty. If we can store goods in these times, they may prove our salvation if later "the famine shall consume the land", or—as is more probable—if shortage should develop through war. But if neither war nor famine supervenes, then this stored plenty can serve a more magnificent purpose: to endow all the people of this land with comfort and security.

TABLE I.—*Quantities, average price, and value of commodities included in proposd unit*

| | 1923-29 average production and/or imports | 1923-29 average price in cents | Average value | |
|---|---|---|---|---|
| | | | Amount | Per cent of total |
| Wheat ........ bushels.. | 825,000,000 | 138.00 | $1,138,000,000 | 8.3 |
| Corn ........ do.... | 2,747,000,000 | 93.00 | 2,555,000,000 | 18.8 |
| Refined sugar ........ pounds.. | 12,156,000,000 | 6.10 | 742,000,000 | 5.4 |
| Oats ........ bushels.. | 1,342,000,000 | 46.00 | 617,000,000 | 4.7 |
| Coffee ........ pounds.. | 1,407,000,000 | 18.70 | 263,000,000 | 1.9 |
| Barley ........ bushels.. | 245,000,000 | 70.00 | 172,000,000 | 1.3 |
| Cottonseed oil ........ pounds.. | 1,378,000,000 | 11.00 | 152,000,000 | 1.1 |
| Rye ........ bushels.. | 51,000,000 | 100.00 | 51,000,000 | .4 |
| Cocoa ........ pounds.. | 410,000,000 | 10.20 | 42,000,000 | .3 |
| Total ........ | | | 5,732,000,000 | 42.2 |
| Petroleum ........ barrels.. | 827,000,000 | 142.00 | 1,174,000,000 | 8.6 |
| Soft coal ........ tons.. | 728,000,000 | 1.51 | 1,105,000,000 | 8.1 |
| Hard coal ........ do.... | 80,000,000 | 5.37 | 424,000,000 | 3.1 |
| Total ........ | | | 2,703,000,000 | 19.8 |
| Cotton ........ pounds.. | 7,094,000,000 | 20.60 | 1,462,000,000 | 10.7 |
| Silk ........ do.... | 65,500,000 | 588.00 | 385,000,000 | 2.8 |
| Wool ........ do.... | 597,000,000 | 40.00 | 240,000,000 | 1.8 |
| Burlap and jute ........ do.... | 700,000,000 | 11.90 | 83,000,000 | .6 |
| Total ........ | | | 2,170,000,000 | 15.9 |
| Pig iron ........ tons.. | 36,500,000 | 1,926.00 | 732,000,000 | 5.4 |
| Copper ........ pounds.. | 2,306,000,000 | 14.50 | 335,000,000 | 2.4 |
| Lead ........ do.... | 1,494,000,000 | 7.30 | 109,000,000 | .8 |
| Tin ........ do.... | 168,000,000 | 51.80 | 87,000,000 | .6 |
| Zinc ........ do.... | 1,154,000,000 | 6.50 | 75,000,000 | .6 |
| Silver ........ ounces.. | 64,500,000 | 62.00 | 40,000,000 | .3 |
| Total ........ | | | 1,378,000,000 | 10.1 |
| Lumber ........ board feet.. | 36,200,000,000 | 2.78 | 1,007,000,000 | 7.4 |
| Hides ........ pounds.. | 2,000,000,000 | 16.00 | 320,000,000 | 2.4 |
| Rubber ........ do.... | 921,000,000 | 33.00 | 303,000,000 | 2.2 |
| Total ........ | | | 1,630,000 | 12.0 |
| Grand total ........ | | | 13,613,000,000 | 100.0 |

TABLE II.—*Proposed commodity unit equivalent to $1,000*

| | Quantity | Current price in cents | Present value | |
|---|---|---|---|---|
| | | | Amount | Per cent of total |
| Corn ... bushels | 274.70 | 27.0 | $74.16 | 12.4 |
| Wheat ... do | 82.50 | 48.0 | 39.60 | 6.6 |
| Refined sugar ... pounds | 1,215.60 | 3.9 | 47.41 | 7.9 |
| Oats ... bushels | 134.20 | 17.0 | 22.81 | 3.8 |
| Coffee ... pounds | 140.70 | 7.5 | 10.55 | 1.8 |
| Barley ... bushels | 24.50 | 35.0 | 8.57 | 1.4 |
| Cottonseed oil ... pounds | 137.80 | 3.6 | 4.96 | .8 |
| Rye ... bushels | 5.10 | 34.0 | 1.73 | .3 |
| Cocoa ... pounds | 41.00 | 3.4 | 1.39 | .2 |
| Total | | | 211.18 | 35.2 |
| Petroleum ... barrels | 82.70 | 63.0 | 52.10 | 8.8 |
| Soft coal ... tons | 72.80 | 122.0 | 88.81 | 14.8 |
| Hard coal ... do | 8.00 | 475.0 | 36.00 | 6.0 |
| Total | | | 176.91 | 29.6 |
| Cotton ... pounds | 709.40 | 6.1 | 43.27 | 7.2 |
| Silk ... do | 6.55 | 114.0 | 7.47 | 1.2 |
| Wool (grease) ... do | 59.70 | 18.0 | 10.75 | 1.8 |
| Burlap and jute ... do | 70.00 | 4.0 | 2.80 | .4 |
| Total | | | 64.29 | 10.6 |
| Pig iron ... tons | 3.65 | 1,334.0 | 48.69 | 8.2 |
| Copper ... pounds | 233.60 | 5.0 | 11.53 | 1.9 |
| Lead ... do | 149.40 | 3.0 | 4.48 | .7 |
| Tin ... do | 16.80 | 23.0 | 3.86 | .6 |
| Zinc ... do | 115.40 | 3.0 | 3.46 | .5 |
| Silver ... ounces | 6.45 | 26.0 | 1.68 | .3 |
| Total | | | 73.70 | 12.2 |
| Lumber ... M board feet | 3.62 | 1,600.0 | 57.92 | 9.8 |
| Hides ... pounds | 200.00 | 6.0 | 12.00 | 2.1 |
| Rubber ... do | 92.10 | 3.0 | 2.76 | .5 |
| Total | | | 72.68 | 12.4 |
| Grand total | | | 598.76 | 100.0 |

TABLE III.—*Summary of 1923–29 and present values represented by commodities in the proposed unit*

| | Average value 1923–29 | Per cent of total |
|---|---|---|
| Domestic farm products | $7,084,000,000 | 52 |
| Fuels, metals, and lumber | 4,887,000,000 | 36 |
| Imports | 1,642,000,000 | 12 |
| Total | 13,613,000,000 | 100 |

| | Value of 1923–29 volume at present prices | Per cent of total | Per cent of 1923–29 value |
|---|---|---|---|
| Domestic farm products | $2,430,600,000 | 41.6 | 34.3 |
| Fuels, metals, and lumber | 3,046,700,000 | 51.0 | 62.3 |
| Imports | 509,700,000 | 7.4 | 32.2 |
| Total | 5,987,000,000 | 100.0 | 44.0 |

*Note regarding the tentative commodity unit.*—Of the 25 commodities in the suggested unit all but 6 are now dealt in on organized exchanges. Three of the others—pig iron, petroleum, and burlap—formerly enjoyed a futures market, and the other 3—hard coal, soft coal, and lumber—are considered by authorities as well adapted to exchange trading.

Among the additional commodities which may be made eligible for inclusion in the basic unit are the following:

Tobacco, wood pulp, flaxseed or linseed oil, rice, cement, brick, rayon, yarn, potatoes, apples, evaporated milk, butter, cheese. The aggregate value of these 12 products in 1923–29 averaged about 2½ billion dollars, or some 20 percent of the values represented by the 25 commodities in the tentative unit.

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STATEMENT OF REV. WILLIAM MATHEW HOLDERBY, WASHINGTON, D.C.

At the invitation of the chairman of the Senate Committee on Finance, as requested by Senator Morris Sheppard, in my behalf, as President-Director of the National Christian-Family Defense League, I submit a suggestion, based upon the effort heretofore developed by this organization in its purpose of serving the interests that would be conducive to the material prosperity of the Nation, in the trust, that it may be of meaning in helping to find a solution for the economic situation confronting the Nation. No solution of the economic problem will terminate with benefit upon the corporate life of the families of America, until a spiritual and moral basis of life is accepted for the Nation. This essential requirement therefore should be of primary consideration, if results are to be secured, for the time and effort given by the Senate Committee on Finance. to this economic investigation. No nation indifferent to God can prosper more than the individual who forgets God.

There are three spheres that develop categories of law that must be studied to discover the nature of their separate contribution to human existance; but equally so, their sense of interdependability in the whole scheme of life among men. The benefits that will promote the interests of the life of the people of our country are developed out of the economic, political, and religious spheres of effort. No progress toward a betterment of the peoples' welfare, of this or any other nation, ever can be made, if only a partial program of consideration or treatment is given the whole problem.

The laws found in the spheres of these three economies are thus the total support of the Nation's life. It therefore is as if the Nation rested upon a tripod of support that these three legs afforded it. Obviously all three legs of this tripod are necessary to this upholding of the prosperity of the people. No one of these legs can be withdrawn without the collapse of the other two sustaining factors of the foundation. The spectacle at this hour of the jeopardy confronting both State and church, as likewise the homes of our land, because of the lack of economic contribution of maintenance, is a revelation of the seriousness of the crisis. This danger to the peace and prosperity of the people has developed because of the isolation of these forces from each other; that themselves only are strong when developed in the combination of cooperation. False concepts of the functions of both church and State and a totally oblivious attitude to the revelation of God's laws lie at the root of the causes precipitating our economic disorder as it terminates upon the homes of our land. It is certain that our present national predicament in the spheres of both economic and political operations is due to the lack of the third leg of the foundation on which rests national security and prosperity, namely, the spiritual.

Until a problem is stated it is impossible to offer a solution. In the printed form of Senate Resolution 28, of the Seventy-second Congress, introduced by Senator Morris Sheppard, of Texas, and which is appended, is found a statement of the present problems of nation life. A cogent résumé of the resolution is that the present problems of national disorder are due to the loss of the balance between the material and the spiritual elements in national life. This is the cause producing in the social, industrial, political, and religious fields the demoralizing and ravaging effects terminating upon national security and prosperity.

In an editorial in the Chicago Daily News of February 18, 1933, by S. J. Duncan Clark, which likewise is appended, there is stated that observers of national trends are disturbed by weaknesses in the ethical foundations of government and business:

"In the voluminous report on present social trends, prepared by a group of economists, social scientists, and other men of learning, at the request of President Hoover, the assertion is made that, while the economic and governmental factors in American life have developed immense influence and power, two major factors—the church and the home—have declined in influence over men's behavior, although retaining their essential values for society.

"Later in the report there is a solemn warning that the vast technological superstructure of the Nation is advancing over crumbling roads and shaking bridges.'" Combining those two assertions—and they are clearly related—it is apparent that the wise observers and commentators on social trends are disturbed by weaknesses in the ethical foundations of government and business. The church and the home are peculiarly the conservers of those foundations. If they are losing their efficacy to shape American attitudes, standards, and ideals—and many agree with the finding of the report in that respect—then the danger is unquestionably serious.

"The unbiased warning of the report constitutes a challenge to those who believe in the values for which the church and the home have stood. Renewal of fidelity to those values is a first duty. Church and home are essential to each other. Neither can do its full part in serving the life of the Nation if the other fails, and all of small avail if the roads and bridges of spiritual and ethical ideals crumble and quake beneath the governmental and economic superstructure."

In this editorial is set out, in the clear definition of practical terminology, the tricotomy of the spiritual, economic, and political forces playing upon human existence. It therefore is patent that the political and economic problems are at the root of a spiritual nature. Deep-seated in the body politic are diseases that have come, both by contagion with infectious causes, as well as the deliberate inoculation by enemy forces, that would destroy the life of the Nation, founded on the ideas and ideals that came out of the Plymouth colony, established by the Pilgrim ancestors whose offspring has become indigenous to the soil that gave them birth. No progress ever will be made in undergirding these ethical weaknesses, that have disintegrated the political and economic structure, by statesmen closing their eyes to the presence of these forces of alien and enemy factors in our national hegemony. We must diagnose accurately if we are to prescribe effectively.

No disturbance in our economic life today but is a manipulated or promoted effect. There are four factors at hand to produce prosperity: That of unlimited raw material, of farm, forest, and mine; adequate labor to produce or convert these into finished commodities of commerce; an unimpaired medium of exchange; and the complete systems of transportation to deliver the products to the ultimate consumer. What is it that hinders the material prosperity of the United States of America? The gross exaggeration, as well as the totally false statements concerning prevailing conditions, inspired as they have been to force a condition of fear upon the people, have been published by the forces using this method to distress the people. It is a psychic method to undermine the physical and moral fiber of the masses. It already has operated in other nations to produce the desired results of the perpetrators. Twenty nations in the past three years have overturned their governments. The economic chaos of America has been created that her political destruction might be accomplished. It is a process of exhaustion that is meant to produce the weakening of every defense resisting these enemies.

The one hope of defeating the forces that seek, through collectivism, operating in the social, political, and economic attacks, to destroy the home, church, and state is to reemphasize the idea of the family, as contrasted with the present effort to emphasize the individual as the organizing unit of society. The one dependable factor, if we are to reestablish material prosperity, is the developing of national consciousness in terms of the family. Home life is built on the unit of father, mother, and child. Give the home life of the Nation the defense the Nation owes the family and this defended family life at once becomes the buttressing strength of the Nation. The bolshevists and others who menace the Nation are men who evade family ties; wanderers, irresponsible, they have nothing to lose. When every man or woman is made responsible, as son or daughter, husband or wife, father or mother, to the family to whom they owe allegiance then Communism, I.W.W.ism, and anarchy will die of malnutrition. The family life of the Nation is the avenue or channel way through which the strength of these spiritual ideas and ideals are to be made to contribute an effect of helpfulness upon both the economic and political supports.

John W. Weeks, as Secretary of War, said:

"The first line of defense of our Republic from the enemies without and the enemy within is not the Army, nor the Navy, but the home."

There is not one human problem but can be solved by the proper treatment of family relations and obligations. In the processes used to spiritually integrate a family every problem of their physical maintenance is solved. It is the family only that establishes the institutions of home, church, and state; and these in turn bless or blight the family accordingly as is the character of the family that originated them.

To catch an understanding of the view of statesmanship concerning the spiritual nature of the family, I quote Theodore Roosevelt, in a plea for maintenance of the relationship of the family to the Nation:

"Questions like the tariff and currency are literally of no consequence compared with the vital question of having the unit of our social life, the home, preserved. If we have solved every other problem in the wisest possible way, it shall profit us nothing if we have lost our national soul; and we will have lost it if we don't have the question of the relations of the family put upon the proper basis."

Herbert Hoover said in his interpretation of the factors contributing to the perpetuity of the Nation:

"This is a land of homes, churches, schoolhouses dedicated to the sober and enduring satisfactions of family life and the rearing of children in an atmosphere of ideals and religious faith. Only with these high standards can we hold society together, and only from them can Government survive or business prosper. They are the sole insurance to the safety of our children and the continuity of the Nation."

To be practical, in the contribution I would make to this serious study of our present national situation, I wish to include in the record the very relevant and germane proposals of Mr. Henry Ford, on the subjects: Farm and factory, Self help, Unemployment, offered in a Nation-wide publishing of them, in full-page inserts, in the newspapers used in this campaign. Each of these clear and cogent studies goes directly to the heart of the essential requirement, to make a family economically independent, which is the only hope of economic security. These illuminating and understanding presentations of ideas show the conscientious citizens of the United States what can be done to ameliorate the conditions of such citizens as are willing to work their way out. These observations of the fundamental requirements to national prosperity likewise will serve for statesmen to propose policies of government for the people in guiding them out of their dilemma, rather than by the prevalent method of political chicanery and demagogism, to constitute classes of our citizens as menaces to our Government, because they have been misled to a position of false hope as to relief from their critical state. These observations are presented for printing in the record of these hearings of the Senate Committee on Finance.

Only as this line of approach is taken, of a consideration of a national spiritual need in meeting the issues now confronting the Congress of our Government, can there be any meeting of the material exigencies. In achieving this stabilization of natural life the great ends will be achieved of crime being checked, social conditions corrected, economic security maintained, industrial concord established, the future of the state assured, the conservation of our youth for future citizenship provided and our Nation preserved for that destiny intended for it by the Almighty God.

The consideration that I would plead for an emphasis as to the place of the spiritual in the maintenance of national security, which is the foundation to material prosperity, grows out of the words of George Washington, who, as the first President of the United States of America, said in his farewell address:

"Of all the dispositions and habits which lead to political prosperity, religion and morality are indispensable supports. In vain would that man claim the tribute of patriotism who should labor to subvert these great pillars of human happiness—these firmest props of the duties of men and citizens. The mere politician, equally with the pious man, ought to respect and cherish them.

A volume could not trace all their connections with private and public felicity. Let it simply be asked, Where is the security for prosperity, for reputation, for life, if the sense of religious obligations desert the oaths which are the instruments of investigation in the courts of justice? And let us with caution indulge the supposition that morality can be maintained without religion. Whatever may be conceded to the influence of refined education of minds of peculiar structure, reason and experience forbid us to expect that national morality can prevail in exclusion of religious principle."

That this plea of the first President of our Nation, for the place of the spiritual element, for the assurance of national prosperity, is no less emphasized in our day, I quote from an editorial in the Wall Street Journal of a somewhat recent issue:

"What America needs more than railway extension, and Western irrigation, and a low tariff, and a bigger wheat crop, and a merchant marine, and a new Navy, is a revival of piety, the kind mother and father used to have—piety that counted it good business to stop for family prayers before breadfast right in the middle of the harvest; that quit work a half hour earlier on Thursday night so as to get chores done and go to prayer meeting. That is what we need now to clean this country of graft, of greed, petty and big, of worship of fine houses and big lands and high office and grand social functions."

In this same attitude, of an evaluation of the essential worth of the definitely spiritual resources to which all the prosperity of the Nation is due. The custom says:

"Much of the prosperity of this Nation is due to the family prayers which were once daily held in the homes of our fathers. To a very large extent, the custom has gone by. Whatever the argument pro and con may be, the fact nevertheless remains that such family prayers nurtured and developed these spiritual resources to which all the prosperity of the Nation is due. The custom of family prayers should be revived."

The forces that today are manipulating America financially are the forces that have corrupted her morally. The attacks upon the womanhood and childhood, to seduce them from the ways of virtue; the attack upon the family, in ways of youth taught free love; promoted easy divorce and the prevalent childless marriage, through even church justified, advertised birth control; the persuading of the masses to enjoy the luxuries that bring life to the experiences of lasciviousness rather than being willing to live in the realm of the simplicities are the sure signs that America is in the grasp of some enemy power. This covert enemy is of a spirit that hates our history of glorious achievement, through the godliness of leaders, who are our heroes of faith and patriotism. This enemy covets the priceless heritages that the God of the mountain, valley, and plain has given to the children of a pious ancestry, that loved Him and served Him, as they pioneered their way through hardships, to build this land gloriously for Him.

The lifting of the lid of the chest of secret causes of our national economic and political distresses reveals the word of One who knew His own. He said, "Beware of the leaven of the Pharisees." This spirit made a breach among 12 brothers that destroyed a kingdom. The same spirit crept into 1 of 12 disciples and crucified a Messiah. It is this same spirit abroad today among the nations of the world, bringing distress to them, that they may be destroyed. There is a hidden organized system at work today in the whole world wreaking the vengeance of hate against the nations it would destroy. It is a warfare, not in terms of bullets and blood, but no less merciless in its destruction of life, by its subtle employment of the means to rob men and their families of the means to secure food, raiment, and shelter; or else become mastered and enslaved by these masters of capital, and the preemptors of the God-given mercies for man's needs; that they garner and exploit but themselves do not produce.

Alexis de Tocqueville, in his volume, Democracy in America, writes:

"I sought for the greatness and genius of America in her commodious harbors and her ample rivers and it was not there. I sought for the greatness and genius of America in her fertile fields and boundless forests and it was not there. I sought for the greatness and genius of America in her rich mines and her vast world commerce and it was not there. I sought for the greatness of America in her public-school system and her institutions of learning and it was not there. I sought for the greatness and genius of America in her Democratic Congress and her matchless Constitution and it was not there. Not until

I went into the churches of America and heard her pulpits flame with righteousness did I understand the secret of her genius and power. America is great because America is good; if America ever ceases to be good, America will cease to be great."

Has our prosperity fled us for the same reason that our greatness, too, must go, because at last our Nation no longer is good? Has the liberalism of a new day defied the holiness God would give America that His righteousness might exalt the Nation? Will we have our land healed of its sore distresses? There is a remedy of God's prescription. Hear Him:

"If my people, the people called by my name, shall humble themselves and pray, and seek my face, and turn from their wicked ways; then will I hear from heaven, and will forgive their sins, and will heal their land."—2 Chronicles 7:14.

A future glorious life among nations is foretold by the prophet Micah as he envisions a reign of righteousness upon the earth:

"And he shall judge among many people, and rebuke strong nations afar off; and they shall beat their swords into plowshares, and their spears into pruninghooks: nation shall not lift up a sword against nation, neither shall they learn war any more.

"But they shall sit every man under his vine and under his fig tree; and none shall make them afraid: for the mouth of the Lord of hosts hath spoken it.

"For all people will walk every one in the name of his God, and we will walk in name of the Lord our God forever and ever."—Micah, 4:3–5.

Only as nations shall acknowledge the Jehovah of Israel shall there be prosperity to their peoples. Their spiritual exultation shall be their material exaltation. It is into such an era that we fast are moving. There shall be painful travail of nations ere that day shall come. There are things now in the systems that must surely go. God is trying to burn them out, but some men are trying to put out the fire. They can not do it. God's will, in God's time, in God's way, through God's Son is to prevail. A new day is at hand for which humanity long has yearned. It is such a picture, in the words of Micah; that is the picture of future national prosperity in terms of economic security, based upon a spiritual realization by the nations that have learned the political relationship that comes from submission to Him who came to bring peace on earth and good will toward men. Man can not and will not determine this new order. It is God, the Jehovah of Israel, who will do it.

The judge of all the earth shall in a day judge the nations. Some He will set upon his right hand and some upon his left. Those upon His left shall depart from Him, but those upon his right shall go in to serve Him in His Kingdom. In this new day the foundation of God at last shall be underneath His people, who acknowledge Him in all their ways that He might direct their paths. This burning message of the truth of the Kingdom of Heaven on earth must be sent broadcast over the Nation. So surely as it fails of being sent, that it might be heard, so our Nation will perish under the judgments of God because we forgot God. "What shall it profit a man if he gain the whole world but lose his own soul?" So what profiteth this Nation to look to a golden calf for the help it can not give, rather than to look unto the mount of the Glory of God from whence only can come the help the Nation needs.

I quote the words of Howard B. Rand, L.L. B.:

"Multitudes are failing, because of spiritual blindness and the lack of prophetic discernment, to recognize in the overthrow of thrones and the fall of governments, with the attending disturbances and turmoil, the fulfillment of ancient predictions. Treating the present conditions as but a passing phase of readjustment, which they believe will ultimately result in stabilization, they are little disturbed and less concerned so long as their normal life activities continue. Because human nature quickly adjusts itself to abnormal conditions, making them but commonplace, the present stresses and strains, which are but a prelude to the great crash, will increase in intensity, unrecognized by the majorities.

"The eventide of the age has passed and having entered the blackness of a dark night we need light. From whence will that illumination come?"

This is the answer of this question to the Senate Committee on Finance conducting this investigation. If the statesmen of the Congress of the United States of America will acknowledge the God of our Nation, by an appeal to the people to honor Him, as He is acknowledged, the God of the Nation; if the families of the Nation will remember Him in their gratitude for his tender mercies and loving kindnesses to this people; if the prophets of the Nation and the pastors of the people shall be true to their missions, then and only then will the way of the Nation be made smooth. As the voice of one who cried in the wilderness, "Prepare ye the way of the Lord, make His paths straight," so America must realize that her destiny as to a place in the Kingdom of Jesus Christ on earth is to be determined, not alone by material prosperity, but by the direction of her spiritual goings.

"Except the Lord build the house, they labor in vain that build it."—Psalm 127.

National defiance of God is bringing judgment to the Nation; national repentance will bring His mercy and loving kindness to our people.

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STATEMENT OF EDWIN WALTER KEMMERER, RESEARCH PROFESSOR OF INTERNATIONAL FINANCE, PRINCETON UNIVERSITY, PRINCETON, N. J.

THE PRESENT ECONOMIC SITUATION WITH PARTICULAR REFERENCE TO THE CURRENCY

We live in an exceedingly complicated economic society, and the economic disorders we are now experiencing are the result of a large number of causes, direct and indirect, which act and react upon each other in an almost infinite variety of ways. Any attempt to explain our present economic breakdown chiefly by reference to any one cause would be futile. The principal causes, direct and indirect, of our present economic depression, in my judgment, are the following:

(1) The destruction wrought by the greatest war in history—a destruction of scores of billions of dollars of property and over 13,000,000 lives, representing the best blood of the world, men who, if they had lived, would to-day be in the prime of life. Our present generation has been greatly weakened by the loss of life and of vitality due to the fatalities of the war.

(2) The gross maladjustments in the production of various basic commodities, growing out of the efforts of different countries during the war, to produce goods for themselves which war conditions prevented them from importing as formerly, or to produce certain classes of goods in great volume for war needs. These maladjustments have contributed to the existing excess stocks of various commodities, have reduced to a lower level than would otherwise exist the efficiency of world economic production and distribution, and have been important factors in the tremedous decline we have been witnessing of late in the world's international trade.

(3) The large amount of farm mortgages floated during the war and early post-war period for the purchase of land at war-inflated prices, and the great increase in the burden of the debts represented by these mortgages, which resulted from the great decline in commodity prices, including the prices of farm products, and which was inevitable after the discontinuance of war-time inflation.

(4) The large and increasing amount of restrictions on international trade in the form of tariffs, quotas, exchange restrictions, currency depreciation, anti-dumping regulations, arbitrary customs valuations, so-called "trade-clearing agreements" and the like. Many of these restrictions upon foreign trade have been the results of efforts to maintain uneconomic industries, expanded production in specified lines, or high-wage scales, created by the abnormal conditions existing during the war. They represent wasteful efforts to resist the natural economic liquidation of the war. The Department of Commerce reports that, in addition to various forms of exchange control, the year 1932 "saw trade barriers increased by various means in over half of the 65 commercially important countries, with a general downward tendency in tariffs observed in only a very few cases."

(5) The large backwash of basic commodities which the world has accumulated, by reason of its attempts to defy the law of demand and supply through valorization schemes intended to hold up prices without controlling the supply of the product. Examples are: Rubber, coffee, copper, wheat, and sugar.

(6) The burden of interallied debt obligations, and particularly the uncertainty and tension growing out of attempts to solve the problem of war debts.

(7) The unstable political situation abroad, particularly in Germany, the Near East, South America, and the Orient.

(8) The widespread loss of confidence, "virtual shellshock", resulting from the inevitable collapse of the great speculative boom of the years 1928 and 1929—a lack of confidence which has been perpetuated and aggravated by a

number of factors, viz: (*a*) The breakdown of the gold standard throughout most of the world; (*b*) the apparent failure of the disarmament conference; (*c*) the revelation of crooked practices in a number of high places in the financial world; (*d*) the weakness of our American banking system, which has been evidenced by 10,738 bank suspensions during the years of 1921–1932,[1] including 5,096 suspensions for the years 1929 to 1932, and by the enormous additional drop of bank suspensions so far this year; (*e*) agitation for inflation, in Congress and out; (*f*) the failure of the National Government to balance its Budget, with the resulting heavy increase in our national debt, and accumulation of undigested Government securities in our Federal Reserve banks and other banks; (*g*) increasing burdens of indebtedness of farmers, home buyers, and others, as prices and wages fall; (*h*) increasing burden of taxes as incomes fall; (*i*) large and increasing unemployment.

All of these factors are causes and all likewise are effects. They act and react. They overlap and they merge. There are no sharp demarcations.

I shall limit the rest of my statement to matters relating to currency and banking, because these are the subjects to which I have given most study.

Aside from the widespread breakdown of the gold standard, at home and abroad, probably the two most important facts relative to the currency in the United States are: (1) The great rise in the value of the dollar during the last 4 years; and (2) the unequal way in which this rise has affected different groups of commodities and services. Each of these will be discussed briefly.

(1) The value or purchasing power of the dollar, though comparatively stable for about 8½ years ending with the autumn of 1929, has since then increased greatly and is now high as compared with what it has been at any previous time during the past 20 years. The value of the American dollar, or its purchasing power, as measured (*a*) by the wholesale price level, and (*b*) by the general price level, including prices at wholesale and retail, rents, and wages since 1913 has varied as follows:

*Purchasing power of American dollar*

| Year | Purchasing power as measured by wholesale price level [1] 1926=100 | Purchasing power as measured by general price level [2] 1926=100 |
|---|---|---|
| 1913 | 143.4 | 170.9 |
| 1914 | 146.9 | 170.9 |
| 1915 | 144.1 | 166.1 |
| 1916 | 117.6 | 146.2 |
| 1917 | 85.5 | 123.0 |
| 1918 | 76.4 | 108.9 |
| 1919 | 72.3 | 98.8 |
| 1920 | 65.4 | 88.6 |
| 1921 | 102.9 | 104.9 |
| 1922 | 103.5 | 108.2 |
| 1923 | 99.4 | 103.6 |
| 1924 | 102.2 | 103.0 |
| 1925 | 96.7 | 106.0 |
| 1926 | 100.0 | 100.0 |
| 1927 | 104.9 | 100.0 |
| 1928 | 102.4 | 97.2 |
| 1929 | 103.6 | 95.5 |
| 1930 | 116.1 | 101.8 |
| 1931 | 137.6 | 114.0 |
| 1932 | 154.1 | 129.5 |
| 1933 | 164.0 | 134.6 |

[1] Index of purchasing power, Standard Statistics Base Book, 1932, p. 220, and supplement of Mar. 15, 1933, p. 15. The figure for 1933 is based upon the January figure only.

[2] Index of general price level, Federal Reserve Bank of New York, Standard Statistics Base Book, 1932, p. 233, and supplement of Mar. 15, 1933, p. 15. This index is prepared on the 1913 base. I have converted it to the 1926 base. Weights used in original index: Commodity prices at wholesale, 2; composite wage payments, 3½; elements of cost of living, 3½; rents, 1. The figure for 1933 is based upon the January figure only.

[1] Of these 10,738 suspended banks 1,372 were subsequently reopened, leaving net suspensions for the 12 years of 9,366.

(2) The great increase in the value of the dollar that has taken place since the crisis of 1929 has been very unequal, as it has found expression in the prices of different classes of commodities and services and in the wages of different kinds of labor. The farmer and other producers of basic commodities have suffered particularly. The result is a great lack of equilibrium and, in consequence, a great instability in our present price structure. For certain groups of products and certain classes of prices, for example, the index numbers for 1926, 1929, 1932, and early 1933 are as follows:

*Wholesale commodity price indexes*

[Relatives, 1926=100]

| | 1926 | 1929 | 1932 | 1933 |
|---|---|---|---|---|
| Wholesale commodity prices | 100.0 | 96.5 | 64.9 | 61.0 |
| Raw materials | 100.0 | 97.5 | 55.1 | 50.2 |
| Farm products: Group index | 100.0 | 104.9 | 48.2 | 42.6 |
| Foods: Group index | 100.0 | 99.7 | 61.0 | 55.8 |
| Hide and leather products: Group index | 100.0 | 109.2 | 73.1 | 68.9 |
| Textile products: Group index | 100.0 | 93.7 | 55.9 | 51.9 |
| Fuel and lighting: Group index | 100.0 | 81.6 | 70.3 | 66.0 |
| Metal and metal products: Group index | 100.0 | 104.4 | 80.2 | 78.2 |
| Building materials: Group index | 100.0 | 97.1 | 71.5 | 70.1 |
| Chemicals and drugs: Group index | 100.0 | 94.4 | 73.7 | 71.6 |
| Finished products | 100.0 | 96.2 | 70.4 | 66 7 |
| Retail food prices | 100.0 | 98.1 | 63.8 | 59.3 |

NOTE.—U. S. Bureau of Labor Statistics figures, Standard Statistics Base Book, 1932, pp. 219–231, and supplement of March, 1933, pp. 15–16. The figures for 1933 are based on January figures only.

These two facts are the chief explanation of our debt problem and of our farm and unemployment problems aside from their debt features. Let us consider each of these problems briefly.

*Debt problem.*—The National Industrial Conference Board estimates the net interest-bearing debt of the United States at the present time at about $155,000,000,000. The great bulk of this debt has been created since 1913. Since the general price level is lower today than it has been at any time since the spring of 1917, most of this debt is today payable in dollars of greater purchasing power than were borrowed. In other words, it takes more bushels of wheat or of corn, more pounds of beef or of hogs, and more bales of cotton to pay a hundred dollars' worth of debt today than would have been required to do so at the time most of these debts were contracted. This is a real burden and is causing great hardship.

In weighing this burden, however, two important facts should not be overlooked: First, that inasmuch as a comparatively small part of the principal of these debts is being called for payment at the present time, if this drop in the price level should prove to be but temporary and if prices should in the not distant future return to something like their predepression level, the present hardship would not continue; and, second, that for most of the time since 1896 the price level has been advancing or remaining comparatively stable and that in only 4 years of these 36 have we had excessively low or strongly declining prices. For these 36 years, the general price level rose in 24, declined in 5, and remained unchanged in 7.

Most of the payments of principal and interest on long-time debts contracted since 1896 have been made in dollars of less value than the dollars that were borrowed. In other words, during nearly all of this 36-year period (unlike the 23 years preceding it), the world has been having rising prices, and the debtor has, therefore, been benefiting at the expense of the creditor.

The lack of equilibrium in the rates at which different classes of prices and the prices of different classes of commodities have declined has caused much hardship, and particularly to our agricultural population. In general, the prices of the goods our farmers have had to sell have declined during the last 4 years much more rapidly than have the prices of the goods which they have had to buy. The following citation from the recent Report on the Agricultural Situation, prepared by a special committee of the Association of

Land-Grant Colleges and Universities, summarizes this phase of the situation by comparing recent figures for extremely favorable and extremely unfavorable dates, namely, for the boom period immediately preceding the depression and the "black summer and fall" of 1932. The report says:

"The aggregate of farm production in the United States in 1932 is approximately equal to that of 1929. Consequently the shrinkage in returns is broadly indicative of the total influences of the recent changes in domestic and foreign demand conditions, together with such additional influences as have arisen from the drop in the general price level. Prices received by farmers in the fall months of 1932 were approximately 40 per cent of those received in the fall months of 1929 * * *. In 1928, the ratio between the prices received by farmers and the prices paid by them for the goods they buy was about 90 per cent of the pre-war ratio. In the depression of 1921, the ratio was 75 per cent, and in 1925, the most favorable postwar year, the ratio was 92 per cent. By June, 1932, farmers' purchasing power declined to 48 per cent of their prewar purchasing power—a decline since 1928 of nearly half * * *."

Such a lack of equilibrium in price and wage adjustments has, of course, been one of principal factors in the unemployment situation. When the prices of a manufacturer's product decline rapidly, while the wages he must pay, the freight charges he must meet, and the prices of some of his raw materials decline much more slowly, if they decline at all, the manufacturer soon finds his business unprofitable and must shut down. When the public begins to feel that prices are destined to fall farther, they naturally hold back their purchases. Why buy today if things will be cheaper tomorrow? Furthermore, if there is a widespread feeling, as there doubtless is, that wages of certain classes of labor and the prices of certain classes of goods and services have not been liquidated to a level reasonably in equilibrium with other wages and prices, the public will reduce to a minimum its purchases of these "highly priced" products and its employment of this "overpaid" labor. The sooner that the prices of different groups of commodities and the wages of different kinds of labor are brought into a reasonable equilibrium, the sooner we will have a normal revival and a consequent decrease in unemployment. An upward movement is much more likely to take place after a more or less stable equilibrium in price and wage adjustments has been attained than before. The quicker, therefore, that we can iron out these maladjustments, the sooner may we reasonably expect an enduring upward movement.

For the present, the important question is: How can this situation most effectively be met?

A widely advocated solution is deliberate inflation, or reflation, as it is often called when the purpose is a return merely to the price level of predepression years. One type of inflation of which we hear much of late is the so-called "devaluation" or reduction in the gold content of the dollar. The theory of those who advocate devaluation is simple and usually runs something as follows:

"The price level today is about two thirds as high as it was before the crisis. This low price level is not a temporary one incident to a passing crisis, but is of an enduring character. It is due chiefly to a world scarcity of gold. Reduce the gold content of the dollar to two thirds of its present amount, or from 23.22 grains of pure gold to, say, 16.5 grains, which would be equivalent to calling 67 cents of our present gold dollar the new dollar, or to calling $1 of our present gold money $1.50 of the new gold money. Prices would then automatically rise", the proponents of this plan say, "by 50 percent, or, in other words, would be brought back approximately to the 1929 level. By giving us a dollar of about the same purchasing power as the average dollar of the period 1921–29, the debt problem would be largely solved." Such, in brief, is the argument of those who advocate a devaluation plan.

Before considering how this plan would work, let us discuss briefly the fundamental assumption upon which it is based—namely, that we are suffering from an enduring shortage of money resulting from an enduring shortage of monetary gold.

The principal grounds for claiming that such a shortage of gold exists are four:

(1) The great increase in the value of gold since 1929, as evidenced by the decline in the price level in gold-standard countries which we have just mentioned.

(2) The fact that the world's gold production declined substantially during the years 1917–22.

(3) The fact that, although there has been a considerable recovery since 1922, the world has only within the last couple of years gotten back to the high production level of the period 1908–16.

(4) The fact that the demand for gold increased greatly during the 11 years following the armistice, as a result of the growth of the world's production and trade and of the return of a large part of the world to the gold standard.

Let us consider these reasons briefly.

If the world were suffering from an enduring scarcity of monetary gold, this scarcity would be likely to be felt in a slow and continuing decline in prices, as it was in the period 1873–96, rather than in a catastrophic drop like the one we have recently had following a long period of comparatively stable prices.

The value of gold is a question of the world's total supply of gold in relation to the world's total demand for gold; and the world's total supply of gold is a very large sum, representing the accumulation of the ages; while the world's annual production of gold is a very small percentage of this total supply. The total supply of monetary gold in the world today is about 12.5 billion dollars, while the world's total annual production of gold is about 4 percent of this figure, and only a little over half of the annual product normally goes into the monetary uses. Slight changes in annual increments, which themselves represent only a little over 2 percent of a total volume, affect that volume very slowly. In this connection, it should be noted that the comparatively stable wholesale commodity price level in the United States from 1921 to 1929 was a high level—averaging about 41 per cent above that of 1913.

Although the world's gold production fell off considerably during the war and early post-war years, the world's supply of monetary gold has increased substantially and almost continually since 1913. The world's average annual production of gold for the 8 years ending 1913 was 21,514,000 ounces; for the 8 years ending 1921 it was 19,354,000 ounces; and for the 8 years ending 1929 it was 18,660,000 ounces. The average for the last two 8-year periods was only 11 per cent less than for the pre-war period—which was the greatest in the world's history—and the average for the three years 1930, 1931, and 1932—21,300,000 ounces—was almost equal to the average for this period of pre-war maximum. The gold production for the year 1932 of nearly 24,000,000 ounces was 5 percent higher than that of 1915, which was the previous maximum in the world's history.

We are here, however, more concerned with the amount of gold that has actually been coming into the monetary uses. Turning, therefore, from the world's gold production to the growth of the world's supply of monetary gold, absolutely and relatively to the world's production of basic commodities, we find no evidence of an enduring scarcity of monetary gold. The Federal Reserve Board estimates the world's stock of monetary gold in the hands of central banks and governments at the end of 1921 at $8,023,000,000 and at the end of 1929 at $10,297,000,000. This represents an average annual increase (geometrical) of about 3.2 percent. For the 19 years 1913–32 this world stock of monetary gold increased 144 percent, representing an average annual increase (geometrical) of about 4.8 percent. The studies of Dr. Carl Snyder, of the New York Federal Reserve Bank, covering the principal commercial countries of the world for the period 1865 to 1914 show a rate of increase in the physical volume of production of basic commodities—tons, bushels, yards, etc.—of approximately 3.15 percent a year. For the 16-year period from 1913–14 to 1929–30, the annual rate of increase was only 1.86 percent, and for the 9 years 1920–29 it was 3.2 percent.

Under normal conditions, there would be no need of the world's supply of monetary gold increasing as rapidly as the world's production of basic commodities or as the physical volume of business, because, with continually improving currency and banking organization, with increasing cooperation on the part of central banks, with increasing use of checks in business transactions in substitution for coin and notes, and with increasing velocities of monetary and deposit circulation, the efficiency of monetary gold should be continually increasing. In other words, each dollar of gold should perform a progressively larger amount of money work.

It may be reasonably concluded, therefore, that for the approximately 9-year period from April 1921 to the end of 1929, during which wholesale commodity prices in the United States were fairly stable at a level averaging about 41 percent above the pre-war level, and during which the world's stock of monetary gold in central banks and government treasuries increased on an average of 3.2 percent and the world's production of basic commodities likewise increased about 3.2 percent, there is no evidence that the world was suffering from what could be called an enduring scarcity of monetary gold.

The world's stock of monetary gold in central banks and government treasuries at the end of 1932 was approximatly 19 percent greater than it was 4 years before, and the recent increase in the value of gold is greatly stimulating gold exploration and production.

While it is true that, during the decade 1921–30, many countries went over to the gold standard, nearly all of these countries or the areas they cover had been on the gold standard before the war, and their return to it did not represent an increased demand for gold, as compared with the pre-war demand. Furthermore, a large number of these countries substituted the gold-exchange standard or the gold-bullion standard for the pre-war gold-coin standard, with a resulting almost complete discontinuance of the hand-to-hand circulation of gold coin throughout the world, thereby effecting very substantial economies in the use of gold.

The Agenda recently published for the forthcoming World Monetary and Economic Conference says: "Before the war more than 40 percent of the total monetary gold stocks consisted of gold in circulation or with private banks, while, at the present time, only 9 percent represents gold not in the hands of central banks." Moreover, contrary to all expectations, gold has recently been pouring into the world market from the hoards of India in large quantities, approximately 291 million dollars having come from that source during the 15 months ending December 1932. Contrast an average annual net absorption of gold by India for the 5 years ending with 1928 of about 136 million dollars with a net exportation of 196 million dollars for the year 1932. Since the outbreak of the World War, Russia has poured over 600 million dollars of monetary gold into the rest of the world. Moreover, during the last few years, there has been a very decided decrease in the amount of new gold absorbed in industry and the arts.

At the present time the prospects are stronger that we are facing another period of gold inflation and of rising prices in gold-standard countries than a period of gold scarcity and declining prices, which some economists have been prophesying. While the commodity price levels as measured in gold have fallen greatly since 1928 in countries like England and Denmark, which have suffered substantial losses in their gold reserves, they have also fallen greatly in the United States, whose gold reserves at the end of 1932 were approximately what they were 4 years before, and in France, whose gold reserves increased from 1,253 million dollars at the end of 1928, shortly after she returned to the gold standard, to 3,254 million dollars at the end of 1932. During this same 4-year period of enormously increasing gold reserves, the commodity price level in France dropped 30 percent. The market for gold is a world market and the value of gold is obviously determined by world forces.

The situation in the United States as regards the monetary circulation, the supply of monetary gold, bank deposits, and the physical volume of business on or about June 30 of each year since 1926 and for the latest date in 1933 for which figures are available, is summarized in the following table. The index numbers have been computed, using the figures for 1926 as 100.

*Circulating media and physical volume of production, 1926–1933*

| | 1926 | | 1927 | | 1928 | | 1929 | |
|---|---|---|---|---|---|---|---|---|
| | Actual figures (000,000 omitted) | Index [2] | Actual figures (000,000 omitted) | Index [2] | Actual figures (000,000 omitted) | Index [2] | Actual figures (000,000 omitted) | Index [2] |
| Money in circulation | $4,885 | 100 | $4,851 | 99 | $4,797 | 98 | $4,746 | 97 |
| Gold supply: | | | | | | | | |
| (a) Gold in U.S. Treasury and Federal reserve banks | 4,055 | 100 | 4,202 | 104 | 3,732 | 92 | 3,956 | 98 |
| (b) Gold coin and bullion in in circulation | 392 | 100 | 385 | 98 | 377 | 96 | 368 | 94 |
| (c) Total supply of monetary gold | 4,447 | 100 | 4,587 | 103 | 4,109 | 92 | 4,324 | 97 |
| Bank deposits of member banks: [3] | | | | | | | | |
| (a) Demand | 13,070 | 100 | 13,410 | 103 | 13,450 | 103 | 13,000 | 99 |
| (b) Time | 5,641 | 100 | 6,163 | 109 | 6,923 | 123 | 6,739 | 119 |
| (c) Total | 18,711 | 100 | 19,573 | 105 | 20,373 | 109 | 19,739 | 105 |
| Physical volume of trade [4] | 105.4 | 100 | 108.5 | 103 | 112.0 | 106 | 108.3 | 103 |
| Industrial production [5] | 120.2 | 100 | 120.2 | 100 | 118.7 | 99 | 132.7 | 110 |

| | 1930 | | 1931 | | 1932 | | 1933 [1] | |
|---|---|---|---|---|---|---|---|---|
| | Actual figures (000,000 omitted) | Index [2] | Actual figures (000,000 omitted) | Index [2] | Actual figures (000,000 omitted) | Index [2] | Actual figures (000,000 omitted) | Index [2] |
| Money in circulation | $4,522 | 92 | $4,822 | 99 | $5,695 | 117 | $6,095 | 125 |
| Gold supply: | | | | | | | | |
| (a) Gold in U. S. Treasury and Federal reserve banks | 4,178 | 103 | 4,593 | 113 | 3,466 | 85 | 3,491 | 97 |
| (b) Gold coin and bullion in circulation | 357 | 91 | 363 | 93 | 453 | 116 | 525 | 134 |
| (c) Total supply of monetary gold | 4,535 | 102 | 4,856 | 111 | 3,919 | 88 | 4,466 | 100 |
| Bank deposits of member banks: [3] | | | | | | | | |
| (a) Demand | 13,630 | 104 | 13,430 | 103 | 11,010 | 84 | 11,750 | 90 |
| (b) Time | 7,211 | 128 | 7,258 | 129 | 5,600 | 99 | 5,595 | 99 |
| (c) Total | 20,841 | 111 | 20,688 | 111 | 16,610 | 89 | 17,345 | 92 |
| Physical volume of trade [4] | 100.2 | 95 | 85.7 | 81 | 65.7 | 62 | 57.1 | 54 |
| Industrial production [5] | 106.4 | 88 | 88.1 | 73 | 57.7 | 48 | 59.3 | 49 |

[1] All of the figures for 1933, except those for physical volume of trade and industrial production, are averages of the months of January and February. The figures for the two exceptions are for January only.
[2] Year 1926=100.
[3] These figures represent the average of the 4 or 5 weekly reports for the month of June.
[4] This is the Clearing Index of Business, prepared by the Federal Reserve Bank of New York.
[5] This is the Composite Index of Industrial Production, prepared by the Standard Statistics Corporation.

Briefly summarized, these figures show that we have in the United States today 3 percent more monetary gold than we had in the boom year 1929; that our monetary circulation for the year 1932 was 20 percent larger than for the year 1929. It averaged for January–February 1933, 30 percent larger than for the corresponding months of 1929. On the other hand, the physical volume of trade in the United States was 41 percent lower in 1932 than in 1929, and was 48 percent lower in January 1933 than in the corresponding month four years ago. Broadly speaking, comparing early 1933 with early 1929, we have only about 50 percent as much business being done, and this business is being done at a general price level only about 70 percent as high, while we have 30 percent more money with which to do it and our demand bank deposits, through which by means of checks we normally perform more than 90 percent of our business, have declined in reporting member banks only 13 percent. In view of the much larger percentage of "non-reporting banks" that have suspended than of "reporting member banks", the percentage decline in demand deposits for all banks will probably appear appreciably larger than that for "reporting member banks" just given, when figures become available. From October 4, 1929, to September 30, 1932, total deposits (exclusive of interbank deposits) of all banks in the United States declined 24.3 percent. For nonmember banks the percentage decline was 23.9 as compared with 24.5 for member banks.

The great trouble is that our money and our bank deposits have not been moving. The efficiency of money as a medium of exchange and the efficiency of bank deposits for the same purpose depend upon the velocity with which they circulate. A decrease in the average rate at which money circulates, say, from 40 times a year to 20 times a year, is equivalent to the cutting in half of the volume of money in circulation. Money that is hoarded has a zero rate of circulation during the period in which it is hoarded. The same principle applies to bank deposits. An average volume of demand bank deposits balances, say, of $20,000,000,000, would do $800,000,000,000 of money work in a year, if the total amount of checks drawn against these deposits in the course of the year were $800,000,000,000. representing an average velocity of circulation of 40. This same volume of deposits, however, would do only $400,000,000,000 of money work if the volume of checks charged against it during the year were only $400,000,000,000, representing an average velocity of circulation of 20. In both cases, the percentage of monetary and of gold reserve against the deposits would presumably be the same. In the second case, each dollar of gold reserve held to support the deposits would be only half as efficient as in the first case. Deposits that are not moving are analogous to money that is being hoarded. In this sense of the term, an ernormous volume of our bank deposits today is being hoarded, and those that are moving are in general moving very sluggishly.

Unfortunately, we have no satisfactory figures for the rates at which our hand-to-hand money circulates, but we have reasonably satisfactory figures covering 141 important cities in the United States for the rate at which our bank deposits circulate, and, since over 90 percent of our business is done by means of these bank deposits circulating through checks, these figures for the velocities of bank deposit circulation are very significant. Briefly summarized, they are as follows, for the period 1926 to the present time:

*Velocity of circulation of bank deposits in the United States* [1]

| Year | New York City | | 140 other cities | | 141 cities, including New York | |
|---|---|---|---|---|---|---|
| | Actual data | Index [2] | Actual data | Index [2] | Actual data | Index [2] |
| 1926 | 67.1 | 100.0 | 33.9 | 100.0 | 53.4 | 100.0 |
| 1927 | 74.9 | 111.6 | 35.0 | 103.2 | 57.4 | 100.7 |
| 1928 | 93.5 | 139.3 | 37.9 | 111.8 | 67.7 | 126.8 |
| 1929 | 111.9 | 165.8 | 41.6 | 122.7 | 78.0 | 146.1 |
| 1930 | 69.5 | 103.6 | 34.9 | 102.9 | 55.2 | 100.4 |
| 1931 | 46.2 | 68.9 | 28.8 | 85.0 | 41.1 | 77.0 |
| 1932 | 33.1 | 49.3 | 25.4 | 74.9 | 32.8 | 61.4 |
| 1933 [3] | 25.7 | 38.3 | 24.0 | 70.7 | 28.9 | 54.1 |

[1] Figures of Federal Reserve Bank of New York.
[2] Base year 1926=100.
[3] Figures for January only.

The velocity of circulation of deposits in 141 cities declined 58 percent from 1929 to 1932, while the decline for New York City was 70 percent. For these 141 cities an average dollar of bank deposit credit did more than two and one third times as much money work in 1929 as in 1932, and likewise an average dollar of gold held as reserve against bank deposits. These figures demonstrate that our trouble is not in the volume of gold, or of money, or of bank deposits, but in the fact that our money and our bank deposits are not moving. The money is here and the bank deposits are here, but the people who have them are afraid to use them. For several years now the majority of the people in the United States who have had sufficient optimism to buy securities or land, to expand production on farms or in mines (except gold mines), to enlarge production in their factories, or to extend their commercial business, have lost by so doing. Concerns which have expanded their inventories, in the great majority of cases, have done so only to see the prices of their stock of goods decline after purchases were made. Consumers have had similar experiences in making improvements on their homes or in buying household supplies. An optimist who repeatedly gets his fingers burned is likely to become a pessimist. A widepread philosophy is "why buy goods today if they are to be cheaper tomorrow?" To the public mind practically everything has been depreciating in value except money, and money has been rising in value. The natural conclusion is "hang on to the money you have and get as much more money as you can." This is the philosophy of hoarding, a harmful, antisocial philosophy which we rightly deprecate but which we can understand and must face.

These velocities at which our currency and bank deposits circulate are extremely low, because of the low state of business confidence. And this low state of confidence is due chiefly to the factors we have already mentioned—namely, "shellshock" from the speculative collapse of 1929, the failure of the National Government to balance its budget, resulting in a continually increasing deficit and enormous public borrowing, unreasonably high tariffs at home and abroad and other excessive restrictions on international trade, a grossly defective banking system, frequent revelations of abuses in high finance, the tension in the political situation abroad, and widespread fear arising from agitation in Congress and out for radical legislation in the fields of currency, banking, and finance.

When the fears growing out of these difficulties are allayed and confidence is once restored our money and our bank deposits will again move and our supply of monetary gold will again function normally. Then we shall find that the world has an abundance of gold.

If this is a correct statement of the facts and if this reasoning is sound, then the present low level of commodity prices is but a temporary one, and the commodity price level of the years 1922–28 is much more nearly normal for these times. The predepression commodity price level may, therefore, be expected to return as soon as confidence is restored. In that case a reduction at this time in the gold content of the dollar would ultimately give us a dangerous inflation and probably ultimately put our price level far above that of 1922–28. This would be grossly unfair to the creditor classes—the classes which suffered from a depreciating dollar from 1896 to 1920.

If the proposal to devaluate the dollar by reducing its gold content should be adopted, and should prove effective in helping many worthy debtors, it would at the same time do great injustice to many equally worthy creditors. Our principal creditor in the United States on long-time account is the bondholder; and, inasmuch as a large proportion of our debts consists of corporation debts, the largest single class of debtors consists of stockholders, namely, the people who own the corporations that owe the debts expressed in the bonds. Corporation debts (long- and short-term bonds and notes) in 1932 were estimated by Irving Fisher to equal about seven times the volume of farm mortgages and other agricultural loans combined.

A great part of our bonds is owned by insurance companies, savings banks, and other banks, universities and colleges, scientific, charitable. benevolent, and other welfare institutions in their endowment funds, by pension funds, and by widows and orphans and other beneficiaries of funds held in trust. These creditors are our most conservative investing classes—classes whose welfare is a matter of such great social importance that we protect them by special laws which restrict the investment of trust funds to a limited and and supposedly safe field of investment. In these restrictions, bonds and mortgages are favored, and investments in equities like common stocks are usually disfavored.

A reduction in the gold content of the dollar, or any other policy which led to a large inflation, would take funds from the creditor and give them to the debtor. The stockholder would gain to a large extent what the bondholder lost. Our corporations would pay off their debts in cheaper dollars and our stockholders would gain scores of billions of dollars at the expense of the bondholders. This would greatly favor the speculative classes at the expense of the conservative creditor classes.

In helping certain classes like farmers, home buyers with mortgages on their property and others who are really suffering under the burden of long-time debts during this temporary period of abnormally low commodity prices, any plan involving an extensive devaluation of our gold unit would cause much injustice to other equally worthy classes and, in my judgment, would result in such a breakdown of confidence and credit as would be nothing less than a national calamity.

The serious agitation in Congress of a proposal for a devaluation of the American gold dollar would itself tend to break down our currency standard. Foreigners holding American bonds would wish to unload them at almost any price, in order to avoid the possibility of having them paid off in 67-cent dollars.

American bondholders would feel the same way. Mild beginnings in the efforts to sell the bonds before the devaluation scheme should become effective would be in danger of eventuating into a stampede. The same principle would apply to other kinds of long-time obligations and to preferred stocks. The scramble for gold would be intensified. If bank deposits were expected to be payable shortly in 67-cent gold dollars, the public would want to withdraw their deposits at once and to convert them into 100-cent gold dollars and would be willing to bid up for such dollars, if necessary to get them, to a premium of nearly 50 percent. If we were on the gold standard when agitation for such a devaluation began to be taken seriously by the public, the fear that the plan would be adopted would quickly break down that standard; and if we were on a paper-money standard, with our dollar worth substantially more than 67 cents gold, the value of that dollar would be quickly depressed. The public would lose confidence in their money and instead of hoarding it would be disposed to unload it quickly before its value should decline. The velocities of monetary and of bank deposits circulation, which are now abnormally low, would become abnormally high, and we would find ourselves thrust into the mire of inflation. Unfortunately, it would not be controlled inflation, but a wild and uncontrolled one. The present time, when the country is suffering from an intense case of "nerves" and when confidence is at a low ebb, is no time for agitating for a devaluation of our gold dollar.

Suppose that the plan were adopted and that, after the storm had done its damage and had cleared away, the expectations of the proponents of the plan should prove to have been realized and prices should have been raised to a level approximately 50 percent higher than the level of today, even then the farmer's problem would not have been solved. He would have been helped in the payments of his long-time debts. His possibilities, however, of again borrowing needed funds, at least for a considerable time, would have been greatly impaired. Such a plan would be a great shock to credit, and for a time would tend to dry up the sources of credit. Furthermore, if all prices were increased 50 percent, that increase would apply to the things the farmer bought, as well as to to the produce he sold, and the farmer would still be suffering, as he is today, from the same abnormally low purchasing power of farm products over other products.

A reduction in the gold content of the dollar for the purpose of meeting an emergency like the present one, which is probably temporary, would create a very dangerous precedent. We have had many severe economic crises in our history and many changes in our monetary and banking system. We have been reluctantly forced off our metallic money standard twice in time of war and once in time of peace. There have been times when an appreciating currency has temporarily placed increasing burdens on the debtor class, and there have been times when a depreciating currency has resulted in economic injustice to the creditor class. Never in our history as a Nation, however, have we deliberately changed our actual metallic unit of value in order to meet such situations. The claim sometimes made, that we debased our metallic unit of value by our coinage laws of 1834 and 1837, is not correct. From the beginning of the National Government down to 1873, we were legally a bimetallic country. During all that time both gold and silver were freely coined at our mints at a fixed ratio of equivalence determined by law.

The ratio of 15 to 1 established in 1791 overvalued silver and undervalued gold, with the result that very little gold was coined prior to 1834, and the little that was coined quickly disappeared from circulation. Gold was at a premium and our currency, though legally bimetallic, was, in practice, a silver standard. The de facto monetary unit in 1834 was a silver unit, and the coin that best represented our unit of value was the half dollar, of which there was free coinage at that time and of which there was a substantial circulation. Gold was more valuable as bullion in the United States, or as money in France, than as money in the United States, and so gold coins did not circulate to any appreciable extent in the United States. Debts, prices, and wages were actually paid in terms of the silver unit. Two changes in our monetary law, one in 1834 and a slight corrective change in 1837, raised our bimetallic ratio from 15 to 1 to 16 to 1, with the object of bringing gold back into circulation. The reduction in the gold content of the dollar was a little over 6 percent and it resulted in an increasing circulation of gold and a decline in the coinage of silver. It did not impair existing contracts, for existing contracts were practically silver contracts. It was merely an attempt to bring our mint ratio into closer harmony with the market ratio and thereby to make it possible to bring gold coin back into circulation and to maintain an effective bimetallic standard.

Another significant fact in connection with this problem is, that for a generation now, say, 36 years, the general price level has been rising most of the time. From 1873 until about 1896, the general tendency of the price level was downward, but since 1896, when the influence of the great production of gold in the newly discovered gold fields of South Africa began to become effective, the general price level has moved upward. For example, for the 36 years, 1896 to 1932 inclusive, the general price index number prepared by the New York Federal Reserve Bank rose in 24 years, remained unchanged in 7 years, and declined in only 5 years; and 3 of these 5 years were the years 1930, 1931, and 1932. During this same period the index number for farm products in general rose for 22 years, remained unchanged in one year, and declined in 13 years. Either long- or short-time debts contracted during this period, whether paid in full at maturity or regularly amortized, have, for the most part, been paid in cheaper dollars than were borrowed. During this generation the debtor in general has gained much more from the instability of our monetary standards than has the creditor. If the policy of changing the gold content of the dollar from time to time, in order to equalize the burden of debts, had been adopted in 1896, most of the changes would have been in the direction of increasing the gold content, rather than of decreasing it.

The debtor's case for a revaluation of the gold content of the dollar, on the basis of a decline in the price level during this brief period of 3½ years, is weakened by the fact that he has gained at the expense of the creditor by reason of the instability in the value of the dollar during by far the greater part of the time during an entire generation. For the reasons already given, there is a good prospect that the present low price level is but temporary and that the price level of the future will be a much higher one than that of today. There is, moreover, a fair prospect that, after the depression is over and the commodity price level has again returned to normal, the general upward movement of prices which began in 1896 will again assert itself, and that we may be facing in the not distant future the problem of gold inflation and the rising cost of living with which we have been so much concerned most of the time for over a third of a century.

If once the precedent were established of changing the gold content of the dollar by legislative action in order to reduce the injustice which a fluctuating dollar imposes upon debtors or creditors, we would enter upon a course of action likely to do much more harm than good. How far should the dollar appreciate or depreciate before its gold content should be changed? Many substantial changes in the price level are but temporary. Temporary rises succeed temporary declines, and vice versa. How long should a change endure before the dollar should be revalued? How much should it be changed on each occasion? Who is to answer these questions? Shall each country of the world answer them for itself? Is it possible in a matter of this kind which vitally affects the welfare of the entire population—a population in which the debtor classes greatly preponderate and have by far the largest proportion of the votes—to keep the decision on a scientific level and free from politics?

In a country like our own, what would happen if the general price level were rising substantially, so as to call for an increase in the gold content of the dollar at a time when farm products in general or, say, wheat and cotton in particular were rapidly falling? At such a time, when the plight of the farmer was bad and getting worse, could we raise the gold content of the dollar in the general public interest, if in doing so we should aggravate the farmer's hardships?

These problems would arise in every country in the world that adopted such a plan. Unless we could have an international plan of monetary stabilization, we would have chaotic conditions in international finance and international trade. Furthermore, unless we could keep our revaluations on a thoroughly scientific basis and free from politics, the situation as regards domestic loans would become very grave and the heavy risks involved would be likely to increase greatly interest and other service charges on loans. The time may come when we can put into operation a thoroughly scientific plan for varying the gold content of the dollar so as to maintain a stable price level, when we can base the value of the dollar upon a satisfactory international price index number, when we can keep the whole problem out of politics and maintain the administration on a thoroughly scientific plane, and when all this can be done through a plan of international cooperation so as to maintain a stable unit of value throughout the leading countries of the world. In my judgment, however, the day when this Utopian dream can be realized is far distant.

In the present state of international affairs, of popular economic knowledge, and of politics, both in this country and abroad, a man must be a great optimist, to put it mildly, to believe that any such plan is at all feasible.

Inflation in any form is exceedingly difficult to manipulate and control. History shows that practically all attempts at deliberate inflation, and all experiments with inconvertible paper money, despite their optimistic promises and their frequently very favorable beginnings, have broken down and have ended in excessive depreciation and widespread injustice. Such were the experiences of all the paper-money experiments during the World War. Such were our experiences with Colonial paper money, Continental paper money, and the American greenback; and such was the experience of England during the Napoleonic period. Already Australia, New Zealand, and Denmark, which undertook a short time ago to maintain their managed currencies at a parity with sterling, have broken away and their currencies have depreciated to a substantially lower level. The illustration given by Mr. Henry J. Haskell before this committee a few weeks ago is a particularly appropriate one. He said:

"Primarily, inflation is like a balky and unruly horse. It simply refuses to be guided by the rider. At first it balks; the rider applies whip and spur and still it will not budge. Then, of a sudden, it bolts and there is no controlling it. When it finally stops it throws its rider and he is left flat on the ground."

So far I have assumed that the horse, if goaded sufficiently, would get started, and I suppose he would. So far, however, our attempts to goad him into action have not been very successful. Over a year ago our Federal Reserve authorities inaugurated a vigorous relation plan and for many weeks they bought Government securities in the open market at the rate of $100,000,000 a week, thereby expanding Federal Reserve credit, inducing the banks to pay off their loans to the Federal Reserve banks and to accumulate heavy excess reserves. In pursuance of this strenuous reflation policy, our 12 Federal Reserve banks increased their average daily holdings of United States Government securities from $740,000,000 to $1,851,000,000 between February 27, 1932, and August 13. This was one of the most extreme attempts at deliberate inflation—or reflation, if you prefer—that the world ever saw. The public, however, were afraid to borrow the funds that were thus made available, and the banks were afraid to invest them. Consequently, the funds piled up in the banks and in private hoards. Actually, the general commodity price level as well as the level of security prices was lower in August when the making of these heavy purchases was discontinued than in February when it was begun.

This very reflation process itself scared a great many people to such an extent that the velocities at which the bank deposits circulated were decreased by more than enough to compensate for the increase in the volume of the deposits. In early March of this year, at a time when the monetary circulation of the country was the largest that it had ever been in our history—about 52 percent larger than the maximum of the boom year 1929—when the expanded bank credit resulting from the aforementioned reflation policy of the Federal reserve banks was still outstanding, when the physical volume of the Nation's business was only about 50 percent of the predepression figure, the general price level about 70 percent and demand deposits in reporting member banks

90 percent, in a situation like this our currency broke down completely, gold payments are suspended, and all the banks of the country were closed for over a week. What better proof could one ask, that our problem is primarily one of confidence?

Of course, reflation to a price level approximating that existing before the depression is desirable, but the best and safest method of obtaining this reflation is through such a restoration of confidence as will cause our existing supply of money and of bank deposits to circulate again at their normal rates. A return to normal of the velocities of our money and bank deposits circulations would give us not only all of the reflation we need to restore our prices to the level preceding the depression, but much more. It would, in fact, create a situation in which our most urgent problem would probably be to curb inflation rather than to stop deflation.

To accomplish this purpose the only suggestions I have to make are the very commonplace ones previously implied:

(1) Balance the budget, and by balancing the budget I mean a bona fide balancing of revenues and expenditures, and not a mere juggling of terms and accounts.

(2) Take a firm stand against all inflationary panaceas, including schemes to reduce the gold content of the dollar, and the various proposals to remonetize silver.

(3) Maintain such checks upon the recent concessions to possible currency and credit expansion as to contract the new circulating media promptly and effectively as confidence is restored. Most of these measures are temporary emergency measures. In their present form they should not be permitted to become permanent. Let us not forget that, in September 1923 nearly two thirds of Germany's 45 quadrillion marks of Reichsbank notes outstanding were backed by treasury bills of the German Government.

(4) Pass effective banking reform laws, bringing all commercial banks under national law and into the Federal Reserve System, substantially extending branch banking under effective governmental supervision, completely divorcing investment affiliates from commercial banks, and providing for adequate Government supervision of investment banking.

(5) Discontinue the publicity provision in regard to Reconstruction Finance Corporation loans to banks.

(6) Make a definite and final settlement of the problem of interallied debts.

(7) Arrange for a substantial leveling down of the tariff, in cooperation with other countries on a basis of mutual concessions, providing for the necessary changes in the "most favored nation" agreement.

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## Statement of Francis J. Kunnecke, Dean of Philosophy-Sociology-Political Economy, University of Dayton, Dayton, Ohio

The suggestions contained in the following pages are all excerpts from the book, The Way Out and The Way Beyond or Out of the Depression in Sixty Days, by Francis J. Kunnecke. Therefore, for their full understanding, reference must be made to the book mentioned.

My whole plan, in all its departments, is built up about the two essential points, unification of our financial institutions under Federal control, and the reestablishment of the purchasing power of the masses, by justice to the laboring man. Therefore, the measures I suggest are directly construtive and not merely palliative.

A reference to my booklet, published last year under the title "The Way Out and The Way Beyond", will demonstrate that a number of my suggestions have already been carried out by the Government, I will even make bold to say that, before the end of the depression, it will be found necessary to adopt still more of my suggestions with regard to financial institutions. These institutions once put in order, it will be found that the only way out of the depression is Federal command to start the wheels of industry turning, according to the plan proposed in my new book, a revised and enlarge edition of last year's publication.

I start with the manufacturing industry, because, according to the Federal Trade Commission's report, this industry produces more than one third of the national income.

I beg to call attention to the fact that, by reestablishment of national income, the national Budget will automatically, positively balance. This is preferable to the mere negative method at present used, by reduction of taxation, and, therefore, almost necessary curtailment of governmental service to the people, at a time when they most need such service.

With just a mention of the fact that employment assurance would make unemployment insurance unnecessary, and that the latter would in nowise heal the evils of the depression nor find a way out of it, whereas the former will render both these services to the Nation and prevent reoccurrence of our disaster, I pass over to my views and suggestions for correction of our present situation. It will be noticed that I deal primarily with national questions, maintaining that each nation must first solve its own internal problems before there can be any thought of solution of international economic questions. It is reasonable to expect our minimum 88 percent domestic trade to be able to pull after it our maximum 12 percent foreign trade, but not vice versa.

### THE WAY OUT OF THE DEPRESSION

1. The first step necessary to prompt ending of the depression is conferring, by our legislature, emergency powers upon the President of our country with a view to carrying out the plan herein proposed. Emergency needs prompt action and not long-drawn-out political debate.

2. The President would exercise these emergency powers through two boards that already exist in our governmental administration, the Federal Reserve Board and the Federal Trade Commission, or the Interstate Commerce Commission.

3. These boards would be composed, not of politicians, but of ethical economists, in the sense in which I have defined such, as presiding officers, under the President. In addition to these economists, upon the Federal Reserve Board, the membership of that Board, as at present constituted, would function. The Federal Trade Board would have, besides the presiding ethical economists, representatives of corporation and private industrial capital, representatives of labor interests, and representatives of the agricultural industry.

4. The action of the boards, under prompt decision of the President, should be backed by energetic and immediate action of the Department of Justice, all legal action against the boards to be suspended during the emergency. Otherwise the cumbersome, interminable process of courts would nullify the emergency action. We fully recognize the law, as it is at present administered, could create difficulties for this point in our program. However, without any interference with the Constitution or any necessity of an amendment to the Constitution, temporary legislation that would render emergency action more effective could readily be passed by Congress, if it sincerely wishes to end the sufferings of our Nation.

5. This plan is proposed because our captains of industry have stood by helpless and counselless for more than 3 years and have not found a way out. The Nation has suffered enough because of their inefficiency in this matter. Nor let us be reminded, in excuse, of the wonderful prosperity, which these same captains of industry are supposed to have procured for us during the few years preceding the depression. For a prosperity that leads to such a depression was evidently false. An engineer, who spans a river with a bridge that lasts but 4 or 5 years, and then crumbles, would never dream of referring with pride or with excuse to the few years of service the bridge rendered. Such excuse sounds like the definition of pleasure given by some ridiculous psychologists, namely, that pleasure is the absence of pain. For such industrial captains prosperity would be but the absence of depression.

6. The unification of all financial institutions into one system through membership in the Federal Reserve, whereby the financial situation of America will remain privately owned and privately operated but nationally regulated, is explained in the Way Beyond, page 67. Likewise, the principle of dividend to labor, above wages, out of the profits of industry, and the method of application of this principle are treated in detail in the Way Beyond, page 64.

With these six points, as explanatory and defense introduction, we propose the following suggestions, for prompt action to pull the Nation out of the depression, within 60 days.

### MONEY

1. Stop all issue by the banks, loan associations, and financial institutions in general, of our present currency.
2. Let the Government issue short-time currency, 3 months or 6 months, to all financial institutions, in return for enforced deposit, with the Government, of say, 50 to 75 percent of their present individual holdings of currency.
3. Said new currency will be invalid after 3 or 6 months, unless deposited with the financial institution from which it was obtained by the individual user thereof. Any other institution receiving such money, accepts it as deposited with the issue institution, and returns it as soon as possible to that institution.
4. This process will continue until normalcy returns.
5. Close the stock exchange and permit no expansion of business investments for a period of say 6 months. Extension of this period of closure will be decided by the Federal Reserve Board.
6. The banks are to issue this short-time currency only for exchange and for operation of actual industrial plants, with the proviso made above for advantageous investments.
7. Limit interest and discount in any form to 3 percent, for the time being, to cover expense of banking.
8. Enforce loans by financial institutions, through taxation of retained money, according to a sliding scale, exempting a reasonable amount as reserve to be decided by the Federal Reserve Board.
9. Embargo on all capital intended for foreign use. This action will naturally apply to America's gold reserve.
10. Impose direct taxation upon all foreign investment of capital.
11. Foreclosure and liquidation are to be prohibited.
12. Limit withdrawal on deposits to a fixed percent per week and thus protect the banks against runs; refuse all gold payment or redemption of currency in gold, to protect the Nation's gold reserve.

### INDUSTRY

1. Enforce agreement, among all producers of similar products of consumption, to some restriction as to types, models, sales fields, etc.
2. Lower the speed of machinery to 60, where 100 stands for the speed of 1928 and 1929; no decrease in hours of labor, however, will be permitted, except in favor of employment of a greater number of the unemployed at full wages.
3. There must be fixation of salaries and of number of officers in each concern, according to Goverment recognition of service to the Nation. No man is worth more salary than the President of the United States of America.
4. Sacrifice, for the time being, the 10 per cent depreciation in the figuration of the cost of production.
5. Prohibit all further investment.
6. There should be replacement of equipment only when absolutely necessary.
7. Enforce declaration of dividend to labor's buying power above wages, out of profits, according to the plan of The Way Beyond.
8. Small dividend or no dividend at all, if necessary, will be allowed capital until we rise to normalcy.
9. Order the wheels of industry to move, and force banks, as per above, to issue loans for the operations of business and industry.

### AGRICULTURE

1. We heartily indorse the forestration program of our newly elected President, Franklin D. Roosevelt.
2. We recommend immediate prohibition of foreclosure proceedings against the farmer.
3. Strengthen the farm banks, which have never recovered from the weakness created by the withdrawal of loans under President Harding's administration.
4. Necessarily, there must be a suspension of taxation for the time being.
5. Some form of cooperative planning of crops must be adopted to prevent excess supply. Cooperation in other ways among neighboring farmers could decrease the amount of each farmer's capital investment.

6. Some form of control of our produce exchanges must be adopted by the Federal Government.

7. Besides what we have thus far mentioned, we must not forget that as soon as the purchasing power of labor in our cities is reestablished the market for the farmers' products will automatically build up.

GOVERNMENT

1. It is of prime importance that we correct extravagance in all form of governmental expenditure.

2. It is an utter impossibility for the Government to balance its Budget in the present economic situation.

3. We therefore suggest that the Government do at present, and that productively, what the Government did in war time, and that, at least, in a material sense, destructively, go into debt. We pay off debts in time of prosperity and not in time of depression. Debtors are wiped out by their creditors, but the things which the debts created become concentrated in the hands of the creditors, and, in the last analysis, in the hands of Wall Street.

4. The same necessity faces our State and municipal governments for the maintenance of their services to the people, in the form of police and fire departments, educational sytem, and the like.

5. Taxes, therefore, instead of being increased in time of depression to balance the Budget should rather be decreased in order to increase the buying power and reestablish, by so much, the failing income.

6. We also highly recommend that the Government, by very prompt action, reestablish the ratio fixed by the Federal Reserve Act of 1913 of $1 in gold to $2.50 in currency.

According to governmental statistics the gold was 54.94 percent of the total stock of money on June 30, 1930. If this be true, and the ratio of the Federal Reserve Act correct, as we have all reason to believe it was and is, then our currency should be $11,337,164,290 as backed up by $4,534,865,716 in gold coin and bullion, as reported June 30, 1930. Now, the total stock of money in the United States, according to the report of the same date, was $8,306,564,074, which automatically shows that our currency was $7,565,465,932 short of what it should have been, June 30, 1930. The Government, therefore, according to the ratio fixed by the Federal Reserve Act of 1913, could issue $7,565,465,932 in currency without there being the least plausibility of inflation accusation. We are not forgetting that gold certificates have full gold backing; but, on the other hand we would have it borne in mind that silver notes require no gold backing at all.

The possibilities of this issue of currency to supply the dearth of money in circulation in the United States must be evident to all. The Government could, without the least suspicion of currency inflation, with the Federal Reserve Act of 1913 justifying its action, pay off by far the larger portion of our national war bonds. If, moreover, the Government would apply the principle of multiple tender, or pay its debts in honest dollars, it could actually cancel the war debt of the American Nation and have money to spare. Let it further be remembered that it would be but applying the powers already given it by the Federal Reserve Act of 1913.

It cannot be too strongly insisted upon that this is not inflation and especially that it is not the exaggerated real inflation perpetrated by Wall Street, during the years preceding 1929, when credit money was raised to the enormous figure of $117 to $4 in gold, when universally accepted economic practice fixed the ratio of $12 in credit money to $1 in gold. The reason why Wall Street resists, by false propaganda and misstatement of the issue concerning the relative ratios of the elements of our monetary system, is, that it will deprive their currency of the dishonest, exhorbitant buying power, which restriction of that currency necessarily implies.

Wall Street desires to buy back the articles created, with half the currency that was used in the process of creation. This is but another trick, whereby Wall Street wishes to concentrate in itself the wealth of America. It has the affrontery to ask the American Government and the American people to pay the New York bankers twice the amount of buying power given the American Government in 1917 and 1918. To put the question so that every layman can understand, this is equivalent to demanding that the Government, and, therefore, the American people, present Wall Street with two houses for the one they gave, with two farms for the one they sold, with two factories for the one they financed. The injustice of this usurious demand will be evident to any tyro of the study of economics.

Need we further mention that we would thus be provided with an excellent means to partly balance the national budget by deducting $400,000,000, or thereabouts, which the American Government, and consequently the American people, must pay as interest on these war bonds, and that, therefore, the American people would be saved this enormous sum of taxation every year, as also the taxation that will be necessary to redeem the principal.

The investment of the Nation in its Government bonds is an evidence of the confidence the people place in the Government's security and in its ability to meet its obligations. Furthermore, it demonstrates the people's faith that the Government will be able to pay the principal on the date designated by the bonds, as also the interest due yearly, as determined by the bond issue.

Fiduciary money likewise witnesses to the confidence of the people in the ability of the Government to redeem, in gold if gold be the accepted standard or in gold or silver if the monetary system be bimetallic, the notes issued by the Government as elements of the monetary system.

From the point of view of confidence, the case of bonds versus notes seems to be equal; for whilst the bonds are redeemable only at a future date, whereas the notes are redeemable upon presentation, the bonds imply the Government's ability to meet a greater obligation in the long run because of the accumulating annual interest payable on the bonds, whereas the notes imply a possible demand, though saving the enormous amount of interest the bonds require.

The possibility of this sudden unexpected demand could be obviated by restricting the amount of allowable redemption per year to a certain fixed sum. The Government then could invest the interest that ordinarily it would have to pay yearly on the bonds, in purchase of gold or silver, or both, as the case may be, thus gradually increasing its gold reserves out of taxation instead of increasing bankers' wealth, as is the case, when the bankers hold the bonds. Moreover, an issue of notes instead of bonds, or in replacement of bonds, or in redemption of bonds, would render the banks more liquid, and therefore more willing to contribute to the circulation of currency and to the expansion of a possibly unnecessarily restricted credit element of our monetary system.

From the point of view of redemption, bonds are just as much fiat money as an issue of notes replacing them, with the sole difference that the bond is a lien of the Government in the future, with the advantage all on the side of the holder of the bond, whereas the note, unless restricted as above suggested, is a lien of the Government in the present, with the advantage preferably on the side of the Government.

There are still further reasons why we advocate the issue of notes, currency, by the Government, to redeem, immediately, all its war bonds, with the added proviso of the application of the multiple tender or honest-dollar principle.

If we assume in round figures the amount of gold at present in the United States Treasury and deduct the amount that would be necessary as strict guarantee for currency in circulation, the Federal Reserve Board could, according to the Federal Reserve Act of 1913, issue $4,410,439,690 in Federal Reserve notes, without the slightest suspicion of inflation. Now, nobody spoke of inflation when C of section 11 of the Federal Reserve Act was passed as law.

Furthermore, by law, if new law were necessary, the gold backing of the gold certificates could be reduced to the same figure as the percent of gold backing declared legal for Federal Reserve notes. This would allow the Government to issue an extra $2,045,694,763 of additional Federal Reserve notes. The sum total of the extra possible issue, within the percent prescribed by the Federal Reserve Act, would thus become $6,456,134,453. So that the Government could issue such an extra amount of currency and be fully within the gold reserve percentage fixed by the Federal Reserve Act of 1913. The Government would thus be able to purchase this amount of its war bonds.

At present the Federal Reserve bank notes require a 5 percent reserve in gold and 100 percent backing in Government bonds. What should prevent the Government, on this same basis, from issuing Federal Reserve bank notes up to the amount of these bonds thus purchased? This would furnish the Government with an extra issue of $6,456,134,453 Federal Reserve bank notes which would have the same security as our national bank notes have at present. Nobody questions the national bank notes. Why should anyone question this suggested issue of Federal Reserve bank notes from the point of view of security backing.

With these two issues of currency, amounting to $12,912,268,906, the Government could cancel its war-time debt and thus save in the neighborhood of $400,000,000 interest per year, which it at present must give as payment upon a dead investment, the destruction of war-time materials. This money can be expended by the Government yearly to increase its gold supply, and with each addition to its gold supply the Government would be able, by application of C of section 11 of the Federal Reserve Act, through issue of currency legally backed, to wipe out its further bonded debt in living investments. The bonds which the Government thus purchases back from the people can be used as stabilizers of our currency situation.

The cry raised against such a procedure on the part of the Government would be Wall Street's "inflation refrain." If this be inflation, then the Federal Reserve Act passed by Congress in 1913 was inflaticnary, and yet it has never been thus described. No; such redemption of its bonds by the Government would not be inflation, but would be transference of investment in dead issues and dead business, such as war-time issues and investments were, to living investment in business operation.

The money that would thus be given the banks for the Government war bonds they hold, would be loaned out to the people for business operation and business investment, in order by these, to make up to themselves, the banks, the interest they would no longer obtain from the Government or the people's taxation. This would start circulation of currency and consequent increase of business. Moreover, if we take into consideration the ratios between currency and credit money, the amount of credit possible upon this governmental issue of currency would rise to, in the neighborhood of $54,000,000,000. Everybody, who is conversant with our financial situation, knows that the credit element of our monetary system was, through panicky fear of the banks, as well as of the people, so curtailed as to manacle the hands of industry.

We cannot conclude the suggestions contained in these proposals without pointing to the fact that the $400,000,000 interest a year paid the banks out of taxation, was $400,000,000 of purchasing power taken from the people and by so much decreased the possibility of business return. Moreover, as these war-time bonds become due, an enormous amount of further taxation will deprive the masses of the people of purchasing power and thus still further retard the return of business to normalcy and prosperity.

In ultimate analysis, each one of the plans suggested is but replacing one form of faith for another, Government bond for Government currency, one form of credit for another, future credit of Government bonds for present credit of Government currency. Will anyone hesitate in asserting that present credit is more valuable to us in this time of depression than future credit which we have years, as yet, to build up?

As final argument for the adoption of the above suggestion, let us consider the situation in the light of a simultaneous run on all the large banks of New York City, a thing which is not beyond the realm of possibility. It would be impossible for any one of these banks to pay off their depositors in our actual currency. They would be forced to seek both State and Federal aid. The State of New York might permit them a perpetual holiday, to the extreme disadvantage of business with untold suffering for the people. The Federal Government could aid them to the real advantage of business operations and to the relief of the suffering of the people, by transforming the Government bonds, which are, in reality, large denominational currency reserved for circulation among the banks and wealthy citizens into currency of smaller denominations, $5, $10, $20, $50, and $100 noninterest-bearing notes. In the final analysis, the Government will be obliged to take such action to save the banks of the entire Nation. Why wait till unnecessary suffering drives the Government to save its people?

Before concluding the dicussion of this section we wish to remind the reader again that the issue of Federal Reserve notes and Federal Reserve bank notes, to purchase United States bonds, is, in final analysis, replacement of large denominational currency, restricted by its size to circulation among the banks and rich holders of the same, by noninterest-bearing currency of smaller denominations, capable, therefore, of circulation for ordinary business operation. This will have to be done either by taxation or by Government act. which latter will lift a tremendous burden from the shoulders of the mass of the people.

"SEC. 11. The Federal Reserve Board shall be authorized and empowered: (c) To suspend for a period not exceeding thirty days, and from time to time to renew such suspension for periods not exceeding fifteen days and reserve requirement specified in this act: *Provided*, That it shall establish a graduated tax upon the amounts by which the reserve requirements of this act may be permitted to fall below the level hereinafter specified: *And provided further*, That when the gold reserve held against Federal Reserve notes falls below 40 percentum the Federal Reserve Board shall establish a graduated tax of not more than 1 percentum per annum upon such deficiency until the reserves fall to 32½ percentum, and when said reserve falls below 32½ percentum, a tax at the rate increasingly of not less than 1½ percentum per annum upon each 2½ percentum or fraction thereof that such reserve falls below 32½ percentum. The tax shall be paid by the Reserve bank, but the Reserve bank shall add an amount equal to said tax to the rates of interest and discount fixed by the Federal Reserve Board.

"(d) To supervise and regulate through the bureau under the charge of the Comptroller of the Currency the issue and retirement of Federal Reserve notes, and to prescribe rules and regulations under which such notes may be delivered by the Comptroller to the Federal Reserve agents applying therefor." (Federal Reserve Act.)

7. The Government must adopt some form of regulation of the stock exchange, as well as of the produce exchanges.

8. Passage by our legislative bodies of a higher inheritance tax, especially when there is question of legacies in the higher brackets, would be collecting Government revenue where greater service is rendered and where the burden can be more readily borne.

9. To prevent overbalance in investment it would seem advisable to reestablish the higher income-tax schedule, dropped too soon after the war.

10. Taxation should, on general principle, restrict itself to income, respecting as much as possible the reasonable demands of capital investment, whether this be in home, farm business, industry, or finance.

11. It might seem possible through greater cooperation between Federal and State executives to secure the welfare of the Nation as a whole much more promptly than has been the case in the past. Unpatriotic, political bias has frequenly disrupted some of the best moves intending both State and national welfare.

12. To protect American industry against foreign competition, favor such nations, as accept and carry out the newly adopted American system of dividend to labor out of profits, with free-trade policy, maintaining a tariff, competitively protective, with all other nations.

## THE WAY BEYOND—INDUSTRY

1. The Federal Reserve Board and the Federal Trade Board, as constituted for the emergency, shall continue to operate according to laws passed in accordance with the following principles.

2. The right of private ownership, being a derivative of the natural law, must be respected and maintained; and the right of individuals to accumulation are limited proportionately by the rights of others to the necessities of life.

3. Security of capital and labor in a nation will strengthen the security of government. An economic system that effects, builds up, and maintains capital producing power and performs the same service for labor's ultimate consuming buying power, by that very fact establishes the security of the government upon a sounder basis.

Furthermore, the security thus obtained is the real source of confidence for both producer and buyer. The consumer will buy for present consumption and will invest in purchases for future and long-time consumption, as for instance in a home and its comforts, when he has the assurance of an income, in form of labor and its remuneration, with which to meet his obligations, present and future. The producer will not hesitate in business when he knows there is an assured purchasing power prepared to confidently take the produced article off his hands. The banker or financier will find ready security for his loans to business enterprise in the stability of business activity, and worthy security for loans to consuming labor in assurance of steady employment and consequent income of the wage-earning or salaried consumer.

An economic system, therefore, that attains these ends, or even only tends to their realization, is worthy of trial. Make it a 4-year or an 8-year plan. Such experimentation could not possibly produce a worse situation economically and socially, than our past 100 years or 40 years, whichever view you choose, of experimentation have brought upon us with such cyclic frequency, and, moreover, has all reasonable evidence of procuring for us a betterment in social and economic conditions, and a greater opportunity for attainment of life's purposes.

4. The end and purpose of production is consumption, and the unbalance between these two produces the ups and downs in the business cycle with accompanying exaggerated expansion and consequent waste for capital, and with periodic need and suffering on the part of labor.

5. As progress and increase in production in general can come only from the profits of industry, so from this source also must come the necessary consumption in form of buying power; the advantage of buying power for consumption in the end implies increased demand and, therefore, advantage for producing capital.

6. According to statistics of the Bureau of the Census, whereas capital in manufacturing industries increased from 1879 to 1929 from $2,700,000,000 to a minimum of $86,900,000,000 or 3,035 percent, bulk wages increased in the same period from $900,000,000 to $11,200,000,000 or 1,109 percent, and individual wages from $251.11 to $1,318.07 or 375 percent, demonstrating that the tension between buying consuming power and producing power constantly increases, and that this unbalance is the cause of our cyclical drops with the waste, confusion, suffering, attendant upon readjustment.

7. (*a*) The dividend to capital and labor shall be declared after some such method as follows:

Total profit in the manufacturing industry at the close of a year is divided in two, in a ratio determined by the Trade Commission of disinterested economists and business men and labor representation. The one portion going to labor is divided by the number of wage earners and their dependents, the quotient being declared the labor dividend over and above wages. Each wage earner in all business, receives as many times the quotient as he has dependents, including himself. What remains in each concern goes to the profits of that concern. This method will slowly readjust capital investment without our present general disturbances.

(*b*) Wages in the various industries will be maintained as in the past, with the perhaps necessary fixation of a minimum in the different occupations, varying according to the success of business, but always sufficient in all occupations to provide the necessities of life.

(*c*) A maximum salary schedule, graded according to positions of officials in a business, will be determined, based upon remuneration to individuals, according to responsibility, in the National Government. No man in the Nation fills a more important position than the President of our Nation.

Sections (*b*) and (*c*) of paragraph 7 are intended to prevent padding and multiplications of salaries and cutting of wages, from absorbing profits before dividend is declared to capital and labor.

Dividend is declared to labor according to the number of dependents, for the wage earner with children is taking care of the man power of the industry of the future, an essential factor in the determination of America's place among the nations of the future, among whome economics will assume a more important role even than it has occupied in the past. There are those who speak of possible economic war, which seems to be in the offing, and in such war man power will decide as it has decided in other warfare. The capitalist receives wages for the future maintenance of capital. The laboring man should receive means of support for the future laborers he is rearing, for the consumers of future production which he is fathering.

The employment ratio of men with dependents as to men without dependents could be decided by the Trade Commission along flexible lines.

8. Speed of production should be adjusted so as to make the laborer a wage earner and a buyer from the age of 20 to 60.

Machinery should primarily be intended to relieve expenditure of unnecessary human effort, and may not rationally be used to the disadvantage of human well-being, through exhaustion of quality or of fundamental stamina of human labor. Moreover, viewed in the light of 3 or 4 decades, a lower speed of machinery will insure a longer duration of labor ability and consequently increase the number of buying laboring men, with accompanying advantages to maintenance and increase of demand for the producer's article. The machine rationally should be suited to the man and not vice versa.

| | Each 10 years A | Each 10 years B | Each 10 years C | Each 10 years D |
|---|---|---|---|---|
| Speed of machinery | 100 | 90 | 80 | 70. |
| Buying laborers | 10 million | 20 million | 30 million | 40 million. |
| Profit per 10,000,000 | 100 percent | 90 percent | 80 percent | 70 percent. |
| Total profits | do | 180 percent | 240 percent | 280 percent. |

In the above schedule with speed of 100, our present sweat shop or track system, the Nation's labor and buying power are consumed and must constantly be replaced every 10 years with decrease, by 10,000,000, in buying laborers and increase of social burdens. According to speed 70 there is multiplication of buying laborers with decreased supply of articles and consequent better profit, better opportunity for labor, and lessening of social burdens. In The Way Out we have explained how 70 speed could mean 6 hours per day with 2 or 3 men running the machine.

### FINANCIAL INSTITUTIONS

Our banking system should be unified into a national institution and credit expansion should be put under control of the Federal Reserve Board, acting in the interest of balance between consumption and producing power, with advice from the Trade Commission.

However, by unification of control we do not imply unification of ownership. We wish to have it distinctly understood that we are in favor of as wide a field as possible for individual incentive and individual private investment and ownership.

The banking system of a country is not an end in itself, but finds its real purpose for existence in serving the requirements of cooperative endeavor on the part of capital and labor to turn a nation's natural resources into national wealth, individually owned and used.

A disturbance in the go-between institution, our banking system, necessarily entails failure and hardship for both capital and labor.

Advance in civilization, together with its advantages to the individual, always implies, in organization, sacrifice of something that, when rationally viewed, is less than the benefit obtained. Regulation or supervision and unification of our banking system, privately owned, insures the whole system, and, consequently, its individual members against the ignorant, mistaken management of members unworthy of the people's trust or incapable of administering to the financial needs of the Nation.

1. Regulation of credit given by financial institutions must be adopted upon a basis of capitalization, deposits, and resources, and only up to a fixed amount right to expansion of credit must be purchased from the Federal Reserve directly by a graded scale of taxation which is arranged for by the Federal Reserve Board according to requirements for real business expansion, with advice from the Trade Commission, which would be in possession of facts concerning the real needs of further actual investment. This requirement would serve to act as restraint upon too hasty expansion and too rapid inflation. Contrariwise, to prevent unnecessary or manipulated deflation, a graduated scale of taxation would be imposed upon unemployed money beyond a determined amount above the reserve required for safety.

2. Banks could not foreclose on banks without previous examination by and consent of the Federal Reserve, which would be in best position to judge upon advisability and opportuneness of such foreclosure.

3. Loans given should be supervised at regular intervals by the bank making the loan, to insure safe management of the depositor's money, and action should be taken by the bank when necessary for this purpose. A reasonable margin should be allowed between the amount of the loan and the appraisal of the mortgaged property or the par value of collateral to prevent losses to the bank, by variations in valuations.

4. In cases of disputed loans those members of the Board favoring the loan should become signatories to the loan and be held personally financially responsible.

5. Classification of financial institutions of all kinds should be adopted with laws differentiating the kinds of operations legal for each.

6. Guaranty of the honesty of officials of financial institutions can be secured through regular supervision and through the penal code. This is better than guaranty of bank deposits of the people out of the people's taxes, which method would, perhaps, lead to loose banking and real sport for speculators. The bankers would take the chances in the gambling dens of the markets, and the Government would shoulder the responsibility and pay the price out of the people's taxes.

7. The stock exchanges, for their operations would be obliged to submit to certain specified legal forms, exclusive of "shorts" and "gambling" on margin, upon penalty of invalidation of the transaction and imposition of fine, equal to the amount of the transaction, or imprisonment. Business stability is more valuable to a nation than satisfaction of a gambling and get-rich-quick inclination of some few individuals. Laws here should be positive and not negative.

8. Adoption of the multiple tender principle will correct the deficiency of all modern money as a standard of deferred payment. Lists of wholesale prices are regularly furnished by Dun's index number or Bradstreet's index number, or could be supplied every three or six months by the Government to determine the ratio that should multiply debt and interest thereon to be paid, to insure just buying power exchange, and obviate the evident injustice of our present method of payment of time loans and debts, and interest thereon. This would be just as feasible as our constantly changing rate of exchange.

9. This principle of multiple tender should be applied to the international debt.

10. All suggestions included in the plan of the Way Out and not here mentioned should be maintained as permanent features of Government control of our financial institutions.

### AGRICULTURE

We recommend adoption of the measures suggested in the Way Out for permanent establishment of the farmer's security.

### GOVERNMENT

1. Strict economy and adherence to budget as closely as possible is naturally the first recommendation.

2. Efficiency and fitness, and not the spoils system, should be guides in appointment to Government positions.

3. It is but an expression of the real purpose of Government to state that national and not party or group interests should be the primal purpose of all legislation and administration.

4. Taxation should be collected from profits and not from consumption directly. Profits as divided above, taxed will furnish deserved support for government from both capital's and labor's dividend.

5. We recommend, lastly, carrying over from The Way Out, all governmental measures that were efficacious in bringing the Nation out of the depression.

In time of war, the Government is expected to adopt measures that will win for its people as quickly as possible, to hasten return to peaceful normalcy. At present the Nation is suffering from a calamity that has caused and still is causing more suffering and want than the World War brought the Nation. It was and is the duty of the Government to adopt measures that will return us speedily to normalcy, if it wishes to keep the confidence of the people in the sincerity of its intentions towards them. In the name of common humanity, if patriotism is not sufficient in its appeal, stop the suffering and want of our people. If the task is beyond the representatives of government, it is a mark of noble, self-forgetting wisdom to call in broadly trained specialists who have an answer. The Chief Justice of the United States Supreme Court calls in a medical specialist in case of sickness. The Mayo Brothers consult lawyers in case of legal action. America is suffering from a complete collapse of its economic system, a system that has produced a series of depressions and finally the curse of the present utter collapse. Does not reason dictate the necessity of the service of economists and sociologists, who are not slaves of the tyranny of economic theory that has demonstrated its own fallacy by costly experimentation of decades, and whose error can be proved by philosophic analysis? United States Government will you fail your people?

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## Charting a Course Out of the Financial Hurricane

(By Warren M. Persons, of New York)

Since the spring of 1931 industry and finance in the United States have been battered and tossed about by a financial hurricane of a violence never before experienced in the history of this country. Our industrial and financial machinery has been disabled or put out of commission. The ship and its machinery have been seriously damaged; grievous injuries and fear have demoralized the crew and officers; and the safety of the ship has been imperiled because each has sought his own financial safety. Even the pilots have been confused. They have been counselled to steer this way or that and even to disregard their compasses and sextants and blindly steer in a direction dictated by the feelings of the numerous volunteer advisors. Meanwhile, the injured have had to be cared for and the immediate emergency met.

The problem has been to care for the disabled, to repair the ship and machinery in order that it might function normally and to decide upon a course that will carry us permanently out of the paths of such hurricanes.

During the past 2 years we in the United States have been primarily absorbed in meeting an emergency resulting from an unprecedented financial hurricane. We have adopted measures like unemployment relief, the Reconstruction Finance Corporation, public works and bank holidays to relieve suffering, stop the panic and avoid a mutiny. But, meanwhile, other measures have been proposed or adopted to get our monetary and financial machinery in working order so that industrial activity would proceed in normal fashion with men working at their former jobs. Still other measures have been proposed that we, forthwith, not only abandon our existing economic organization of pilots, officers, and crew, but also alter our method of navigation and steer in the direction of a new economic polar star.

The various measures which have been adopted or proposed, however, have not been measures purely to meet the emergency, or to crank the industrial and credit machine, or to abandon our previous economic system and steer toward a new economic goal. The measures and proposals have had a mixture of these elements. It is time to stop and ascertain the import of the measures we have adopted or proposals we are considering. The most urgent problem today is to define and decide upon our objective, analyze proposals in the light of that objective, and adapt our policies and legislation to that objective. Otherwise, more confusion, or even economic chaos, may result. If we desire to repair our economic system, let us do it intelligently and with knowledge of what we are doing. If we decide to abandon the system, let us do that intelligently and knowingly rather than ignorantly and inadvertently. In other words, our problem is to ascertain the acute or chronic defects in our economic and financial machinery, to decide whether we want to repair or abandon that machinery and then, having defined our objective, to proceed in accordance with our decision.

### THE UNPRECEDENTED COLLAPSE OF 1931–1932

The decline in the physical volume of industrial production and trade in the United States (including manufacturing, wholesale and retail trade, railroad freight traffic, building construction, mining, quarrying and petroleum output, and electric power production) between June 1929 and January 1931 was precisely one third. This decline is of a magnitude corresponding to that of the most severe major economic crises of the past. The decline in the volume of industrial production and trade was paralleled by correspondingly drastic declines in employment, commodity prices, security prices, and other indexes of business and finance. In other words, between the summer of 1929 and the winter of 1930–31 business in the United States experienced the devastating effects of a major economic crisis.

But the drastic contraction of 1929–30 represented less than half of the evil effects that industry and trade in the United States were destined to experience. Between January 1931 and July 1932 the physical volume of industrial production and trade suffered an additional contraction of precisely one third. In brief, during the three years from July 1929 to July 1932, inclusive, industry experienced a major economic collapse followed by a second major collapse.

If the figures just quoted were the only ones we had before us we would know that industrial contraction of such magnitude would be accompanied, in our present economic system, by cataclysmic declines in profits, employment, wage payments, commodity and security prices, and bank credit and increase in the burden of private and public debt, in commercial and financial failures, in political and economic unrest, and in intense dissatisfaction with an economic order which can permit widespread poverty and want in the midst of abundant natural and human resources. Furthermore, we would expect to find great irregularities, as compared with the previous period of prosperity, in our structure of prices of raw materials, partly manufactured goods, and consumers' goods, of prices of various types of securities of various industries, of wages, and of rates for services of all kinds. In fact, we have experienced a double dose of these economic phenomena of major depressions. To present the detailed data here would be to dwell needlessly upon unpleasant facts with which everyone is familiar.

### OUTSTANDING FEATURES OF THE COLLAPSE OF 1931–JULY 1932

But there have been other features of the developments of the past 3 years, the analysis of which, I believe, will serve two purposes, that is, first, to give use the reasons why we have suffered two consecutive major depressions and, second, to indicate the main defects in our economic system which must be remedied if we are to avoid similar depressions in the years to come. When we review the developments of 1931–1932 we find certain features that are peculiar, either in kind or degree, to the current depression. These unique features are:

First, the financial panic of June-October 1931, when it became clearly evident that Germany would not be able to meet her reparations payments and that other foreign debtors would not be able to meet the service on long-term loans or liquidate the short-term credits extended to them by banks and investors of this country. This was accompanied by an unprecedented increase in the hoarding of currency, requiring an expansion of over a billion dollars of Federal Reserve notes outstanding during a period of contracting needs for a medium of exchange for business transactions. The hoarding of currency was both an effect and a cause of the unprecedented volume of bank failures in 1931. In that year the deposits of suspending banks amounted to over 3 percent of total deposits of all banks in the United States.

Second, the financial panic of May-June 1932, accompanying the discussions of the difficulties of balancing the Federal Budget, proposals that the United States issue irredeemable currency, and withdrawals of gold from the country by foreign central banks and other depositors. Domestic hoarding again began to increase.

The financial panic of the summer and autumn of 1931 was characterized, in international markets, by panicky withdrawals of gold, at first centering on Germany and England, and later, on the United States. In the month of October the gold stock of this country dropped nearly 450 million dollars. Meanwhile numerous domestic bank failures, totaling 1,611 for the second half of 1931 and 2,298 for the year, were naturally accompanied by greatly increased hoarding of currency. During the period of greatest stress Federal Reserve bank credit was increased nearly a billion and a half dollars. It was only through such an expansion that utter collapse of finance was averted.

The panic of May-June 1932 was characterized by a decline in the gold stock of this country by about 450 million dollars. During an interval of 25 weeks preceding and following the critical period of May-June 1932 the Federal Reserve banks purchased $1,110,000,000 of United States Government securities to finance the export and earmarking of $450,000,000 gold, the reduction of nearly $400,000,000 in member bank indebtedness, an expansion of nearly $100,000,000 in currency, and to enable member banks to pile up nearly $250,000,000 in excess reserves. Foreign bank and other short-time credits in this country have now been reduced to a point where further large withdrawals need not be feared.

I have dwelt on the financial features, just described, of the history of the 3 years ending in July 1932 because I believe that they point to the principal defects of our economic system which must be remedied if we are to avoid or greatly diminish the fluctuations such as we have experienced. Foreign withdrawals of gold from this country and domestic hoarding of currency have resulted in part from, first, large foreign bank balances in this country; second, the freezing of our short-term credits abroad; and third, domestic bank failures. But an additional powerful incentive for both foreign withdrawals and domestic hoarding has been the continuous decline in the general level of commodity prices and the collapse of security prices. The increasing purchasing power of the dollar, or in other words, the appreciation of the gold dollar, has made hoarding a profitable operation. Hoarding means, to the extent to which it occurs, the abandonment of the credit system.

In the face of the facts I have presented and the history of the year and a half ending June 1932, I cannot avoid the conclusion that the most serious and urgent problem, the paramount problem, we now face is, first, to stabilize our monetary unit in terms of general commodity prices and, second, to make bank deposits so safe that depositors will not consider withdrawals except in the usual course of business. Only by accomplishing these results can we remove the incentives to hoarding, avoid the disruption of our credit system, and remove the deadening effects on debtors, creditors, employers, and labor of drastically declining price levels. Only in this way can we make industrial and credit expansion and reemployment of men and equipment safe for private initiative.

### THE BREAKDOWN OF OUR ECONOMIC SYSTEM—TEMPORARY OR PERMANENT?

The liquidation, by the middle of June 1932, of practically all foreign short-term balances in the United States (not necessary for current business) marked the end, for the time being, of the flight from the dollar. After this liquidation a 12 percent increase in the physical volume of business ensued in August-September. But bank failures increased again in December 1932 and January 1933. Runs on banks were resumed, the hoarding of currency increased; it became evident that the Federal Budget was badly out of balance; gold was withdrawn from banks and hoarded; balances were transferred from the United States to other gold-standard countries by domestic as well as foreign holders, and it became necessary to declare a national bank holiday and place an embargo upon gold exports. Meanwhile, between December 1932 and March 1933, the physical volume of industrial production and trade fell 11 percent to a new low level, slightly below that of July 1932.

The serious character of the current situation is briefly and accurately indicated by the following facts:

1. The physical volume of industrial production and trade is only 43 percent of that in June 1929 and only 48 percent of the figure that represents our annual production capacity at the present time.
2. The number of unemployed is at the peak, estimated at 12 or 13 millions.
3. The national income accrued in 1932 was less than $40,000,000,000, or only 73 percent of that of 1931 and 45 percent of that in 1929.
4. The total interest-bearing debt of the people of the United States in 1933 has declined only 13 percent from that of 1929, whereas the burden of the principal of the debt (now $142,000,000,000, as compared with 163 billions in 1929) in dollars of current purchasing power has increased 37 percent as compared with 1929. The relative burden is even heavier now than these figures indicate because of the decline of income and earnings. Further, the burden of the interest payments has also increased. An interest rate of 6 percent is equivalent now, at current wholesale prices, to a rate of about 9½ percent as compared with 6 percent in 1929. For an equivalent purchasing power a rate of 6 percent in 1929 should be reduced to less than 4 percent in 1933 on loans made in 1929.
5. Expenditures of Federal, State, and local governments in 1932 amounted to $15,000,000,000, or about 40 percent of the total national income. This means that only 60 percent of the National income is available for other purposes than the payment of taxes.

It also means that a person who has mortgages upon his property amounting to 60 percent of its 1929 value, at present has no equity after paying taxes. Taxes constitute a prior lien so that the property of the average debtor mortgaged in 1926–1929, would be expropriated through the enforcement of the rigid or increasing claims of creditors and the Government. Widespread tax defaults and the shift of the ownership of property to creditors and the purchasers of tax deeds would be the necessary consequence of enforcement of the claims of creditors and the Government. The debtors are not only farmers and other individuals with mortgaged property, but business men with fixed leases as well as mortgages, and corporations, partnerships, employers and dealers of all kinds with outstanding bonds, leases, and other fixed obligations. Can business men and employers be blamed for not wishing to expand production and increase their fixed obligations when the purchasing power of the monetary unit is continually increasing and, likewise, the burden of fixed debts? Can bankers be blamed for hesitating to lend for business purposes when their security is being impaired by declining commodity prices? Can hoarders be blamed for withdrawing currency or gold from banks when the solvency of banks is in question and the Federal Budget is unbalanced?

6. The situation just described means a substantial breakdown of the credit system on which industrial and business activity are dependent. In this age of credit, distrust has replaced confidence. Confidence by lenders in the ability of debtors to meet their fixed obligations will not reappear until the solvency of debtors returns.

The future solvency of debtors with fixed obligations will be in doubt until prices stop falling, that is to say, until the purchasing power of the dollar ceases to rise.

Leading merits of our economic system of private property and individual rewards for individual incentive for industrial activity were supposed to be (*a*) efficiency in the production of goods (*b*) jobs for all able workers who desire to work, and (*c*) a wage enabling them to maintain a "decent standard of living" without doles or charity. At present, factories and workmen are idle and the unemployed are receiving, not wages, but "relief." Our economic system has broken down. Can it be rehabilitated? Can future breakdowns be avoided?

### THE SOCIAL OBJECTIVE—INDIVIDUAL LIBERTY AND ITS FRUITS

As a basin for judging measures to rehabilitate our economic system we must begin by defining the social objective. This is paramount if we are to avoid utter confusion in our thinking.

What is the most valuable thing that past civilizations have achieved and what is the secret of that achievement? Nations that live in history—Egypt, Greece, Rome—are remembered, not for their wealth, but for their contributions to art, music, science, government. These achievements were made possible because these nations gave a degree of individual liberty sufficient to enable their citizens to develop the talents that were in them. The greatest resource of these nations, or any nation, is the mental capacity of its people. These capacities are suffocated by curtailment of the liberty of thought; they develop and bear fruit in freedom. The theory on which our Nation was founded is that individual freedom in body and thought is the most important guaranty of government. I hold that the preservation of individual control of one's body by one's self, liberty to develop one's talents, freedom of thought (and all that these mean in happiness to individuals and the advancement of what we call civilization) constitute the most important objective of our Government.

The nations of the past grew strong and wealthy. The economic organizations grew complicated. Egypt, Greece, Rome, declined and fell. Though they contributed to the solution of problems in science, art, government, they contributed little to the solution of the problem which now confronts the nations of the world—that presented by a complex economic organization.

### INDIVIDUAL LIBERTY RESTS ON INDIVIDUAL ECONOMIC INDEPENDENCE

A nation of paupers or of dole receivers is not a free nation. A legal code alone cannot give liberty. Individual freedom is dependent upon individual economic sufficiency and security. A debtor may be a slave of his creditors. Today in the midst of abundance natural resources, with available skilled and intelligent workers, 13,000,000 of our workers and their families have lost their independence because they are no longer able to support themselves. We are wasting our factories, equipment, machinery, and appliances. We are not fully utilizing our vast natural resources. But more serious than this, we are wasting the most valuable resource which the Nation possesses—the esprit, the economic morale, the self-respect of its citizens who know how to work, want to work, and cannot find work.

Russia, Italy, and Germany are all attempting to solve the difficult problem of constructing a stable economic structure in a complicated economic society. The Soviets of Russia, the Fascists in Italy, and the Nazis in Germany have all approached this problem by first curtailing individual liberty. Stalin, Mussolini, and Hitler are tyrants. Is tyranny the only way out? In order to be individually secure in getting a living must we surrender our freedom of thought and action? Cannot intellectual and religious freedom, on the one hand, and individual economic security, on the other, coexist? This is the problem which the nations of the world face today.

As I see it the chains which bind us today are not those called "natural economic law," but man-made rules of the economic game. We have ourselves forged the economic chains which bind us and we can, by intelligently altering our laws, break our fetters.

EFFICIENCY: THE ACID TEST FOR THE PRODUCTION OF ECONOMIC GOODS AND SERVICES

The end of production is consumption. Man produces goods in order to consume them. The smaller the effort required to produce goods and services, the lower the cost, the more efficient is production. This is what "economy" means. Efficient production and distribution mean that consumers' wants are well satisfied at low cost. Economy in production means the maximum satisfaction of human wants with the least expenditure of human energy. To obtain the maximum consumers' surplus of satisfactions with the least effort expended on the part of the producer is the economic objective. The acid test of any system of production—whether it be under sovietism, under fascism, under municipal or government ownership and operation, or under private ownership and operation—is this: Is the given system more efficient in producing goods and services that consumers desire, does it contribute to a larger consumers' surplus of satisfactions than other methods of production? Systems of production are rated in accordance to their efficiency.

Cooperative production has been demonstrated to be efficient production. Two men working together have found that they can produce more than double the amount produced by one of them working alone. Division of labor is efficient. Also, men have found that aided by tools, machinery, and power they can produce still more efficiently.

But just as soon as two workers join in production the problem of the equitable division of the output appears. Just so soon is a contract, expressed or implied, necessary for the division of the product of their joint labor. Men have also found by experience that the efficient worker must be rewarded for his efficiency if he is to remain efficient. Likewise, just as soon as men working together also work with machines and appliances, part of the reward must go to those workers who have furnished the machines and appliances. Our legal structure is largely made up of rules for the division of the economic product of a system of production that has grown from simplicity to vast proportions and complications. After keeping the peace and securing property against violence and fraud, the enforcement of good faith in matters of bargains and promise is most essential for the conduct of business. In the economic situation in which we find ourselves today, however, the enforcement of the letter of the contract (expressed in fixed amounts of a changing unit of value) works, not justice, but injustice.

THE LEGAL FRAMEWORK WITHIN WHICH BUSINESS IS CONDUCTED UNDER THE SYSTEM OF INDIVIDUAL FREEDOM, PRIVATE OWNERSHIP, AND INDIVIDUAL REWARDS

During the centuries of evolution of our current economic system from primitive times through the beginnings of the factory system, the utilization of steam and electric power, and the growth of giant manufacturing plants and nationwide transportation systems, it has been necessary to alter the legal structure under which business is conducted to correspond to changes in the methods of production. In the time of Adam Smith, business units were small, owned by one man, and the owner was also the manager. When the factory system came into being the corporation was devised to enable the organizers of a business to command the large amount of capital necessary for efficient production.

Management thus became separated from ownership. As industrial units continued to grow one corporation was empowered to own shares of another corporation. The holding company developed.

If we examine the legal framework which has been set up and altered from time to time for the conduct of industry, we will find certain features that, in importance, outrank all others. The legal framework of the economic system under which business is being conducted today has the following dominant features:

1. Individual freedom; to gain a living in accordance with the rules of the game and in the way that one's aptitudes make possible.
2. Private property; all economic goods are owned by someone; titles and claims of various sorts are defined by law.
3. Contract; contracts, expressed or implied, are concurrent with production, the transfer of title by purchase and sale, and business transactions of all kinds.
4. Corporations and corporate securities; these make possible the aggregation of capital necessary for large-scale production; corporate securities, stocks and bonds, are merely the legal titles to ownership.
5. Money and bank credit; these have been set up to facilitate the production and exchange of economic goods. Such goods are exchanged on the basis of relative values.

I cannot escape the conclusion that the primary cause of the world-wide collapse of industry, which we are now witnessing, is to be found in the legal provisions governing monetary units and bank credit.

The exchange of economic goods is an exchange of values. A unit of value, therefore, is necessary. The most important unit in any country is the legal unit which has been adopted as the unit of value in which all contracts are expressed. The unit adopted by the United States and other large commercial countries of the world is a fixed weight of gold—not a fixed unit of value. The dollar is an unchanging weight of a definite substance—gold. We use a weight of gold to measure value. This is like using a unit of weight to measure length. Length and weight do not belong to the same category, neither do a fixed weight of gold and exchange value.

Starting with an illogical "unit of value," we have constructed on this unit a credit system, and we must not forget that a credit system is also a debt system. Under this system bank checks constitute the medium of payment for 90 percent of business transactions.

By law we have empowered banks to expand or contract credit. Bankers are in business for profit. The expansion and contraction, therefore, of bank deposits, the chief means for carrying on industrial production and exchange, are ruled not only by the needs of business but also by the incentive of profit to the banker. Vaguely seeing this, we have set up the Federal Reserve System, the conduct of which is supposed to be dominated, not by the profits which may accrue to member banks or to the Federal Reserve System itself, but by the needs of agriculture, manufacturing, trade, and business in general.

As a result of the establishment of (*a*) a fixed weight of gold as a unit of value and of a (*b*) credit system in which the expansion and contraction of bank credit are induced by private gain, we have also established the basis for widely fluctuating general levels of prices. The primary causes of these fluctuations is on the side of money and credit and debts rather than upon the side of commodities and labor.

### OUR MONETARY AND CREDIT MECHANISM HAS RESULTED IN A SUBSTITUTION OF FORTUITOUS GAINS AND LOSSES FOR ECONOMIC REWARD

In setting up the legal rules for economic activities we have carefully safeguarded individual freedom, private property, contract, corporations and corporate securities in order to secure efficient production and distribution, by rewarding individual efficiency. After having carefully done this we have instituted a money, credit, and debt system which has substituted fortuitous gains and losses for rewards for efficient production.

Let us take a simple illustration: Two brothers, one 60 years old, one 30 years old, owned in 1929, adjoining farms in Iowa of 300 acres each. The first, being ready to retire, sells his farm to his brother, takes a mortgage on the entire 600 acres at 50 percent of the total value, and retires, holding the mortgage. In 1933 the younger brother finds that his equity is zero and the older brother owns both farms. It was through no foresight of either brother that the first became creditor and the second debtor; the first brother now owns both farms because he happened to cease producing and retires; the second brother has lost all because he continued in the production of goods. The collapse of the price level since 1929 has changed the business contract made by two brothers into a gambling contract. Neither foresight nor economic efficiency have been rewarded.

It is not the quest for profits which has brought about the present cataclysm, but rather the profit motive operating in a defective monetary and credit system.

The features of our legal framework which have undone us are: (*a*) A monetary unit which is a fixed weight, but a fluctuating unit of value and (*b*) a credit system which emphasizes and exaggerates the defects of the monetary unit.

### UNTENABLE THEORIES OF THE COLLAPSE OF 1931–33

1. The theory of overproduction. The theory that there has been general overproduction in the United States or in the world is denied by the facts. I will not attempt to summarize the evidence at this point, but submit the facts in the shape of numerous charts and tables covering the volume of production of agriculture and industrial production and trade in the United States since 1899. From these charts it will be seen that there was no unusual increase in production following the war; rather the annual percentage rate of increase in production has been decreasing. The figures presented are inclusive. Thus the index of the volume of manufacture is based upon the study which I began some 13 years ago in which comprehensive figures of the products of the various groups of manufacture covered by the United States Census were combined for census years. The comprehensive figures for these years were joined together by using the available annual data for intervening years. A complete description of the method of constructing these indexes and of sources are given in the table attached to this memorandum.

2. The theory of the maladjustment in the production of various commodities. That overproduction of some commodities relative to others causes minor disturbances and makes adjustments necessary is true—but that such irregularities can or have caused a decline in the physical volume of production of the magnitude witnessed since 1929 is untenable and cannot be demonstrated.

3. The theory of underconsumption. This theory usually ascribes economic crises and depression to deficiencies in the purchase of commodities resulting from the maldistribution of the income from industry. I may say that if there be such a failure to buy, the failure is caused primarily by the changing general price level.

4. The theory of the maladjustment of prices. The prices of individual commodities register simultaneously the conditions of supply and demand for that commodity and the value of the monetary unit. Drastic price changes covering many commodities result not from conditions in individual commodity markets but from changes in the unit of value.

5. The theory that our difficulties have resulted from the mistakes and dishonesty of individuals. It is only as the mistakes and dishonesty of individuals have resulted in the extreme expansion and contraction of credit, which our present system tolerates, that these are of importance in discussing the present collapse.

6. The theory that our difficulties have all originated from the war. The war resulted in inflation, through bond issues, in the United States, in fast money inflation in other countries and in the creation of a tremendous international governmental and private debt. The difficulties thus created are the difficulties of fluctuating units of value and of international payments in gold; of thus first on one country, then another; and of loss of confidence in the stability of monetary systems. The troubles at present are primarily of monetary and banking nature.

### A PROGRAM FOR THE REHABILITATION OF OUR ECONOMIC SYSTEM

1. Continue the embargo on gold and the suspension of gold redemption in the United States.

2. Remove the restrictions on foreign exchange in so far as they do not involve the export of gold. Discontinue the efforts to keep the gold dollar at par with other currencies.

3. Announce now that it is the intention of the United States Government to adopt measures which will restore the general price level to, say, 90 percent of the level of 1926.
4. Also announce that the gold content of the dollar will later be changed to maintain that level.
5. Abandon a fixed weight of gold as the monetary unit and substitute therefor some form of the tabular standard.
6. Appoint a stabilization board for carrying out this objective.
7. Announce that measures will be immediately adopted to secure the reemployment of idle men at their old jobs; and to this end
8. Adopt the plan suggested by Fred I. Kent for restoring confidence and initiating industrial and credit expansion.
9. Tax the holders of bonds carrying the clause "payable in gold dollars of the present weight and fineness", who elect to demand payment in gold, an amount equal to 100 percent of the gains resulting from such payment as compared to payment in currency. Distribute the proceeds of such tax among the payors of the bonds.
10. Do not wait for the International Economic Conference before taking the steps above enumerated. Let the United States take immediate independent action.

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## Statement of Arthur C. Peters, of New York

The Gordian knot of the world is the gold dollar and we must cut it! Few now dispute this fact, though many differ as to method. Even the President has made belated public admission that a frontal attack on the gold problem is a first essential to recovery.

The simple facts necessary to understand the situation are these:

On a pin point of gold we have during the last century pyramided a colossal credit structure so vast in scope that a "technical corner" has been created which affects the entire world. In other words, contract promises to pay gold are a thousand fold greater than the gold supply. It doesn't require a mathematical genius to discover that some will be unable to keep their promises. Our own Government debt is almost twice the world's twelve billion dollar gold supply, and our bank deposits are about forty-six billions of dollars, to mention only a few of the fantistic figures made possible by piled up promises or credits.

### AT MERCY OF GOLD

Things equal to the same thing are equal to each other. Through the convertibility of dollars into gold on demand at a rate arbitrarily fixed in civil war days at 23.22 grains per dollar—this is the essence of the gold standard as applied in America—we have made potential quick gold claims of every stock, bond, acceptance, promissory note, bank deposit, and other credit instruments in existence, not to mention foreign exchange, commodity contracts, real estate, and other products having established markets. Therefore, our entire price structure is threatened every time gold goes out of circulation in large quantities either through export or hoarding. Men who control a small gold supply thus control a gigantic credit and price structure. We are at their mercy.

Our medium of exchange has become a medium of extortion. The evidence is all around us that anyone who has a debt in dollars may find himself at any time in a position where the price of his collateral, be it wheat, corn, silver, farm lands, city real estate, or securities, has shrunk so severely in dollar or gold prices as to make payment of the debt impossible. The injustice of the situation is obvious.

The beneficiaries are those comparatively few people who are completely out of debt and have a surplus of dollars. The injured are the other 99 percent of the public.

### DEBTS MUST BE LIFTED

Common sense dictates that the debt burden be lifted promptly, and this can be accomplished only by bankruptcy and redistribution of wealth through this dire process or by a rise in the price level which will permit debts to be discharged with the same quantity of goods and services as when they were contracted. No farmer should be asked to pay a loan which involved 10 bushels of wheat when it was contracted with 100 bushels of wheat at today's prices.

Yet most proffered panaceas, such as abandonment of the gold standard in the form of "managed currency", etc., are demonstrably unwise, unless we wish to destroy the capitalist system itself. This Americans are decidedly not ready to do. The defects of bimetallism have also been well aired. But perhaps it might be useful to ask those who favor a fixed rate of exchange between gold and silver (at 16 to 1 or any other ratio) how they can be sure this procedure "will open up the markets of the Orient", as they now affirm, and "permit large sales of surplus agricultural products in those vast countries."

Without dwelling on the fact that a rise in silver means a fall in local Chinese prices, just as a rise in gold has broken our price levels, let us suppose a Chinaman decides that since his silver suddenly has acquired buying power in the American market he will use the silver not to buy corn, wheat, and other surplus products, but gold itself, that scarcest of all commodities! Remember our western farmers have corn and wheat, not silver nor gold. What happens to wheat and to our gold supply?

### EXPANSION OF CREDIT FLAYED

Those who urge inflation, and mean by that much abused word the forced expansion of credit money, are asking a drunken man to sober up by having another drink!

No man can borrow himself out of debt. Not even the United States Government can do that. Relief measures applied today are all measures which increase the Government's debt. Ultimately that means the individual's debt, for the Government is not a profit-making institution and the debts must finally be paid by taxpayers. A man may shift his debt burden from his friend next door to his banker, or from his banker to the Reconstruction Finance Corporation, but the debt still has to be paid in goods, services, or gold belonging to the taxpayer.

A cut in the gold content of the dollar is one certain way to increase the amount of money in circulation without creating inflation of an uncontrollable nature. No radical changes in our institutions or systems are necessary to apply these measures quickly. And relief is needed at once. No economist or financier has denied that the sudden discovery of new billions of gold deposits would substantially raise the world's gold price level. Nor have economists yet denied that reducing the gold content of the dollar would accomplish the same purpose.

The main objections offered, aside from the ridiculous charge of "repudiation", have been, first, that "if we cut it once we shall have to do so again", and second, that "it would be dangerous to have the public learn that price levels can be manipulated upward in this manner".

The experience of France indicates that a cut in the gold value of the currency need not be inimical to the public welfare.

### DEBTOR-CREDITOR ADJUSTMENT

Meanwhile, until a voluntary and fair adjustment of the debtor-creditor problem is made, we, as individuals, helplessly tied by the unbreakable thread of gold contracts, must stand by and watch failure after failure, cheat our fellow human beings of their possessions, as the spiral of bankruptcy widens and the deflationary process continues. For, it must be remembered, deflation cheats the debtor far more than inflation cheats the creditor. Restoration of prices to 1929 levels, where most debts were created, would not, in any case, cheat the creditors of 1933.

Two years ago these sentences were typed:

"It is now obvious that it isn't possible, without untold misery, to deflate prices near enough to the present gold base to restore confidence. Yet some people still urge 'Let's deflate further and clean up the situation.'

"True, the country will still have its mines, its farms, its factories when such a vicious deflationary process is completed and persons then living may regain the trade road which leads to prosperity. But—and this is a big but—the same people will not own these farms, mines, factories, and railways!

They will have passed into the hands of a limited few by forced sale, foreclosure, and bankruptcy, or perhaps into the hands of the Government itself through inability to pay taxes. We shall witness a succession of bank failures and this will happen because of the contraction of credit as the demand for gold increases. As gold goes up in price everything else goes down—except debt! That is fixed by contract! The contract is not only unfair but impossible of fulfillment without the sacrifice of all other values.

#### WORTHY PERSONS SUFFER

"The worst part of the situation is that many worthy persons who did not speculate or gamble, who did not borrow other people's money, and who produced and saved something for their hour of need are caught in the same whirlpool. They lose their savings, their properties, and their jobs. It is they who have a right to protest against a continuance of this vicious deadlock of the gold barons."

Is there a just reason for not declaring a temporary moratorium on gold payments while the corner is broken and a reasonable readjustment of the gold value of the world's currencies is made by mutual consent? Can't we bring the monetary systems nearer to a metallic base and hence farther away from collapse? For currencies, as 35 countries know, finally go the way of commodities—down in relation to cornered gold!

To retain a workable gold standard we must strengthen the foundation. We ought not to further increase the superstructure.

#### BASE SAFE FROM ATTACK

One of the most important benefits which would result from the reduction of the gold content of the dollar is this: Our foreign friends would no longer be entitled to receive the same amount of gold for their dollar balances in this country and our monetary base would be safer from attack. In return, however, these foreign friends would have their burden of debts to the United States proportionately reduced and their ability to resume normal trade with us restored as a consequence. Who will deny that trade is our one most urgent need?

International trade without a mutually accepted medium of exchange is next to impossible and on a revalued basis gold may readily resume its traditional position as international money.

If the world's leading nations were far-seeing enough to revalue their currencies in direct proportion to a change in the gold content of the American dollar, the burden of internal debts would be lifted everywhere without changing the relative international position of the countries involved one iota.

Shall we continue to destroy confidence by insisting upon the sanctity of one unfair contract while the lives and hopes of honest millions are destroyed, or shall we apply the rule of reason and the police power of the State?

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### Statement of E. C. Romfh, President First National Bank, Miami, Fla.

My views on the way out are about as follows:

1. *Banks.*—A capital structure in a ratio of not over 1 to 4 of loans and investments, excluding Government bonds and cash and due from banks, plus, cost of volume (service charges, analysis of item cost) and accruals, to ascertain rate of interest on earning assets and expense costs. This bank had deposits shrink from $70,000,000 (1925) to $6,700,000 (1931) and never borrowed a dollar, while some 40 banks in this section closed.

2. *Reserve banks.*—Should get out of check collecting and transfer of funds and permit banks in various centers to function through clearing houses, as they did in 1893 and 1907. Banks have not been able to make a stand because of the ease with which checks credits can be converted into currency or Federal funds and yet when a 20 percent strain was placed on the system as a whole, it closed all of us. Glass-Steagall bill is unsound in that Government bonds can be deposited and Federal Reserve notes issued redeemable in gold—should be lawful money.

3. *Taxation.*—No amount of inflation will for long obscure the unsound tax base and the fact that there are too many on public pay rolls for the people to

support. It cost the average family in Dade County, Fla., in taxes, direct or indirect, as cost our family to live here in 1900.

4. *Transportation.*—The people cannot support the present high freight rates—they must come down along with taxes—capital structure excessive, tax base unsound, and wage scale out of line with other lines and too much waste through the higher ups.

5. *Tariffs.*—These must be adjusted, along with debts, in order that we will not have to contend with depreciated currencies, and natural trade relations resumed.

6. *Debts.*—Old debts die or are adjusted as best you can.

*In conclusion.*—The States could tax exempt modest homes, and farms; all improved or rentable property should be taxed from a revenue percentage as collected and all unimproved property should bear a small tax and unless paid should revest to the State for home or homestead purposes.

All bonds should be taxable, along with incomes, and selective sales taxes in order to get as wide tax base as possible.

There should be a profit-finding commission in an effort to prevent too much profit going to a few at the expense of the many or a too high wage scale in certain industries which will cause dislocation and suffering in future. Excessive profits could be placed in reserve for use in slack period to take care of unemployed to give them some means of earning a livelihood, either on the lands, reforestation, etc.

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## Statement of Alvan T. Simonds, Fitchburg, Mass.

United States Senate,
*Committee on Finance:*

Referring to your request of March 30, 1933, I herewith enclose my recommendations as follows:

1. Reduce the weight of gold in the dollar by 30 percent[1] immediately. As a corollary to this, if necessary tax the income from gold contracts for the Government or otherwise an equal amount.

Devise a commodity index by leaving this matter with the Bureau of Standards, one half way between the Irving Fisher index of 200 and the Department of Labor as 700 or 800; for instance, 300 would not be too unwieldly and would be quite representative. After this has been devised, have an automatic changing of the weight of the gold dollar so that the commodity index would practically stand still in this country at least. Take the embargo off gold as soon as possible. If the temperature of a house can be made to fluctuate around a desired level within 1 or 2 degrees, the commodity index in terms of money can practically be made to stand still. This will enable both long- and short-term contracts to be made in terms of the commodity index instead of in gold. As a temporary measure set up a stabilizing fund after the embargo is taken off to regulate the flow of gold until the desired level is estimated by the Bureau of Standards.

3. Revise the entire banking system of the United States by separating the different banking functions, for instance, into (*a*) commercial banks; (*b*) real-estate or savings banks; (*c*) security-promotion banks; (*d*) compel commercial banks to divorce savings departments and security affiliates; (*e*) abolish State banks; (*f*) set up a supreme court of business with five members elected for life, at a retirement age of not over 75 years old. Let this court take over the functions of the Federal Reserve Board, antitrust laws, and all other departments having to do with the direct regulation of business and business policy; (*g*) form a branch banking system in, roughly, nine regions, taking region no. 1, for instance, as New England; evolve a scheme for tying each original system into the welfare of all of the others with a certain percentage of loans in each region in order to obtain a better diversity factor in different lines of business and commodities in the different regions. In order to integrate with other nations, tie all of these systems in with gold and foreign exchange.

4. Give the farmer better treatment by some equalization basis with the rest of the country against foreign competition, or reduce by agreement with other

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[1] The reason for 30 per cent reduction in the contents of the gold dollar is that wholesale commodities even in times of prosperity will probably not rise above the 1913 level which is 25 per cent above the present level, whereas according to the Department of Labor the present cost of living is about 25 per cent above the 1913 level. This would represent an equitable distribution of the burden between the debtor and creditor positions.

nations the tariff on manufactured goods. Personally, I prefer the latter to the former.

5. The reduction of the weight of gold in the dollar will in a short time cancel the necessity of the Reconstruction Finance, which in essence is inflationary but also discriminatory.

6. Let the two Houses of Representatives remain, the Representatives representing the country by districts, but reduce the number of Senators by 50 per cent and have all Senators elected at large, giving the Senate virtually the same power as it has now. The reason for this is that we have in Washington only one man representing the United States, whereas all the other elected Representatives often work against the best interest of the United States in favor of a particular district.

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## Statement of Dr. Walter L. Wilson, Kansas City, Mo.

It is indeed a great pleasure to have the honor of presenting to you some thoughts in regard to the present distress which has been occupying the thoughts of each of you gentlemen through the past months.

In seeking to diagnose the case which we may call the "sickness of society", I have made contacts with a very wide circle of friends throughout the Middle West, including farmers, school teachers, laborers, miners, professional men, manufacturers, and housewives. I have noticed two things looming up in all the conversations and it deserves our particular attention. One of these is the lack of contentment and the other the lack of confidence.

Discontent seems prevalent in young and old, in rich and poor, in the sick and the well. National discontent prevails. There is discontent with wages, with military strength, with treaties, with taxes, and duties. There is discontent among the students and scholars of our schools and colleges with the respect to laws imposed upon them, class arrangements, social prohibitions. There is discontent between the laborer and his master on every subject that is properly related to this situation.

With all of this discontent there is a lack of confidence, both in the ability and in the willingness of the parties concerned. Suspicion fills the heart of the customer who enters the store to purchase. Suspicion fills the mind of the student as he receives the grade from the teacher; suspicion fills the hearts of patients as they think of the doctor's services. There is distrust in all human relationships and this is international in its scope.

The reason for the existence of these conditions in my judgment lies in a departure from the word of God and a repudiation of relationships with God. Our country was built upon the Bible and its godly principles. Our society has been knit together and our Nation has grown to its present proportions because of the principles and the propagation of the principles of righteousness given by the Lord Jesus Christ and embraced by our people.

The Bible is the only antidote for sin, the only preventive of crime, the only remedy for moral decay. We must turn our ways toward God and promote again the principles and practices of His word.

In order to bring this about, I recommend that there shall be issued to the peoples of our land over the signature of those who are in position to command respect, a call to restore the reading of the scriptures to the family fireside, in the schools and colleges of our land, in our clubs and social organizations, and in the public reading rooms, provided by various social service groups.

I recommend that a plea be made to the preachers of our country to leave the present plan of giving book reviews and lectures on matters of national or international interest while in the pulpit of the church and to return again to the preaching of the word of life and the exaltation of the Lord Jesus Christ.

I suggest also that a request from proper prominent sources be sent to our national magazines and great daily papers requesting that a certain portion of their publications, and a prominent portion, be given to printing the word of truth. There is a peculiar power in the word of God which brings about in human hearts righteousness and honesty. Those who read it obtain from it desire for right relationships with others and right condition within the heart.

I suggest further that an honest endeavor be made to keep the word of God in some form prominently before the minds and hearts of law enforcement bodies, both Federal, State, and municipal. The Scriptures thus displayed or presented will have a cleansing and sanctifying power in the lives of this great group upon whose efficiency and honesty so much depends.

Greece and Rome both took the path that we in this country apparently are pursuing. They promoted military strength, physical improvement, great games; they advanced in arts such as painting, sculpturing, and music; they promoted the building of roads and the development of agriculture; but with all of this they neglected to prepare the heart for the ravages of sin and the evils of immorality which wrecked both of these mighty nations.

Gentlemen, we must make some provision for preservation from the defiling, decaying, destroying results of sin. A proper financial structure will not save society. Good government will not change the human heart. The restoration of the Scriptures in the homes and the hearts of our people will do all of this and will establish again confidence in God, confidence in men, confidence in our rulers, and contentment with such things as we have. I sincerely trust that in some manner your honorable body may devise a program that will exalt and extol the living word of the living God.

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STATEMENT OF IVAN WRIGHT, PROFESSOR OF ECONOMICS, UNIVERSITY OF ILLINOIS

In brief, I should say some of the steps toward economic and financial recovery are:

Adjust international trade barriers until trade can be carried on under fair competition. We must buy the goods of other countries if they are to buy ours.

Cooperate with other countries as in 1922 in stabilizing currencies and trade relations.

Reinvest foreign credits, both public and private, now owed the United States in the capital of those countries.

Reduce our own governmental expenses and taxes and thus restore confidence at home and abroad in the American dollar as the standard of world value.

Adjust domestic debts to present price levels.

Establish sound banking and investment banking based on the English principles and set up standards for engaging in banking and investment banking that will give the customer some reason to have confidence.

INTERNATIONAL DEBTS

At present the Allied debts due the United States, as a result of the war and its consequences, would probably amount, in round sums, to about 12 billion dollars.

The foreign private debts owed to investors and lenders in the United States is variously estimated from 12 to 20 billion dollars. Perhaps the value of these private debts, at the present time, would not amount to more than 10 or 12 billion. Estimates have placed the present value of these debts as low as 7 billion. The foreign governments have objected to paying the debts contracted to the United States Government during and immediately after the war on the ground that the debts grew out of a common cause, and the United States should bear its share in the costs of the war. Moreover, the claim has been made by both foreigners and Americans that the payment of these debts to the United States, as arranged for over the next 60-odd years in small annual sums with interest, amounting to at most only 300 or 400 million dollars a year, is the fundamental cause of the present world depression, resulting from a drain of gold out of the debtor countries, causing the depreciation of their currencies and the breakdown of the price system throughout the world.

PRIVATE DEBTS AND TRADE BARRIERS MORE IMPORTANT THAN WAR DEBTS

When the facts are analyzed, we find that the private debts due the United States are larger in amount than the Government debts. The installments are larger and the interest rates are higher.

In addition, the trade barriers have created a maladjustment in the trade between countries and in the balance of payments favorable to the United States, wholly out of proportion to the installments on foreign government debts.

It seems, therefore, rather unfair to ask the American taxpayer to pay the bill for the part the United States played in the war, and then pay a part of the costs of the Allies in the war, represented by the debts due the United States, in order that private debts, contracted in part for speculative purposes, may be paid, and in order that special industries may be protected for the benefit of certain interests, when the public, in general, who pay the taxes, would be better off if these industries were not protected and there was a freer exchange of goods between countries.

It is indeed difficult to understand the patriotism and economic sense of an international banker, who points out in one paragraph, correctly, that the part of restoring balanced conditions between countries lies in the American investor being willing to invest abroad in the capital of the debtor countries, and then, in the next paragraph, urging a cancelation of the debts these countries owe the United States, and further protection for sheltered industries. The only justification for this point of view is that the United States, the Government, and the people exist for the exclusive benefit of this sheltered few, who anticipate large profits for underwriting foreign securities that would not be possible in the near future if the installments on the debts were reinvested instead of refinanced through new capital issues.

### WAYS OF SETTLING THE INTERNATIONAL DEBTS

There are several ways of bringing about a solution to the foreign governmental debts:

1. They may be canceled.
2. Debtor countries may repudiate.
3. Debtor countries may pay the United States, in part, with trade advantages.
4. United States may receive part in territorial concessions.
5. The United States Treasury may invest installments and interest due the United States on the debts in private and public securities of the debtor countries, and when the market is acceptable, resell these securities to investors both in the United States and foreign countries.
6. Payment of a cash lump sum over the next 3 to 5 years.

Any one, or a combination of these possibilities, may solve the debt situation. It seems to the writer that investing in the capital of foreign countries is the soundest disposition of the debts. This is the way England, Germany, France, and Holland collected on the debts the United States owed these countries when we were a debtor country and could not pay. Time and economic conditions worked out the solution.

When the next major depression occurs, the United States may not have half the world's gold. In fact, the next major depression may start when our gold supply has been reduced to the minimum requirements. Under such conditions a backlog of foreign investments will prove of inestimable value. It seems that the English financial system would have long ago completely collapsed had not it been for her protection through foreign investments. The United States should take a lesson from this situation and increase foreign investments of this country in foreign countries as security in times of future crises.

"Would canceling the war debts restore international balances of payment, enable foreign countries to stabilize their currencies, and again start goods flowing between countries in normal course of trade?"

Canceling the debts would have little effect upon these fundamentals, because the installments and interest due is a small item in the unbalanced situation. The chief items creating the maladjustments are tariffs, trade restrictions, and the foreign debts as an item are of less importance than the private debts.

Moreover, all the benefits that could be obtained from canceling the foreign debts can be obtained by reinvesting principal and interest for the time being. Insofar as the debts are a factor, this would leave the funds in debtor countries.

Foreign propaganda in the United States to reduce the debts or cancel them, is supported by statesmen and representatives of foreign countries who have everything to gain and nothing to lose by such acts on the part of the United States; those who have large private investments in the speculative enterprises of foreign countries and who see a greater chance of payment provided the American taxpayer will pay the war debts so European industries can pay their private debts.

Will the American people fall for this propaganda?

STATEMENT OF GEORGE W. YORK, ALBUQUERQUE, N.MEX.

The objective of American business should be to satisfy the "desire" of the American people in terms of goods, and every aid which can be provided by agencies of business and by government should be afforded by those agencies. The following plan is respectfully presented:

I. Permit complete integregation of "big business." "Big business" is defined for the purpose of this suggestion as any business or service which has up to now found expression in terms of national organization.

(*a*) Each industry or service must agree to operate in every variety and potency of form constructively and with efficiency. This agreement should be made between each industry and service with all others and with the Government of the United States. If this were done such an agreement would entail upon the parties to the agreement the obligation of each and every industry and service to so conduct its affairs as to leave no undue surpluses in the market.

(*b*) The prices for goods and service should be fixed for a period of say 18 months or 2 years, and since it is impractical to await an examination of prices for such a time as might be required for such a study and investigation, it is suggested that the prices for say the year 1925 be adopted. During the period in which these suggested prices are in force a complete study of the costs in each service and industry should be made so that at the end of the period the absolute cost for each service and industry should be determined. A fair profit to be determined after the cost has been ascertained could be easily and profitably left to the industries and services which would provide a basis for adoption of new prices and for a period in which those prices should endure.

II. The legislation which would be required would be, it is believed—

(*a*) Repeal and/or suspension of all National and State antitrust legislation.

(*b*) Pass such National and State laws as would in effect permit each and every industry and service where three quarters of the whole of such industries and service-made rules and regulations as well as prices to absolutely govern and deny to minorities the right to buy and sell in a market made by the agreement noted in I (*b*) above.

(*c*) 1. In order to obtain the results desired it is believed that the Government should pass laws which in effect embargo all products wherein such products produced in the United States were adequate to our uses.

2. Where there is produced in America insufficient goods in any line, tariff based on American money should be applied against foreign goods adequate for the protection of the American producer and laborer.

3. All goods not produced in the United States should be admitted free of duty.

(*d*) As to the foreign debts owned by the Federal Government, the debtor governments should be permitted to pay these debts when and as they were able to do so. It might be appropriate to call upon such debtors as provide goods or service which are unobtainable in the United States to pay on their indebtedness on some ratio that their imports free of duty bear to the indebtedness of such importing nations.

COMMENTS

The appropriate instrumentality for the organization of business in the fashion suggested in the above-mentioned plan is the United States Chamber of Commerce. It would seem appropriate that the business integration above suggested should be effected through the instrumentality of such an organization as say, the "Institute of American Business" which would be formed by the election of members of each of the above-mentioned service and trade associations, and the home of that institute should be the National Capital. Such a program would, it would seem, work equity which in turn would be for the public good. To begin with, it would seem entirely appropriate that the United States Government should have representation in that organization.

It would seem that for a continuance of business and government a "unit of value" wholly responsive to the laws of nature should be evolved, and that during the 2 years in which the 1925 prices are to prevail in accordance with the suggestion this unit of value should be determined by agreement between the parties.

If such a program were adopted, it would seem very much less expensive than remedies arising from such agencies as the Reconstruction Finance Corporation and other now proposed remedies.

## REPORT OF THE NATIONAL TRANSPORTATION COMMITTEE

### INTRODUCTORY

Herewith are presented:

A. The conclusions of the National Transporation Committee.

B. The report of the committee.

C. Supplemental report by former Gov. Alfred E. Smith who prefaces it, "While I am in substantial agreement with the greater part of the committee report, this supplementary memorandum states my conclusions in my own language, placing the emphasis where I think it belongs."

D. Special studies by the research staff to be published shortly by the Brookings Institution, Washington, D.C.

The committee associated itself at the request of certain business associations, savings banks, insurance companies, and fiduciary and philanthropic institutions interested in railroad securities (see appendix 1) in response to an invitation in essental part as follows:

"We, the undersigned organizations, representing many of the interests concerned, believe that there is no more important present task than a thorough and satisfactory solution of the railroad problem as an integral but the most urgent part of the entire transportation problem. We beg that you examine all phases of the problem and recommend a solution which, with due regard for the public interest, will insure an opportunity for the railroads of this country to be put on a business basis, so that neither now nor in the future will they constitute a present threat to the invested savings of our citizens, to loss of employment to our wage earners, and to the stability of the insurance companies and savings banks, and so that the present burden on the Federal Treasury and the American taxpayer may be in a fair measure removed."

The committee met and organized on October 7, 1932. It was composed of Calvin Coolidge, chairman; Bernard M. Baruch, vice chairman; former Gov. Alfred E. Smith, Alexander Legge, and Clark Howell. John W. Power acted as secretary. The committee selected Dr. Harold G. Moulton, of the Brookings Institution, to organize a research staff.

Just as the committee's work was nearing a close, it lost the distinguished director of its deliberations who was giving his great talents unsparingly to this work. The report had not taken form at the time of his death, but the committee has tried to carry on in the spirit of his leadership.

The committee gathered its facts from three sources:

(1) Open hearings.

(2) Studies by other investigating bodies, memoranda, briefs, and specific suggestions.

(3) The work of Dr. Moulton and the staff.

This mass of material is too voluminous and varied to publish in full, but the work undertaken by the research staff will be published shortly by the Brookings Institution. Dr. Moulton's conclusions are his own.

The transport problem has been with man since the first rude trails of prehistory. It has shaped the destiny of humanity. The closing of the caravan routes to the East Indies discovered America. History is full of similar consequences. Just now, largely due to the recent rapid development of new forms of transportation, the railroad problem is acute in nearly all important countries, including our own. Commissions more or less similar to this committee have been at work in England, Canada, and the Argentine Republic, and we have considered their reports and analyses. There are railroad commissions in nearly every one of our 48 States and similar bodies in many other countries. These, the Interstate Commerce Commission and the very able congressional committees on these subjects, have all been devoting themselves to the problems created by these rapid shifts. Much of this work and a great mass of other data have been assembled and given careful study by the committee. The problem is very complex, and while the committee is in substantial agreement as to conclusions, it is too much to expect that four men of independent mental processes would all arrive at decisions by identical paths, or with equal emphasis on various factors.

### A. CONCLUSIONS OF THE COMMITTEE

I. The railroad system must be preserved. Changed conditions require new policies but not abandonment of railroad regulation. The development of regulation and of new methods of transport make it necessary for Government further to create and foster competition with or among railroads as a defense against monopoly. That is an expensive and ineffective attempt to do indirectly what Government has shown its ability to do directly. Regulation is sufficient. Government policies should be freed of any purpose either to favor or to handicap any form of transportation with relation to any other form. We cannot solve the problem on the theory upon which horses are handicapped in a race. In a fair field and no favor competition should be permitted to decide the result. Regulation should not attempt to "run the business" of transportation. It should concentrate on protecting the public against discrimination and extortion and on requiring the most efficient service at the lowest competitive cost.

(1) Parallel lines and systems are wasteful and unnecessary. Regional consolidations should be hastened and, where necessary, enforced, looking eventually to a single national system with regional divisions and the elimination of all excess and obsolete lines and equipment. Neither holding companies nor any other device should be permitted to hinder consolidation or evade the letter or the spirit of regulatory law.

(2) Unprofitable railroad services should be replaced by cheaper alternative transport methods.

(3) Railroads should be permitted to own and operate competing services, including water lines, but regulatory jurisdiction should be extended to water rates and practices in coastal, intercoastal, and lake shipping to relieve commerce of present chaotic conditions. Congress should promptly clarify its intention on the long- and short-haul clause of the Transportation Act.

(4) Government assumption of all or part of the costs of inefficient competing transport as a defense against monopoly is no longer warranted and should be abandoned. As a general principle inland waterways should bear all costs of amortization, interest, maintenance, and operation of the facilities for their navigation. If they cannot bear such charges and compete with other forms of transport, they should be abandoned. The St. Lawrence waterway should be tested by this rule of self-support and if it fails in that test the pending treaty with Canada should not be ratified. Governmental commercial operation of the actual facilities of transportation, such as barge lines, should not be continued.

(5) Automotive transportation should be put under such regulation as is necessary for public protection. It should bear its fair burden of tax but only on a basis of compensation for public expenditure on its behalf, plus its share of the general tax load. Neither tax nor regulation should be applied for any purpose of handicapping the march of progress for the benefit of the railroads.

(6) Wages and working conditions of labor in transportation are determinable by established procedure in another forum and are not within the scope of this inquiry. There should be no heavier burdens on the railroads in employing labor to operate automobiles than on their competitors. In the railroads (as in other industries) rates, capitalization, salaries, and wages must all follow changing economic conditions, but none should be sacrificed for the benefit of others.

(7) Beacons, weather service, and similar auxiliaries to air traffic should be maintained at public expense, and air transport should be encouraged during its development stage but we believe that every such service should ultimately pay its own way.

(8) The committee has no recommendation to make on pipe lines.

II. The policy of trying to appraise railroad properties on some selected basis of valuation and then saying that they are entitled to earn a fair return on this appraisal should be reconsidered. Where competition with trucks and other method exists it will determine rates. In other cases rates must be regulated, but the basis of costs of operation under efficient management is a better general guide than any attempt to preserve capital structures regardless of economic trends. We see no reason why the rate-making rule should say in plain English that railroads are entitled to make a reasonable profit based upon costs of efficient operation and that they are not entitled to earnings merely to preserve present structures if overcapitalized.

III. The railroads should do much that they have not done to improve their condition without any Government help at all. They should promptly be freed of all unnecessary restrictions on the doing of it. It has been estimated that less than a 20 percent increase in traffic would put most of them on an earning basis. In view of the narrowness of this margin of loss and of the very great savings possible in railroad operation, we regard their outlook as far from hopeless.

(*a*) Railroads should adopt the competing methods of which they complain.

(*b*) Railroads should cooperate to reduce competitive expense.

(1) Unnecessary services should be abandoned.

(2) Metropolitan terminals should be consolidated and unnecessary facilities scrapped.

(3) Circuitous haulage should be eliminated.

(*c*) Financial management should be improved.

(*d*) Transport methods and equipment should be brought up to date.

(*e*) In view of what could be done by better management, the general outlook seems far from hopeless.

IV. Regulatory jurisdiction should be extended to the whole national transportation system but applied only to the extent necessary for public protection. The existing regulatory mechanism of the Interstate Commerce Commission is inadequate and should be improved by reorganization without expansion or increased expense.

V. Emergency recommendations:

(1) Corporate reorganization can and should be facilitated by revision of the bankruptcy procedure.

(2) The recapture clause should be repealed retroactively.

(3) The statutory rule of rate making should be revised.

(4) "Adequate security" does not necessarily mean "marketable collateral."

B. THE REPORT

I. The railroad system must be preserved. Changed conditions require new policies but not abandonment of railroad regulation. The development of regulation and of new methods of transport make it unnecessary for Government further to create and foster competition with or among railroads as a defense against monopoly. That is an expensive and ineffective attempt to do indirectly what the Government has shown its ability to do directly. Regulation is sufficient. Government policies should be freed of any purpose either to favor or to handicap any form of transportation with relation to any other form. We can not solve the problem on the theory upon which horses are handicapped in a race. In a fair field and no favor competition should be permitted to decide the result. Regulation should not attempt to "run the business" of transportation. It should concentrate on protecting the public against discrimination and extortion and on requiring the most efficient service at the lowest competitive cost.

At the foundation of our system of communication is the railroad web. It is the most important single element in our social and economic life. Its rapid extension enabled us to cover the greater habitable part of a continent with a cohesive form of liberal government of 125,000,000 people united in a common language, purpose, and ideal and to maintain national solidarity through periods of stress. Both security and material welfare are involved in its continued efficient existence. The public interest is deeper than its investment or its need of good service. We are addressing a matter of national concern of the first magnitude. The railroad system must be continued and its efficiency preserved because of national necessity—economic, social, and defensive.

(*a*) Governmental fostering of competition is no longer necessary as a defense against monopoly.

Above all other enterprises, railroads are, therefore, "affected with a public interest" and, under an ancient doctrine of our law, peculiarly subject to Government regulation. In earlier development, the railroad franchise created an effective and complete monopoly against which industrial and social segments had no defense. Rigorous governmental control was inevitable. It took two forms: First, an effort to foster competition among different railroads and to create and maintain, by Federal financial aid, other forms of competing transportation such as waterways; second, an intense regulatory control of the railroads themselves. The latter has been practiced long enough and sufficiently extended to prove that it dominates competition or any other influence as the governing law of railroad practice. To the extent that the monopoly inherent in the railroad franchise was a menace, it is of the utmost importance to recognize that current railroad regulation safely controls it. Other safeguards have appeared. With increasing effect, new methods of transport are invading customary fields of railroad patronage. On a basis of economic efficiency, independent of Government aid, pipe lines, motor transport, and airways are all making bids for business which the railroads can retain only by offering equivalent service at competitive rates. In these areas of competition there is no longer complete monopoly. These two developments—perfection of regulation and appearance of competing methods—have created a new principle, viz:

In so far as Goverment policies have been designed by Federal intervention to create and maintain competition with or among railroads as a defense against monopoly, they should be abandoned as wasteful and unnecessary. Regulation is sufficient.

(*b*) Regulation should provide a fair field and no favor.

The railroads complain that they are shackled by regulation while their competitors are free and unduly advantaged by various forms of discrimination in their favor. To the extent that this is true, it is unfair. But it must be equally clear that, notwithstanding the deep public interest in our railroads, the Government cannot stand in the way of progress. Certain regulation of competitive methods is necessary. They cannot be permitted to escape their just tax burdens. They ought not to be artificially advantaged by subsidy or otherwise. But regulation of them must arise from its own necessity, and burdens upon them must derive from justice. The Government cannot, for the sake of the railroads, invent and apply to their competitors either regulation or burden on the theory upon which horses are handicapped in a race. A similar principle applies to railroads, and to the extent that they are handicapped by burdens for which the reason is obsolete or nonexistent, Government has a positive duty to remove them. The guiding rule of the whole matter seems to us quite clear:

With the danger of railroad monopoly going or gone and (whether going or gone) completely controlled by regulation, Government has a positive duty to see to it that neither the railroads nor their competitors are either unduly handicapped or unduly advantaged. Thereafter, in a fair field and no favor, economic competition must decide the question of survival under private ownership and operation.

(*c*) Regulation should not be abandoned. It should be put on the simple basis of public protection.

There is respectable opinion that the development of effective competitive methods argues for the abandonment of all railroad regulation. The committee cannot concur. Competition of parallel methods is as yet limited and localized and, while it is a powerful and growing force against monopoly, it does not relieve the necessity for railroad regulation and, because of other aspects of public interest and dependence already mentioned, in our opinion, it never will. On the contrary, we regard regulation as necessary in the interest of both the railroads and the public and we think that it should be extended to other forms of transportation.

But, for reasons stated hereinafter, more care must be taken to maintain managerial initiative. Regulation, whether of railroads or other forms should not attempt to "run the business" of transportation. It should concentrate on protecting the public against discrimination, extortion, and other abuses of monopoly and on insuring the most efficient service at the lowest competitive cost.

If these conclusions on general principles are correct, several changes in policy flow inevitably therefrom, viz:

(1) Parallel lines and systems are wasteful and unnecessary. Regional consolidations should be hastened and, where necessary, enforced, looking eventually to a single national system with regional divisions and the elimination of all excess and obsolete lines and equipment. Neither holding companies nor any other device should be permitted to hinder consolidation or evade the letter or the spirit of regulatory law.

The policy of maintaining parallel and competing lines or systems on the theory that thus extortionate rates and discrimination may be restrained is wasteful and, of course, untenable under a system which controls rates and practices to the ultimate.

Duplication and unnecessary overheads, facilities, and services inherent in the present multiplicity of railroads are very expensive and consolidations should be hastened. In plans for this, consideration should be given to creating a single efficient system (rather than competing systems) for each natural trade area, even to the ultimate extent of a single national network with regional divisions. It has been estimated by good authority that several hundred million dollars, or enough to pay interest on a large part of the outstanding railroad bonds, can be saved. Consolidation is so vital to the public welfare that unless it is voluntarily accomplished within a reasonable time, the Government should compel it. Neither holding companies nor any other device should be permitted to hinder consolidation or to evade the letter or spirit of regulatory laws.

(2) Unprofitable railroad services should be replaced by cheaper alternative transport methods.

In view of the rapid development of automotive and other transport, there is no justification for maintenance by railroads of losing services and lines, and there devolves upon regulatory bodies and controlling interests something more than a negative duty to hasten their replacement by alternative methods, such as motor transport, which can render adequate service on a profitable basis in cases where rail transportation can operate only at a loss.

(3) Railroads should be permitted to own and operate competing services, including water lines, but regulatory jurisdiction should be extended to water rates and practices in coastal, intercoastal, and lake shipping to relieve commerce of present chaotic conditions. Congress should promptly clarify its intention on the long-and-short-haul clause of the Transportation Act.

Restrictions on the ownership by railroads of waterbourn, automotive, or other competing services seem anomalous in a regime which has demonstrated its effective control of both rates and practices.

There are certain competitive situations where railroad rates between two ports are fixed by regulation and unregulated water rates are in chaos. This is disturbing to commerce and unfair to railroads. For this and other reasons, we believe that the jurisdiction of the regulating body should be extended to cover intercoastal, coastal, and lake commerce. We do not mean to recommend that water rates, based on actual lower costs, should be regulated upward to equalize traffic in favor of railroads. But we do believe that in such a situation some stabilizing influence should be applied to the interest of commerce generally as well as in fairness to railroads.

The law prohibits a railroad from charging less for a longer than for a shorter haul over the same line in the same direction, the shorter being included in the longer, but permits the Interstate Commerce Commission a discretion to relieve this restriction.

The law is not altogether clear and the Commission's interpretation and decisions have been the subject of long and persistent controversy. Grave consequences affecting wide economic areas are involved and the situation requires prompt clarification. Two pending suggestions by the Interstate Commerce Commission and one by the House committee might contribute thereto. If jurisdiction of the Commission be extended to include intercoastal commerce, or if a new rule of ratemaking be adopted, the problem would be simplified. But if neither of these things is done, it is important that Congress act at once to declare its intention on this important application of the so-called "long-and-short-haul" controversy.

(4) Government assumption of all or part of the costs of inefficient competing transport as a defense against monopoly is no longer warranted and should be abandoned. As a general principle inland waterways should bear all costs of amortization, interest, maintenance, and operation of the facilities for their navigation. If they cannot bear such charges and compete with other forms of transport they should be abandoned. The St. Lawrence waterway should be tested by this rule of self-support and if it fails in that test the pending treaty with Canada should not be ratified. Governmental commercial operation of the actual facilities of transportation, such as barge lines, should not be continued.

Creation and maintenance by Government of competing methods of transport, where the result is not (as in the Panama Canal) to provide more efficient service at lower cost, but only (as in some inland waterways) to maintain at the taxpayers' expense more costly and less efficient service can no longer be justified as a defense against monopoly.

This Government has long been committed to the improvement and maintenance of shipways and of at least the outer harbors of ports accessible to great naturally navigable waterways. This involves expense, defrayed by taxation of the whole Nation, but applied at particular points, in the development of the instrumentalities of interstate and international commerce. To an extent these waterways are the railroads' competitors, and as far as they go these expenditures favor them. But in respect of accessories to naturally navigable waterways, such as ocean harbors and their approaches and the harbors and channels of the Great Lakes, this is a recognized function of government the world over, for naval as well as commercial purposes, and the railroads may be presumed to have been located, financed, and constructed with this in view. We have not heard it decried as an unjust handicap, and with these remarks it passed from our consideration.

But, with inland waterways in general, the case is otherwise. For the sake of illustration, let us imagine a federally constructed canal between, for example, Topeka and Oklahoma City—a stark ditch. If that canal fairly bore the burdens of its cost of construction and operation and yet could furnish transportation at an advantage over rails, nobody could complain, regardless of the extent to which it diverted railroad traffic. But if such was not the case and the canal could compete only if the public paid enough of these charges to undercut the cost of rails, it seems too obvious for argument that its creation and maintenance would be a direct impairment of the railroad system by public subsidy and distinctly inimical to the national interest.

Exactly the same principle of self-support seems applicable to any natural waterway upon which improvement and engineering devices are necessary to provide effective navigation. We think it is the very touchstone of the whole vexed problem and that every existing or projected improvement should be tested by its application. Any project which fails to answer that test should be abandoned, without hesitation, as an unwarranted waste of public money.

(*a*) *The Great Lakes Waterway.*—The connecting channels of the Great Lakes were not navigable in the modern sense in their natural state, but the Great Lakes Waterway now stands as a fully created, implemented, and efficient system of navigation which, in many respects, falls under the considerations governing Federal improvement of ocean ports, harbors, and shipways.

(*b*) *The St. Lawrence Seaway.*—There are obviously not at present any facilities for navigation, by ocean-going vessels, of the restricted waterways connecting the Great Lakes with each other and with the sea. The project to create such a shipway to the head of Lake Superior is a major engineering project of stupendous magnitude and very great cost. There is diversity of opinion as to whether the project is practicable. It is clear from our studies that the peculiar type of lake bulk carriers is far more efficient than any ocean freighter and from this fact that the area of economy is restricted practically to savings in cost of transshipment. But our studies also show that in no reasonable probability could this minor saving be enough to approximate even the carrying charges on this project.

In conformity with one of the general principles already announced, if this seaway could be shown to be the march of progress and if cheaper and more efficient transportation can thus be achieved, no barrier should be imposed against such a development. But we think that, before ratification of the pending seaway treaty with Canada bargaining away valuable American rights, this project should be fairly tested on the rule of self-support; and if it fails, the treaty should not be ratified.

(*c*) *Government barge lines.*—Argument for and against Government operation of barge lines was strongly pressed before us. In this case not only is the waterway itself provided and maintained at public expense but the actual business of transportation thereon is in part financed by the Government. The claim is made, and in our judgment sustained, that if the methods of accounting used by the Government in respect of the Panama Canal were applied, they would reveal operating losses which are charged to the taxpayer. We think that actual Government operation of the facilities of transportation, wholly or partly at public expense, is unjust to the vast majority of people and unwarranted by any argument that has come to our attention.

(*d*) *Inland waterways in general.*—We recommend that the Congress give consideration to the formulation of a consistent policy on inland waterways. We think that the test of self-support should be applied to every existing or proposed inland waterway.

Unbearable tax burdens are generally recognized as a principal hindrance to economic recovery. Our waterway policy for the past few years has averaged a cost of about $100,000,000 annually and tremendous projects involving hundreds of millions are being considered. Our studies show no commensurate economic benefit resulting from much of this spending. In such circumstances we think that a large part of this activity should be abandoned or at least suspended. It bears heavily on the taxpayer as a direct burden and even more heavily on the whole community in its contribution to the postponement of prosperity. At a time when the very stability of our system depends on the balancing of Federal expenditures with revenue and the sources of taxation seem almost dry, we find it difficult to justify this wasteful outpouring of hundreds of millions of dollars for results so barren of economic returns.

(5) Automotive transportation should be put under such regulation as is necessary for public protection. It should bear its fair burden of tax but only on a basis of compensation for public expenditure on its behalf, plus its share of the general tax load. Neither tax nor regulation should be applied for any purpose of handicapping the march of progress for the benefit of the railroads.

The problem of the automobile is very difficult. Its roadbed is provided at public expense and it requires few, if any, terminal or similar facilities. It need not—as must railroads—load any part of its cost of operation with a charge for this construction and maintenance. It can make rates which do not involve charges for depreciation and amortization. It can pay whatever scale of wages and exact whatever hours of labor it can make effective. It can bargain closely and instantly and can walk away with business while the railroads are involved in a prescribed process before their regulating overseers. It is not attached to rails and can furnish a swift door-to-door service which railroads as such cannot even approximate. It may be a common carrier, a contract carrier, or a private operator. It moves intrastate and interstate and may change its character in these matters instantly. It need not maintain continuous schedules and service. It can pick its business and is prone to take the cream of the traffic and leave the rest for the railroads, which must receive whatever is tendered. It can be permanently or sporadically in business and competition. With these advantages it has made inroads into railroad business and the difficulties are only partly suggested by this short recitation of complexities.

The problem thus presented has been regarded as serious in every important country and commissions similar to this committee have been convened in several of them. The difficulty is not solely in the amount of tonnage diverted but resides also in the chaotic rate conditions presented to commerce in general and in many new necessities for public protection. It has been a matter of primary concern to our Interstate Commerce Commission, to State commissions everywhere, to the Congress, to the highway users themselves, and to all who have given great study to the transport problem.

One thing is certain. Automotive transportation is an advance in the march of progress. It is here to stay. We cannot invent restrictions for the benefit of railroads. We can only apply such regulation and assess such taxes as would be necessary if there were no railroads, and let the effect be what it may.

On the question of whether public financing of roadbeds operates as a subsidy, there is a vast variety of circumstance. The automobile itself, its fuel, lubricants and operations are all heavily taxed. Does the total of these assessments bear its share of the general tax load and also sufficiently reimburse the public expenditure of the roads it uses? If it does, the circumstance that the charge is not comparable in amount to railroad costs of construction and maintenance of terminals and roadbeds is immaterial. The purpose is not to handicap automotive competition, but only to do justice.

These questions are of mixed State and Federal bearing and very difficult of determination. Both taxes and regulation on motor transport vary among the States and, while it has been strongly urged as the only solution, the committee believes it impracticable to get uniformity by any plan for concert of State action. Our studies clearly indicate that in some States automotive vehicles do not bear their full burden of taxes. We think they should pay the carrying charges and cost of maintenance of the highways they use and also their share of the general tax load. The Interstate Commerce Commission recommends regulation of interstate buses and extension of their jurisdiction to include interstate trucks. The committee believes that the situation requires general Federal jurisdiction of motor transport. It recognizes that no such intricacy of regulation as characterizes railroad supervision can ever be extended to this field, but it is convinced that a broad measure of Federal and uniform State control can and should be applied.

A valuable advance is registered in the recent report of the joint committee of railroads and highway users on the regulation and taxation of highway transportation recommending principles governing the subject which have been agreed to by these diverse interests. This kind of public-spirited cooperation is one of the most hopeful aspects of this difficult problem.

(6) Wages and working conditions of labor in transportation are determinable by established procedure in another forum and are not within the scope of this inquiry. There should be no heavier burdens on the railroads in employing labor to operate automobiles than on their competitors. In the railroads (as in other industries) rates, capitalization, salaries, and wages must all follow changing economic conditions, but none should be sacrificed for the benefit of others.

It is asserted in behalf of the railroads that certain restrictions imposed on them in the matter of hiring labor for truck and bus operation which automotive transport escapes, unfairly prejudice the railroads and that labor in this competing industry is not properly protected. The committee thinks that the railroads should be under no greater restrictions in employing labor for automotive operation than are other automotive users, but it would prefer to see equalization by improving conditions in automotive labor rather than by impairing conditions of employment in railroads.

The committee regards the particular wages and conditions of labor generally as beyond the scope of its inquiry. It merely offers the suggestion that, while Governments cannot and should not attempt to regulate the use by owners of their own automotive property, they might, in assessing taxes or issuing licenses, impose conditions of employment on vehicles not operated by owners.

The committee believes that a permanent and universal liquidation and downward adjustment of values and incomes of all kinds have occurred in this country and that railroad rates, capital structures, salaries, and wages must all respond to this generally changed condition, but that none should be sacrificed for the benefit of others.

A considerable number of obsolete rules governing overtime, hours constituting days' work, and restrictions on service, survive in the railroad wage structure. The committee does not wish to see labor lose any of its hard-won improvement in conditions, but it believes that the just substance of them can be retained without adherence to obsolete forms, and that labor is as eager as railroads to modernize and simplify the structure of wages and working schedules.

We regret that the labor organizations did not see fit to avail themselves of the committee's invitation to submit their recommendations on the general subjects of our investigation. We had hoped to have the benefit of their wide knowledge concerning railroad labor conditions and also their views on the best methods of protecting labor in railroads from conditions in competing methods and of improving conditions in the latter field. It is only fair to call attention to the fact that our material does not include any presentation by the labor organizations of any facts that might have seemed pertinent from their point of view.

(7) Beacons, weather service, and similar auxiliaries to air traffic should be maintained at public expense and air transport should be encouraged during its development stage but we believe that every such service should ultimately pay its own way.

Air service is diverting some traffic from railroads and threatens greater inroads. Here again the railroads are confronted with a development of human progress. It cannot be handicapped in their behalf. The most that they can ask is that it be not unfairly advantaged and, for reasons stated herein, we think that the real railroad remedy against this competition is to enter and help develop it.

Existing American airways are unquestionably subsidized at public expense. Various forms of flying aids are maintained. Mail contracts, paying much more than receipts from air postage, are in effect with a deliberate purpose of subsidy and there is no doubt that lower rates on all air service are thus made possible at public expense.

The committee believes that beacons and flying aids are like lighthouses and navigation aids at sea and cannot be abandoned or charged for. The railroads were themselves subsidized in their development period. We cannot condemn Government aids to the inauguration of this valuable service. But, however much subsidy may be justified in a development period, we feel that every established transport service should ultimately be self-sustaining, that air service has a definite place, that it will inexorably take that place without the continuing necessity for the subsidy granted in the early stages of development and that the necessity for such aid is even now decreasing. It is of the utmost importance that such aid as is given should be fairly and economically distributed.

(8) The committee has no recommendation to make on pipe lines.

There are projects for a wider use of pipe lines as a transportation agency but at present they do not constitute a problem. They are not subsidized and they are effectively regulated. The subject has been ably and exhaustively studied by the House Committee on Commerce in a forthcoming report. From our own studies we do not recommend further present affirmative action.

II. The policy of trying to appraise railroad properties on some selected basis of valuation and then saying that they are entitled to earn a fair return on this appraisal should be reconsidered. Where competition with trucks and other methods exists, it will determine rates. In other cases rates must be regulated but the basis of costs of operation under efficient management is a better general guide than any attempt to preserve capital structures regardless of economic trends. We see no reason why the rate-making rule should not say in plain English that railroads are entitled to make a reasonable profit based upon costs of efficient operation and that they are not entitled to earnings merely to preserve present structures if overcapitalized.

Notwithstanding social and economic dependence on railroads—right or wrong—we have, since the beginning, relied on private initiative for their development and financial support. Profit is the only incentive to private investment. Unless the railroads are permitted reasonable earnings on the cost of efficient operation, there is no alternative to Government ownership and complete socialization of our railroad system. But that does not mean that railroads, any more than other industries, are entitled to a guarantee of earnings on their investments in property. In early periods of railroad development and unregulated monopoly, the profit incentive was overemphasized and resulted in unconscionable abuse. Extravagant profits, or the hope of them, contributed to the rapidity of the extension of the system, but they also got a sharp rebuke in certain instances of attempted confiscatory rate regulation. The courts intervened with an opinion that rate making must be limited by the right to a "fair return" on the value devoted to public service. Though originally probably intended as a protection against confiscation in individual cases, this principle, by a process of evolution, became a rule governing the general level of rates.

We think this rule should be abandoned. Nobody ever thinks of saying that the cost of bricks and mortar in an industrial plant should determine what it shall charge for its products. If it can keep its costs low enough to earn a profit on what its product is worth to the public in competition with other products, then it is worth from 10 to 20 times what it can earn. If it cannot do that, it is as apt to be a liability as an asset.

In his sense, the present railroad rule puts the cart before the horse. It tends to ununiformity of results, perpetuation of debt and of obsolete and exeggerated capital structure, insufficiency of allowance for obsolescence and depreciation, inadequacy of surplus and reserves, and maintenance of unnecessary properties and facilities. The results are unjustifiably high rates in some cases and low rates in others. It evolved on the theory that, if not so restricted, the railroad monopoly would earn inordinately. That theory is becoming obsolete. The day is not far distant, if indeed it has not already arrived, when, even if wholly unregulated, some of our railroads may have difficulty in earning a "fair return" on asset values, no matter by what rule such values are defined. These competitive developments are inexorable. The public is entitled to all benefits of the march of progress and nothing will prevent that consummation. We think that the right principle of rate making is as follows:

Wherever there is fair economic competition it will decide the rate question andi t should be permitted to do so freely. Where there is no such competition the problem of rate regulation arises, but costs of service under efficient operation are a better general guide than some arbitrary determination of asset values.

If, on that basis, a railroad cannot earn eonugh to support its capital structure, the remedy is not to raise rates. It is to revise the structure. And if on no reasonable revision can the capital structure be maintained, it is an economic misfit. Parts of it that cannot live should be abandoned and the rest either set up in a new system or consolidated with other groupings.

Fixed railroad indebtedness is not commonly retired. It is refunded. It is a universal rule of financing that any debt for purchase of productive facilities should be amortized during the lives of those facilities out of returns from their use. Railroads are not exempt from this well-established principle and rates should be subject to no restriction which contravenes it. A cause contributing to the present crisis is the unwieldy proportion of interest-bearing debt in railroad capitalization, much of it representing facilities long ago scrapped. We distinctly do not believe that past mistakes as represented by present unwieldy debt structures should be salvaged by increased rates. The present debt structure must be revised and losses written off. But, as to the future, we do think that rate making should look to the retirement of new debt incurred for purchase of productive facilities during their lives and out of returns from their use.

The Interstate Commerce Commission petitions for "A simple rule which shall make it clear that in regulating the general level of rates we shall always keep in mind and be guided by the need for producing, so far as possible, revenues which are sufficient for the maintenance of an adequate national railway transportation system, and also recognize the principle that the railroads may justly earn a surplus in time of prosperity to offset deficiencies in time of depression."

The Interstate and Foreign Commerce Committee of the House of Representatives recommends the following: "In the exercise of its power to prescribe just and reasonable rates the Commission shall give due consideration, among other factors, to the effect of rates on the movement of traffic, to the need, in the public interest, of adequate and efficient railway transportation service at the lowest cost consistent with the furnishing of such service; and to the need of revenues sufficient to enable the carriers, under honest, economical, and efficient management, to provide such service."

It will thus be seen that those who have given the subject of rate making the closest attention have abandoned the theory of making rates on some basis of valuation. It is said that the principles just dicussed are implicit in both of these suggested rules. If so, we approve them; but the committee sees no reason why a rule for rate making should not say in plain English that railroads are entitled to make a reasonable profit on costs of efficient operation and that they are not entitled to preserve overcapitalized corporate structures.

III. The railroads should do much that they have not done to improve their condition without any Government help at all. They should promptly be freed of all unnecessary restrictions on the doing of it. It has been estimated that less than a 20 per cent increase in traffic would put most of them on an earning basis. In view of the narrowness of this margin of loss and of the very great savings possible in railroad operation, we regard their outlook as far from hopeless.

The effect of protracted depression is to reveal the underlying trends of an era. While part of our transport difficulties are, like other troubles, no more than reflections of depression, continued traffic stagnation has uncovered organic difficulties. It by no means follows, however, that this condition was either caused or can be cured by Government. In this time of extreme stress on everybody the public has a right to expect the railroads to do what they can for themselves before they call on the rest of us, and we are convinced that there is a great deal which the railroads have left undone. It has been said by experienced and informed observers that—because of enforced reduction in expense—a 20 per cent or even a lesser increase in traffic volume would put most of the railroads on an earning basis and that less than a 50 percent increase would restore them to net earning levels of 1929. Passing the question of strict accuracy in these broad assertions, the fact is that here as elsewhere there has been such liquidation of the general extravagance of the 1929 delusion that a very moderate movement on the upward business spiral would dissipate much of the seeming cloud on the solvency of many railroads. The committee is not proceeding on conjectures of unwarranted optimism, but it does seem that if the margin of loss is as scant as this, it is narrow enough to invite some robust action in railroad administration to improve earning statements—not by increased traffic or Government intervention—but by economies and improvements in operation, and perhaps by a reduction in rates to attract more business. That has been the universal action in sister industries and that is the view of some of the leading authorities in railroad management.

Against this view it is urged that railroads have been prevented by statutes and regulations from acting freely or that, where they have been permitted to act, restrictions legally imposed upon them as railroads have been extended to them in new fields. While we believe that this argument is too much emphasized, we have found some substance in this complaint. The committee believes that railroads should be permitted to act along the lines suggested herein subject to no more and no heavier restrictions than their competitors and that the Congress and regulatory bodies owe them a positive duty to relieve them promptly of any handicap whatever in this regard.

(*a*) Railroads should adopt the competing methods of which they complain. Much of the difficulty which the railroads ascribe to automotive and potential air and pipe-line competition should and could have been relieved by an alert and aggressive railroad policy. We believe that if the railroads had regarded themselves more accurately as purveyors of transportation rathen than as guardians of a monopoly, they would have been more alert to take advantage of every development in their field and that a more progressive policy might have turned to their own distinct advantage the very things they now regard as a burden and a threat.

Resort to government as an alternative to self-help is to be deplored. The early transport pioneers did not go to Washington to have their ferries and steamboats protected against rails. They developed the rail service and became controlling figures in the new field. We think it is quite clear that the railroads have been distinctly remiss in not getting the most out of the new methods. It seems to us that the truck, in local and terminal service, motor-drawn equipment on rails and highways in many cases, and the airplane, where rapid transit is required, afford a way to a beneficient transport revolution, that the railroads themselves owed a duty to the public to have led, and that the quicker they do so now the better it will be for all concerned. After they have taken this logical step, we wonder whether they will be so eager to restrict these other forms of transportation as they are now.

(*b*) Railroads should cooperate to reduce competitive expense.

(1) Unnecessary services should be abandoned.

We think that there has not been sufficient cooperation among the railroads. As an example, we quote from the Interstate Commerce Commission's 1932 report, page 37:

"The expenses so chargeable to passenger and allied services for the year 1931 before taxes, rentals, and interest were 110.82 per cent of the revenues from those services. For the freight service the corresponding figure was only 68.62."

The public is familiar with the spectacle of "crack" passenger trains shuttling back and forth across the country empty or nearly so and perhaps, also, with the explanation that this "is necessary to retain the competitive reputation for service"—in other words, for sales promotion or advertising. The committee believes that agreements in good faith and within the law could relieve this expense. We think empty trains should either be filled by reduced rates or taken out of service. With our whole economic structure at stress, sympathy with such extravagance is difficult.

(2) Metropolitan terminals should be consolidated and unnecessary facilities scrapped.

Terminal expenses constitute an astonishing proportion of railway costs. Great economies, and much improved service, are possible through the use of trucks in terminal areas and further large savings by unification of railway and other terminal facilities. Railroads have insisted on separate terminals in metropolitan areas for purely competitive advantage. The resulting multiplicity has imposed high costs, poor service, and great waste. This burden upon shippers is indefensible. Reform is as necessary to modern metropolitan convenience as to railroad economy. It is impossible to deal effectively with the manifold problem of a modern city without a unified plan of development for all forms of transportation. This problem differs in different cities and there are legal and other difficulties involved, but much could be accomplished at once by cooperation among railroads and a complete solution would be greatly facilitated if all forms of transportation were placed under a single regulatory agency and if railroad consolidation were worked out along regional lines.

These improvements would entail wholesale scrapping of some facilities. We cannot follow the argument against the writing off of obsolete, nonearning, and unnecessary properties. We think that there are thousands of miles of trackage and many other facilities, both in terminals and elsewhere, which serve no necessary purpose and which do not now earn and never can. They are handicaps on efficient operation and burdens on the public. Their elimination would reduce capital assets, but it would result in lower rates, better earnings, and improved service.

(3) Circuitous haulage should be eliminated.

Circuity in haulage to keep traffic on the rails of a single system entails great waste for which the committee can find no sufficient excuse. As in all attempts to apply general principles to the infinite variety of circumstance in a great nation, a flat rule requiring freight to be routed by the most direct route, letting the revenue fall where it may, would result in some hardship; but the present practice leads to grotesque results. It is not easy to reduce the effect to figures, but the unnecessary haulage of freight has been estimated at a large percentage of total ton-mileage. Until the railroads are willing, by cooperation, to eliminate this kind of waste, it is difficult to share their apprehension of competing methods.

(*c*) Financial management should be improved.

We have discussed our view of the contribution of existing rate-making rules to present financial distress, but we also question the policy of some railroads in applying too great a proportion of earnings to dividends and too little to the retirement of debt and the accumulation of surpluses and reserves—a practice which we regard as responsible, at least in part, for the existing unfortunate condition of some roads.

(*d*) Transport methods and equipment should be brought up to date.

We acknowledge the restrictions on railroad initiative through regulation of appliances and on railroad resources through rate regulation. We are also aware of the progress that has been made in speed, quality of service, and increase in the radius of use of material equipment. Nevertheless, it cannot be fairly said that railroad advance in applied science is abreast of that in other industrial fields. For example, the improvements in Germany with stream-lined Diesel and electric trains of very light tonnage maintaining schedules of 96 miles per hour to offset motor transport has no counterpart here. The committee has not found it practicable to make exhaustive studies on this subject, but offers the suggestion that the Interstate Commerce Commission authorize, and the railroads set up, one or more central research and engineering organizations to which all railroads in certain groups shall contribute—their products to be available to all contributors.

(*e*) In view of what could be done by better management, the general outlook seems far from hopeless.

Generally speaking, it must be recalled that in railroads—almost alone among sister industries—rates remain at boom-time levels. Adjustment to new economic horizons lags. It is hard for us to believe that whole-hearted cooperation and vigorous application of contemporary principles of industrial management and control, within the various railroad companies themselves, along lines just discussed would not do more than can Government or any other outside force to rehabilitate this most important of American industries.

In depths of depression, as at peaks of prosperity, fundamental values become distorted by the fog of gloom, on the one hand, and the rosy haze of hope on the other. These opportunities for aggressive policy and management coupled with at least some of our suggestions in aid of the transportation situation as a whole seem to us to indicate a distinctly hopeful (rather than a despairing) prospect for the railroads, and we think that both regulating agencies and others having interest and influence in the railroads should act promptly to overcome what seems to us a degree of inertia in this regard.

**IV. Regulatory jurisdiction should be extended to the whole national transportation system but applied only to the extent necessary for public protection. The existing regulatory mechanism of the Interstate Commerce Commission is inadequate and should be improved by reorganization without expansion or increased expense.**

The work of the Interstate Commerce Commission is a contribution to the advancing science of political economy. One has only to read its most recent report to realize the sympathy and intelligence with which it addresses the problems confronting it. It has pioneered a complex subject and, if it has recently operated on principles which this committee regards as in part obsolete, it is important to remember that they are statutory principles. We think that if critics would give more attention to the legal limitations upon the commission and its own repeated recommendations thereon, they would find less ground for complaint.

The studies of the committee clearly indicate the advisability of extension of regulatory jurisdiction to the whole transportation system. The committee feels that a judicial type of organization, such as the Commission now has, is inappropriate to its present work and wholly inadequate to a wider jurisdiction. In extending its powers, it is not necessary to expand its personnel and expenditures. What is needed is to reorganize its functions, divide its work, and give it a form and method more appropriate to the tasks before it. At present they include rate making, and that is at least a quasi-legislative function; decisions in conflicting causes, and that is distinctly judicial; and supervision of administration, and that is certainly executive. From another angle of analysis, we find it attempting to plan, and that is a staff duty, and to carry plans into execution, and that is purely operative. For all these inconsistent purposes, it must finally act in a body on many questions, with no sufficient latitude for delegation, and that is utterly inconsistent with any modern theory of operation except for legislative and judicial action of the very highest order.

The data before us indicate that (whatever may be the limits to which actual regulation or administration is extended) the necessity for planning and for comprehensive information on the whole transport problem is absolute. A cogent railroad argument is to the effect that the Government has regulated the initiative out of the railroads, and that by reason thereof they are in their present plight. While there is a tendency to overemphasize this, three facts remain: First, that the Government, principally through the agency of the Commission, has for many years assumed to dominate railroad administration; second, that railroad policy and management are not abreast of sister industries; and third, that some railroads are in a perilous condition. Nobody can assume authority without accepting responsibility. The existing railroad condition speaks for itself to say that regulation by the Commission has left something to be desired.

The lack of incentive or authority in the Commission to plan and to act affirmatively is evident throughout its most recent report. It hopes that "efforts have been or will be made to bring the rival transportation agencies into some measure of agreement." It thinks that "no rival transportation agency should be given unfair advantage," but complains that "there is no adequate information * * * nor do we know of any comprehensive and definite plan for a cure * * *." It believes that the public "safety and convenience" should be protected by regulation of automotive agencies but asks for "a thorough investigation under authority of Congress." It says of regulation of port-to-port rates, "We have not investigated this subject, but are convinced that it merits serious consideration by Congress." Speaking of restrictions on railroad ownership of water-carrier lines, "If the railroads wish this prohibition removed, they should so request the Congress without further delay. Until the reasons for such a change have been fully presented, we have no opinion to express upon it." On the question of stifling of railroad initiative, there is the suggestion that the railroads "ask the appropriate authorities for definite relief." Without unduly extending these quotations, it is fair to say that the whole report is eloquent of a somewhat passive attitude toward acknowledged evils and also of grave difficulties that have arisen from drastic regulation verging on administration by an authority which sits and hears but has only a limited scope in which to inquire and plan and act.

If, as we think it should, the regulating body should pass on railroad corporate reorganization, there would be a new and expert function for which we think the Commission is not now equipped or organized. There should be a separate department and an appropriate expert personnel for this work. This is an emergency matter.

The organization should be reformed without expansion to act along wider and more affirmative lines with less attempt to run the business of transportation and with more concentration on protection of the public, and maintenance of a healthy national transport system. It should have inquisitorial powers and duties to keep constantly abreast of changing developments and should be required to report annually to Congress on the state of the Nation's whole transport system with its recommendations for betterment.

Its activities should be reorganized with appropriate separate departments, with a chief at the head of each, for its legislative, executive, and judicial functions, and for each major special function such as control of corporate reorganization. It should have also a planning department with a research staff and such other departments as experience indicates. Except in the exercise of its more important legislative and judicial functions, departmental hearings and decisions should be sufficient and action as a body should not be required. While all heads of departments should sit in council on basic policies and important problems, the body should have a vote only on the most important legislative and judicial decisions. Either one man, or at most an executive committee of three, should have exclusive responsibility and authority in all executive functions, and final decision in all but the more important legislative and judicial functions of the separate departments.

This form of organization and method divides, decentralizes, and so speeds works, permits specialization, yet assembles special views on general policies. It retains the advantage of the committee form for council but secures the advantage of a compact responsible group for action. All these attributes will be needed in the tasks inevitably confronting future transport regulation and only a few of them are available now.

V. Emergency recommendations.

(1) Corporate reorganization can and should be facilitated by revision of the bankruptcy procedure.

Present railroad distress is sufficiently shown in the current report of the Interstate Commerce Commission, that 122 class I railways failed to earn fixed charges in the first three quarters of 1932. The financial structures of many railroads carry too many inflexible charges and too few liquid surplus assets to survive protracted nonearning periods. This condition cannot be cured by increasing rates to salvage old mistakes or by lending Government money to preserve them. They require realistic reorganization in accordance with the facts. Some railroads can hope to survive only on drastic reorganization and scaling down of fixed obligations.

The Reconstruction Finance Corporation was created to tide over an emergency, in the hope of some recovery, but this use of Federal credit encountered a link between the emergent and the more permanent problems. The fixed charges of some roads are heavier than any fair prospect of restored traffic will bear. The corporation cannot pour public treasure into situations where, instead of temporarily supporting operations and loaning to maintain prudent interest payments, there is a wasteful delta of outflowing streams of interest on unsupportable capital structures. That would postpone inevitable readjustments at public loss to no good purpose. There is need to reform these topheavy structures to make them available for emergency aid before it is too late and the present legal mechanism is too slow and cumbersome to serve.

We recommend revision of bankruptcy procedure to permit prompt and realistic reorganization of overcapitalized corporate structures without destructive receiverships and judicial sales on depressed markets to the end that the railroads' justizable borrowing requirements may be met with safety to the lender under adequate protection.

(2) The recapture clause should be repealed retroactively.

The so-called "Recapture clause" of section 15-a of the transportation act is based on an economic misconception and has proved to be an element of uncertainty in railroad financing. We join the recommendation of the Commission for its repeal "both for the future and retroactively."

(3) The statutory rule of rate making should be revised.

Reasons and suggestion for amending the present rate-making rule are discussed beginning at page 21. As was there stated, rate making cannot be made to preserve unsound capital structures or to "attract capital" regardless of what the service is worth but if the rule is put on a common-sense and forthright basis, we can approach the railroads' financial problem with more intelligence. While this is a permanent as well as an emergency reform we think it is important to a prompt and sound solution of the railroad problem. We understand that both the Interstate Commerce Commission and the House Committee on Interstate and Foreign Commerce recommend a change and regard its necessity as emergent. Indeed the committee found no opposition to change in any of the evidence or representations before it.

(4) "Adequate security" does not necessarily mean "marketable collateral."

The Reconstruction Finance Act requires "adequate security" for railroad loans. It should do so and we recommend no change in the law. As a matter of interpretation, however, if, upon reorganization of overcapitalized structures or on sound existing structures, a particular loan is sufficiently protected by priority of lien and reasonable prospects of earnings available to its priority of payment, we do not regard marketable collateral as a determining factor. In fact we believe that, with prompt improvement of capital structures where necessary, private capital will be available for necessitous railroad loans.

BERNARD M. BARUCH, *Vice Chairman.*
CLARK HOWELL.
ALEXANDER LEGGE.

NEW YORK, *February 13, 1932.*

## SUPPLEMENTAL REPORT OF ALFRED E. SMITH

While I am in substantial agreement with the greater part of the committee's report, this supplementary memorandum states may conclusions in my own language, placing the emphasis where I think it belongs.

### EMERGENCY ACTION

As to emergency action, I recommend the following:

1. The recapture clause of the Transportation Act should be repealed retroactively.

2. A debtor relief act with a special provision governing railroads, which will have for its object scaling down debts and composing differences without bankruptcy receiverships, should be passed, but its operation should be for the period of the emergency only, which for the purposes of this act should be declared to end on January 1, 1935.

After most careful consideration I cannot recommend as an emergency measure that there is immediate need of action by Congress to make a new statutory rule of rate making, nor that the present powers of the Reconstruction Finance Corporation to make loans to railroads should be extended or materially changed. Specifically I believe no useful purpose will be served at this time by an extension of the powers of the Reconstruction Finance Corporation with regard to railroads so that they can make additional loans without full collateral, upon the assumption that railroad rates will be adjusted in such a way that these loans are bound to be repaid.

Coming now to the basic troubles which afflict the railroads I have considered carefully the diagnosis offered by numerous groups and individuals, and the corresponding cures. No purpose would be served by extended analysis and comment because this subject is fully covered in the report of the staff. My conclusions are stated herein in summary form.

### THE RAILROAD'S COMPETITORS

As to the subject of competition by air, water, pipe, and highway lines, I believe that the effect of competition of these lines upon the railroads has been exaggerated. Drastic regulation of competing services is not the solution of the railroad problem, and such regulation should be established only in the general public interest. Regulation is expensive. It is bureaucratic. Once established it expands, and it paralyzes private initiative without offering constructive leadership. I believe that the air lines should be left as they are at the present, with no more regulation than is now provided for. This is a new field, and the less private initiative is interfered with the better it will be in the long run. The railroads had their day of freedom from restriction coupled with enormous Government subsidies. That day is over, and individual initiative in blazing trails and laying ties for railroad lines across the Rocky Mountains and the Sierras is no longer needed. Air lines are an infant industry and are entitled for the present to some Government help without undue regulation.

The pipe lines are built. They serve a very limited purpose. They present no serious menace to the railroads. I see no advantage in extending regulatory control over them.

As to water transportation, with particular reference to inland waterways, I believe that Government subsidies in this field should be curtailed, not primarily because they result in unfair competition with the railroads but because these subsidies have not proved effective. Certainly the New York State Barge Canal cannot be said to compete with the existing railroads, because in spite of construction and maintenance by the State and free tolls, the barge canal carries so little freight that it presents no problem to the railroads. The New York State Barge Canal is an heirloom. Sentiment rather than common sense makes us keep it up. I am opposed at this time to the construction of the St. Lawrence Waterway, because it would be a waste of public funds. Present rail facilities are more than adequate to provide for everything which the proposed canal can accomplish. The cost of moving grain would not be lowered by this canal sufficiently to justify the enormous expenditures which it would involve, keeping in mind also that this waterway would be open only for a part of the year and that the railroads would have to be used anyway the rest of the year. I believe that a special investigation should be conducted into the Inland Waterways Corporation to discover exactly what it costs the War Department to operate this corporation and whether or not further expenditures for this purpose should cease.

As to competition by motor trucks and busses, the testimony given before us does not indicate to me that the competition is at this time as serious a menace to the railroads as they claim it to be. Interstate trucks and busses as yet carry only a comparatively small part of all freight and passengers. On the other hand it is unquestionable that this form of transportation will soon be used more and more, because it is economical and efficient. In a number of cases busses and trucks have actually relieved the railroads of burdens on short hauls and have enabled them to cut down train service where these could not possibly pay.

Extravagant claims are made as to the penalizing of railroad as contrasted with highway transportation by taxes and by numerous regulations affecting service and labor. Trucks and busses are already substantially taxed through license, gasoline, and oil taxes, and these are being steadily raised so that within a short time, in the course of normal events, the users of highways for commercial purposes will be paying their full share of the cost of construction, reconstruction, and maintenance. The tendency in every State is to make them pay their way, and the Federal Government is already taxing them for gasoline. In fact, at the present time in many States of the Union gasoline and license taxes are being diverted from highway maintenance and construction to other fields of Government expenditure.

While there is much to be said for regulation of all common carriers on highways by the Interstate Commerce Commission or some other Federal agency and by the appropriate State regulatory agencies, it should be noted, however, that such regulation cannot reach the individual farmer, merchant, and owner who is not a contract or common carrier. I believe that such regulation should for the present befor the purpose of insuring responsibility and fixing the physical standards for vehicles and for similar purposes, rather than for the fixing of rates. This is practically what the railroad and bus representatives themselves have recently agreed on. The plan for a Federal license tax with a return to the several States of their respective shares, suggested by various witnesses, seems to me to be impractical, undersirable, and at present unjustified. I believe that the railroads should go into the bus and truck business on a larger scale and that they should be encouraged to do so by appropriate legislation.

## GRADE CROSSINGS

As to elimination of crossings at grade of highways and railroads, I believe that the railroads' shares of the cost should be materially reduced. In many States the railroads' share is as high as 50 percent. This is unduly burdensome and unfair to the railroads, and it has naturally resulted in bitter opposition to elimination orders and the general slowing up of the crossing-elimination program. This reduction cannot, however, be accomplished by Federal legislation or fiat. It must be brought about by persuasion in the several States.

I cannot subscribe to the recommendation made to the committee that Congress should fix a maximum rate of taxation on railroad property beyond which any State and local levies would be invalid.

### VALUATION

Coming now to valuation, I have not been able to give this subject sufficient study even to attempt a solution. The questions involved are exceedingly intricate. Members of Congress and experts outside of the Government have been studying them for years without coming to a satisfactory conclusion. From a superficial study, I am not entirely satisfied that the prudent-investment theory is unworkable. The reproduction-cost theory is obviously obsolete and must be discarded. I cannot subscribe to the idea of basing railroad rates on ability to attract new capital, on the present-cost theory, or on the theory of the natural rule of survival. I doubt whether the courts would sustain or the public tolerate the survival theory. The present-cost theory would tend to put the seal of approval on existing chaotic and wasteful railroad organization. The theory of fixing rates to attract new capital begs the whole question. It starts with a conclusion and adjusts all the facts to meet it. Moreover, this theory would defeat itself because the public would not be able to pay the high rates which it would bring about. In the end there would be less traffic and less revenue than before. Moreover, even if the public were able to pay the bill, I believe that the adoption of this theory would perpetuate bad management, write up values of many railroad securities beyond their actual worth, and take away the incentive to consolidation and good management.

A new principle of valuation has recently been proposed by the Committee on Interstate and Foreign Commerce of the House of Representatives which seems to me to have considerable merit, but which is in such general language that it is difficult to see how it can be made the basis for the scientific determination of rates. It seems to me, however, that this is a subject which Congress should decide.

Whatever principle is adopted, I am satisfied that the general public will not tolerate writing up values or increasing rates merely upon the theory that a great many railroad securities are held by savings banks, trustees, and insurance companies as security for widows, orphans, and other beneficiaries of trust. It must be recognized that many railroad bonds are worth less than par, in the light of conditions entirely separate from the depression, and that railroad stocks have declined even more in value. These assumptions are based upon any common-sense theory of true valuation, whatever it may be. Similarly, I do not believe the public will approve the proposal that railroad rates should be high enough to retire a substantial part of outstanding bonds, because this will be regarded as just another way of attempting to give present bonds artificial values.

### THE INTERSTATE COMMERCE COMMISSION

Taking up now the general question of Federal regulation, we are all agreed that effective regulation is an indispensible feature of the solution of the transportation problem. I find, however, little in recent history to justify the continuance of the Interstate Commerce Commission as now organized. This implies no criticism of its members. They have attempted to function under an obsolete and unworkable law, and in the face of conditions which call for intelligent planning and leadership as distinguished from endless debate on details. Everyone admits that more and more of the work of the Board must be delegated anyway, and if this is so, the question arises as to why a board is needed at all. I believe that too much emphasis has been placed on the judicial functions of the Interstate Commerce Commission, especially on valuation and rate making, and too little on planning and administration. The complete break-down of the present valuation formula has left the Commission in a condition which would be laughable if it were not so serious. The scrapping of the present formula opens up some very interesting questions for taxpayers. What, for instance, becomes of the tons of statistics and other data collected on the basis of the old formula? What of the pay-roll army of Federal commissioners, counsel, experts, and clerks? What of the wasted time of local officials, railroad representatives, farmers, business men, and commercial organizations? Suppose that just a little common sense had been substituted for all this scientific hash, this maze of regulation and red tape? I favor the abolition of the Interstate Commerce Commission and the creation in its place of a new department of transportation headed by one man, or a one-man bureau head in the Department of Commerce, determining policies with the approval of the Secretary of Commerce. What we need is a new transportation system, not endless hearings on a system that does not work.

THE FUNDAMENTAL PROBLEM

I a convinced that the fundamental problem of the railroads is that of nation-wide consolidation and reorganization to reduce costs and rates, and to write off losses. The era of railroad pioneering and competition is over. The roads must reduce overhead and operating expenses. They must scrap unnecessary, competing, and weak lines. They must get rid of obsolete equipment. They must cut out unnecessary services. They must use trucks and busses, eventually air transportation, and, if necessary, waterways and pipe lines as a supplement or substitute for rails wherever these new forms of transportation are more economical. The establishment of a limited number of strong regional railway systems would be a start in the right direction. Even this will leave a certain amount of wasteful and unnecessary competition.

Whatever may be the basis of valuation and rate making, there must be a scaling down of many railroad securities. I believe that the banks, trust companies, insurance companies, and other holders of railroad securities must be realistic about this phase of the problem. The public will not stand for making them a preferred class of investors, who must get a hundred cents on a dollar, irrespective of the true value and condition of the business they have invested in, when values in all other fields are being readjusted and cut down.

The question for the railroad executives, directors, and security holders to decide is whether the steps taken in this direction should be compulsory or voluntary. To date voluntary regional consolidation under the auspices of the Interstate Commerce Commission has made little progress. The question has been raised whether compulsory consolidation is constitutional. As distinguished an authority as the late Senator Cummins thought it was, but there is no decision of the United States Supreme Court squarely on this subject. There is much to be said for the theory that we are moving inevitably toward one national railroad system. Upon this theory, the major railroad systems might well give serious consideration to the appointment of some sort of an impartial chairman, arbitrator, or director general to coordinate their present activities and to prepare a plan of permanent consolidation.

If the railroads show no willingness to reorganize, reorganization can surely be brought about by some form of condemnation or eminent domain. I believe that the railroads will be unsuccessful in attempts to maintain their present physical, operating, and financial structure at the expense of the general public by penalizing competitors and raising competing transportation costs, inflating securities, raising rates, limiting taxation by States and muncipalities through Federal legislation, borrowing Government money without adequate security, and other like devices. Similarly, attempts to bring about economy largely at the expense of railroad labor will prove unsuccessful unless this is part of a logical general reorganization in the interest of the public. Undoubtedly many wasteful and unjustifiable regulations have been made governing railroad wages, hours, and conditions of labor, and others which, however admirable in themselves, the country simply cannot afford today, but the railroads cannot expect public support in changing these regulations merely as a means of retaining and perpetuating other conditions which are equally wasteful. They cannot expect to make labor the only scapegoat.

Those who are responsible for present railroad management need not complain of radical or drastic governmental action in the near future if they are unwilling even to attempt to meet their problems in a bold, forthright way through their own initiative and cooperation. They have an unrivaled opportunity to do themselves and the country a great service. They should have the guidance and help of the National and State Governments in this effort.

ALFRED E. SMITH.

## APPENDIX 1

### LETTER OF INVITATION

Hon. CALVIN COOLIDGE,
Hon. ALFRED E. SMITH,
Mr. BERNARD M. BARUCH,
Mr. CLARK HOWELL,
Mr. ALEXANDER LEGGE,

GENTLEMEN: The present financial position of the railroads of the United States is a matter of grave concern. Collectively the greatest and most important industry of our country, the railroads have operated in this year at staggering deficits. Only wise and timely Federal aid has averted the financial breakdown of important systems.

This situation touches every citizen. It affects directly the security of wage and employment of the 1,500,000 railway workers. It affects equally the many and important industries supplying railway equipment and supplies. It touches the financial problem of local, State, and National Government, to the support of which the railroads contribute over $300,000,000 annually in taxes. It has given rise to a severe decline in the value of the $19,500,000,000 of railroad obligations and shares, and has occasioned concern to institutions which hold such obligations among their assets, representing in part the savings of that thrifty portion of our population which is to be found among the policyholders of insurance companies and the depositors in savings banks. The relief that the present emergency has made it necessary to grant to the railroads is a drain on the Federal Treasury, and any ultimate loss will constitute a burden on every taxpayer.

The present deplorable position of the railroads is not due wholly to the stagnation of traffic resulting from the long-continued depression. Many of the present ills are due to governmental, financial, labor, and management policies, some wrong in conception, some wrong in application, and others rendered obsolete by radically changed conditions. As a result, the railroads have not been in a position to adjust themselves, as well as have other industries, to present conditions.

There are many disagreements as to causes, many disagreements as to remedies, but unanimous agreement as to the urgent necessity of some thoroughgoing solution of the problem. No solution, however, will be effective unless the problem of the railroads is considered as an integral part of the entire transportation problem of the United States, whether by rail, highway, waterway, pipeline, or air.

Every industry in the country is entitled to fair treatment—the railroads no less than the others. The public interest must certainly be protected, but regulation should not place the railroads at a hopeless disadvantage with competing agencies and destroy flexibility of operation and management initiative. The railroad workers are entitled to a fair wage and the greatest possible security of employment. The holders of railroad securities are entitled to a fair and stable return on the true value of their investment.

But more important than the interests of any one group, the people of the United States are entitled to the most effective and economical form of transportation to meet their various needs, whether by land, water, or air. Each form of transportation should be unhampered to provide effectively at a reasonable cost and at a fair profit the service for which it is best fitted. No form of transportation should be favored either at the expense of another agency or at the ultimate expense of the people of the United States.

We, the undersigned organizations, representing many of the interests concerned, believe that there is no more important present task than a thorough and satisfactory solution of the railroad problem as an integral but the most urgent part of the entire transportation problem. We beg that you examine all phases of the problem and recommend a solution which, with due regard for the public interest, will ensure an opportunity for the railroads of this country to operate on a business basis, to the end that there may be a stabilization in employment of wage earners and in the values of investments made in behalf of insurance policyholders and savings-bank depositors and a general enhancement of the prosperity of the country which to so great a degree depends upon the prosperity of the railroads and of the many lines of business which in turn depend upon them.

Aetna Life Insurance Co., Connecticut General Life Insurance Co., The Connecticut Mutual Life Insurance Co., The Equitable Life Assurance Society of the United States, The Guardian Life Insurance Co. of America, John Hancock Mutual Life Insurance Co., Home Life Insurance Co., The Lincoln National Life Insurance Co., Massachusetts Mutual Life Insurance Co., Metropolitan Life Insurance Co., The Mutual Benefit Life Insurance Co., The Mutual Life Insurance Co. of New York, New England Mutual Life Insurance Co., New York Life Insurance Co., The Penn Mutual Life Insurance Co., Phoenix Mutual Life Insurance Co., Provident Mutual Life Insurance Co. of Philadelphia, The Prudential Insurance Co. of America, The Travelers Insurance Co., National Association of Mutual Savings Banks, Investment Bankers Association of America, Railway Business Association, American Central Insurance Co., Phoenix Insurance Co. of Hartford, Connecticut Fire Insurance Co., Hartford Fire Insurance Co., Hartford Accident & Indemnity Co., National Fire Insurance Co. of Hartford, Aetna Insurance Co.. Caledonian Insurance Co. of Scotland, Columbia Casualty Co., Commerce Insurance Co. of Glens Falls, Glens Falls Insurance Co., The Continental Insurance Co., Fidelity-Phoenix Fire Insurance Co., American Eagle Fire Insurance Co., Maryland Insurance Co. of Delaware, Niagara Fire Insurance Co., First American Fire Insurance Co., The Fidelity & Casualty Co. of New York, Eagle, Star & British Dominions Insurance Co. Ltd., Lincoln Fire Insurance Co. of New York, Fireman's Fund Insurance Co., Home Fire & Marine Insurance Co., Occidental Insurance Co., Fidelity & Guaranty Fire Corporation, Glens Falls Indemnity Co. of Glens Falls, Great American Insurance Co., Insurance Co. of North America, Norwich Union Fire Insurance Society, Ltd., The Eagle Fire Co. of New York, Norwich Union Indemnity Co., Northern Assurance Co., Ltd., of London, London & Scottish Assurance Corporation, Ltd., Phoenix Assurance Co., Ltd., Imperial Assurance Co., Columbia Insurance Co., United Firemen's Insurance Co., The Union Marine & General Insurance Co., Ltd., The Pennsylvania Fire Insurance Co., Security Insurance Co. of New Haven, Springfield Fire & Marine Insurance Co., Sentinel Fire Insurance Co., Michigan Fire & Marine Insurance Co., New England Fire Insurance Co., SVEA Fire & Life Insurance Co., Hudson Insurance Co., Skandia Insurance Co., Columbia University, Harvard College, The University of Chicago, Yale University.

## Statement of John R. Waller, President International Bank, Washington, D.C.

A study of the economic problems of the United States brings us face to face with a depression that is world-wide, and in order to outline a sound program of relief and recommend remedial measures it is necessary to analyze the economic conditions affecting the Nation. Under modern conditions international cooperation is essential to maintain the equilibrium of any country. Our Nation is so constituted that most of our large industries cannot be permanently successful unless they can sell in foreign markets. Extreme nationalism has become an economic impossibility. No nation, state, or even city can prosper indefinitely while its neighbors are impoverished.

For years this country was able to avoid the devastating effects of world deflation and the results of domestic maladjustment but was finally engulfed. It was found impossible to maintain prosperity levels in the United States in the face of demoralized world prices. Since the latter part of 1929 liquidation, credit deflation, and falling commodity prices continued to an unprecedented extent. Two hundred billions in property values crumbled away. Public confidence vanished and pessimism and fear became the general attitude. We are in the midst of the Nation's most serious crisis, and, save for the stimulation beer may give, nothing has been done toward reviving business.

While opinions as to the primary cause of the world depression differ, there can be no doubt that the fundamental causes flowed from the Great War with its appalling toll of 10,000,000 lives and 20,000,000 maimed, in addition to the destruction of over $300,000,000,000 of wealth, augmented by debts of $200,000,000,000. In the United States the proximate cause may be attributed to world conditions and the collapse of overextended credit, which had resulted in overexpansion, with a $50,000,000,000 construction boom ending in an orgy of reckless extravagance and wild speculation.

In addition to these factors the Nation experienced unparalleled commercial and social changes. During the last 20 years business and industry passed from a condition of comparative simplicity to the complexities of the present day. Never before have fundamental conditions changed so rapidly in so short a period. The outbreak of the Great War prevented a depression which seriously threatened the United States. Since then practically every field of commercial activity has been revolutionized. Sweeping changes were made in our industrial policy, with leaders of the new order advocating low unit costs by labor-saving machinery, mass production, standardization of output, and elimination of waste. Motor-car production increased from 900,000 in 1918, to nearly 5,000,000 in 1929, and in the same year automobile registration reached a total of 26,500,000. Industrial supermechanization resulted in a steady increase in technological unemployment. American inventive genius progressed and machinery and equipment often became obsolete over night. Chain stores superseded the independent retailer. Chemistry furnished constantly new miracles. Oil supplanted coal to a large degree.

During this period the business of brewers and distillers was confiscated by the eighteenth amendment and the value of their plants decimated. Motor transportation became a crushing rival of steam and street railways, and brought to an end the business of carriage, wagon, and allied manufacturers. Dozens of other industries were annihilated by the evolution of new processes. Automobiles also displaced several million horses, and the produce of nearly 50,000,000 acres which would have been required for their maintenance, has been thrown upon an overburdened agricultural market. The automobile has much to answer for in the current depression, although it appeared as one of the main factors in the recent boom.

An examination of production and indebtedness during this period establishes the startling fact that for years our debts have been increasing at a rate faster than production, and both of them faster than the ratio of population. Cities, States, and the Nation vied with each other in reckless expenditures. Combined Federal and State indebtedness increased from a few billion to over thirty billion dollars. Taxes have become excessive and in many cases confiscatory. In 1929 the national income was nearly $90,000,000,000, while in 1932 it fell to less than $40,000,000,000—about equal to tax levies, together with interest on private debts. The total revenue from income taxes for the fiscal year 1931–32 did not equal the cost of our Veterans' Administration service. We have reached a point when the total income of the people is insufficient to pay taxes and interest on indebtedness.

And yet, only a few years ago, confidence and prosperity in the United States reached the highest point in its history, and the long-hoped-for ambition of the Nation to abolish insecurity, drudgery, and poverty appeared within the realm of accomplishment. However, this magical prosperity, "the new era," as termed by some economists, was accompanied by many vicious characteristics, and gradually the moral fiber of the people was undermined. In many instances business ethics became those of the racketeer and executives thought in terms of big salaries, bonuses, and stocks. Financial manipulations and dishonest promotions became a national scandal. Bankruptcy and receivership rackets were countenanced by the courts, while corruption of public officials became commonplace. Prohibition brought the bootlegger, the speakeasy, and the racketeer, while churches fought a losing fight and struggled to keep the spark of faith alive. It has been estimated that the annual loss in the United States through crime is in excess of $12,000,000,000. The morals of the people reached a low ebb in an effort to conform to the ideals of the cinema and theater, controlled by an alien race. So much for the social and industrial aspects of this period, with which we must become familiar if we would attempt to solve our economic difficulties.

As to "constructive suggestions with respect to the solution of these problems," we must realize that in the language of Justice Stone of the United States Supreme Court, "The people of the United States are now confronted with an emergency more serious than war. * * * Some people believe that the existing conditions threaten even the stability of the capitalistic system." It is evident that drastic measures are essential to defeat this enemy within our borders. Heretofore, we have been trying to work out of our difficulties by adopting ideas derived from past ages, in days of hand labor, to a complicated society in a machine era. The methods of procedure must change to meet existing conditions. It is imperative that the purchasing power of the people be increased, so that the price level can be restored. Confidence must be reestablished and poverty and fear destroyed. The relief of unemployment, the profitableness of all enterprise, and the stability of the Government itself depend on this being done.

Fortunately, we are in a more favorable position to overcome the depression than any other nation. We have a preponderance of the basic wealth of the world and a market created by over 120,000,000 inhabitants who normally use 90 percent of the products of our mines, mills, farms, and factories. The present administration is giving the people new hope, and for the first time in 3 years preliminary indications of vigorous action have aroused an enthusiastic response in the Nation. Governmental economies directed toward a balanced Budget, together with a strengthening of the banking system, and restoring confidence in the security markets are the first logical steps in the "new deal." When the program gets well under way, it is likely to shock conservatives, but all orthodox remedies have been tried and found ineffective, and we may as well realize that depressions do not cure themselves. It is a testimonial to our unemployed that they have waited patiently through four long winters, and human endurance, so far as they are concerned, has almost reached its limit. The Nation is prepared for bold experiments, but it will not tolerate further inaction. Promptness is essential, otherwise a complete social and economic debacle is inevitable.

As existing policies are ineffective, what practical plan is available by means of which the unemployed may speedily be put back to work, purchasing power increased, and economic recovery assured? For the outline of this plan I am indebted to W. Jett Lauck, of Washington, D. C.

## NATIONAL PLANNING

It is obvious that industry can not and will not resume operation unless it is assured that its operations will not result in a loss. This means that industry must have assurance that output can be sold at a price sufficient to cover operating expenses plus a reasonable return on capital invested. To meet this fundamental requirement, stabilization of prices and production under Federal supervision is the only practical method which can now be adopted for economic recovery.

The agencies for successfully carrying through such a program should consist of governmental stabilization boards with administrative powers to arrange production and price schedules, operating under the advice of a national economic council composed of members representative of all branches of business and finance assisted by the best expert assistance obtainable.

Separate stabilization agencies, as recommended by the United States Chamber of Commerce, should be permanently created for each of the natural resource industries, such as bituminous coal, oil, and lumber.

As to the manufacturing industries, one general stabilization board would be sufficient, under the general direction of which separate boards for each basic industry could be created.

The development of disastrous competition from abroad would be prevented by giving authority to the general stabilization board to exclude all foreign products the importation of which tended to interfere with its program.

Let us assume the necessary legislation has been passed, an organization perfected, and an economic council set up. After a careful survey it could inaugurate cautiously the new policy by increasing production and employment 20 per cent for a period of 3 months. Different classes of producers would then be authorized to form trade associations, agree upon the price based on the new production schedule, allocate the quota among themselves, and submit their agreed-upon procedure to the stabilization board for their industry. After examinations and hearings, the schedules would be approved and licenses issued. The requirements of licensees could be certified by the stabilization boards to the Reconstruction Finance Corporation and the necessary credit would be forthcoming.

Failure of the program thereafter would be impossible. A stable price to yield a fair profit would be assured and net income would be at once developed by producers. The national pay roll or the combined purchasing power of the country would be increased 20 per cent, or approximately $800,000,000 per month. Employees would be assured of steady employment and would freely spend. Fear and hoarding would cease.

The study being made of economic problems by the Committee on Finance of the United States Senate has resulted in the testimony of a great many witnesses whose views are widely at variance. It will be generally agreed, however, that public confidence will respond promptly to appropriate legislation on the following subjects.

### PUBLIC WORKS

A large program of public and semipublic works is necessary to commence the restoration of national purchasing power. Funds should be made available at low rates of interest for self-liquidating quasipublic projects. This will be a strong factor in the restoration of public confidence. The Government has not met its responsibility for relief of the unemployed. National works on a major scale will expand wages and revive business. The sale of necessary bonds to the public can be made certain by using the methods used successfully in the Liberty loan issues.

### AGRICULTURE

The American farmer has been the greatest sufferer from this depression. Facts and figures cannot picture the acute distress of a large portion of our rural population; as a class they are bankrupt. There are approximately $10,000,000,000 in farm mortgages, most of which are in default. An effectual moratorium of farm indebtedness, including tax liens, should be made operative to augment the emergency farm mortgage act of 1933, with comprehensive legislation for the protection and reorganization of agriculture. While the tiller of soil cannot be rescued by legislation alone, he can be helped. It is imperative that the price of farm commodities be increased to enable farmers to receive a profit above the cost of production. At the present time all commodities that are grown or mined, except gold, are being sold below cost. The solution of the present problem of agriculture lies wholly in increased prices. It is difficult to believe that the so-called "domestic-allotment plan" to aid agriculture is workable. It places an impossible burden on the Government and is an attempt to prevent by legislation a natural economic development of the past 50 years.

### LABOR

The confidence of our workers must be reestablished. American productive enterprise has far surpassed the ability of industrial leaders to devise methods to distribute the products of American labor. This is the problem of the future and with it should go a wider distribution of wealth. This will be the economic salvation of the Nation. We must dedicate our energies to a program for the common good. To make this effective appropriate labor legislation affecting working conditions, minimum wages, and maximum hours is essential. The 6-hour day is now being tried with satisfactory results to the employer. "Play fair with labor" must be our national policy.

### SECURITIES

An enactment with reference to the sale of securities should be effected, providing for strict regulation of stock and commodity exchanges, with publicity features as to short sales. Washington is the only world capital which does not have an exchange, and there should be established such an institution at the National Capital, under supervision of the United States Government. This would give the people an honest market and prevent manipulation. The measure now before Congress should provide that the annual reports of corporations to the shareholders should contain list of salaries of executives and directors, with information as to any bonuses paid and the methods by which they are computed. Recent publication of Railroad Salaries S.Doc. No. 129) and those of insurance executives (Cong. Rec., Apr. 6, 1933) have created a very unfavorable reaction throughout the Nation. While hundreds of millions of dollars of public funds were being placed at the disposal of banks, railroads, and insurance companies to save them from insolvency, their executives continued to draw salaries which could scarcely be justified in the most prosperous days of the recent "new era."

BANKS

The recent failure of several thousand banks, tying up over $15,000,000,000 deposits, although due in many instances to public fear and hysteria, is a serious reflection on our banking system. No other nation has suffered a similar misfortune. The fact remains that comparatively few banks that were properly supervised by a qualified board of directors under competent management have failed. Practically all closed banks had been under criticism of the Comptroller of the Currency or of State banking departments. Our banking system is the economic life of the Nation. It controls the cash and credit of the people and in effect dominates their lives and fortunes. One of the primary functions of a free government is to provide a safe repository for the savings and accumulated surplus of its citizens.

At the inception of the depression, the abnormal efforts of banks for liquidity did much to augment the crisis. The request of the President for cooperation was ignored; loans were called and credit stopped, bringing ruin to thousands. A new national banking system should be made effective, entirely divorcing savings and commercial banks. All banks should be brought under Federal control and compelled to maintain a higher reserve ratio. There should be stricter limitation of bank charters. The adoption of bank legislation establishing an insurance fund to guarantee deposits will greatly aid in restoring confidence.

The following subjects are indissolubly linked with the economic welfare of the Nation.

MONEY

The value of gold is determined by the world supply and demand, and at present the fluctuations in its purchasing power is directing the destinies of most of the nations of the earth. Throughout history, an increase in the supply of gold has brought increased prosperity, and the fact that the general level of world commodity prices has followed the ratio of monetary stocks of gold to commodity production, indicates that we have allowed ourselves to become slaves of this precious metal. Our economic affairs can best be served by a sound monetary system capable of expanding promptly to meet the needs of the Nation. The stability of our monetary system does not depend on gold reserves, but on the promise of the Government to pay. The world's gold supply is only sufficient to meet a small portion of the outstanding indebtedness payable in gold in the United States alone, and our Nation has not sufficient gold to redeem its own paper money. If gold were all destroyed our currency system would continue to function because we still have the promise to pay of a sound Government.

The fundamental cause of the drastic decline in all price levels has been the international scramble for gold. The welfare of a great portion of the world's population depends on the so-called gold standard. But in the strict acceptance of the term, this standard no longer exists anywhere in the world, and more than 30 nations have definitely abandoned the gold standard. At the rate gold currency was withdrawn prior to President Roosevelt's Executive order, the national reserves of approximately $4,000,000,000 would have disappeared in less than a fortnight. As a result, the Government nationalized gold, and we are in fact off the gold standard, as there has been a suspension of specie payments. Therefore, it will readily be seen that there is not sufficient gold to support the present volume of world credit, and yet those who control this gold supply can direct the expansion or contraction of currency, dominate markets, fix prices, and to a large measure direct the affairs of the world.

It is necessary in the present emergency to adopt a standard sufficiently elastic to meet the needs of the vast pyramid of world debts. The present combination of low sterling and low silver are preponderant factors in establishing a low world price level. The demonetization of silver made a fettish of gold, of which there is about one fifteenth of the total volume of silver. The solution should be a bimetallic monetary unit based on both gold and silver, and since silver production is less erratic than gold production, such a money would be more stable than gold. If once established it would work in the same way in which the gold standard works, except for greater stability. This will make it possible to establish any desired commodity price level. More than half the population of the world now uses silver as a medium of currency, and an international agreement to remonetize silver is recommended. It should be noted that the United States is one of the great silver-producing nations. Heretofore, there has never been international cooperation in money matters. The same coinage ratio should be agreed upon by the principal nations. An international agreement to this end could be effected at the forthcoming conference called by the President. In this connection, I append an article on the remonetization of silver by Mr. South Trimble, one of the leading American authorities on the subject.

THE BUDGET

While the President has resolutely set out to balance the national budget by effecting economies and encouraging further deflationary measures, it is certain that the best way to balance the budget is to put the idle millions to work. It is just as unnecessary and impossible to live within the reduced income of the Government now as it was during the war. The budget will be self-balancing if we restore commodity prices.

REFLATION

There is a universal demand for an increase in commodity prices and this can only be accomplished by reflation. We must choose between deflation and reflation. The former means the continuation of bankruptcies, foreclosures, and defaults, and the latter will increase the purchasing power of the Nation and insure a gradual recovery.

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## Remonetization of Silver

(By South Trimble)

It seems to be the universal opinion that property and commodity prices must be reflated to just and equitable values before we start on the permanent road to prosperity. In my opinion the only remedy is to either revalue gold or remonetize silver. By cutting the gold dollar in two would double the amount of gold dollars. That would have the effect of doubling the value of commodities and property. By remonetizing silver at the ratio of 16 to 1 and making it a primary or basic money, a money of redemption the same as gold, would have approximately the same effect as it would double the amount of basic or primary dollars.

Why should we for a moment consider the revaluation of gold in order to increase the volume of our basic money when the remonetization of silver will have the same practical result. The revaluation of gold would produce chaos in the business world, as we have billions of obligations, including all of our Government bonds payable in gold dollars of the "present standard weight and fineness."

Why not repeal the law of 1873 which demonetized silver and make our own precious metal a basic money, a money of redemption on an equality with gold? The Western Hemisphere produces 84 percent of the silver of the world. The Eastern Hemisphere produces 75 percent of the gold.

In 1929, the peak of production of silver in the history of the world, the United States alone produced twice as much silver as all of Europe, Asia, and Africa combined. But we, by law of our own making, destroyed its value as money, depriving it of free and unlimited coinage and full legal tender privilege in the payment of all debts, both public and private (which it had always enjoyed from the foundation of the Government), and automatically making all of our Government obligations contracted before and during the Civil War, which were payable in coin, payable in gold. Four fifths of said obligations were held by European bankers. Thus the conspiracy to destroy silver by the international bankers, which doubled and trebled the purchasing power of our coin obligations held by them.

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It is not my purpose now to discuss the general question involved in the proposition to remonetize silver by restoring it to the privileges it enjoyed from the foundation of our Government to 1873, at which time it was destroyed without the knowledge or consent of the American people. However, it is my honest conviction that if President Roosevelt were to come to Congress with a message to restore silver to its ancient place in our monetary system, Wall Street, the barometer of business, would immediately respond with rapid advancing prices, hoarded money would come from hiding to be invested, realizing that the purchasing price of the dollar was going down and commodities and prices automatically going up.

If the remonetization of silver be the inestimable boon which its advocates claim it to be, it will enable us to realize it. But if, on the contrary, it shall prove to be an unmixed evil as its opponents assert, then we shall not have gone so far that we cannot retrace our steps without serious derangement to the business of the country. A fair trial and honest effort to solve the problem is all that reasonable men can or ought to require.

We should consider this momentous question not from a political standpoint, but from a patriotic one. We must not forget that ever since the organization of our Government until 1873 silver dollars were a legal tender and recognized as the money of the country and up until 1873 the silver dollar was always at or above par with gold and would be so today only for the crime perpetrated by its fraudulent demonetization.

The chief argument of the gold monometalists, the single gold standard advocates, sponsored by the international bankers who are absolutely responsible for our present economic conditions, are that the advocates of bimetallism are fools, lunatics, idiots, repudiators, etc.

Now, in order to disabuse the mind of the great body of the American people who have been born since silver was demonetized, I am going to submit party platform planks and observations of a few of the great men of both political parties that have long since passed away.

The Democratic plank in 1884 (Cleveland and Hendricks, candidates) was: "We believe in honest money, the gold and silver coinage of the Constitution, and a circulating medium convertible into such money without loss."

The Republican plank (Blaine and Logan, candidates) was:

"We have always recommended the best money known to the civilized world, and we urge that efforts should be made to unite all commercial nations in the establishment of an international standard, which shall fix for all the relative value of gold and silver coinage."

In 1888 the Democratic platform (Cleveland and Thurman, candidates): No financial plank.

The Republican plank (Harrison and Morton, candidates) was:

"The Republican Party is in favor of the use of both gold and silver as money, and condemns the policy of the Democratic administration in its efforts to demonetize silver."

In 1892 the Democratic plank (Cleveland and Stevenson, candidates) was:

"We denounce the Republican legislation known as the Sherman Act of 1890 as a cowardly makeshift, fraught with possibilities of danger in the future which should make all of its supporters, as well as its author, anxious for its speedy repeal. We hold to the use of both gold and silver as the standard money of the country, and to the coinage of both gold and silver without discriminating against either metal or charge for mintage, but the dollar unit of coinage of both metals must be of equal intrinsic and exchangeable value."

The Republican plank (Harrison and Reid, candidates) was:

"The American people, from tradition and interest, favor bimetalism, and the Republican Party demands the use of both gold and silver as standard money, with such restrictions and under such provisions, to be determined by legislation, as will secure the maintenance of the parity of values of the two metals."

It was in February 1891 at Toledo, Ohio, that President McKinley, then Senator, in criticizing ex-President Cleveland's opposition to silver, said:

"During all these years at the head of the Government he was dishonoring one of our precious metals, one of our own great products, discrediting silver and enhacing the price of gold. He endeavored, even before his inauguration to office, to stop the coinage of silver dollars, and afterwards and to the end of his administration, persistently used his power to that end. He was determined to contract the circulating medium and demonetize one of the terms of commerce, limit the volume of money among the people, make money scarce, and therefore dear.

"He would have increased the value of money and decreased the value of everything else—money the master, and everything else the servant. He was not thinking of the "poor" then. He had left their side. He was not standing forth in their defense. Cheap coats, cheap labor, and dear money; the sponsor and promotor of these professing to stand guard over the poor and lowly. Was there ever more glaring inconsistency or reckless assumption? He believes that poverty is a blessing to be promoted and encouraged, and that a shrinkage in the value of everything but money is a national benediction."

During all these years a conflict between silver and gold (which is, in fact, the struggle of the great common people against the money trust) the Democratic Party has, until this act, professed to desire the full restoration of silver as "standard money."

In 1890 President McKinley declared on the floor of the House:

"I would give it [silver] equal credit and honor with gold; I would make no discrimination; I would utilize both metals as money and discredit neither; I want the double standard."

When Mr. Harrison wrote his letter of acceptance September 3, 1888, he said:

"The resolution of the convention in favor of bimetallism declares, I think, the true and necessary condition of a movement that has upon these lines my cordial adherence and support. I am thoroughly convinced that the free coinage of silver at such a ratio to gold as will maintain the equality in their commercial uses of the two coined dollars would conduce to the prosperity of all the great producing and commercial nations of the world."

Quotation from Mr. Garfield's inaugural address of March 4, 1881: "By the experience of commercial nations in all ages it has been found that gold and silver afford the only safe foundation for a monetary system."

"I am certainly of opinion," said Mr. Webster, "that gold and silver, at rates fixed by Congress, constitute the legal standard of value in this country, and that neither Congress nor any State has authority to establish any other standard or to displace this standard."

Hon. James G. Blaine, from the floor of the Senate, February 7, 1878: "I believe the struggle now going on in this country and in other countries for a single gold standard, would, if successful, produce widespread disaster in the end throughout the commercial world. The destruction of silver as money and establishing gold as the sole unit of value must have a ruinous effect on all forms of property except those investments which yield a fixed return in money."

Hon. John G. Carlisle, on February 21, 1878, House of Representatives: "According to my view of the subject, the conspiracy which seems to have been formed here and in Europe to destroy by legislation and otherwise from three-sevenths to one-half of the metallic money of the world is the most gigantic crime of this or any other age.

"The consummation of such a scheme would ultimately entail more misery upon the human race than all the wars, pestilence, and famines that ever occurred in the history of the world."

Excerpt of letter from Thomas Jefferson to Alexander Hamilton, January 1791. (Hamilton's Works, vol. 4, p. 96): "Dear Sir: I return you the Report on the Mint, which I have read over with a great deal of satisfaction. I concur with you in thinking that the unit must stand on both metals."

Excerpt from Alexander Hamilton's communication relating to our first monetary system, submitted to Congress in 1791: "To annul the use of either gold or silver as a money is to abridge the quantity of circulating medium, and is liable to all the objections which arise from the comparison of the benefits of a full circulation with the evil of a scanty circulation. * * * It seems most advisable not to attach the unit exclusively to either of the metals, because this cannot be done effectually without destroying the office and character of one of them as money and reducing it to the situation of mere merchandise. * * *" Mr. Hamilton wisely concludes that this reduction of either of the metals to mere merchandise "would probably be a greater evil than occasional variations in the unit from the fluctuations in the relative value of the metals."

The gold standard has bankrupt the world. Strictly speaking, there is not a gold-standard nation on earth today. The predictions made by those two great men, Carlisle, Blaine, and scores of other statesmen confront us. For the great army of farmers, mechanics, laborers, and merchants who have been reduced to bankruptcy, hunger, rags, and wretchedness by the operation of the single gold standard manipulated by avaricious, greedy, grasping capitalists, there is no remedy. To those who yet stagger under the load thus laid upon them, speedy relief can and should be given. Nature was never more bountiful, the earth never yielded more abundant harvest, human hands were never more willing. What then has produced the present state of affairs? The advocates of the gold standard may avow that it is not responsible for getting us into our present deplorable condition but there is one thing certain, they cannot say that it has done anything to get us out.

SOUTH TRIMBLE.

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STATEMENT OF D. WALTER TURNER, PRESIDENT CAROLINA STORES, INC., OF LENOIR, N.C.

PROSPERITY IS PROFITS, DEPRESSION IS LACK OF PROFITS

Only a few days ago one of our chief financial advisors appeared before the Senate Finance Committee and told them that all that was needed to bring back prosperity was to balance the Budget and keep sound money. This is not mentioned with any intention of criticizing this highly experienced gentleman, but for the purpose of driving a point. I will not enter into the subject of what constitutes sound money as that would be very questionable, and since we have the same kind of money we have always had, or I judge it is the same, when and if we find any of it.

As to balancing the Budget, I would like to ask this question: Was the Budget not balanced when this depression started upon us? Is it not a fact that the same thing that unbalanced the Budget brought the depression; or, putting it another way, is it not a certainty that the depression is the identical thing that unbalanced the Budget? Then is not the proper advice, let us find the thing that unbalanced the Budget and we will have found the thing that is causing the depression? It is my opinion, and the opinion of millions of others, that a balanced Budget can be forced in some way or other at the present without doing anything about the cause of the depression, and it will stay balanced about as long as a snowball will stay in hades.

Putting this thing another way, is it not a plain fact that a balanced Budget, one which will stay balanced, and prosperity are one and the same thing? Governmental budgets are balanced by taxation on incomes of one kind or another, and if incomes are diminishing, getting worse all the time, how can we make any sort of budget stationary? To say that all we need is to balance the Budget is just like a physician telling a badly sick patient, "all you need is to get well, and when you are well I shall undertake to treat your trouble."

Coming to the point, what we need is prosperity, so that we can balance the Budget and keep it balanced. Now let us analyze this thing. It is purely a mathematical matter and a most simple one. What is prosperity? Can prosperity be but one thing, profits equitably or fairly distributed? The prosperity of the professional man is dependent upon the profits or prosperity accruing to the trader in the products of mother earth, in whatever capacity he may be working. Then is it not a fact that our trouble is lack of profits all along the line from primary producer to ultimate consumer?

Big business itself must eventually suffer and go bankrupt, as it is now doing, unless profits or prosperity is permitted individuals and small business. None of us can prosper alone, small or great, not for long. I believe that we all will agree that profits is the one and only thing that makes prosperity, whether it accrues to the laborer or to the millionaire. Then let us be serious and diligent in this matter of finding the trouble with profits, correct it, which is so simple to do, and we shall have a balanced Budget and one that will stay balanced; we shall have prosperity and, what is paramount, we shall have a lasting prosperity.

I contend that retail monopoly is much more vicious than wholesale or manufacturer's monopoly and because they dominate the "profits" or the price of merchandise all back the line to the producer, except where they deal with a manufacturer's monopoly, but even then, we find today the manufacturer's monopolies and the retail monopolies working together to tear down and destroy the producer and small business, determined to allow no one a profit but themselves. As just one example of this, we find the tobacco farmer getting less than cost for his product and we find further the tobacco monopolies, with the cooperation of the A.&P. Tea Co. forcing the jobbers and retailers to suffer a tremendous loss on the sale of all tobacco products.

The cost of cigarettes to the jobber is 9.9 cents per package and the list to the retailer is 11 cents per package. The American Tobacco Co. is advertising them at 11½ cents per package and the A.&P. Tea Co. is selling them at 10 cents per package. Tobacco products constitute one of the largest sale volume items in the world and is up toward the top in America's farm products. And it does not stop here. Every important product of the farm is so affected, possibly not in cooperation with the manufacturer as above, but by retail dominance, as I shall prove further in this brief. Only a few days ago one of the large flour millers made the statement to one of my associates, that every miller in the State, not already bankrupt, had been ruined by the national chain grocery stores and one in particular. It is retail monopoly that has made a buyers' market out of every product of the farm and practically all products of mother earth, ruining not only the country, but most surely themselves eventually.

It was the Wilson administration which caused the packer's consent decree, when the five major meat packers started to enter the wholesale manufacture and sale of groceries. I well remember that President Wilson said "No five corporations shall dominate the food industry of the United States so long as I am President." Think of that and then think what we have today, two or three retail combines positively dominating the food industry and it can be easily proven that they control the price of practically all products they handle, allowing no profit to anyone, not even themselves, except on their own private brands, and no one except themselves makes a profit on them, that is there is no primary profits on them. It is proven that price regulation as controlled by supply and demand has been killed.

It is said that a dollar changes hands, in normal times, over 70 times a year. For full prosperity, each and every change should cause a profit to someone, starting with the primary profits accruing to the farmer, producer, laborer, etc., and on up the line. Kill these primary profits and this will automatically kill further profits up the line and because the primary factor, represented by over three fourths of our population, do not have money or profits to trade with the rest of us. Profits come from trading in the products of the earth. There is a chance of just so much to be distributed. The more profits we have, well distributed, the more prosperity we will have. Now with factors in the country dominating these products and allowing no profit to anyone, how are we to expect any semblance of prosperity?

With the slightest investigation we can find that the depression did not start from lack of business but from lack of profits in business, a situation forced upon practically all business. Of course, sales were eventually forced to fall off, and because of lack of profits which must accrue to the public as a whole before they can buy. The so-called prosperity of 1928–1929 was balloon or paper profits, accruing from trading in stocks of the new forming and fast expanding chains, syndicates, mergers, combines, "monopolies," which concerns were showing very small, if any, real operating profits, their expansion being largely the sale of new stock and with this stock in some cases selling for ten times its book value. Some investors found out the proper profits or earnings to justify such values were missing, stuck a pin in the balloon, and since then we have been looking for prosperity, "just around the corner."

I submit as a fact and without fear of successful contradiction, that actual operating profits, properly distributed, started diminishing 10 or 11 years ago or exactly when the retail chains really started getting their present dominating grip upon the business affairs of our Nation, and I further contend that the brunt of the world troubles of today, rests in and with the United States of America. The United States is and has been the hub of the financial world and I submit that war-ridden Europe was coming back to the front as rapidly as could have been expected until this trouble burst forth in the United States. It is certainly thought of that way in Europe as they are looking to the United States alone for their chief relief. If they have fallen for the same merchandising errors that we have, then let us set the rest of the world an example, remedy our own errors, and the rest of the world will follow our example.

VOLUME MINUS PROFIT IDEA STARTED PRESENT TROUBLE

The idea of volume at less profit is the incentive behind the chain-store movement and started its really widespread some 10 or 12 years ago. It seems to me that a child could have seen destruction in such an idea and if not unlawful, certainly unethical means must be followed to carry out such an idea. Let us accept the fact that just so much business is possible with its accruing profits to our vast population, and the carrying out of the volume-short-profit idea is not possible except to those receiving "special privileges," and long to them, because it bites the hand that feeds them. And it immediately makes unsurmountable obstacles to all business and their laborers not receiving these same privileges. These "special privileges" will be dealt with in this brief under another heading or other headings, price discrimination, unfair trade policies, etc.

PRICE DISCRIMINATION CAUSE OF MONOPOLY

Ten years ago there were few, if any, manufacturers of any size who did not have a uniform price to their distributors, whether they sold to jobbers or to retailers or to both. It was somewhat of an unwritten law with all of them, or all that had any standing. Some unscrupulous manufacturers started giving secret concessions in price to the then small chains. This of course forced competitors to follow suit. This in turn caused the chains to grow by leaps and bounds and the destruction started.

The first big jolt or rebound to this unethical, if not unlawful, business system was the financial collapse of Wall Street. Today the system has ruined all other competition, yet the trouble is it does not stop with competition. If it did, we possibly could not find room for complaint. That is just the start of it. The manufacturer finds no solvent customers except the chains (and the solvency of many of them is getting more questionable all the time), and these chains are dominating the price of his products. He finds them in position to destroy him if he does not do their bidding. He must sell to them or at a price dominated by them in his last effort to stay in business. He is in truth putting no price on his own products but is accepting the price dominated by the chains, if he finds a market at all. And such offer or price always constitutes a loss to the manufacturer unless he cuts wages, buys his raw products cheaper, and what not. This situation gets worse and worse all the time and will continue to grow worse until the situation is handled by law. It is far beyond business being able to remedy the situation within itself.

Certainly I think the above explanation is clear, and I want to say here that, if there is any doubt about the accuracy of same in the minds of the committee, is it not your duty to thoroughly investigate the matter for yourselves by the appointment of a committee (one especially familiar with the workings of small- and medium-sized business) for this purpose. Let me try to impress upon the committee that we need action now and not six months from now. There are 14,000,000 souls out of employment, hungry, and naked because of this situation, and they will starve to death if we expect this damnable situation to correct itself. Certainly it must be seen that wages cut low stops buying power and shuts down plants. The whole thing is just a vicious cycle that will eat itself up eventually and cause revolution, wreck, and ruin unless the Government acts and acts quickly.

MONOPOLY SELLS LEADERS AT HEAVY LOSS TO RUIN COMPETITION

The national chain grocery stores are today attempting to make their profit on their own private brands or upon the goods they control, while they sell more than three fourths of all other items at an actual loss, counting overhead. By all other items I mean items handled by their competitors, and the only items their competitors have, since no small- or medium-sized merchant can successfully have private brands. You can see that this is not only taking all the "profit" out of these large sale items, but it is done to put out of business their independent competitors and which has all but been accomplished, perfecting the food monopoly and rapidly headed toward the same thing in every other line.

It is peculiarly true that these less-than-cost leaders constitute all important farm products, as I shall bring out under another heading. Now let us not forget the "profit" idea and the fact that this is taking all the "profit" out of all farm products, going on back to the soil, as I shall show later, and farm products, normally speaking, are the chief sources of income in the United States.

### SOME STORES OF A CERTAIN CLASSIFICATION WILL ENTER MERCHANDISE OF AN ENTIRELY DIFFERENT CLASSIFICATION, PURPOSELY TO SELL AT A LOSS, TO DRAW TRADE ON THEIR REGULAR LINE

One of the most damnable, destructive, and unfair things to develop during this price-cutting era is the system of thousands of unscrupulous and unfair merchants in a certain classification of merchandising who will enter into his store the most important items of his neighbor, who operates under a different classification, and sell those items at a heavy loss in order to get customers into his store to buy his regular line. This is especially done by dry-goods or department stores, who enter groceries or staple drug and advertised drug items for this purpose. Again you see the "profit" question and sure bankruptcy for the victims and the unfair merchant himself killing the goose that lays the egg. It is the most pitiful thing of all to see an honest hard-working merchant up against this sort of thing and to think it is permitted to go on and on in these United States, breeding anarchy.

Equally as bad is a system being practiced by eastern wholesale-drug firms. Their home States permit them to sell whiskey, within the State, of course, to retail-drug stores, up to an amount constituting a certain percentage of their entire sales. These firms are today selling staple drug items to their dry State chain-store customers at less than cost in order to build up their volume so as to permit the sale of more whiskey in wet Eastern States and on which whiskey, they, of course, more than make up the loss. This is not only a damnable and ruinous situation, but again we have that question of "profits", which is "prosperity." If we cannot accumulate enough brains in this country to stop in some way such things as above set out, then our country will and ought to go bankrupt.

### TWO OR THREE NATIONAL-CHAIN GROCERY STORES ARE TODAY DOMINATING THE PRICE OF FARM PRODUCT

I think that I have already proven the statement as contained in the above heading, but I wish to go into the matter in detail with you. I stand ready to furnish proof of my statements and evidence if you want it. We find today just 2 or 3 national chains so large and powerful that they control the price of products, not on just what they buy but on those particular products, even if bought and handled by the independent merchants. It is plain to be seen that all small business must do their best to buy so as to be able as nearly as possible to compete with the chains. Of course, they cannot do it, but their efforts bears all markets and regardless of the law of supply and demand. These 2 or 3 national chains are each one determined to buy cheaper than the other so that they can sell cheaper than the other. Now, as before set forth, they seem to select especially all staple and farm products, extremely large-volume items, as their less-than-cost leaders, determined to buy them cheaper and cheaper so that they can sell them cheaper and cheaper.

Now let us see; we find all the following products—and many more that I will not take space here to mention—selling far below cost, operating expense considered: All tobacco products, flour, lard from cottonseed, lard from pork, dry salt meat, sugar, canned milk, cheese, pork, beef, etc. Now listen, no one along the whole line of distribution, is getting a dime clear profit out of this whole thing, not even the man that raises it.

To claim that the lack of "profit" from these items, accruing to the farmers and to all the rest who touch it, is because of overproduction, is certainly idle talk until we have fed the hungry and clothed naked. The cutthroat methods as set out in this brief and as thoroughly described, are accountable for the fact that we have food and clothes by the millions and dirt cheap, and yet millions and millions, just about 90 percent of our population, unable to buy these things, or not all of them that they need.

I have seen with my own eyes and had to come under my own observation instances of where the A.&P. Tea Co. would break the market on local farm produce, with that particular produce short or scarce, not near enough to supply the demand. I have seen the early Carolina cabbage, very scarce, and selling to wholesalers at 3 cents, retailing at 5 cents, and yet I have seen the A.&P. Tea Co. buy two or three truck loads of this cabbage, pay 3 cents for it, throw it into their stores as quickly as possible and put a retail price of 2½ cents on it. Necessarily every competitor was sunk and then refused to pay more than 1½ or 1¾ cents for more cabbage, and yet the cabbage as scarce as hens teeth. Cabbage did not go up again that season, and had it attempted to do so they would have pulled the same trick again and broke the market. Now that is just a way of stealing the farmers' merchandise and getting away with it. The above is just one example. I could write a hundred pages of just such destructive methods and not get through.

NATIONAL RETAIL CHAINS SELL AT HEAVY LOSS IN NEW TERRITORY, MAKING PROFITS TO COVER THEIR LOSS IN OLD TERRITORY

National chains, some of them with thousands of stores well established in their old territory, go into a new town or into new territory and sell at a much lower price than in their established terirtory, in fact, at just any price to get the trade, get established, and incidentally freeze out competition. I have seen them put town after town on the rocks and now I have seen them put the Nation on the rocks. I understand that during Theodore Roosevelt's administration the Standard Oil Co. was made to stop this very thing under some sort of antitrust law. What has become of our antitrust laws?

Today's setup is entirely different from the obstacles confronting Theodore Roosevelt. The Standard Oil Co. was, for instance, a wholesale monopoly and in only one small item at that time, not all the products of mother earth. Those antitrust laws were good and should still be enforced, but they were primarily intended to stop one corporation from owning and controlling one product and to insure the public against excessive profits at the hands of such corporation. If those laws were enforced today they would be a big help toward controlling this situation, but we need something else. We need laws that will insure "profits" to all legitimate business, whenever nature or the law of supply and demand will permit profits. The monopoly of the Standard Oil Co. was not one tenth of 1 percent as destructive as the present day monopoly in control of all the products of the earth and permitting no "profit" (prosperity) to any one.

PROFITS MUST BE RESTORED, WELL DISTRIBUTED. LEADER MERCHANDISE, SELLING AT LOSS, MUST BE STOPPED

I have done my very best to show that profits, well distributed, and prosperity are one and the same thing. If we restore to the American people America, and give them that right which is expected by them, by the word and meaning of our Constitution, equal rights to all and special privileges to none, we need not worry about any concern or corporation profiteering. Good healthy, clean competition will take care of that. If the laws to remedy this terrible thing are questionable as to constitutionality, then for God's sake let us change the Constitution. But such laws are not questionable, they are more than fair to all, such laws will save the big business now getting these advantages, and they must be passed.

Certainly a law should be passed forbidding any merchant, distributor, or manufacturer from arbitrarily selling any piece or parcel of merchandise at less than cost, overhead expense considered, when it can be proven that such action on his part is not necessary to save a perishable item from loss or any other item from deterioration and when it can be proven that he is of his own accord and without any fear of loss from the above-mentioned things, putting this less than cost price on his merchandise. Cost should always incorporate overhead expense and each corporation or business could be required, if necessary, to furnish the commission with the average overhead expense per dollars sale, per year. There should be a heavy penalty for violation. The Government commission would not need to meddle into or trouble any business until they were suspected or reported as violating this law. Of course, market changes, either up or down, would be considered a change in cost and would permit of a like change in the selling price, if the merchant wanted to make such a change. Of course, competition could always be met without penalty.

Manufacturers must be given the privilege of controlling the resale price of their merchandise. The Capper-Kelly bill as I understand it, in its original form, covers this pretty well. This bill has been before the House and Senate for many years and I understand it passed the House long ago but has been held up by the Senate for some reason. I understand further that possibly it has been robbed of some of its most effective points. Certainly this bill should be passed without further delay. Many are the manufacturers who have been ruined by the national chains using their highly advertised and popular merchandise as a football, at less than cost, to aid in selling their own private brands and at the same time, ruin the manufacturer and the independent merchant. Given the privilege of controlling the resale price of his merchandise, there is not the least danger of the manufacturer permitting too much profit to the merchant.

### PRICE DISCRIMINATION MUST BE STOPPED

Is there any reason why the bigger and bigger should buy cheaper and cheaper. Does not sound reasoning and simple mathematics inform us vividly, even without the experience we are going through, that that thing alone will destroy a nation and the world if allowed to go on unhampered?

Whatever we do, let us not confuse "price control" with the stopping of price discrimination. Price control is not practical nor possible. Even in stopping the "less than cost selling", that is not controlling prices. If one company can be efficient enough to reduce its operating expense and overhead and thereby bring down its cost, it certainly must be allowed the advantage of that operation. By stopping price discrimination is meant the stopping of better prices, either direct or in the form of secret concessions, advertising allowances, free goods, and rebates going to only national chain stores and other monopolies. Now, it is, of course, evidence that quantity must be considered, but there must be a limit to this quantity. A better price should be allowed up to an amount, up to where the seller has a maximum natural economic saving in packing, drayage, freight, billing, etc. Of course a manufacturer cannot afford to sell a suite of furniture as cheap as a carload, but a carload should be the maximum quantity for the best price, in the case of furniture. I should say that a company buying a hundred pound shipment of needles, should get rock-bottom price, and so on. It can be seen that merchandise would have to be classified in respect to quantity shipments, but this would be relatively an easy job by anyone of experience. The owner of an obscure line, which might be left out of classification book, could be required to apply for a classification. It might be well to require, from companies doing a national business, to file price lists with the Commission, a new one with each change, showing quantity discounts, etc. Or any other way to see that this damnable discrimination is stopped. It will be worth a million times whatever it costs.

### STOP MONOPOLY AND THE POWER IT HAS TO KILL PROFITS, KILL COMPETITION, KILL THEMSELVES, AND THE NATION

Being against monopoly is far from being against big business. There is nothing against big business as big business, there is nothing against chain stores as chain stores, but there is very much against big business becoming big because of special privilege, whether that special privilege be in price advantage or otherwise. I am in favor of big business when it is clean and healthy and not a disease eating at the very vitals of our Nation. The laws suggested herein will not hurt big business, as a matter of fact it is the only thing that will save any business, big or little. I am sure that the manufacturers of this land would be delighted at the passage of the legislation suggested here.

The thing has gone so far now and has the farmer and laborer so badly on the rocks that there is possibly the need of temporary legislation, crop curtailment, etc., to tide the mover, but I believe that 90 percent, at least, of the permanent cure is herein suggested. And it is simply a mathematical problem. It does not cover all of our troubles, no, but I contend that these things must be done before we can sensibly or with confidence set our faces to a successful future.

Settling the war debts, neither canceling, collecting, or adjusting them, will get us out of this mess. Forcing a balanced Budget will certainly help none. Reducing Government expenses will hardly be noticed. The Reconstruction Corporation has not helped any and will not help any, and no other sort of such legislation will help. The people are not looking for a chance to borrow more money, they are looking for a chance to make once more a "profit", with which to pay back the money which they already have borrowed. We hear of instilling the country, with confidence. Confidence in what? You just as well ask them to have confidence in the statement that 2 from 3 leaves 5. The people know and they know well that this thing can be stopped, and they are expecting something to be done about it after March 4, and that right early. All of them cannot outline this thing, but they know full well, in their hearts, that something is bad, rotten in Denmark, as their votes indicated last November. They will not longer suffer and let their loved ones suffer in a land of plenty, yet they are long suffering; they have waited this long to give the Government a chance, and with their ballots they have spoken. If they are compelled to speak again, I hate to think of how it might be done. Permit us "profits", and you will give us prosperity.

## Statement of Dr. James Harvey Rogers of Yale University

The emergency measures since March 4, while extremely constructive, have nevertheless resulted in the taking away from spenders of, roughly, $6,000,000,000. In addition, $11,000,000,000 of saving-bank deposits have been so restricted as to make unavailable a considerable portion of this huge amount.

Moreover, through current declines in pay rolls, in salaries, and in interest and dividend payments, combined with growing unemployment, further reductions in the spending power of the public are apparently accumulating at the rate of several hundred millions a month.

The disastrous effects of such reductions in public spending power are not yet generally realized:

(*a*) Coming just at taxpaying time in many municipalities, these reductions are threatening revenues to such an extent that wholesale defaults of minor governmental organizations are in prospect.

(*b*) The resulting threat to insurance companies and savings banks is great and imminent.

(*c*) Simultaneously the investment-banking institutions which for a number of months have been held together largely by municipal financing, are threatened with such crippling as to be unavailable for immediate extensive use when required.

(*d*) With the increasing failures of insurance companies, a growing distrust of the commercial banks resulting in a gradual transfer of funds from weaker to stronger institutions can be anticipated. Such runs, while less spectacular than the recent ones, are in the long run just as damaging.

(*e*) The growing distrust of these basic financial institutions, coupled with municipal insolvency, can be expected to hasten the general breakdown of the private debt structure.

(*f*) Hence, while the funds of prospective buyers and investors are to a considerable extent frozen, and while much of the machinery of investment is being severely crippled, at the same time doubt as to the validity of debts in general impairs greatly the functioning of the entire credit organization.

Under such circumstances, the mere balancing of the National Budget, which, by bringing reassurance to the capital markets, has in the past frequently been sufficient to insure renewed flotations and hence increased purchasing power in the hands of ready spenders, can hardly be expected at this time to achieve this highly constructive result. The reasons are three:

The increasing impairment in the investment machinery makes progressively more difficult large flotations.

The normally liquid funds of savers held available for ready investment have become to a considerable extent frozen.

The growing distrust of credits in general is fast destroying the incentive for future investment.

To arrest the spiral of deflation above outlined, adequate spending power must be placed immediately into the hands of ready spenders.

Three questions arise:

How much is adequate?
How can it be gotten promptly to spenders?
How can the money be raised?

During the first 8 months of our participation in the Great War (April, 1917, to January, 1918) monthly flotations—public and private—averaged approximately $700,000,000. During the prosperous years 1925–1929, a similar volume of flotations accompanied the rapidly rising prosperity. Such capital issues represent the continuous turning over of approximately equal amounts of sustained purchasing power to ready spenders. A like volume of new spending at this time could be confidently expected to bring a like rise in business activity.

However, since the volume of private and municipal flotations is now virtually zero, for the first few months the entire burden would likely fall upon the National Government.

To get such large sums promptly to spenders, careful planning is necessary. To gain the desired effects, the expenditures should be constructive, widely distributed, and large but, above all things else, speedy. With these ends in view the following suggestions are made:

Expand reforestation camps.

Through agricultural plan give funds directly and quickly to farmers and to holders of farm mortgages.

Through the construction of grade crossings and of other highway improvements in every county of every State in the Union, get funds equally quickly to unemployed and to contracting firms.

Lend Government money directly at low rates of interest to bona fide builders of suburban and rural homes.

In order to float Government bonds on the large scale necessary, two requirements must be met:

Member-bank excess reserves must be kept high through Federal reserve "open market" purchases.

All earlier issues in the series must be at all times redeemable in any of the later issues which may carry a higher return.

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## SUMMARY

Current and prospective deflation is at least temporarily so great as to preclude the normal functioning of our time-honored economic system.

A mere balancing of the National Budget, even though it restore confidence in the national credit and remove the threat of large Government flotations from the investment markets, can not at this time be expected, through stimulating new security flotations, to bring automatic business revival.

If the disastrous spiral of deflation is to be arrested, new funds must be gotten adequately and quickly to spenders.

New capital expenditures required to bring business revival estimated at $700,000,000 per month.

Promising projects for which expenditures might be made:

Expansion of reforestation camps.

Getting immediate funds to farmers and to holders of farm mortgages.

Construction of grade crossings and other highway improvements in every county of every State in the Union.

Government financing of bona fide home building.

Requirements for floating the necessary Government securities:

Excess reserves of member banks must be kept large ($500,000,000–$600,000,000).

All earlier long-term Government issues required to finance the program must be convertible into later ones carrying higher returns.

JAMES HARVEY ROGERS.