Restoring and Maintaining the Average Purchasing Power of the Dollar

HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY UNITED STATES SENATE

SEVENTY-SECOND CONGRESS

FIRST SESSION

ON

H. R. 11499

AN ACT FOR RESTORING AND MAINTAINING THE PURCHASING POWER OF THE DOLLAR

S. 4429

A BILL TO RESTORE AND MAINTAIN THE AVERAGE PURCHASING POWER OF THE DOLLAR BY THE EXPANSION AND CONTRACTION OF CREDITS AND CURRENCY, AND FOR OTHER PURPOSES

MAY 12, 13, AND 18, 1932

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RESTORING AND MAINTAINING THE AVERAGE PURCHASING POWER OF THE DOLLAR

THURSDAY, MAY 12, 1932

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met, pursuant to call, at 10 o'clock a. m., in the hearing room of the Committee on Banking and Currency, Senate Office Building, Senator Peter Norbeck presiding.

Present: Senator Norbeck (chairman), Goldsborough, Townsend, Walcott, Carey, Couzens, Fletcher, Wagner, Gore, and Hull.

The CHAIRMAN. This hearing is on H. R. 11499, the Goldsborough bill, which has passed the House; also on Senator Fletcher's bill, S. 4429, being an identical bill, except that it has one additional section; section 3 not being in the House bill as it comes over to us. I ask that the Goldsborough bill and the Fletcher bill be printed in the record at this point.

(H. R. 11499 is here printed in full as follows:)

[H. R. 11499, Seventy-second Congress, first session]

AN ACT For restoring and maintaining the purchasing power of the dollar

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Federal reserve act is amended by adding at the end thereof a new section to read as follows:

"SEC. 31. It is hereby declared to be the policy of the United States that the average purchasing power of the dollar as ascertained by the Department of Labor in the wholesale commodity markets for the period covering the years 1921 to 1929, inclusive, shall be restored and maintained by the control of the volume of credit and currency."

SEC. 2. The Federal Reserve Board, the Federal reserve banks, and the Secretary of the Treasury are hereby charged with the duty of making effective this policy.

SEC. 3. Acts and parts of acts inconsistent with the terms of this Act are hereby repealed.

Passed the House of Representatives May 2, 1932.

Attest:

SOUTH TRIMBLE, *Clerk.*

(S. 4429 is here printed in full as follows:)

[S. 4429, Seventy-second Congress, first session]

A BILL To restore and maintain the average purchasing power of the dollar by the expansion and contraction of credits and currency, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That it is hereby declared to be the policy of the United States that the average purchasing power of the dollar as ascertained by the Department of Labor in the wholesale commodity markets for the year 1926 shall be restored and maintained by the expansion and contraction of credits and currency through the powers of the United States and its agencies.

SEC. 2. The Federal Reserve Board, the Federal reserve banks, and the Secretary of the Treasury are hereby charged with the duty of making effective this policy.

SEC. 3. To enable the Federal reserve banks to achieve this end they are hereby given the right to receive, and the Federal reserve agents are directed to deliver, Federal reserve notes at par for United States obligations deposited as security therefor.

The CHAIRMAN. In view of the fact that the House has held extensive hearings and has gone into this matter very fully, it does not seem necessary for this committee to go over the whole ground. I think the whole matter might be simplified by printing in the record the report made by the House as a summary of the matter; and if there is no objection, that will be done.

(The report by Representative Goldsborough, from the Committee on Banking and Currency of the House of Representatives, is here printed in full as follows:)

[House Report No. 1103, Seventy-second Congress, first session]

RESTORING AND MAINTAINING THE PURCHASING POWER OF THE DOLLAR

The Committee on Banking and Currency, to whom was referred the bill (H. R. 11499) to amend the Federal reserve act by adding at the end thereof a new section, and for other purposes, having considered the same, report favorably therein with recommendation that the bill do pass without amendment.

Within the scope of a committee report it is not possible to discuss in detail the technical economic principles involved in H. R. 11499, but it is possible to determine the anticipated workings of the action of the principle if it is crystallized into legislation.

The bill has two features; an emergency feature and a permanent feature. The emergency feature contemplates a rise in the general commodity price level to the average existing between 1921 and 1929, inclusive, and the substantial maintenance of that price level.

As to the emergency feature all authorities agree, first, that it is impossible for the debts of the country to be paid at the present price level, and that unless the price level is raised the business of the country is headed for inevitable bankruptcy; and, second, that the present price level is unjust to debtors.

Speaking roughly, but with substantial accuracy, the dollar will purchase about \$1.60 more of commodities than in the 1921–1929 period, and about \$1.56 more of commodities than it would purchase between the period of 1918–1931 and the first quarter of 1932, inclusive. It would purchase now what it would have taken \$1.25 to purchase about a year ago, which means that the producer—that is, the debtor—is being confronted with an ever-increasing burden. His debts, principal and interest, remain fixed. The commodities he sells and which would have purchased a given number of dollars when he borrowed them have decreased in their purchasing power.

To go one step further, unemployment is constantly increasing, because on a constantly declining market business can not go on. It is impossible to produce below the cost of production.

The Committee on Banking and Currency, after a most painstaking and careful investigation by a subcommittee, reached two conclusions: First, that the average price level from 1921 to 1929 would reestablish substantial justice between debtor and creditor; and, second, that a rise to the price level of 1921–1929 would make lower standards of living unnecessary, would justify salaries and wages at the pre-depression level; in short, would make unnecessary the process of painful economic readjustment, which will have to be consummated if the price level is not raised.

The committee also reached the conclusion that unless the price level were raised substantially to the point above indicated, the burden of debt would not only seriously hamper production and destroy the producing class as now constituted, but that the creditor class, being unable to collect their fixed obligations, would also go down in the crash.

Then the question arose as to what could be done.

The Federal reserve system under the leadership of Benjamin Strong, former governor of the Federal Reserve Bank of New York, measurably stabilized for several years, the price level by open market operations, and by adjustment of the rediscount rates of the Federal reserve banks. The Federal reserve system has been accumulating gold at the average rate of $200,000,000 a year for about six years, and is now in a much stronger position than it was at the time of the open market operations just referred to.

It is in a position to put into the market $4,000,000,000 in Federal reserve notes, and still maintain its 40 per cent reserve requirements. By utilizing its power to lower reserve requirements of the Federal reserve banks the system could put into the market nearly $9,000,000,000 of Federal reserve notes. Either sum, if the country knew that because of a congressional mandate, the Federal reserve system was going to raise the price level to the point indicated, would be much more than sufficient to raise it, because as soon as the country understood what the policy of the Federal reserve system, as provided by law, was, confidence among the banks and business men would be restored, bank loans would expand, the retailer would buy from the wholesaler, the wholesaler would buy from the manufacturer, the manufacturer from the producer of raw materials, and the masses of the people would find employment, so that through buying of securities by the Federal reserve banks and through the restoration of confidence as above indicated, the normal business activity of the country would very speedily be reestablished.

Even more important than its emergency feature the committee deems the stabilizing feature of the bill. It would be the duty of the Federal reserve system under the bill, if enacted into legislation, to control the credit and currency of the country in a manner to satisfy the legitimate needs of business, and prevent unwholesome and unjustified expansion. If unjustified and unwholesome expansion were controlled, periods of inflation and depression would also be controlled, because periods of deflation and depression always follow periods of unwholesome overexpansion and speculation.

In conformity with section 2a of Rule XIII of the House, there is herewith printed in italics the proposed new section (sec. 31) to be added as an amendment to the Federal reserve act:

"*SEC. 31. It is hereby declared to be the policy of the United States that the average purchasing power of the dollar as ascertained by the Department of Labor in the wholesale commodity markets for the period covering the years 1921 to 1929, inclusive, shall be restored and maintained by the control of the volume of credit and currency.*

"*SEC. 2. The Federal Reserve Board, the Federal reserve banks, and the Secretary of the Treasury are hereby charged with the duty of making effective this policy.*

"*SEC. 3. Acts and parts of acts inconsistent with the terms of this act are hereby repealed.*"

The CHAIRMAN. The first witness will be Representative Goldsborough, who has assured us that he wants only 5 or 10 minutes. We have a large number of witnesses, and we are going to try to hold them down pretty close as to the time allotted.

STATEMENT OF HON. T. ALAN GOLDSBOROUGH, A REPRESENTATIVE IN CONGRESS FROM THE FIRST DISTRICT OF MARYLAND

Representative GOLDSBOROUGH. Mr. Chairman and gentlemen of the committee, I am going to take only a few minutes, and shall rely upon the witnesses who are not Members of Congress.

This measure does not grow out of the emergency situation. The principle involved in the bill was first introduced into the House in 1922, in the Sixty-seventh Congress, and afterwards in the Sixty-eighth Congress. We had very extensive hearings. Also, extensive hearings in the Sixty-ninth Congress and the Seventieth Congress on the Strong bill, which embodied the same principle. We have also held very extensive hearings, both pro and con, during the present Congress. So that this is not proposed legislation which is of a mushroom kind growing out of the depression.

The principle of the bill is simply a declaration of policy by the United States that commodity price levels should be raised to the 1921–1929 level, inclusive, and maintained at that level. The responsibility for doing this is placed upon the Federal Reserve Board, the Federal reserve banks, and the Secretary of the Treasury.

Senator TOWNSEND. Then you have no definite plan? The plan of working that out is left with those bodies?

Representative GOLDSBOROUGH. That is true. I can, however, if you would like me to, give you the powers they have. There are two things they can do——

Senator FLETCHER. I would be glad, Mr. Goldsborough, if you would suggest how they can accomplish what you have in mind; and you might refer to section 3 of S. 4429 in which I have attempted to state the process by which they might accomplish it.

Representative GOLDSBOROUGH. I think I should say that I know of no objection to section 3 of S. 4429, introduced by Senator Fletcher, of Florida. The only reason that it was left out of the House bill was because the subcommittee thought that sufficient elasticity was given by the Glass-Steagall bill, and we felt that if the House bill were passed the Congress would make the Glass-Steagall bill permanent legislation. As far as I know, Senator Fletcher, there is no objection to section 3 which is embodied in your bill.

Answering Senator Townsend, there are two methods of controlling the price level. One is by the control of the rediscount rates. That was a method that they used in 1920. In February of 1920 the Federal reserve system decided that the price level should be lowered and that the process should go into operation on the 20th of May. They did not disclose to the public the fact that this was to be done. They did not, in my judgment, consciously intend to do what they did do, but their operation was that rediscount rates, particularly in country banks, were made exceedingly high. I remember that in one case in Alabama it was as high as 87 per cent. They made them so high——

Senator TOWNSEND. The Federal Reserve Board did that?

Representative GOLDSBOROUGH. Yes; or the Federal reserve bank that the Alabama bank was doing business with, under the direction of the Federal Reserve Board.

The CHAIRMAN. They established a pyramiding rule where loans in excess of a certain amount carried a penalty rate. That is what you have reference to. It was not any large volume of loans, but it was a loan they kept stepping up until one loan reached that point. That is right, is it not?

Representative GOLDSBOROUGH. Yes. They did adopt that policy unquestionably. That is indisputable. I make that statement without any possible qualification. They did adopt that policy.

Senator COUZENS. Can you describe how they did it in that particular case?

Representative GOLDSBOROUGH. Yes, sir. They did it, as I said before, by raising the rediscount rates on country banks.

Senator COUZENS. Just tell us how they did it and what raised the rates up to such pyramided heights.

Representative GOLDSBOROUGH. The rates ran from 7 per cent to 40 or 50 per cent, and in one case, as I said, as high as 87 per cent.

Senator COUZENS. By the edict of the bank itself, or by the individual banks? How did it work?

Representative GOLDSBOROUGH. When the member bank would send an obligation to the Federal reserve bank for rediscount, it would be charged such an exorbitant rate that it would be unable to rediscount its paper.

Senator COUZENS. Give us an example of it. You just make general statements. I want some specific information as to what rediscount rate the bank actually charged to bring it up to 87 per cent.

Representative GOLDSBOROUGH. I did not know that that question would be asked, Senator Couzens, at this meeting. Senator Townsend introduced the subject and I was undertaking to tell him how it had been done in the past.

The result of the process was such that not only a great many country banks failed, but the farming industry in the United States was destroyed.

Senator TOWNSEND. Is it your charge that the banks failed for the reason that the Federal Reserve Board insisted on these excessive rates?

Representative GOLDSBOROUGH. Yes. It is not a charge, it is a fact. It has been known to be a fact for so many years that it has long ceased to be a charge; it is a fact.

In 1922 Benjamin Strong, who was then governor of the Federal Reserve Bank of New York, combined with the governor of the Federal Reserve Bank of Philadelphia, the governor of the Federal Reserve Bank of Boston, and the governor of the Federal Reserve Bank of Chicago, and afterward with the governor of the Federal Reserve Bank of Cleveland, set up what they called an open-market committee, which undertook to stabilize the purchasing power of the dollar. As long as it was allowed to operate as he intended it should operate, it did stabilize the dollar to such an extent that conditions in the country were so normal that the Federal reserve system had very little to do.

Then Governor Strong went to Europe and while he was there the Federal Reserve Board decided to take these open-market operations out of his control, and they made up an open-market committee consisting of the governors of the 12 Federal reserve banks and the advisory board, a rather unwieldy body. But, as long as Governor Strong lived, the stabilization process continued with very great advantage, not only to business but to every element of society; and, as I said before, it was so cogent in stabilizing the business of the country that the Federal reserve system had very little to do.

Senator GORE. Is it not rather difficult to tell which was cause and which was effect?

Representative GOLDSBOROUGH. I do not think so, Senator Gore. I realize the fact that there are human elements which enter into the consideration and which have a great deal to do with these periods of inflation and deflation; but I have no doubt whatever that if the Federal reserve system would use its restraining influence in periods of rising prices and periods of lowering prices before the swing gets away from them, an immense amount could be done to avoid these periods of inflation and speculation and these periods of depression and despair.

Senator GORE. If they happened to guess right on it, you are probably right. But I saw a statement the other day to the effect that the Federal Reserve Board or system had undertaken this very process and had bought bonds in order to increase the banks' resources, and in each of two cases the banks had used their increased resources to reduce their debt at the Federal reserve bank and it had no effect on prices.

Representative GOLDSBOROUGH. That is what they are doing now. May I say, Senator Gore, that the Federal reserve system, since the open market operations began the last time, have purchased about $500,000,000 of Government bonds and of that $500,000,000, $300,000,000 has gone to pay the debts which the member banks owed to the Federal reserve banks, and about $200,000,000 has gone to increase the reserves of the member banks with the Federal reserve banks.

Yesterday I was down to the Federal Reserve Board and saw a chart showing the increases of the reserves of the member banks of the Feneral reserve system since the beginning of these open-market operations, and, strange to say, the increase is not confined to New York banks or banks adjacent to New York; that increase is practically the same in every Federal reserve district except Dallas. I noticed that the rise in the Dallas district of reserve deposits was not as great as in other districts. But the beneficial operations of the Federal reserve system in buying bonds in the last few weeks has resulted in raising the reserves of member banks all over the United States.

Senator COUZENS. What good did that do industry?

Representative GOLDSBOROUGH. I can answer that, I think, in two ways, Senator Couzens. My opinion is that if there had been no open-market operations at all we would have had another flood of closed banks much more severe than the first one.

Senator COUZENS. I was not speaking of that; I was speaking of the fact of the——

Representative GOLDSBOROUGH. I am coming to the next factor.

Senator COUZENS. All right.

Representative GOLDSBOROUGH. The next thing would be this, that when these banks accumulate reserves they are forced to find, if possible, an outlet for them.

Senator GORE. Right on that point: You say they bought $500,000,000 and retired debts with $300,000,000, leaving $200,000,000 available for other purposes. The statement that I saw said that it placed the banks under an urgent necessity to find some outlet for the surplus funds or reserves, and that was one thing which contributed to the inflation.

Representative GOLDSBOROUGH. What inflation do you have reference to, Senator Gore?

Senator GORE. I mean, in 1928–29; that they had these available reserves on hand and had to find an outlet for them, and that accelerated the movement, the lending for speculative purposes.

Representative GOLDSBOROUGH. May I suggest, Senator Gore, that at that time it seems to me the Federal reserve system should have adopted a different policy than they did. They should have then adopted a restrictive policy. But now it seems to me that the liberal policy which they are adopting is resulting in an accumulation of funds in the member banks of such a character that they will have to find an outlet for those funds.

Senator GORE. Of course. The first use of the funds was to pay off their debts.

Representative GOLDSBOROUGH. Yes, naturally.

Senator FLETCHER. Do you think the effect of that will be to increase the circulating medium?

Representative GOLDSBOROUGH. It is bound to, because when a bank has funds that are not drawing any interest, it immediately tries to find a place to put those funds. Not only that, but the fact is those funds increase their confidence and make it easier for borrowers to borrow from the institution.

I have consulted a great many commercial bankers. I was in New York last Monday and consulted several very distinguished and prominent commercial bankers. I have never seen a commercial banker who was not also engaged in the investment business, who was not in favor of this legislation. They give as their reason, that unlesss something is done to raise the price level, not only will the debtor be unable to pay his debts, but as he is unable to pay his debts the banks will have to fail.

Then I say to them, "Why, then, can you not appear before the committee and make this statement?" And their answer is, "You know our condition; you know we are loaded up with securities which, if sold now, would not liquidate the bank. You know we are allowed by the Comptroller of the Currency to carry these securities at inflated prices, and we are not in position to antagonize the Federal reserve system at this time."

I want to say this, gentlemen, that in all of this discussion since the 5th of December I have never received a letter or a telephone call or a communication of any kind from a commercial banker opposed to this legislation—not a single one.

I do not want to be in the position of taking up much time, but I want to add just one thing. The commercial bankers also say this to me:

> We know what the Federal reserve system is doing now; we know that now they are buying at the rate of about one hundred million a week, but we do not know what their future policy is going to be. We can not tell what influences will be brought upon them. We believe in their probity; we believe in their honor, in their common sense, but they are just as human as we are or anyone else; and we can not tell when the po'nt will be reached that influences will be brought to bear upon them to stop this purchasing of Government bonds. But if you give them legislative direction, if you pass a law which requires them to raise the price level to a certain point, then we have the assurance that that policy will be carried out, and that immediately reassures the commercial bankers of the country and reassures business.

Gentlemen, just as soon as you reassure the banks of the country and they begin to make loans, then this rise of the price level will take place of itself.

My judgment is no better than that of anyone else, of course, but I believe that if this law were passed and were on the statute books of the country now this whole situation would be cured in 90 days. I believe the country would know within 90 days that we were on the up-swing.

Senator GORE. Now, Congressman, you say we can give them legislative power. That is undoubtedly true. But you can not give them legislative power to——

Representative GOLDSBOROUGH. I mean legislative direction.

Senator GORE (continuing). Legislative authority to exercise superhuman wisdom or to suspend the fundamental laws and tendencies of economics that are a little stronger than congressional enactments. Your theory goes on the assumption that they will have wisdom enough to exert this power to accomplish the result, without taking into account the limitations on human wisdom and the limitations imposed by economic conditions and forces that are superior to them.

Representative GOLDSBOROUGH. Senator Gore, it is always, of course, the part of unwisdom for a lawyer to undertake to antagonize the judge——

Senator GORE. You may feel at perfect liberty here to express your views.

Representative GOLDSBOROUGH. I just want to say this, Senator, that you will see that the Federal reserve system, without legislative authority, has undertaken to exercise these open-market operations in accordance with their own will. This is a power that is more vast than any oriental despot ever exercised. This legislation is a measure of restraint, because it says to them, " You can not use your own judgment as to how to manipulate the currency of the country. You must direct it to a certain point." So it does restrain them. It has a restraining influence.

Senator GORE. You can give them power and directions to accomplish certain things, and I think they can accelerate tendencies either up or down. I am not certain they can arrest them and reverse them. I think there is the trouble. You are setting them up against tendencies that are more powerful than they are, or any power that you can give them.

Here is what I have in mind: I think it was between 1919 and 1927 that the bank deposits in this country went up from $27,000,000,000 to $42,000,000,000, an increase of 52 per cent. That is potential currency, we will say. Gold increased, if I remember rightly, from about 1920 to 1927, 50 per cent. During those nine years we had an increase in bank deposits of 54 per cent; and that is potential currency. We had an increase in gold of 50 per cent, and that is the basis of $10 of credit to one of gold. During the same nine years, taking 1919 as "sea level," as 100 per cent, wholesale prices declined from 100 to 72 per cent, against all this increase in money and credit and gold and actual and potential currency.

Is not that movement contrary to your theory?

Representative GOLDSBOROUGH. I do not think so.

Senator GORE. Ought not prices to have gone up, with all that?

Representative GOLDBOROUGH. Senator, to be, of course, frank, as I must be, I have not the same picture of the deposits of the country that you have. You have been so precise in your statement as to the deposits that I am not going to controvert it, of course.

Senator GORE. I think I am correct about that.

Representative GOLDSBOROUGH. But I have not that same picture. In the hearings before the House committee—and I think this may throw some light upon your inquiry—Governor Harrison agreed that an increase in credit had a very definite effect on raising the price level, and a decrease of credit had a very definite effect on lowering the price level. I asked him this question, in substance: "Governor Harrison, late in the fall of 1929 I made the suggestion to the Federal Reserve Board, that due to the collapse of the New York Stock Market there was apt to be a feeling of apprehension throughout the country, and that it seemed to me that the commodity market should be supported for psychological reasons, if for no other." I said: "If you will remember, the Federal reserve system did support the market through the first three months of 1930 and it looked as if we were going to get back to a normal condition, when there was a reversal of policy which caused the beginning of this present depression. Why was that done?"

He said that they were afraid that the New York Stock Market would get away from them again, and for that reason they reversed the policy.

Of course we may have to pass other legislation. The Federal Reserve Board might come down and say, "We are in a period of incipient stock-market inflation and we have got to have some sort of legislation which will be an attempt to separate the commercial banks from the stock market."

Congress will have to meet that issue if it arises. But all through the period of which you speak, Senator Gore, if I may remind you, it was a period of increasing stock-market prices——

Senator GORE. And declining commodity prices.

Representative GOLDSBOROUGH. Correct. A great many economists thought that the crash in the stock market would come in 1925. That condition continued from about the middle of 1923 until October, 1929. Money was being taken out of commercial and commodity activities and used in the stock exchange.

Senator GORE. You are right. Security prices went up during those nine years. Taking the general trend for the period, commodity prices went down during that period; that is, wholesale commodity prices. Why? Because wholesale commodity prices are on a world basis. Primarily, what we all would like to see brought about is an increase in the prices of cotton and wheat. Do you figure that by any sort of domestic manipulation—and I use that word not offensively—you can increase the price of wheat and cotton when those commodities must sell in a world market and on a world basis?

Representative GOLDSBOROUGH. Of course, Senator Gore, I am going to try to answer your question, but I think I ought to say that it is a difficult question to answer, for this reason, that we are not attempting to regulate the price of any commodity. What we are attempting to do is to create a commodity dollar.

Senator GORE. I know; but unless it increases prices, it is just a vain thing.

Representative GOLDSBOROUGH. Yes, I know; but there are 784 commodities involved in the index number of the Bureau of Labor Statistics. Wheat and cotton are only two of those commodities.

Now I want to try to answer your question, if you will allow me. Practically all of Europe, except France, if off the gold standard. Switzerland is still on; Holland is on, in a modified form, but they are insignificant. France is the country on the gold standard. As far as our transactions with England and the other countries off the gold standard are concerned, we can raise our commodity prices without controlling the world market, because the exchange of money between a country off the gold standard and the money of the United States will take care of the differential in price. As far as France is concerned, it might be that we would have some trouble. It might be that we would. But in a short time, if conditions were such that some of our gold went to France in exchange for her commodities, that would soon cause a leveling process and turn the tide in our favor.

Senator GORE. That is the point I was coming to. As you say, there are seven hundred and some odd commodities. I think it is conceivable, at least, that as to those commodities, or some of them, which enjoy a protective tariff, the price of them might possiblye be raised; but I do not see how you can raise the price of wheat and cotton and farm products which do not have an effective protective tariff to bolster up their prices. And if you did raise the price of protected articles and did not raise the price of farm commodities, you would just multiply the burden of the farmer, because he would have to still sell in an unprotected world market at low prices and have to use those low prices to buy manufactured products that do enjoy protection.

Representative GOLDSBOROUGH. I am sure that your argument would not hold good as to countries off the the gold standard, and I think the effect would be negligible as to France, because, as I indicated before, as soon as she sold to us for a while her prices would become just about ours, so that there would not be any detrimental influence.

But let me suggest this, that a rise in the general commodity level which would restore the productive power of the country—I leave farming out for the moment—would give an added buying power for the commodities of wheat and cotton that you mention, not only in this country, but world wide.

Senator CAREY. As to the products on which we have a surplus and which are exported, you do not figure they would raise the price, do you?

Representative GOLDSBOROUGH. Yes, sir. I do not think we can do it as immediately; I do not think the effect would be as immediate as it would on products which are simply sold in this country, but I think the effect would be very prompt.

Senator CAREY. But where we have an exportable surplus our prices are more or less regulated by the world market, are they not?

Representative GOLDSBOROUGH. Yes.

Senator CAREY. Do you think we could do it as to these exportable products?

Representative GOLDSBOROUGH. I may not have made myself plain in my answer. In the first place, my answer would be that we would have no difficulty in countries which are off the gold standard, because the exchange between our money and theirs would take care of the differential. So we are confronted only with France, which I do not think would be sufficient to pull our prices down to any great extent. If that were done and French goods were let in here and our money went to France, that would soon equalize prices between those two particular countries, and I think the effect would be negligible. If all Europe were on the gold standard I could very well see why we would have to build up prices all over the world.

Senator GORE. England, while she is not on the gold standard, is evidently accumulating gold in prospect. I do not know whether that is true in Scandinavian countries or not. But suppose you raised prices away above the world level, would not gold immediately leave here and go to a country where it would buy more?

Representative GOLDSBOROUGH. No. It is dollars, Senator Gore, that foreign countries want, not gold. Let me illustrate. For instance, an Italian buys some American product and he goes to his exchange to get dollars to pay for them and he finds that dollars are selling at a premium. The reason they are selling at a premium is because we have a balance of trade. Not only are we exporting more than we are importing, but in addition to that we have a tremendous balance of foreign debts due us, and therefore there is a demand for American dollars. That is what they want—not gold, but dollars. They go for this dollar, and they find that they have to pay more for it than they have to pay for the gold. So instead of buying dollars they buy gold, and pay in gold instead of in dollars, because dollars cost them more than gold.

Senator GORE. Do you think it would have the same effect here as in England if we went off the gold standard?

Representative GOLDSBOROUGH. If we went off the gold standard, instead of our dollar becoming cheaper than gold, it would become higher than gold, because the demand is for the dollar; and when an Italian or an Englishman who had bought American goods had to pay for them, he could not say he would not pay the premium. He would just buy dollars and pay that way, because if we were off the gold standard he would have to buy dollars, and dollars would be at a premium——

Senator GORE. You think that if we went off the gold standard dollars would be at a premium?

Representative GOLDSBOROUGH. Of course I do.

Senator TOWNSEND. Do you think it would be of any advantage to the United States?

Representative GOLDSBOROUGH. No, sir; and I made no such suggestion. The Senator asked me a specific question as to what the effect would be. It is unnecessary for the United States to go off the gold standard. The United States can issue $5,000,000,000 of Federal reserve certificates and still maintain about 45 per cent of her gold reserve; an inconceivable sum, enough to take the price level clear through this roof.

Senator GORE. Do you not think that gold would leave the country and shrink the world basis of credit?

Representative GOLDSBOROUGH. Why?

Senator GORE. Because it would buy more in other countries than here.

Representative GOLDSBOROUGH. If the price level rose?

Senator GORE. Yes. If you run prices up in any such porportions as that.

Representative GOLDSBOROUGH. I did not suggest we should do that.

Senator GORE. If you run prices up substantially, gold will go where it can buy more than it can buy here, and shrink the basis of credit until the sea level is restored.

Representative GOLDSBOROUGH. I can not follow that at all, Senator Gore. I do not see any reason why that should be. The history of all countries where the price level has raised, and therefore money has been cheapened, has been that exports have been increased and not imports. In other words, if our price level is raised that means our dollar is cheaper. It is cheaper in English money and cheaper in French money, and therefore our goods would tend to go there rather than for their goods to come here.

Senator GORE. If our price level were raised, gold would go to this country where it was dearer in proportion and where it could buy more. If you make gold cheap here, it will go where it is dear and can buy more.

Representative GOLDSBOROUGH. I think we can well afford to meet that contingency when it arises.

Senator GORE. If you raise prices here it tends to attract goods to this country to get the benefit of the high prices.

Representative GOLDSBOROUGH. In my judgment, that is a contingency so infinitely remote that we need not consider it. But let us assume that it should arise: Congress can declare an embargo on gold in 24 hours and stop the exports, if that became necessary.

Senator GORE. Yes; that is true. Those arbitrary and artificial regulations, I think, are responsible for our present plight, to a large extent. You multiply the causes of our grief instead of diminishing them when you extend the artificial interference of government.

Senator COUZENS. You do not concede that at this time it would be necessary to put an embargo on gold?

Representative GOLDSBOROUGH. Not at all. I have not the slightest idea of that, Senator Couzens. I only suggested that if that possibility, which I do not regard as even a possibility, did take place, we could declare an embargo on gold immediately.

Senator CAREY. Do you not believe that an inflation of our currency would cause a withdrawal of gold from this country—that is, if there were a great inflation?

Representative GOLDSBOROUGH. My conception of it is that we would be lowering the price of the dollar. If we make commodity prices higher, then we are making the dollar cheaper. In other words, it is not an inflation of the dollar but a lowering of the price of the dollar. That is what you do when you raise the price of commodities.

Senator CAREY. Under the provisions of this bill it would be an inflation, would it not? We would have more money in circulation, and that would necessarily mean an inflation of the currency?

Representative GOLDSBOROUGH. It would mean an increase in the price level, and it would mean a further extension of credit.

Senator CAREY. Would it not require more dollars to do that?

Representative GOLDSBOROUGH. No. Permit me to give my reason for that, if you please.

We have now, Senator, about $8,000,000,000 of discountable paper of member banks which has not been sent to the reserve banks for discount at all. In the first place, all of that paper could be used for the purpose of extending credit for business before anything else would have to be done. In addition to that, the reserves of the member banks could be used up in extending credit. So I really can not conceive of a condition where there would have to be any inflation except the extension of credit due to the resumption of the normal business of the country.

Senator CAREY. It would contemplate the Federal reserve banks issuing additional Federal reserve notes, would it not?

Representative GOLDSBOROUGH. Of course, Senator, if the banks with their present resources and with the discountable paper had their confidence restored now without any action at all of the Federal Reserve Board and would begin to lend money and production started up, the price level would rise immediately, and there would be no necessary action at all on the part of the Federal reserve system.

The purpose of this legislation, in so far as the emergency aspect is concerned, is to put money or credit into the market to take the place of the frozen loans of the country and to restore confidence among the banks and business men, because the very knowledge that the Federal reserve system had been instructed to do this thing would enable the country to resume its normal functioning, and it would then be unnecessary for the Federal reserve system to further operate in the matter.

Senator CAREY. What would be the mechanics of this? Would the Federal Reserve Board continue to buy bonds in the market and to issue currency?

Representative GOLDSBOROUGH. Yes. I can think of other things that would be more immediately effective, but that, in my judgment, would do it in 90 days.

Senator CAREY. That would really be the only way that this could be put into effect?

Representative GOLDSBOROUGH. Under the law as it is at present, yes.

Senator GORE. Do you not think that the excessive use and abuse of credit was one of the causes of the collapse?

Representative GOLDSBOROUGH. I certainly do. The large investment houses, the big private bankers who are the only private organizations that I know anything about that are opposing this legislation, are responsible for this whole situation. They are the people that are responsible for unloading 17,000,000,000 of foreign bonds on the people of this country. They are the very people who are opposing this legislation.

I was talking to a broker in Baltimore the other day, and I said to him, calling him by his first name. " What in the name of God did you mean by selling these foreign bonds? Didn't you know they were worth nothing when you sold them? " He said, " I did." I said, " Why did you do it, then? " He said, " We are all members of a syndicate and we are sent a certain amount of this stuff to sell, and if we don't sell it we are kicked out of the syndicate."

Of course, all that detail was new to me. But it is my deliberate judgment that they brought this country to destruction and despair, and they are the forces who are opposing this legislation now.

Senator COUZENS. May I ask you, Congressman, just how you expect these three agencies to function? In section 2 of your bill there are three authorities to make this effective, the Federal Reserve Board, the Federal reserve banks and the Secretary of the Treasury. Just what have each of those agencies to do to make this effective?

Representative GOLDSBOROUGH. The Federal reserve banks, acting under the direction of the Federal Reserve Board, issue Federal reserve notes on the collateral of any discounted paper which they have, or on Government bonds, as they see fit, under the Glass-Steagall bill, and they buy Government bonds with it. In other words, you take out of the market Government bonds which are interest-bearing and which are not a circulating medium, and replace them with a noninterest-bearing circulating medium.

Senator COUZENS. Just what does the Secretary of the Treasury do in the matter? What are his activities?

Representative GOLDSBOROUGH. The reason that was put in, to be perfectly frank about it, was this. In our previous hearings there was a very strong intimation that, due to the very high office occupied by the Secretary of the Treasury who was ex officio a member of the Federal Reserve Board he exercised a dominating influence.

Senator COUZENS. That is quite true.

Representative GOLDSBOROUGH. And we therefore felt that it was proper to place upon him that responsibility so that he would be unable to exercise his influence adversely to this legislation. That is the cold-blooded truth of the matter.

Senator COUZENS. Supposing these authorities did not agree. How do you get action from these three authorities set up in this bill?

Representative GOLDSBOROUGH. Senator Couzens, of course if the Federal Reserve Board are not sympathetic with the legislation they can arbitrarily say that they are doing what they can to carry out the wishes of Congress. I understand that.

Senator COUZENS. That is the reason I think your bill is weak, because it does not go into detail enough with respect to what these agencies are to do to accomplish the purpose desired.

Representative GOLDSBOROUGH. All they have to do, Senator Couzens, is this—because they have had 18 years experience, that is, they and their predecessors, and they know perfectly well that their two agencies have been the adjustment of rediscount rates and their open market operations. They can not contradict that. We felt, on the Banking and Currency Committee, that we had no right to assume that if the act were passed they would not operate it sympathetically.

Senator COUZENS. I think you have a right to assume that.

Senator FLETCHER. They know how to do it if they want to.

Representative GOLDSBOROUGH. Absolutely, Senator.

Senator TOWNSEND. Do you feel that the Federal Reserve Board and the Federal reserve banks at present, under the Glass-Steagall bill, are doing exactly what you require under this bill?

Representative GOLDSBOROUGH. I can say no.

Senator TOWNSEND. You do not think they are?

Representative GOLDSBOROUGH. No; but I should like to explain my answer, because if I did not I would not be expressing the true view that I have.

Senator TOWNSEND. I understood from your former statement that you did feel they are doing that.

Representative GOLDSBOROUGH. I have to amplify my statement in order that you may understand what I mean when I say "no."

Under the Glass-Steagall bill they began purchasing twenty-five millions a week, which it seems to me anyone would know would be totally ineffective. When this particular legislation became imminent in the House, and not until then and not until numerous conferences with them, did they begin to buy at a hundred millions a week. When I asked Governor Harrison about it, he said, "Why do you want to pass this legislation, the emergency part of it, when we are doing exactly what your bill contemplates that we should do?"

I said, "When did you begin?" He said, "Day before yesterday."

That is the reason. Unless some legislation is passed—and as I said before, I do not mean anything improper; these gentlemen are friends of mine; but they continue this for a little while and some influence is brought to bear upon them, saying, "You have gone far enough. The big people can pay their debts. The big bankers are going to be safe, and maybe you had better not go too far into teaching people that there is some other way to correct their economic difficulties besides borrowing money. You had better stop."

The public does not know what they are going to do or when they are going to stop, and neither do the commercial banks know what their future action will be.

Senator TOWNSEND. What has been the amount of their purchase?

Representative GOLDSBOROUGH. Five hundred millions.

Senator TOWNSEND. If they continued to purchase the present amount of $100,000,000 a week, do you think that would cover the situation?

Representative GOLDSBOROUGH. Senator Townsend, if what they are doing now is protected by such legislation as will enable the public to know what they are going to do, what they are compelled to do, I think it will, unquestionably. But now nobody knows whether they are going to buy a hundred millions next week or sell a hundred millions next week.

Senator GORE. That has to be governed by circumstances, even under your bill?

Representative GOLDSBOROUGH. Oh, yes.

Senator GORE. By the exigencies and requirements?

Representative GOLDSBOROUGH. Yes.

Senator COUZENS. What would you say if we amended your bill and left this all to the Secretary of the Treasury?

Representative GOLDSBOROUGH. In what way?

Senator COUZENS. I mean, to take out of section 2 the words "the Federal Reserve Board, the Federal reserve banks" and provide that the Secretary of the Treasury "is hereby charged with the duty of making effective this policy."

Representative GOLDSBOROUGH. I would say this, that if the Federal Reserve Board and the Federal reserve system, which are really the fiscal system of the country, were not to operate the act, I would rather it be given to some entirely separate organization. I do not think that the set-up at the Treasury is such that they could operate without a great deal of additional legislation. I do not see how they could, because the Treasury has no authority to go into the open market or to regulate rediscount rates.

Senator GOLDSBOROUGH. May I ask you if a letter was addressed by your committee or subcommittee to the Secretary of the Treasury or the Federal Reserve Board asking their opinion on the measure?

Representative GOLDSBOROUGH. Yes, sir; you may.

Senator GOLDSBOROUGH. And your answer to it?

Representative GOLDSBOROUGH. I am very happy that you ask me that.

When these hearings were about to be held I had several talks with Governor Meyer over the telephone about coming down and appearing at the hearing. He said he was busy over in the Senate with other measures and did not have time. He said also that he would like to have an opportunity to read the first hearings before he came down. So, as soon as I got the first print, before the hearings were bound, I immediately sent a special messenger up to him with the hearings and asked him when he thought he would be ready, and he said, in about a week. So we put it off for about 10 days, and as soon as this [indicating] was printed I sent it to him.

The CHAIRMAN. Speaking of the first volume of the House hearings?

Representative GOLDSBOROUGH. Yes, sir. Governor Meyer appeared and his testimony is in the second volume; and Governor Meyer will tell you that every possible consideration was shown him. We had difficulty in getting him to the hearing, Senator Goldsborough. He did not seem to care particularly about coming. He did not come until he had the hearings and until he had taken his own time. We wanted to get the bill on the floor, but we delayed it and we were severely criticized by members of Congress for delaying it.

Senator FLETCHER. Does your question also have reference to the Secretary of the Treasury?

Senator GOLDSBOROUGH. Yes.

Representative GOLDSBOROUGH. The Secretary of the Treasury, so far as I know, was not spoken to about the bill. I know that was not intentional. We would have been only too happy to have had the Secretary of the Treasury before us. We felt, I am sure—and there are some members of the subcommittee here—that Governor Meyer would speak for the Federal reserve system.

Senator GOLDSBOROUGH. My only purpose in asking the question was that I think it is customary for the chairman of a committee to address such communications on measures of this kind to the Secretary of the Treasury and to the Federal Reserve Board.

I think that is the custom of this committee, is it not, Senator Norbeck?

The CHAIRMAN. Yes. That is the plan we have followed here.

Senator GOLDSBOROUGH. That was my only purpose in asking the question.

Representative GOLDSBOROUGH. In answer to that, Senator Goldsborough, I went up to see Governor Meyer and talked to him about it and begged him to come down, did everything I knew how to do to induce him to come before the committee.

Senator FLETCHER. Do you think it is entirely practical, with this index figure showing the wholesale commodity market for this period, for the board to devise some means by which the value of the dollar may become increased?

Representative GOLDSBOROUGH. There is no possible question about it, with the enormous reserves that the Federal reserve system now has. You see, Senator Fletcher, without reducing their gold reserve they could issue five billions of Federal reserve notes. They can not only do that, but under the Federal reserve act they have a right to do away with all reserves, so that after that, if they wanted to exercise power they actually have, they could issue Federal reserve notes indefinitely. All they would have to do would be to buy either Government bonds or securities from member banks to place as collateral to the notes.

Senator FLETCHER. That refers to the power they have to control the volume of currency, and there is no doubt but what they have that power?

Representative GOLDSBOROUGH. No, sir.

Senator FLETCHER. And then the other point was as to its being practicable to fix the wholesale commodity market prices for this period.

Representative GOLDSBOROUGH. You mean, after the price level is reached, have they the ability to sustain it at that price?

Senator FLETCHER. Yes.

Representative GOLDSBOROUGH. I will tell you what was done between 1922 and 1928 by Governor Strong and the other members of the open-market committee. What they did was this. When the market went up to above the point which they thought was correct, they immediately put Government bonds into the market to pull it down, and when it went down they bought Government bonds. And may I interpolate right there, because I think it is only fair to say that there was no possible question about what was done.

In 1926 and also in 1927 Governor Strong came before our committee and asked us not to pass this legislation, because he said that he and his committee were attempting to stabilize the market and had done it very successfully; and I think he was right. But he overlooked the fact, as we all do, that he was not immortal, and he has passed to where beyond these voices there is peace.

In a speech that I made in 1924, Senator Fletcher, at Atlantic City, before the Maryland Bankers' Association, which was two years before I had definite information on this stabilizing process, but when it seemed to me perfectly apparent that it was going on, I made this statement—it will take me only a moment to read it [reading]:

> Not so generally understood is the fact that the open-market operations of the Federal reserve banks in the first half of 1923 tended to curb the involuntary movement and in the second half of the year tended to sustain business on its new level. Early in January the Federal reserve banks held open-market acceptances and United States securities to the value of $734,000,000. These they reduced steadily throughout the period of incipient business boom.
>
> By July the total holdings were less than $300,000,000. Between October 17 and the end of the year, however, the holdings increased from about $300,000,000 to $473,000,000. Thus the open-market operations took money out of general circulation at a time when, according to our indices, money in circulation was increasing faster than the volume of trade, and later in the year when these same guides began to point in the other direction the open-market operations put more money into circulation. We were cautious in 1923 because we had had a recent lesson. We will be less cautious as time goes by, and in a very short time, when credit begins to be demanded all over

the country for developments of all sorts, the Federal Reserve Board, without express legislative authority, will not be able to restrain a period of inflation greater, probably, than any we have ever known.

Senator CAREY. Has not the Federal Reserve Board the power to do this thing now?

Representative GOLDSBOROUGH. Senator, they really, in my judgment—I did not come here, of course, to criticize them from that standpoint—they really, in my judgment, usurped power when they initiated their deflation policy in 1920 and when they instituted their open-market operations from 1922 to 1928. There is nothing in the Federal reserve act which contemplates giving them authority to regulate price levels, but they did do it, and from 1922 to 1928 they helped the country immeasurably by doing it.

Senator CAREY. They can do it by selling securities and buying bonds, can they not?

Representative GOLDSBOROUGH. They can do it, but the difficulty, as I see it, is this, that, in the first place, they really have no authority to use open-market operations for that purpose. There is no authority given them by the act to do so; and the second thing is this, that there never has been such a thing as a benevolent despot, and it does seem that their activities ought to be addressed to a particular point which indicates fairness to debtor and creditor and which indicates some sort of stability in our economic system, so that we will not have terrible wrenches, one of which we are going through now. I do not think any man now is justified in going into business or in borrowing money, not having the slightest idea what the situation will be five years from now.

Senator FLETCHER. One purpose is to raise the commodity price level and the other purpose is to stabilize it?

Representative GOLDSBOROUGH. Yes; and that is really the most important thing. The only reason the emergency feature is put into this legislation is this. Not only all economists agree, but Governor Harrison and Governor Meyer agree that with about two hundred and three billions of debts there was no way for those debts ever to be paid unless the price level is raised. In other words, that the present price level was so unfair to the debtor that the debts could never be paid, and that production would be terribly retarded by virtue of the fact that the producer was so encumbered with debt.

Senator GORE. There is the rub—the increased burden of debt. How to meet it, I do not know.

Representative GOLDSBOROUGH. This is an attempt to achieve justice as between debtor and creditor, to allow the country to resume its normal production, and then to so stabilize conditions that we will not have these economic wrenches and these terrible periods of unemployment—one of which we are passing through now.

We do not claim that the bill is perfect. The bill is not what I would prefer, but it seems to me that it is a tremendous advance over anything we have ever had before, because, Senator Gore, if nothing else, it does show to those who have been in control very largely of the medium of exchange by their control of credit, that the people propose in so far as they can to assume their own control over their own medium of exchange, not to let some one else decide arbitrarily when their prices are to be increased or when they are to be decreased.

Senator GORE. If the problem were as simple as that, your solution might be all right. But you remarked in your speech at Atlantic City, which was a very wise speech, that as time passed the demand for money or credit for development purposes would increase and become irresistible. Between 1927 and 1928, speaking roughly, bank loans did increase to one and a half billion dollars in a year, and those increased loans were for the purchase of securities. Commercial loans declined during that year $250,000,000.

Representative GOLDSBOROUGH. That is true. As I indicated before, Senator Gore, unless this legislation will act as a restraining influence to hold back an incipient, unwarranted business expansion, which leads to speculation—unless it will do that, as I firmly believe it will, then it may be necessary for us to have other legislation which will separate the credit of the commercial banks from the New York stock market.

Senator GORE. I think that probably ought to be done, but I am afraid your additional legislation, Congressman, will have to repeal the laws of human nature and prevent people from buying on a rising market and prevent them selling on a falling market. If you can do that, you can solve this problem.

Representative GOLDSBOROUGH. Senator Gore, all legislation that I know anything about is based on the fact that you have to control human selfishness. This is one attempt to control human selfishness and to establish justice. Nobody claims that we are going to create a Nirvana by legislation. I know perfectly well that if you were to take a shovel and pour gold dollars in the streets and on every country road, if everybody was in a state of fear and panic and would not pick them up and use them, you could not change this situation a bit. But the first thing we have got to do is to make an honest effort to reestablish the confidence of the country, and I believe that it can be done if the banks of the country know that the Federal reserve system is specifically directed by law to continue to do just exactly what it is doing until it achieves a certain definite end; and I believe that when that time comes these periods of inflation and speculation and of depression can be very greatly modified by the restraining influence of the Federal reserve system when they see an incipient unhealthy boom coming, because these periods of deflation always follow periods of speculation.

Senator WAGNER. Have they not that power now, to some extent, of controlling rediscount rates to arrest excessive expansion?

Representative GOLDSBOROUGH. They are given authority by the Federal reserve act to adjust rediscount rates for the purpose of accommodating commerce and business. That is very nearly the exact language of the act. They are given no express legislative authority either to adjust rediscount rates or to conduct market operations for the purpose of controlling the expansion and contraction of business or the raising or the lowering of the price level, but they are exercising the very authority you are speaking of, and I think that their operation should be directed toward a given point, first, to reestablish a price level which will be fair as between debtor and creditor, and start production and employment, and then continue on a measurably even keel so that when business becomes adjusted to that price level there will not be these terrible wrenches that come when there is either a rise or fall. A rise beyond a fair point is very hard on the person with a fixed income, salaried person and the laborer, because wages and salaries are not raised as fast as these prive levels are raised. On the other hand, as soon as you have a period of declining prices from a reasonable price level, producers are unable to produce with profit, and they have to stop their operations and throw people out of work.

Senator GORE. And that is the reason that the banks will not loan money. They do not see any business that can promise a profit on its operation.

Senator TOWNSEND. Just in connection with that, may I ask you this question? Will you point out to the committee what can be accomplished under that bill that can not be accomplished under the Glass-Steagall bill, just in a word?

Representative GOLDSBOROUGH. What the Glass-Steagall bill does, Senator Townsend, if you will permit me——

Senator TOWNSEND. All I want to know is what can be accomplished under your bill that can not be accomplished by the Glass-Steagall bill.

Representative GOLDSBOROUGH. I am going to try to answer as briefly as I can. The Glass-Steagall bill simply furnishes resources to the Federal reserve system. It tells the Federal reserve system, "You do not have to issue notes only on paper that you rediscount. You can use Government bonds as collateral." It also allows the Federal reserve banks to rediscount paper from member banks which were not previously eligible. In other words, it gives power to the Federal reserve system to be very liberal in its credit policy.

This act directs what the activities should be in so far as the price level is concerned—which is a very different proposition.

Senator TOWNSEND. Could they not accomplish the same thing as set forth in your bill, if they desired to do so, under the Glass-Steagall bill?

Representative GOLDSBOROUGH. Of course the Glass-Steagall bill is the only means that they have in addition to those they previously had to expand the credit of the country.

Senator TOWNSEND. Exactly.

Representative GOLDSBOROUGH. That is true. You do not know and I do not know how they are going to exercise the powers that the Glass-Steagall bill gives them.

Senator FLETCHER. It is not permanent legislation.

Senator TOWNSEND. I recognize that, Senator.

The CHAIRMAN. In other words, the purpose of that bill is to give them a mandate to follow out a policy and to adhere to it for a specific purpose.

Representative GOLDSBOROUGH. Yes.

The CHAIRMAN. Using every provision of law available, including the Glass-Steagall bill, for that purpose.

Representative GOLDSBOROUGH. That is very concisely stated, Mr. Chairman, and much better than I could have stated it.

Senator GORE. Is it your feeling that the fundamental need of the country is more money or more credit, or both, or either?

Representative GOLDSBOROUGH. There is no way to get it into circulation under our system. We do business entirely on a credit basis, Senator Gore, and the only thing that any legislation can do——

Senator GORE. Well, I had in mind the issuance of Federal reserve notes or the extension of credit.

Representative GOLDSBOROUGH. You see what happens to Federal reserve notes. Bonds may be bought from the banks directly, in which case the Federal reserve notes go to the banks. Or the Federal reserve banks may buy from a private individual and give him Federal reserve notes, but he deposits them in some bank, so they go to the banks. What the bank does with that money is this: If it owes any money to the Federal reserve bank because of rediscount, it pays off its debt to the Federal reserve bank. That is the first thing it does. The second thing it does, if it has any money left, is to deposit that money in the Federal reserve bank as a reserve.

Senator GORE. Or let some other bank take it to pay off its debts.

Representative GOLDSBOROUGH. Correct. And then, of course, when it establishes sufficient reserve to put itself in what it believes to be a sound position, then it looks for an outlet for its reserves.

Senator GORE. That is the trouble now. They do not see any business in sight that promises to earn a profit on its operations. That is the reason they do not make business loans. It brings it back to the point that we have to restore confidence.

Representative GOLDSBOROUGH. That is one of the major things we are trying to do by this legislation.

Senator FLETCHER. You had before your committee, and his statement appears in the hearings, Dr. Willfred I. King, professor of economics, New York University. Doctor King writes me a letter—and I will ask to have this letter go into the record—saying that you had in your original bill a provision something to this effect:

> If, in carrying out the purpose of section 1, the gold reserve is deemed by the Federal Reserve Board to be too near to the prescribed minimum, the board is authorized to raise the official price of gold if the other methods already authorized appear inadequate; if, on the other hand, the gold reserve ratio is deemed to be too high the Federal Reserve Board is authorized to lower the official price of gold if the other methods already authorized appear inadequate.

He thinks that that provision ought to go into any bill that is passed here; and I just thought I would like to ask you what you think about the importance of that provision.

Representative GOLDSBOROUGH. Senator Fletcher, I drew that bill myself; it was my bill; the suggestion was not given me; and, therefore, when I put the gold clause in it, I put it in there because I thought it ought to be there. I reached two conclusions: First, that I could never get a bill out of the Banking and Currency Committee go the House with the gold clause in it; and the second conclusion I reached was this, that in all human probability we would never, within many, many years, need the gold clause because of the tremendous amount of gold reserve that we now have, and that it really was not necessary as an emergency proposition.

Senator FLETCHER. You do not regard it as a very essential part of this legislation?

Representative GOLDSBOROUGH. Not at the present time; no, sir.

Senator FLETCHER. I will ask to have that letter inserted in the record.

The CHAIRMAN. That may be done.

(The letter referred to and submitted by Senator Fletcher is here printed in full as follows:)

NEW YORK UNIVERSITY,
SCHOOL OF COMMERCE, ACCOUNTS, AND FINANCE,
Washington Square East, New York, May 9, 1932.

HON. DUNCAN U. FLETCHER,
United States Senate, Washington, D. C.

MY DEAR SENATOR FLETCHER: Thanks for your letter of May 4. I was delighted to read that the Goldsborough bill passed the House by such an overwhelming majority. I hope that it, or your bill, will go through the Senate with equal speed.

I sent you a few days ago a substitute section to make your bill effective in case the gold reserves of the Federal reserve banks should prove inadequate. The section which was deleted from the original Goldsborough bill before it passed the House was:

"If, in carrying out the purpose of section 1, the gold reserve is deemed by the Federal Reserve Board to be too near to the prescribed minimum, the board is authorized to raise the official price of gold if the other methods already authorized appear inadequate; if, on the other hand, the gold reserve ratio is deemed to be too high the Federal Reserve Board is authorized to lower the official price of gold if the other methods already authorized appear inadequate."

For the reasons which I have previously stated, I believe that some such section should be reinserted by the Senate; for by so doing, the Federal Reserve Board would be enabled to carry out the directions of Congress under difficult as well as under easy conditions.

With best wishes for your success, I remain,

Very sincerely yours,

WILLFRED I. KING,
Professor of Economics.

Senator GORE. What do you mean by the price of gold?

Representative GOLDSBOROUGH. What would be done would be this: In case the gold clause were used, the Federal reserve system would get in out of the market all its gold and would use nothing but gold certificates. Then it would measure this gold. How many grains are there in a gold dollar now?

Senator GORE. 25.23; fine gold, 25.8.

Representative GOLDSBOROUGH. What they would do, as a matter of calculation, would be to increase or decrease the gold content of the gold dollar.

Senator GORE. Is that what you contemplate here?

Representative GOLDSBOROUGH. That is what would have to be done.

Senator GORE. Why not just change the number of pounds in a bushel of wheat or the number of pounds in a bale of cotton? If a man owes a thousand bales of cotton of 500 pounds each, let him pay the bill with a thousand bales of 400 pounds each.

Representative GOLDSBOROUGH. You are getting away from the principle of this legislation——

Senator GORE. If that is afield I would not want to detain you or the committee by going into it.

Representative GOLDSBOROUGH. The situation is this. What we have now——

Senator GORE. That is, the Fisher plan?

Representative GOLDSBOROUGH. Yes. But the Fisher plan, that is, the change of the gold content in the dollar, is not involved in the present legislation.

Senator GORE. No; I understand that.

The CHAIRMAN. I would like to ask you one question just to get it clear in my own mind. The thing aimed at in this bill is to bring up the general price level without any regard to inequalities that exist in commodity prices at the present time?

Representative GOLDSBOROUGH. Yes. There are 784 commodities involved, and this would simply result in the raising and lowering of the index number constituting the whole 784 commodities. The laws of supply and demand, of course, would be completely operative as to any individual commodity; but if you could keep the credit of the country at a parity with the business of the country, you would have a stabilized price level.

The CHAIRMAN. I think I understand the purpose, and I think you have made a very good presentation before the committee. I just want to make this clear. If an inequality appears in the exchange value between agricultural goods and manufactured goods, the passage of this bill would have no relation to that?

Representative GOLDSBOROUGH. That would have to be corrected by some other legislation.

Senator GORE. The manipulation of the number of grains in a gold dollar would not help and could not be applied to Government debts or corporation debts or farm mortgage debts and others that are made payable in gold?

Representative GOLDSBOROUGH. In my opinion, they could not.

Senator GORE. You do not know the aggregate amount?

Representative GOLDSBOROUGH. What the Supreme Court would say about it, I do not know.

Senator GORE. I think they have already passed on it.

Senator HULL. Have you the commodity price levels of the different important countries measured by a common yardstick, so that we can see what they are?

Representative GOLDSBOROUGH. No; I have not, Senator Hull.

The CHAIRMAN. We thank you very much, Congressman.

(Witness excused.)

The CHAIRMAN. I see that this hearing can not be concluded this forenoon, and we will arrange to continue this afternoon, starting at 2.30, over in the Capitol Building in the room of the Committee on Interstate Commerce, Senator Couzens's room, which is on the west side, one floor above the Senate Chamber.

We have two Congressmen here who have made a study of this bill and would like to make brief statements, and we shall have time for that, at least, before we recess.

I will first call on Congressman Strong of Kansas, who has made a long study of this proposed legislation and who is a member of the House Banking and Currency Committee.

STATEMENT OF HON. JAMES G. STRONG, A REPRESENTATIVE IN CONGRESS OF THE FIFTH DISTRICT OF KANSAS

Representative STRONG. Mr. Chairman and Senators, I think I ought to say first that I have never had any banking experience. I am not a banker, though I have been an attorney for little banks. My life has been devoted as a lawyer and business man and farmer. I came to Congress in 1919, went on the Banking and Currency Committee and watched the price level rise. Then after May 20, 1920, I watched the deflation process.

You referred, Senator Fletcher, to Doctor King. He has expressed the opinion that in the deflation the owners of property in this country lost $40,000,000,000, the amount of the cost of the war.

I began to study the cause and the prevention of inflation and deflation. My attention was called to the fact that when the Senate passed the Federal reserve act it provided that the discount rate should be used not for the accommodation of business but for the stabilization of the price level. In conference the language was changed to the accommodation of business and commerce.

I introduced a bill asking or directing the Federal Reserve Board to use their powers for the stabilization of the price level. That was in 1926. We had hearings upon that bill. I found that those who opposed it were trying to educate the country to the belief that I was trying to fix prices, which was not my purpose at all, except to fix the purchasing power of money.

In the next Congress I introduced a bill for the stabilization of the purchasing power of the dollar; my idea being that the people having in the Constitution given Congress the right "to coin money—and to regulate the value thereof," we never had regulated it or never had any chance to regulate it until we had the Federal reserve system.

The CHAIRMAN. Was that bill of yours along this same line?

Representative STRONG. Yes; and for the same purpose and the bill now under consideration.

Among the many economists and financiers who came before our committee in the years 1926 and 1927 was Governor Strong, the then governor of the Federal Reserve Board. He referred to the fact that he had been using these powers for stabilization for several years with success, but took the position that we ought not to direct the Federal Reserve Board to so use them.

I went to lunch with him one day, he trying to persuade me to abandon the bill and I trying to persuade him to help me with his great ability to prepare a proper bill that he thought he could support. In the course of the conversation he said, "I am doing this thing now that you want done." I said, "That is true. If you always were to continue at the head of the board that bought and sold the Government securities, and at the head of the Federal reserve system, I would be willing to withdraw the bill. But that is not going to happen, so I would like to have you help me."

I said to him, "Where were you on May 20, 1920?" He said, "I was in Washington." I asked him if he was with the Federal Reserve Board, and he said he was; and he looked me in the eye and said, "With all the energy that I could possibly command I tried to prevent the passage of that deflation legislation."

Then I said, "Well, Governor, if this law had been on the statute books at that time you might have pointed the members of the board to the law, and, you dare not pass such a resolution." From that time on I got his assistance and help; and the bill that I introduced on March 6, 1928, was a bill that he had a large part in the preparation of.

Senator GORE. Will you attach that bill to your statement in this record?

Representative STRONG. Yes, Senator.

(The bill referred to is as follows:)

[H. R. 11806, Seventieth Congress, first session]

A BILL To amend the act approved December 23, 1913, known as the Federal reserve act; to define certain policies toward which the powers of the Federal reserve system shall be directed; to further promote the maintenance of a stable gold standard; to promote the stability of commerce, industry, agriculture, and employment; to assist in realizing a more stable purchasing power of the dollar, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the act approved December 23, 1913, known as the Federal reserve act, as amended, be further amended as follows: Add to section 14 the following paragraphs:

"(g) The term 'Federal reserve system,' as used in this act, shall mean the Federal Reserve Board, the Federal reserve banks, and all committees, commissions, agents, and others under their direction, supervision, or control.

"(h) The Federal reserve system shall use all the powers and authority now or hereafter possessed by it to maintain a stable gold standard; to promote the stability of commerce, industry, agriculture, and employment; and a more stable purchasing power of the dollar, so far as such purposes may be accomplished by monetary and credit policy. Relations and transactions with foreign banks shall not be inconsistent with the purposes expressed in this amendment.

"(i) Whenever any decision as to policies is made or whenever any action is taken by the Federal reserve system tending to affect the aforesaid purposes of this amendment, such decision or action and reasons therefor shall be thereafter published by the governor of the Federal Reserve Board at such time, place, and in such detail as may be deemed by him to be most effective in furthering such purposes, and at least once each year in the Annual Report of the Federal Reserve Board to the Congress."

Sec. 2. After section 28 add the following:

"Sec. 28A. The Federal Reserve Board and the Federal reserve banks are hereby authorized and directed to make and to continue investigations and studies for the guidance of the system's policies, at least to the extent and in the manner described in paragraphs 1, 2, 3, 4, and 5 of this section, and to such further extent as they may deem to be desirable; namely,

"(1) Of the manner and extent to which operations of the Federal reserve system affect (a) the volume of credit and currency, (b) the purchasing power of the dollar, (c) the general level of commodity prices and of other relevant prices, (d) the prices of stocks and bonds, and (e) business activity; through changes of rates of discount, purchases, and sales of securities in the open market, relations and transactions with other banks of issue, or through any other means.

"(2) Of the influence of activities of agencies of the Government of the United States or of domestic or of foreign banks not under the control or influence of the Federal reserve system, or of any other agency or agencies upon the purchasing power of the dollar; and of the influence exerted upon the policies and affairs of the member banks and of their customers by means of direct representations, by publicity, or otherwise; and of the effect of such operations as are conducted by the Federal reserve banks with foreign banks.

"(3) Of the effect upon the purchasing power of the dollar of changes in the supply of and demand for gold, either actual or prospective.

"(4) Of existing means and proposed plans, both national and international, having for their aim the stabilization of agriculture, industry, commerce, employment, and the purchasing power of money.

"(5) Of existing or proposed index numbers of prices or other measures of the purchasing power of money, which are used or might be used, singly or in combination by the Federal reserve system as a guide in executing its policies.

"Sec. 28B. The Federal Reserve Board shall report to the Congress from time to time, and at least annually, the methods pursued and the conclusions reached, either final or otherwise, resulting from the aforesaid investigations, and any legislation which will, in its judgment, best promote the purposes of this amendment to the Federal reserve act.

"Sec. 28C. Acts and parts of acts inconsistent with the terms of this act are hereby repealed."

Representative Strong. The bill provided that all the powers of the Federal reserve system should be used for the maintenance of the gold standard and the stabilization of industry, agriculture, and business, and for the stabilization of the purchasing power of the dollar. It also provided a system of study that he wanted the Federal reserve banks to engage in as to their powers, and the proposition of the price index number.

He came before the committee on that bill. Previous to that time he arranged for a conference between himself, the Federal Reserve Board and myself in the hope that we might induce them to go along on the bill. We began the conference a little after 10 o'clock in the morning and continued until 12, and came back at 1.30 and continued until pretty near 5 o'clock. I thought, and I think he thought, that there was some hope that the Federal Reserve Board would go along on the proposition.

When Governor Young came before our committee and the question was asked him, he said, "We are opposed to it."

As I have studied the proposition from then up to this time it looks to me as if the Federal Reserve Board should use its powers to stabilize the purchasing power of our dollar.

The people for and against this bill are composed, to my mind, of two classes: the banker-minded who uses money as a commodity for making profit, and those who believe that money should be used as a measure of value and for the purpose of exchange between the people who buy and sell their labor and their goods.

Senator Gore. Do you not think that we might add another class—those who think that however desirable, it is beyond the compass of any human power?

Representative Strong. Yes. They did not want and opposed being directed and we have reached the condition that we are now in. I am convinced that if we had passed the bill in 1926 we would not be in this condition.

This bill simply follows the law of supply and demand, and regulates the supply and demand of money. I think everybody will agree that when money is plentiful and cheap the things that money buys will bring a good price, and when money is scarce and high priced, the things that we use to buy money with are very cheap, because the money is high.

We have reached a condition where labor must work longer hours at less prices to get its dollars. The dollar is inflated. Commodities are not so much deflated as the dollar is inflated. Its purchasing power has largely increased. When the farmers went into debt a bushel of wheat bought a dollar. Now it takes three bushels. It also takes about three bushels of corn to purchase a dollar. When they went in debt they could take a hundred pounds of pork and buy $12 with it. Now, hogs are only worth $2.75 a hundred. If they want to buy a dollar it takes 16 dozen eggs and 9 pounds of butterfat and 20 pounds of cotton where it used to take 4 dozen eggs and 3 pounds of butterfat and 5 pounds of cotton in my country; and everything else in proportion. The people are discouraged. They do not see any hope of being able to earn enough money by their labor or by their products to get this high priced dollar to pay their debts with.

That is the reason the farm organizations, realizing the impossibility of redeeming agriculture and the business of the country without depreciating the high priced dollar, met together and hired economists and began to study this question, and that is the reason they are here to-day to urge you gentlemen to pass this bill.

I respect the members of the Federal Reserve Board very highly. They have been my friends. As a member of the Banking and Currency Committee I have worked with them these 13 years; but I do not know whether appointment on the Federal Reserve Board gives a man superhuman power that enables him alone to decide when to buy or sell Government securities. They started in to buy twenty-five millions a week about two months ago and they admitted before our committee that they were not going fast enough. Then they commenced to buy a hundred millions a week; but if you talk with them they say, "When we get so many hundred millions we have got to quit."

Who told them so? Where did they get that information as to the time to quit? The only time I see for them to quit is when they have deflated the dollar, so that people who are in debt can get hold of those dollars to pay their debts with. If they say, "We have bought seven hundred millions now and we are going to quit," there will be a flunk. If they keep it up there will be a gain—in what? In the price of labor and of commodities in general. That is what we want by this bill; that is what we want to secure.

Senator WAGNER. You mean, if they keep it up even without this direction and legislation?

Representative STRONG. Yes; if they would; and if they had used the powers that Congress had given them for stabilizing the purchasing power of the dollar in 1926, we would not be in the condition we are now in in 1932. But they did not do it. Somebody influenced them to believe that they should not go on with it. Millions have been made by those who still own the dollars, but millions have been lost, yes, billions, by those who had to exchange their property for the high-priced dollars. The man who has money is perfectly satisfied because his dollars are worth two or three times as much as they used to be, but the man who is in debt and must pay it by his labor and the things he produces is not satisfied; and there is discontent all over the country and it is going to continue until something is done to change this condition; and the only way I know of is to increase the supply of money and reduce interest rates.

Senator COUZENS. What would you say if we provided by legislation that they were to buy a hundred million dollars of Government bonds every week up to December 1, 1932?

Representative STRONG. I would not know whether that was the place to stop or not.

Senator COUZENS. Who can tell them whether they should keep on or whether they should stop? I just want to know if you wanted to assume responsibility.

Representative STRONG. No. But we have a Department of Labor in this country that weekly puts out a price level, a price level of wholesale commodity prices. When the dollar goes up the commodity price level goes down, and when the dollar goes down the commodity price level goes up. I would like, as this bill proposes, to govern the use of their powers by the condition of the price level as published each week by the Department of Labor.

Senator GORE. On that point I appreciate your description of the condition and the end that you are trying to arrive at, but there are two or three things that puzzle me, and I would like to get your reaction to them.

The first week in October we had in this country $5,015,000,000 of gold. That is the greatest amount of gold we ever had in this country since it was organized. We had one of the worst breaks we ever had both in security and commodity prices and credit at that time. In addition to that, according to the official statistics of the department, on the 30th day of last November there were $700,000,000 more in circulation than on the 31st of October, 1929, the week of the crash, and according to their figures trade and production had declined 30 per cent during that period. Prices had declined 31 per cent during that period. There is an enormous increase in the volume of money and yet a terrific drop in the price of products.

Representative STRONG. Yes; and during that time the sentiment of fear had settled over the Nation, and people were hoarding their money. The reason we passed legislation this fall was to prevent the crashing of great banking institutions, because the people were withdrawing their money from circulation; railroads were going into receivership; there was a general financial crisis, and the people took their money out and put it into a "sock," as we call it, hoarding it. Of course we had more money but it was not in circulation. That money was withdrawn from circulation, and you can not figure on that money as being in circulation.

Senator GORE. Your point is that it is lack of confidence instead of lack of money and credit?

Representative STRONG. Both. But if the people of this country knew that through the Federal reserve system they were going to continue to pour money out until there was a reaction, they would have a restoration of confidence. But they do not know so now. Nobody knows whether to-morrow we will pick up the paper and see that the Federal Reserve Board have decided to quit buying securities. Nobody will know whether they are going to sell them.

I think we ought to have a policy in this country, directed by the Congress that gave them those powers, as to how they should use them and to what purpose they should use them. I do not think they ought to be used to regulate the price of stocks and bonds. I think they ought to be used to stabilize the purchasing power of the dollar as it affects all the people of the United States. The man who works for a salary, the man who produces food, clothing, and all commodities, the man who owns property—all should be protected. The idea that a man who loans money may be repaid in 20 years by a 50-cent dollar, or the man who borrows it at a 75-cent dollar may repay it in a dollar worth $1.25 is absolutely wrong.

Senator GORE. Do you think the effort to empower the Federal Reserve Board to stabilize the dollar is entirely analogous to empowering the Farm Board to stabilize the price of cotton?

Representative STRONG. No; I think they are now moved by then ideas of what is the best thing for banks and big business. I want them to be moved by what is the best thing for the whole people.

Senator GORE. I mean, the policy projected in the bill here or in this measure. Do you think it is at all related to the efforts of Congress and the Farm Board to stabilize the price of cotton and wheat?

Representative STRONG. No. But everybody but those who are hoarding it is hoping and praying that this high-priced dollar shall be reduced. I got very little encouragement in 1920. Why? Because the dollar was down, as I term it, on speaking acquaintance with everybody. But now it has got so high in its purchasing power and it takes so much labor and so much the people produce to purchase it, that everybody wants it stabilized. You are going to find a great demand for this bill.

Senator GORE. The point I was making a while ago was that the volume of money had increased and yet prices went down.

Representative STRONG. I know. Money went into hoarding. In any credit structure it is a good deal like a fire company running a fire hose and attaching the hose and turning on the water. If there is a leak the water does not come out of the nozzle until the pressure overcomes the loss. It takes time. The Federal Reserve Board commenced to pour money into the credit structure. They might not see a reaction for two or three months. The governor of the Federal Reserve Bank of New York said, "We have been purchasing $25,000,000 of bonds for seven weeks." Only day before yesterday there was a cessation in the falling of bank credits that had been going down for a year and a half. You can't just buy a few hundred million dollars' worth of bonds and see a reaction the next week. The first thing a banker does that sells his bonds to the Federal reserve system and has the money in the bank, is to go over to the Federal reserve system and pay his indebtedness. The Federal reserve system thus only takes money out of one pocket and puts it into the other. There is no change in the amount of money in circulation. But if they keep on, the banks are sooner or later going to try to loan the money, because there is nothing on earth that a bank hates as much as having money in the bank that is drawing no revenue. The people will sell their bonds and put the money in the bank, and if you keep pouring into the credit structure additional money by buying bonds it will get out into investment and production and a restoration of better times, the dollar will come down to a reasonable price, as it should be in comparison with the things that it buys.

I want to repeat: There are two classes of people—those who want to use money and do use it as a commodity on which they make a profit, and those who want to use it as a means of exchange and a means of measuring the value of what they buy and sell.

Senator WAGNER. Do you think it would resist the deflationary movement in wages that is going on now?

Representative STRONG. Why, absolutely. If you will bring the dollar down to a reasonable price, then there will not take so much labor to purchase a dollar or so much of the commodities that labor must produce.

Senator WAGNER. The wage earner now is being cut both ways. You are giving him——

Representative STRONG. You would probably stop the wage cutting in the United States if you would bring the dollar down to where the day's work would bring more dollars.

Senator WAGNER. The tendency is the other way just now.

Representative STRONG. Yes; certainly, because the dollar is high.

Senator TOWNSEND. You were a member of the conference committee on the Glass-Steagall bill; you remember that?

Representative STRONG. Yes; day and night.

Senator TOWNSEND. In your judgment, can the express purpose of this bill be accomplished under the Glass-Steagall bill?

Representative STRONG. Certainly. That is what we passed the bill for. That is what we passed the Reconstruction Finance Corporation bill for, to do the very thing that this bill will do.

Senator WALCOTT. Do you have any way of bringing pressure on the banks to make them do what we expected them to do?

Representative STRONG. No. But when they get so much money in their vaults that is not bringing in any revenue, they will find a way to get interest on it.

Senator WAGNER. Would that perhaps result in undue expansion again?

Representative STRONG. If so, then you would turn around and use the purpose of this bill and sell bonds in the open market and take the money out of the market and raise the discount rate. I do not want inflation; I want to deflate the high-priced dollar and keep it upon a fair basis at a stabilized purchasing power, as compared with the things that a dollar will buy, as measured by the commodity price level issued by the Labor Department.

Senator TOWNSEND. Do you think the Federal Reserve Board and the banks are doing exactly what you desire them to do under your bill when they are purchasing Government bonds every week now?

Representative STRONG. Yes; right now; but I want them to keep it up until the dollar comes down where we can get acquainted with it again, where it will have only the purchasing power it had in 1921 to 1929.

Senator GORE. In your division of people into two classes, the first class was those who use money to make money?

Representative STRONG. Yes.

Senator GORE. And would you include in that class the bankers?

Representative STRONG. Yes, certainly; they use money to make money out of it. They handle it as a commodity, to make a profit.

Senator GORE. They will get busy to make their money earn money?

Representative STRONG. Yes. If you take away their bank. You understand that in England and in France they do not allow a banker on the board of directors of their great banks. Why? Because they do not feel that it is a proper thing to put on the board of directors of their great banks men who deal in handling money for profit. They put business men on as directors.

Senator GORE. I was wondering about the banks. I think the deposits are about forty-seven billions, and yet they are hoarding it.

Representative STRONG. Because they are afraid. They do not know when this policy of buying bonds is going to stop and money retain its high purchasing power.

Senator GORE. They lack confidence in the future.

Representative STRONG. If they knew that the Federal Reserve Board was going to keep on buying bonds and keep the interest rate down until the dollar was reduced in price in comparison with what the dollar used to be, there would be plenty of confidence in this country.

Senator FLETCHER. Your idea is to make it mandatory for these Federal agencies to accomplish this purpose, and not leave it simply in their discretion?

Representative STRONG. Certainly. We have left it in their hands for several years and had these periods of inflation and deflation which have cost us much more than the wars we have had. It seems to me that it is time that Congress should tell the agencies that they create to use the power we have given them in the way that we think it ought to be used. To stabilize the purchasing power of our dollar.

(Witness excused.)

STATEMENT OF HON. JEFF BUSBY, A REPRESENTATIVE IN CONGRESS FROM THE FOURTH DISTRICT OF MISSISSIPPI

The CHAIRMAN. Mr. Busby is also a member of the Banking Committee of the House.

Representative BUSBY. Mr. Chairman and Senators, I might suggest this to the distinguished body that I am now facing, that if we believe conditions in this country are satisfactory and if we believe it is better to drift than it is to try to do something, I concede that this legislation is a useless effort on the part of the House and Senate; but if, on the other hand, a contingency and emergency face us, that we feel as responsible agents of the people we should try to solve, I believe we should approach it with such a sympathetic attitude—an attitude that will cause us to question the things that be, and to work on something that may bring about better conditions.

I will direct your attention primarily to the Goldsborough bill and the provisions of it relating to conditions that are now confronting the country.

The Goldsborough bill does two things: First, it declares it to be the policy of the Government to have a dollar with the purchasing power, on the average, of the period of 1921 to 1929, which practically settles around the year of 1926. There is a reason for that: Because the country entered into debt to a large extent during that time; because the standard of living was acceptable at that time; because we had advanced over the 1913 period to such an extent that we found our commercial conditions, our living and our home life and our advancement in a general way, through the automobile, transportation, and radio, and other things, at a very satisfactory level during that time.

That is the reason, as I see it, why we should select that period.

Varying price levels are not new. About 1834 John C. Calhoun called attention to this in these words:

> Place the money power in the hands of a combination of a few individuals, and they by expanding or contracting the currency may raise or sink prices at their pleasure.

In 1929 there was practically $60,000,000,000 of bank credits working which served as a type of currency on mediums of exchange. These bank credits had a velocity of turnover of about 25 times per annum in 1929. If you multiply the $60,000,000,000 by the 25, which was the velocity, you would have the equivalent of 1,500 times 1,000,000,000 working.

In 1931 our bank credits were reduced to $45,000,000,000, with a velocity shrinkage from 25 to 13, giving us, if we multiply the 45 by the 13, 585 times that 1,000,000,000 would be working. In other words, we would have just exactly the efficiency of the bank credits of 1929 compared with 1931, of 38 per cent, a reduction in efficiency of 62 per cent of the business activity of checks and bank credits. That is equivalent to taking out of use bank credit to the extent of 62 per cent or leaving only $38 of each $100 of 1929. That would cause a scarcity of our currency and this would slow down our trade, because when you reduce the activity of the dollar you certainly curtail its effectiveness in business.

It is true we had about a billion dollars more of issued and coined currency in 1931 than we had in 1929. But $1,000,000,000 added, where you have $14,000,000,000 of bank currency subtracted, would leave you a net loss of $13,000,000,000 of effective currency, and if you divide that so as to have your velocity of 25 reduced to 13, you would certainly reduce the efficiency of the " currency " again.

In order to have a proper amount of currency it ought to relate to the needs of business. If you have too much currency, as they did in Germany, in relation to the requirements of business, the money will become cheap. If you have too little bank credits and currency, as in the United States now, in relation to the business needs, of course the money will become high and dear in relation to commodities and labor.

Last week's commodity price index showed farm commodities to be around 42 per cent of what they were in 1926. In 1926 if you had made a debt and expected to pay it with farm commodities—and other commodities work very similarly, but not to the same extent—you would pay two or three times as much as you planned to pay when the debt was made. That is the trouble to-day in this country—the debts are fixed and remain so, regardless of the price of commodities or the earning power of the people.

Professor Pierson and Professor Warren, who are here, both of Cornell University, state that the debts, private, public, and all kinds, in this country in 1929, were $203,000,000,000. Those were fixed absolutely. The national wealth was $362,000,000,000. It was not fixed. The debts at that time were 56 per cent of the wealth. Since that time the wealth has shrunken greatly, but the debts have remained the same. To accept a lower standard of living than that at which the debts were made and make it possible to reproduce properties at a lower cost decreases the national wealth by that standard. As the cost of reproducing the things we have, railroads, steamships, houses, fences, machinery, or what not, the wealth of the Nation is lowered. It will tend to resolve this country into a condition of bankruptcy as the national wealth is reduced; and if we accept a condition of bankruptcy we will do it with full knowledge of the fact that the debts are fixed and unchangeable under our present plan and under our present system. We will arrive at the point where receiverships become general when conditions of living are much lowered or labor becomes available at three-fourths or two-thirds or one-half of its present price. That makes it possible to reproduce these things we call property at that much lower figure, and no property is worth more than it costs to reproduce it new.

When we lower the wealth of this country 25 or 30 per cent we have certainly resolved this country into a condition of bankruptcy, because when we owe in this country more than our assets are worth, even on a market that is not affected by enforced sales, there is nothing that will absolve us from that condition except a period of general bankruptcy which will wipe out the debts.

I assure you that I am going to take but just a little more time. I am trespassing on the committee now.

The CHAIRMAN. No; the committee is very glad to hear you. Use your own judgment as to the length of time you will take.

Representative BUSBY. I will stop at the end of five minutes, Mr. Chairman.

The CHAIRMAN. That will be entirely satisfactory to everyone, I am sure.

Representative BUSBY. Referring to the wholesale commodity index price as determined by the Bureau of Labor statistics, you will find in the House hearings, if you care to examine them, on page 257 that Mr. Ethelbert Stewart, Chief of the Bureau of Labor Statistics, tells you about the method that is used in obtaining wholesale commodity index prices.

On page 267 you will find that he quotes from Mr. Sloan of the Standard Statistics Co., where Mr. Sloan says that the very best price index is that obtained through the Bureau of Labor Statistics. That is, the Standard Statistics Co. handling that type of business believes it is the best, and Mr. Sloan of that company says so.

On page 358 of the House hearings Doctor Fisher was asked the question by Mr. Prall, of New York, "What do you consider the best index price?"

Doctor Fisher discussed that at some length and said:

> I have my own, and others have their index prices, but I am convinced that the Bureau of Labor Statistics' wholesale commodity index price is the best that I know of.

And so I merely call your attention to those things so that you can examine that point, because it is involved in the bill.

Senator FLETCHER. Doctor Fisher gives, I believe, about 14 ways in which this can be handled.

Representative BUSBY. I know, but he comes down to the point exactly, Senator.

Senator FLETCHER. I understand that. He says it is possible to accomplish what you desire here, and practicable to do it.

Representative BUSBY. And none of those several ways varies very much from the thing desired.

The final clause of the bill directs the Secretary of the Treasury, the Federal Reserve Board, and the Federal reserve banks to assume responsibility of trying to bring the purchasing power of the dollar back to a desirable level.

If we are at a desirable level, there is no use in worrying about this bill. If the people in our districts are employed, if the people back home have the things they need to keep them enjoying life, there is no use of our worrying here in Washington. But we have recently found, in drafting a revenue law, a situation where the springs of revenue in this country have so dried up that the revenue acts which formerly produced a surplus do not produce half enough revenue. We have recently passed and are now preparing new revenue laws which will bring sufficient revenue to balance the Budget. If we balance the Budget this year and do not restore the purchasing power to the people through this method or some other method, because of a very deficient set of revenue raising laws—and there is no way around it, because when the springs dry up the streams dry up—we are certainly driven from bad to worse, because you notice week after week commodity prices drying up at the rate almost of 1 per cent a week, and that indicates that the consuming power of the people is being dissipated and that more people and more people are being sold out of house and home and turned on the streets and into the roads to travel from the place where they lived to some other place, they are not certain where, to become recruits to the great army of the unemployed, members of the under-consuming classes that this country is confronted with to-day. There is nothing in sight; there is nothing to indicate the slightest ray of hope.

I am pretty familiar with all of the details. When we go to offer some suggestion of hope there is no hope in sight.

For that reason the members of the committee, Mr. Goldsborough, Mr. Strong, and myself of the subcommittee, the active members of the subcommittee, with Mr. Frall and Mr. Beedy who were with us part of the time, have thought we might come before you and assist in any way we could in offering, if nothing more, a spirit of interest in the subject.

Senator GORE. Let me ask one question, because you represent my old district in Mississippi. I agree with all you say, Congressman, about the burden of these debts—and the tragedy of it is that they have got to be paid two or three or four times over—but the thing that puzzles me and the thing that I am trying to settle is which is the cause and which is the effect. You state correctly that during the last three or four years the volume of money has increased more than a billion dollars. Bank credits or deposits have declined 14 billions. The velocity or efficiency of money and bank credits has declined about 60 per cent. Now, have the velocity and the efficiency of money and credit decreased because business decreased, or has business decreased because the velocity and efficiency of money and credits have decreased? There lies the point in this problem.

Representative BUSBY. I am very glad to give you my reaction to that proposition.

Business during the period from 1920 to 1929 went along in an accelerated sort of manner until we reached the climax in 1929. That was due largely to the velocity of credit. It was due largely to the fact that people overbought their ability to pay through the modern methods of selling.

Senator GORE. The overuse of credit?

Representative BUSBY. Yes; the overuse of credit.

Senator WAGNER. Buying on installments?

Representative BUSBY. Yes; and the people overconsumed in relation to their ability to meet their obligations. The high-power salesmanship induced people that wanted real estate to buy to the extent that we had $35,000,000,000 of amortized real estate loans. We perhaps had that much of deferred or installment obligations which mortgaged the future income of millions of people to the extent that the slightest reverse in conditions would throw them into a servile attitude toward their creditors, so that a person would have to take everything over and above a bare living to apply to the promises he had already made. It took millions of people out of the consumer class and they became simply slaves to their own debts.

As that condition increased through this very lax credit period, and it became more depressing, and as it became more distressing the creditors, wanting their obligations met, began to press for payment, and as the payments were forced, commodities, properties of all kinds, became available at a lower figure, and as they became more available and as the price lowered, the trouble was accelerated, and as we came on down the line to this point where the forced sales have become more numerous, receiverships, bankruptcies more general, the debt situation that existed then, which was not altogether easy even in the best of times, has become, as I pointed out, the thing that has enslaved the people.

Senator GORE. For 10 years prior to the war there was a hue and cry in this country with regard to the increase in the cost of living. It got so that we just referred to it by initials, "H. C. L."

Representative BUSBY. Was not that later?

Senator GORE. No. I remember making a campaign speech in 1912, myself, on that point.

The CHAIRMAN. You were committed to a policy of reducing the cost of living, were you not, in 1912?

Senator GORE. Yes. The prices of things were going up and the value of the dollar was going down, and everybody was complaining about it. It simply illustrates that our psychology goes in cycles, so to speak, and that we do not have the sea level that we used to have.

Representative BUSBY. I believe this—leaving out of consideration the debts or fixed charges—that the thing would work out nicely if you could depend upon the level.

Senator GORE. It is the debts that constitute the difficulty in the problem.

Representative BUSBY. If we could make our obligations in relation to our ability and the price of the commodities at that time and disregard the ones that we made out of relation to the commodity level, we would have no trouble. If you swap eggs for bacon you come out all right, but you have got to complete your transaction. If you swap one commodity for another commodity you will find it pretty much the same way——

The CHAIRMAN. But if you swap eggs for a pair of shoes, it takes a basketfull or a wagonload of eggs, does it not?

Representative BUSBY. It certainly does. But the price of some things do not yield as readily, and you find that farm commodities, being perishable in their nature and being hard to house and carry over, always hit the slump much more decidedly than steel and iron and other things that are not of a perishable nature.

Senator GORE. That is true of raw materials generally, because manufacturers can stop all at once.

The CHAIRMAN. I want to close pretty soon, but I can not resist the temptation of asking one or two questions. I do not challenge the correctness of your theories at all. I think you have brought out a very important point, that some commodities do not yield to the law of supply and demand. That is one of our difficulties, that we have so much price control in certain commodity lines that such commodities do not yield to the law of supply and demand.

Representative BUSBY. That is largely true, but that same price control if followed by interested parties will ultimately, with this period continuing and persisting, bring bankruptcy to the people who are involved in the scheme.

I call attention to the fixed price of rentals. That is largely true because most of the apartment properties were built and mortgaged up to the limit, and the present ostensible owner only has the legal title and he must get so much rent all along or quit; and he holds those prices up until the foreclosure comes and he is squeezed out.

The CHAIRMAN. Is not one of our real serious difficulties the fact that so many of the commodities are price-controlled now?

Representative BUSBY. That is undoubtedly a serious difficulty, but I do not believe that, that being the fact, we should surrender any effort to take care of the whole situation because of that development——

The CHAIRMAN. I am not suggesting that, but I am suggesting that it will take a great deal more than this to bring about a normal condition.

Representative BUSBY. I believe you are right about that.

Senator GORE. Let me interject one remark there. I was talking to a man, Mr. Chairman, yesterday, who told me that he had a solution for this question. His solution was that the farmers raise horses and mules and use them instead of tractors. He said that would solve the whole problem.

Representative BUSBY. I want to say this, that the wholesale commodity index price is made up from the prices of 784 commodities. To my mind, those commodities taken as a whole represent a great rope of many strands, and on some days you will find this strand on the top of the rope. At other points you will find it on the bottom; and so the different commodities will play up and down and in and out, like wheat and cotton do, and a large crop undoubtedly will put them on the bottom of this great rope and tend to pull the level down, while others will go to the top and tend to pull the level up. But taking them as a whole, you will find remarkable stability in the wholesale commodity index price, because it goes right along and it is not controlled by any one or two things, but is made of so many things that there is little variation.

The CHAIRMAN. But to the extent that it includes price-controlled commodities, to that extent the index is misleading, is it not?

Representative BUSBY. It would be slightly misleading; but Professor Fisher said that it would be—I believe I am quoting him correctly; he is present and can correct me later if I am not—he said that he thought it would not be of sufficient weight to cause any trouble whatever, on the whole.

Senator GORE. It is the farm products that I want to see primarily go up.

Representative BUSBY. I believe, Senator, with a rise in all of these commodities, the index price, you will find farm commodities will go right along up with them, and at a more accelerated rate, because they are more sensitive, for the reason I spoke of a while ago. But you can not raise them unless you put the consuming power in the people. As long as people are walking up and down Pennsylvania Avenue starving and freezing for lack of clothes and food, and as long as there are 25,000,000 to 40,000,000 people in this country who are underconsuming, losing weight because they have not the staff of life, we are an underconsuming Nation.

The CHAIRMAN. Just one more suggestion and I am going to let you close, because it is getting late.

There has been a great deal of emphasis here on the lack of ability of the farmer to pay his mortgage, but there has been very little emphasis put on his lack of ability to buy. I think it is admitted here that this does not change the proportion of the purchasing power of agriculture as compared with industry. Am I right?

Representative BUSBY. Yes. I could take a little bit of time, which I am not going to do, but I think I could very clearly demonstrate to you how this would affect the farmer and give him purchasing power.

The CHAIRMAN. If Doctor Fisher or others do not bring that out, we will ask you to come back.

Representative BUSBY. I think I can demonstrate it very thoroughly.

Senator GORE. I do not want to raise the price of what the farmer has to buy, because that would aggravate his burden.

Representative BUSBY. You would not do that by this bill.

Senator FLETCHER. You might increase his purchasing power.

Senator GORE. You can not do that unless you increase the price of what he sells.

Representative BUSBY. It is hard to get a lever that will operate on it.

Senator WAGNER. If we can put 8,000,000 people back to work the farmer would naturally——

The CHAIRMAN. If the farmer had been earning anything he would have been buying enough machinery and implements to keep the factories going and the people would have been working.

Representative BUSBY. There is no use putting the factories to work and running them 30 days, with the present condition of the buying power of the people. They would have to shut down in a very short time because there is no consuming power.

The CHAIRMAN. They would shut down for lack of customers.

Senator GORE. The farmers did not have money enough to pay their debts, their taxes, and their freights when those 8,000,000 people were employed at high wages.

Representative BUSBY. I think you are largely correct in that, because since 1920 farm prices have been woefully out of line.

Senator WAGNER. There is no question about that.

Senator GORE. The farmer has been on the toboggan for 10 to 12 years.

(Witness excused.)

The CHAIRMAN. I would like to ask Mr. Stern whether he would like to be heard now or at 2.30. I realize that a great many of the members have already left the committee room.

Mr. STEWART. I would rather come back at 2.30.

The CHAIRMAN. We will take a recess, then, until 2.30.

(Whereupon, at 12.30 o'clock p. m., a recess was taken until 2.30 o'clock p. m.)

AFTERNOON SESSION

The committee resumed its session at 2.30 o'clock p. m., pursuant to the recess.

The CHAIRMAN. Is Mr. Stearn here?

Mr. STERN. Yes, sir.

The CHAIRMAN. If you will take a place opposite the committee reporter, we will go ahead and do the best we can.

STATEMENT OF J. DAVID STERN, PUBLISHER OF THE PHILADELPHIA RECORD, PHILADELPHIA, PA.

Mr. STERN. I appreciate the honor, Mr. Chairman, of being asked to come here.

I thought I might give you the result of my experience, as I believe we are the only paper in the East which is advocating such a policy as you are now considering, and we have for the past six months. When we first proposed it, in November or December of last year, we were a lone wolf howling in the wilderness. Business leaders and bankers of Philadelphia and of the country generally looked askance. There has been a tendency to change their opinions, as evidenced by my personal contact with leaders in that community and by letters to the editor, and in other ways. The public is becoming gradually educated to this principle as a solution of their problem. Some of our business men and most thoughtful bankers are adopting this principle of inflation. I believe it will come inevitably, if it does not come too late to help in the situation. It will bring about a change in the condition which is now tending to destroy us. I believe that you will find that the leading bankers of New York are tending toward inflation as the only solution.

To maintain the integrity of its currency is a fundamental duty of government.

The Goldsborough bill recognizes that obligation and applies it to modern conditions.

Maintaining the integrity of currency is more than the ancient duty of preventing sweating of coins, counterfeiting of paper tokens.

It is just as disastrous to allow currency to appreciate as to depreciate. It is the duty of the Government to keep the value of currency stable in relation to commodity prices.

Abnormal change in a nation's money unit, whether up or down, entails the greatest injustice and can eventually destory its whole economic structure.

Distortion of the money unit will eventually bankrupt all debtors, and thus in turn all creditors. The debtor goes broke first and in turn wrecks the creditor bank.

Who is guilty of this terrible injustice? The Government which failed to stabilize the value of its monetary unit.

Confusion in the discussion of currency arises from the natural tendency to think only of cash currency issued by the Government. This country's medium of exchange is largely credit currency. Actual currency plays a very minor part in our economic system.

In normal times we have more than $65,000,000,000 of bank deposits, counting savings deposits, as against less than $5,000,000,000 of actual currency in circulation. The business of this country is done by the exchange of bank credits. Even the housewife and the boy at college have checking accounts.

The value of the dollar is fixed by a combination of four elements: (1) The quantity of credit dollars on deposit in banks, eliminating interbank deposits; (2) the quantity of cash currency in circulation; (3) the velocity with which these credit dollars and cash dollars circulate; that is, the frequency with which they change hands; (4) the amount of wealth that is for sale.

The fewer dollars, both credit and cash, the higher prices. But even more important than quantity of dollars is the velocity of dollars.

I do not believe it has been mentioned at this hearing this morning that the bank clearings of 179 reporting cities dropped from $700,000,000,000 per annum to a rate of less than $300,000,000,000 per annum at present; and I think that drop in bank clearings is a more important factor in the value of the dollar than quantity of dollars. If the dollar becomes sluggish and does not change hands, it becomes harder to get and therefore more valuable. There has been more of a drop in the velocity of the dollar than there has been in the quantity of the dollar.

The process of deflation is self-accelerating; that is, as the dollar becomes more valuable prices go correspondingly lower—and every merchant to-day will say that one reason business is declining is because people are waiting for the prices to go lower, because they have seen them declining from month to month.

The longer people hold their dollars the more the condition tends to intensify itself. First, because the owners of dollar sense that their dollars are becoming more valuable, or that prices are going continually lower. Therefore, they use their dollars less and less frequently, and bank clearings continue to go down.

Secondly, because as debtors become bankrupt creditors are forced to wipe out credits and to refuse new credit, and so the general volume of bank credit shrinks.

A dollar, whether it be hoarded or left idle in the bank, has a velocity of zero, and therefore might as well not exist. The only way to arrest this process of deflation is to make the owners of dollars feel that their dollars are becoming less valuable and therefore should be changed into other forms of wealth. The moment prices start to go up, and the value of the dollar starts to go down, these sluggish dollars will start to change hands with increasing rapidity. The people will go to the stores to change their dollars into merchandise, to the markets to change their dollars into securities or real estate. Business will revive and the deflation will have been cured.

While the Goldsborough bill is right in principle, it will be dangerous in execution unless joined with it is some protection to the gold reserve of the Nation.

The Philadelphia Record took this stand six months ago and, as far as I know, is the only eastern newspaper in this position. We believe that during the process of bringing the dollar down to its former value, our gold reserve should be protected by an embargo similar to that declared by President Wilson in 1917. The President should be given the right to declare an embargo if necessary.

The Goldsborough bill, as originally introduced in the House, proposed that the same result should be accomplished by allowing the Federal Reserve Board to vary the gold content of the dollar. I will not discuss the relative merits of these two methods.

But one or the other is essential to the orderly accomplishment of stabilization of the dollar. Just as too much thought has been given to actual currency instead of credit currency, so too much emphasis has been placed upon the importance of maintaining our gold standard. We are apt to think in terms of several generations ago, when the business of the country was largely transacted in cash currency. Credit currency in banks played a secondary rôle previous to 1890. Through the past several decades that condition has been completely changed.

The value of gold is really fixed by the condition of credit currency. Strange as it seems, the value of the gold dollar varies according to quantity and velocity of credit dollars. Ours is as much a managed currency to-day as if we had no gold standard.

Whether the world eventually is to remain on the gold standard or adopt some other standard is not pertinent to the problem before this committee. What is pertinent is the immediate effect of inflating the currency upon our gold reserve. The more currency, whether it be paper notes or credit, that is issued by any country against a given gold reserve, the more tendency to put gold at a premium and therefore to drain it from the Treasury.

Because inflation has been allowed to go so far it will be necessary for the Federal Reserve Board and the Secretary of the Treasury to issue great quantities of new currency in order to arrest and reverse the process. It would immediately cause a gold raid on our Treasury. In the process foreign and domestic investors would dump their securities at any price in order to exchange them for gold and take gold out of circulation in this country. This could cause an intensification of deflation until all the gold was gone.

The Wilson administration recognified this obvious principle of economics. President Wilson asked Congress to authorize a gold embargo, and Congress granted him this power in June, 1917. He exercised it on September 8, 1917, the day after the House had unanimously passed an $11,000,000,000 war credit.

It is the Record's slogan that we must fight the depression as we fought the war, that we must declare a gold embargo or some other form of gold protection at the same time that we increase our currency to stabilize the value of the dollar.

If we do not provide such protection, we will be eventually forced off the gold standard under the most destructive and humiliating circumstances.

The CHAIRMAN. That is very interesting, and we appreciate your coming down and are very glad to have you with us. We thank you for coming, and we will excuse you now.

Is Mr. Wallace here?

Mr. WALLACE. Yes, Mr. Chairman.

The CHAIRMAN. Mr. Wallace, of Wallace's Farmer, of Iowa, will be the next witness.

STATEMENT OF H. A. WALLACE, EDITOR OF WALLACE'S FARMER AND THE IOWA HOMESTEAD, DES MOINES, IOWA

Mr. WALLACE. My name is H. A. Wallace. I am editor of Wallace's Farmer, Des Moines, Iowa, a paper that has about 250,000 circulation, largely in Iowa, but in many other States in the Middle West.

I also have been vice president of the Stable Money Association since 1921.

The CHAIRMAN. You may proceed in your own way, Mr. Wallace.

Mr. WALLACE. I noticed from your morning discussion that there was question as to whether the purchases of the Government securities would really take effect on the price level. And there seemed to be confusion in some of the Senators' minds as to the precise machinery by which it would take effect. Anticipating that discussion, I prepared some figures showing the way in which the credit manufactured by the Government purchases thus far had been absorbed.

The $500,000,000 of purchases of Government bonds since March 1 has been absorbed, first, by the paying off of about $350,000,000 of indebtedness to the regional banks. Next, it has built up during the past month about $200,000,000 additional in demand and time deposits. This is in the weekly reporting member banks. There has not been, as yet, any expansion in the total loans and investments, and that is the part which has effect on the price structure. There may have been this past week—I have not seen the reports this past week—but it is right on the point of taking effect there, because the borrowings from the regional Federal banks have been now cut down to such a small amount that the increases in deposits should soon flow over into increases in loans and investments. I would say, from my own study of Federal reserve credit, that the thing would spill over into loans and investments in a very short time.

I would like to call the attention of the committee to the way in which loans and investments of weekly reporting member banks have acted during the past four years. You have here a chart covering the period from 1929 to date. You will notice that up to May, 1931, the loans and investments did not vary greatly but that, beginning in May, 1931, loans and investments took a nose dive, until in late April of 1932 the low figure of $19,033,000 was reached, which is nearly $4,000,000,000 less than a year ago.

This continuous nose dive in the loans and investments (the most active indication of credit) has been alarming since May, 1931. It is a thing altogether unprecedented in modern banking history.

Those of us who have stood for this Goldsborough bill have been exceedingly pleased by the active open-market operations of the Federal reserve system since the 1st of March, and especially during the past four weeks. We feel that if this activity is continued steadily for several months—we would not care to say just how long—it would accomplish the objective which we have in mind.

Senator COUZENS. When would you say the objective would be reached? What would be the objective?

Mr. WALLACE. In the Goldsborough bill the objective is stated to be a price level.

Senator COUZENS. Yes, I know that.

Mr. WALLACE. In my own mind, Senator Couzens, I would feel it somewhat more desirable if the objective were to restore loans and investments of the member banks to where they were when the depression began.

Senator COUZENS. That would be more specific, would it not?

Mr. WALLACE. It seems to me it more nearly describes the mechanism.

Senator COUZENS. Do you think that could be reached in several months, did you say?

Mr. WALLACE. The first effect of further purchases of more Government securities would be increased deposits. That is the first effect. That thing has already taken place to the extent of $200,000,000 in these reporting banks. And their borrowings from the regional banks are now so small that there will not be any more pouring of water down that rat hole. Then, the pressure will be for further loans and investments. Therefore, it would seem to me to be altogether probable that another $100,000,000 of purchases of securities would be reflected in loans and investments. In other words, credit would be on the way to be cheap and abundant. It would be crying for use, and the fact that it is cheap and abundant would shift the psychology of our people from " credit " to tangible physical things.

Senator COUZENS. You would amend the bill in that respect?

Mr. WALLACE. Yes; I have the draft of a bill here which I think more nearly describes the mechanism.

Senator COUZENS. Will you read it into the record?

Mr. WALLACE. I have some whereases here which are not altogether appropriate, I think.

Senator COUZENS. Read it anyway.

Mr. WALLACE. It reads like this:

Whereas the Federal reserve system has ceased properly to function as an agency for accommodating commerce and stabilizing prices and has allowed deposits to decline by $10,000,000,000, thus crippling commerce, disorganizing agriculture, and throwing labor out of employment, the Congress of the United States hereby directs the Federal reserve system to raise the price level by the following means:

1. Restore the reserve balances of the member banks to the 1927–28 level. To bring this to pass the Federal reserve system shall, within three months of the passage of this act, purchase whatever volume of Government bonds are necessary to accomplish this end.

2. Thereafter reserve balances of the member banks shall be held at the 1927–28 level as a minimum.

3. Furthermore, these reserve balances shall be increased at the same percentage rate of growth as the long-term rate of growth in production of physical goods.

And you might put in a fourth, providing for a variable gold standard, if you felt unusually cautious.

That is essentially the reciprocal of the Goldsborough bill. It looks on physical production as being a safer criterion of expansion than the price level. According to our studies of past prices in relation to credit, we would conclude that the actual working out would be identical.

Senator GORE. Would be what?

Mr. WALLACE. Would be identical; you would get the same result.

Senator GORE. I did not catch the word.

Mr. WALLACE. I have noticed since the passage of the Goldsborough bill in the House a number of inspired articles in the press——

Senator COUZENS (interposing). What do you mean by inspired articles?

Senator GORE. Are you a newspaper man, Mr. Wallace?

Mr. WALLACE. Yes; I happen to be the editor of Wallace's Farmer and the Iowa Homestead.

The CHAIRMAN. You know what a newspaper means, then; you can pick them out when you read them, can you?

Senator COUZENS. Frankly, I would like to have your definition of an inspired article while you are here.

Mr. WALLACE. Well, there are a number of newspaper men present. I have a friendly feeling for them, of course.

Senator COUZENS. This is a good time for an open confession. [Laughter.]

The CHAIRMAN. You do not have to answer, unless you want to. I am sure the members of the committee would like to have you answer.

Senator COUZENS. Mr. Chairman, I insist on it.

Mr. WALLACE. Well, the point is that many editorial writers are true to their bread, are true to their salary; and many publishers are also true to their financial backers; and that the financial backers, in turn, are true to their original source of support, and that that original source of support feels that it has more to gain from having credit periodically scarce and high priced, and periodically abundant and low priced; that that fundamental source of support prefers to allow the—shall we say the insurance of price structure—to be borne by the producers of commodities, rather than to have that insurance of uncertainty which is characteristic of all things borne by the banking system. Therefore, I do not blame these folks for being true to their bread all along the line, but I thing it is wise to recognize the way in which some of these things originate.

Senator COUZENS. I am looking for information. When you read one of those articles, just how can you tell whether it is genuine or inspired, if that is the distinguishing factor?

Mr. WALLACE. Of course, you learn to know that this paper represents one thing, and this another interest; and you may know the men who write these things. And you know how they feel themselves internally, and how they write.

Senator COUZENS. I am trying to learn so that I will know when an article is inspired.

Mr. WALLACE. Of course many of these writers feel honestly about the thing, so far as that goes.

The situation is that at the present time if we adopt the Goldsborough plan there is danger that we will engage in inflation like the Germans did; an inflation like this country engaged in following 1837, the Andrew Jackson inflation; or we may get into an inflation of uncertainty, like 1873; or that we may get into a free silver and fiat money campaign, as we did in the nineties.

The suggestion is made that we are now in another situation like that, and that the farmers and others are prepared to do very foolish things which will lead toward a shaking of the confidence of the entire world in the financial structure of this country.

I would call the attention of the members of the committee to this fact: That at the present time the relationship of the United States to the rest of the world is totally different from what it was in any of those three preceding periods, and totally different from the German situation which began at the close of the war; that we have 40 per cent of the gold of the world; that we are, from a financial and economic standpoint, the storm center of the world; that what we do with our money here can determine the price structure of the entire world.

Senator COUZENS. Is it not a fact that this is the first great depression that we have gone through when we were a creditor nation?

Mr. WALLACE. Yes; it is true that this is the first depression that we have gone through when we were a creditor nation.

Senator COUZENS. And that is what I would wish the public to understand, that we do have a different situation.

Mr. WALLACE. We are not in a situation of peril with respect to our fundamental soundness as we were at the time of those other price depressions. And it is very important, I think, for these bankers and this committee to recognize that fact.

Of course, you gentlemen are perfectly familiar with the fact that we have been on the gold standard in the past 10 years, on a super-gold standard; that if we had been on the old-fashioned gold standard our prices would have gone up and our gold would have flowed out to the other countries. It may have been wise to sterilize this gold. You are familiar with that, of course.

The CHAIRMAN. Do not assume that we are familiar with anything, and go ahead.

Senator WAGNER. I was going to suggest that.

The CHAIRMAN. You state your point briefly to cover that very ground so that it will connect up with the rest of your statement.

Mr. WALLACE. Well, before the war this country had about 18 per cent of the gold of the world. Since the war we have had, at varying times, from 38 to 46 per cent of the gold of the world. We have gold which, if used with the utmost economy, would have permitted a price structure anywhere from two times to three times what we have now.

I am, to some extent, giving that statement on the basis of a statement made to me by the statistician of one of the leading Federal reserve banks.

Senator GORE. Now, have you figured out in that connection how much our trade and production have increased as related to the trade and production of the rest of the world?

Mr. WALLACE. This particular gentleman is an expert on calculating the volume of total production in this country and the total production in the rest of the world, and I am sure, in making that statement he had that in his mind.

In this money problem the first thing, of course, is to hold an even-handed justice between classes and between nations. The second one is to handle it so as to make possible as high a standard of living as possible. And the third thing is to prevent, as much as possible, purely monetary things entering into production problems and disorganizing them.

I think we all realize that the reason we are so badly offcenter now is because of the war, and we do not want to blame on the money system things that have grown out of the war.

But we also realize when a great war comes along, that everything is thrown so badly offcenter that monetary mismanagement can produce a continuing offcenter influence. The men who feel that everything revolves around money have been in a position to minimize the shock to themselves, and the result has been that the shock has been passed on to those who are engaged in the production of goods.

Senator COUZENS. In the consideration of that question, have you given any consideration to what we should do with our surplus earnings? That is, not only in the production system.

Mr. WALLACE. I think you are quite right, and if you were going into that I would have some man like Mr. W. T. Foster, who is well versed in consumption economics, come before the committee and tell you about savings of that kind.

Senator COUZENS. I mean by that, do you think we have gotten past the point where we should take our surpluses and put them into productive industry?

Mr. WALLACE. You are getting around to planning, of course?

Senator COUZENS. Not exactly that, but here is a class of business that is called productive, and some is not productive, and the theory that we have been going on for years is that our savings, and all of our savings, should be used in productive industry. Does it not occur to you that the place we are at now indicates that we have carried that too far?

Mr. WALLACE. You mean there is an overproduction in certain classes of goods?

Senator COUZENS Obviously.

Mr. WALLACE. And that that should be shifted over to other classes of goods?

Senator COUZENS. Not exactly, but to the building of schoolhouses and theaters, and institutions for the common good, that are not productive.

Mr. WALLACE. I would say the place where I would step in is to bolster up the export market—you see, I am speaking from the agricultural viewpoint; I am from the agricultural country. I would first bolster up the export demand for our surplus cotton, which is one-half; our surplus wheat, which is one-fourth; and our surplus automobiles, which are one-tenth, so that the foreign demand for those particular products would restore purchasing power to our farmers and thus put the laborer to work. Being from the agricultural region, I approach it from that angle. I appreciate, from Senator Gore's questions of the morning, that there is trouble in Oklahoma because of surplus wheat and cotton.

Senator COUZENS. Since you make that proposal, how are those countries going to pay us back?

Mr. WALLACE. Of course, that gets you into the field of gradually reducing the tariff.

Senator WAGNER. Are we not going to have to face that problem sooner or later?

Mr. WALLACE. I think, Senator Wagner, regardless of whether we are Republicans or Democrats, we must decide whether we are going to go the route of isolation or the route of world cooperation.

Senator GORE. In other words, swap surpluses.

Mr. WALLACE. Yes; and I think that thing is so big and so crucial that it must be approached without regard to party.

Senator WAGNER. Is not that confronting us now?

Mr. WALLACE. I think it is even greater than the money thing.

Senator COUZENS Is not the money thing the second thing?

Mr. WALLACE. I think the money thing is exceedingly important, and in view of the present emergency the decline in loans and investments which has taken place in the last nine months, which is going beyond all resistance points I would say, from the short-time point of view, that the money thing is the most important immediate problem. At the same time we should endeavor to decide between the path of isolation and the path of world cooperation. But it may take several years before we get to facing that clearly.

Senator COUZENS. In the meantime we had better follow the isolation policy, in the three or four years?

Mr. WALLACE. That is what Dean Donham of Harvard says. I would not say we should be bound irrevocably to that policy.

Senator COUZENS. We do not bind ourselves irrevocably to any policy. We have to make a policy as circumstances arise.

Mr. WALLACE. In the meantime you have a very, very acute problem.

Senator WAGNER. I have a question, Mr. Wallace, and perhaps you can answer it.

Mr. WALLACE. Pardon me.

Senator WAGNER. What are we going to do with our surpluses of wheat and cotton?

Mr. WALLACE. You mean if we go the isolation route?

Senator WAGNER. Yes; and is not that a shaking up of our economic structure?

Mr. WALLACE. Decidedly so. What that brings you to is this: Either revolution, or State socialism. On the one hand you are going to beat the farmers over the head with low prices until you get less production; and on the other hand you are going to have a system of bureaucracies to say that this State shall grow 8,000,000 acres of corn instead of 10,000,000 acres; that this county shall grow 100,000 acres of corn, instead of 150,000 acres; and this farmer shall plant 40 acres instead of 50; and those farmers that have been displaced are to be moved by a population bureau to certain factories. And you are going to have to develop unemployment insurance and similar devices from one end of the Nation to the other. I am not condemning the thing; I am just saying that you must have infinite bureaucracy if you are going to go Senator Couzen's route.

Senator COUZENS. Just a minute. You call it my route. I call to your attention that yesterday Senator Robinson of Arkansas introduced a bill that is the most socialistic bill that has been presented, calling for the loaning to the State of $2,000,000,000 for industries that are self-supporting, and various other features. That is not my idea.

Senator FLETCHER. That has nothing to do with the isolation. That is an emergency matter, is it not?

Senator GORE. The force in your point is that each nation shall become independent as an economic unit. You do not have in the back of your idea that each farm shall become an economic unit and stop trading with the neighbors?

Mr. WALLACE. We are trending that way. I deplore it, but we are fast trending in that direction.

Senator GORE. Do you not think that one is as bad as the other as a final policy?

Mr. WALLACE. Yes.

Senator COUZENS. We are not talking about a final policy; we are talking about conditions.

Senator GORE. I realize we do not have a choice as to what other nations do to us. They enforce their ideas on us more or less.

Mr. WALLACE. Senator Gore, the idea the bankers have is to be thrifty and not spend any money. We have all been naughty and have been spending too much money, and the idea is that we shall not spend our money.

Senator GORE. What money?

Mr. WALLACE. The money that we owe the bankers, is what they are talking about. They would lead us back to pioneer days—they would lead us straight back to the cave, in an ever descending spiral of liquidation and reduced consumption and reduced production.

Senator COUZENS. And they are trying to force the Federal Government into the same policy.

Mr. WALLACE. Yes, as Congressman Busby said this morning, when you get prices lifted, prosperity will return automatically and you will not have to worry so much about budgets and cuts.

I think I had better return to the bill, do you not think, gentlemen?

Senator FLETCHER. You do not advocate a policy of extravagance, instead of thrift? Do you not think this whole thing depends largely on the practice of each and every man?

Mr. WALLACE. Senator Fletcher, I believe we have a scientific understanding, mechanical knowledge, and methods of mass production sufficient to enable us to enjoy a standard of living at least twice as high as we had in 1929. And I think we can have such a standard of living when our hearts are in the right place and we have up-to date machinery for industrial and social justice equivalent to our industrial progress and development. Monetary policy is a part of that machinery.

Senator GORE. Do you not think, Mr. Wallace, that in 1929 we were in a speculative delirium, and that that is what is the trouble with us; that is what we are going through now? The judge and the janitor and the waitress and the heiress were all dealing in this stock market, and they knew nothing about the earning capacity of the stocks, and cared less about it, as long as they could buy one day and sell the next at a profit. Did we not run away with ourselves?

Mr. WALACE. Did your farmers in Oklahoma do that, Senator Gore?

Senator GORE. I do not believe the farmers did it so much; they were broke long ago; they took theirs in 1921. They are on the board of trade a little, but I do not think they are in this stock delirium.

Mr. WALLACE. Senator Gore, wouldn't you suggest, to control that, certain powers of moral suasion located in the Federal reserve?

Senator GORE. I remember, in 1921, there were suggestions that the Federal reserve take steps to correct that delirium, and I think the public would be ready to keep the admonitions of the Federal reserve.

The CHAIRMAN. It was in the spring of 1928 that this committee recommended a resolution asking the Federal Reserve Board to take action.

Senator GORE. In 1928?

The CHAIRMAN. Yes; and we could get no support in the Senate, much less the Federal Reserve Board.

Senator GORE. Yes; nobody wanted to stop the runaways.

Mr. WALLACE. In conclusion, I would like to give you this, gentlemen, which appeared in our issue of May 14. It is merely a suggestion that we are getting ready out our way to look at this problem from a moral and religious standpoint. You see, we live in what H. L. Mencken calls the Bible belt out there. Some of us still read the Bible out there. We believe in the message of the old prophets about justice between classes and justice between nations, and we look on this money thing as fundamentally a problem of that kind. And this particular article gives quotations from some of the old prophets, including, incidentally, that one from Leviticus, about the year of jubilee.

And bringing the matter up to date we quote from the Royal Bank of Canada—

> Can it be that had the growth of credit paralleled the increase in the volume of production and trade, there would have been no substantial changes in the general price level, no major business cycles, nor booms, no severe depression?

These comments are made relative to a chart which proves these facts. [Continuing reading:]

> This is indeed a startling concept, affording the hope that the social injustices which are inherent in all major changes in the general price level might be avoided by a proper control of credit. This is surely a counsel of perfection which is not fully attainable in human affairs, but it is clearly within the power of the great central banks, through appropriate rates of interest and open-market policies, to control, within certain reasonable limits, too rapid an increase in the volume of credit, and also to prevent contraction of the normal growth of credit, which is the basis of the present world tragedy.

There are many others to speak here, and I do not want to take any more of the committee's time.

Senator GORE. Do you want that in the record?

The CHAIRMAN. Do you want that published in our record, Mr. Wallace?

Mr. WALLACE. You can use your own judgment about that.

The CHAIRMAN. It is not long. I suggest that you have it printed following your remarks.

Mr. WALLACE. Thank you, gentlemen.

The CHAIRMAN. Thank you, Mr. Wallace.

(Article from Wallace's Farmer, presented by Mr. Wallace, is printed in the record in full, as follows:)

WALLACE'S FARMER AND IOWA HOMESTEAD,
Des Moines, Iowa, May 14, 1932.

DRAGONS THAT DEVOUR PROSPERITY—THE ROAD TO HIGH STANDARDS OF LIVING

(By Henry A. Wallace)

The Jewish prophets of old undoubtedly lived in times somewhat like these. They cried out for justice but knew that justice could not come until the spirit of fairness and understanding permeated the hearts of all the people. With a far-seeing spiritual eye, they looked toward the day when there would be justice between the classes and justice between the nations, and universal peace would prevail.

To-day the peoples of the world have in their hearts intense prejudices, prejudices which work out to cause them intense suffering. When we hate foreign nations and refuse to lower our tariffs and refuse to lend them money, they must of necessity refuse to buy any large quantities of wheat, lard, or cotton, or anything else, from us. And then the very folks who hate the foreign nations are faced with low prices for the stuff they have to sell. They squirm around, not knowing what has happened to them. If it is suggested that they should study the world situation and adjust their production to a domestic market instead of to a world market, they become angry.

Prejudice, ignorance, and fear are the only things which now keep us from enjoying a standard of living at least twice as high as that which we had at the best time during the past 15 years. We have the necessary machinery, the inventive genius, the scientific understanding, and mass production of a type which would enable us to turn out two or three times as much goods per capita as we are now consuming. Moreover, this production could be accomplished without it being necessary to work more than seven hours a day.

The dragons which stand between us and the promised land are hatred, prejudice, and fear. These great dragons are striding back and forth across the entire world, and are making themselves felt just as much in the Corn Belt as they are in Washington or New York City or France or Germany.

To slay these dragons, we need understanding people with tolerance in their hearts, who are hungry for a machinery for social justice. More and more, this intense desire for justice is becoming a passion in the hearts of the people. But we have yet to see whether this or the bitterness which makes for revolution will grow the faster.

The Jewish prophets only went part way in their search for justice. From a religious point of view they were doubtless perfect in their presentation, but from an economic point of view it is necessary to work out a definite machinery. For the first time in the history of the world such machinery is now possible. We now know how to measure definitely the physical production of goods all over the world and the production of effective bank credit. We now know in a definite way that prices are a direct ratio between the quantity of credit on the one hand and the quantity of goods on the other.

The Royal Bank of Canada, in writing a year ago on this idea of machinery for social justice, said:

"Can it be that had the growth of credit paralleled the increase in the volume of production and trade, there would have been no substantial changes in the general price level, no major business cycles, no booms, no severe depressions? This is indeed a startling concept, affording the hope that the social injustices which are inherent in all major changes in the general price level might be avoided by a proper control of credit. This is surely a counsel of perfection which is not fully attainable in human affairs, but it is clearly within the power of the great central banks, through appropriate rates of interest and open-market policies, to control, within certain reasonable limits, too rapid an increase in the volume of credit and also to prevent contraction of the normal growth of credit, which is the basis of the present world tragedy."

A just monetary machinery is, of course, only a part of the problem with which the world is confronted. We must at the same time have a just social machinery so that we may plan more accurately the adjustment of production to consumption year by year. To some extent this may perhaps mean a type of bureaucracy, but, after all, bureaucracies are not so terrible except when they are lazy and selfish or when they are run for private gain by wealthy outside interests.

When our people get over their "grabby" pioneer tendencies and become genuinely convinced of the desirability of justice in the distribution of the national income, we may expect to see a reconciliation between capitalism and communism which will be quite surprising in the results that it achieves.

Changes during the next 10 years will be rapid, and it is very important that the suffering during this period should finally bring about social justice instead of the disorganization which so often results from sudden revolution.

THE VOICE OF THE PROPHETS

"Woe unto them that * * * turn aside the needy from judgment, and * * * take away the right from the poor of my people, that widows may be their prey and that they may rob the fatherless."—Isaiah.

"Hear this, O ye that swallow up the needy, even to make the poor of the land to fail. Saying, When will the new moon be gone, that we may sell corn? And the Sabbath, that we may set forth wheat, making the ephah [the Hebrew bushel] small and the shekel great, and falsifying the balances by deceit? That we may buy the poor for silver and the needy for a pair of shoes."—Amos.

"And ye shall hallow the fiftieth year and proclaim liberty throughout all the lands unto all the inhabitants thereof: it shall be a jubilee unto you: and ye shall return every man unto his possession."—Leviticus.

"And he shall judge among many people, and rebuke strong nations afar off: and they shall beat their swords into plough shares and their spears into pruning hooks; nations 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."—Micah.

The CHAIRMAN. Mr. O'Neal, president of the American Farm Bureau Federation, is the next witness.

STATEMENT OF EDWARD A. O'NEAL, PRESIDENT OF THE AMERICAN FARM BUREAU FEDERATION, CHICAGO, ILL.

Mr. O'NEAL. My name is Edward A. O'Neal. I am president of the American Farm Bureau Federation, with headquarters at Chicago, Ill.

Senator Norbeck and Senators, as we have such a distinguished committee here and a large number of the committee, I just want to say very briefly that I think this is the most important question before the Nation. If you gentlemen in Congress do not settle it, I do not know what is going to happen to the country; and I want to say this, that I would like to file my statement here, otherwise I shall read it out; but time is so valuable to you gentlemen.

We are very whole-heartedly for the Goldsborough bill, and for Senator Fletcher's bill. But I would like you gentlemen to devote your time to this matter, and I yield my time to one of the most distinguished economists of the Nation and of the world, who will throw more light on this in his discussion than I would if I talked all day. I refer to Doctor Warren. That is all I will say, unless somebody wants to ask me some questions.

Senator COUZENS. I do not know how we can ask you any questions if we do not know what you are going to say.

Mr. O'NEAL. Senator, all I wish to say is that I am for this bill.

Senator COUZENS. I do not like a statement going into the record without a chance to examine the witness.

Mr. O'NEAL. I hate to take this time. At some subsequent time I can read you my statement and submit to any questions.

The CHAIRMAN. He is subject to call at any time.

Senator GORE. Yes.

Senator COUZENS. I think it is unwise to put a statement into the record when Senators are present to hear it and to ask questions if they care to. I think it is a bad policy, and I would not permit it if I were chairman.

The CHAIRMAN. It is one we have been driven to by lack of time. We would all prefer to have him discuss it at length.

Mr. O'NEAL. I would be glad to do it. But I think that you would get more from hearing the statement of the distinguished economist, Doctor Warren, of Cornell.

The CHAIRMAN. There is no conflict between you and the doctor?

Mr. O'NEAL. No; none at all.

The CHAIRMAN. Then we will ask him some questions.

Mr. O'NEAL. I will be glad to answer questions at any time.

Senator FLETCHER. I think the statement should go into the record.

The CHAIRMAN. Unless there are objections, it will be printed in the record. [After a pause.] It is so ordered.

(The statement of Mr. O'Neal is here printed in the record in full, as follows:)

STATEMENT OF EDWARD A. O'NEAL, PRESIDENT OF THE AMERICAN FARM BUREAU FEDERATION, CHICAGO, ILL.

In appearing before you this morning to support the so-called Goldsborough bill, H. R. 11499, I am not acting for an organization which hastily has come to the conclusion that something needs to be done in regard to establishing the purchasing power of money. This problem has been discussed in our organization for several years.

In 1927 we stated "We indorse the effort now being made in Congress to effect a stabilized price level and stable purchasing power of money through additional instructions to the Federal Reserve Board."

In 1931 at our last annual convention we adopted a very complete and studious statement in regard to the monetary problem, which I desire to incorporate into the record but will not read at the present time unless members of the committee desire to hear the resolution.

"The present period of depression and the falling price level has increased the burden of taxes, interest, debts, and other fixed costs on all producers to an intolerable degree. It now requires 45 per cent more of all commodities, and 70 per cent more of farm commodities, to pay these costs than it did a few years ago. The long-continued deflation is crushing farmers, merchants, transportation agencies, and all manufacturers except a few most favorably situated and has caused a declining price of property to such an extent that it has largely eliminated equities and is effecting basic securities to such an extent as to seriously impair the stability of our banking and insurance institutions, thereby endangering the welfare of the general public. It is causing a lowering of all wages and salaries, a process which has only started and which must of necessity lower the standard of living if continued.

"The principal cause of this deflation of values is monetary. When the price of any one commodity falls, many causes may be responsible. When the average price level of all commodities fall with the rapidity of the last few years, the principal cause is a shortage of money and credit in actual use. Commodity prices are expressed in this country in terms of dollars. Every purchase and sale is the exchange of commodities for dollars. When dollars are scarce, it takes a larger amount of commodities to get them. In other words, money is at one end of the balance, commodities at the other. Add to the effective supply of money and prices go up. Reduce the effective supply and prices come down. The above statements are justified and supported by the incontrovertible evidence coming from the experience of all former depressions.

"The problem divides itself into two parts; first, the restoration of the price level; and second, the stabilization of the purchasing power of money."

Prior to this action on the part of the American Farm Bureau Federation there had been set up a committee to study the general problem now contained in H. R. 11499. The result of six months' activity on the part of this committee was a definite statement of position of our entire organization as contained in our last resolution just above offered.

We are following this program through at Washington. We have appeared before the House Committee on Banking and Currency along with the other two farm organizations—the National Grange and the Farmers Union—together with much support from many sources. That committee has reported, and the House has adopted, with a gratifying majority, the bill now pending before this committee in regard to stabilizing the purchasing power of money. An indication of public sentiment and of the studious consideration which has been given this measure is had in observing the speed with which the bill has moved through the usual process on the House side and the almost overwhelming vote with which the House approved it. This evidence of support, however, is no greater than that given the idea contained in this measure by the general public.

Editorial writers in our best magazines and in our daily press are not unanimously in favor of the idea contained in this bill but are so observant of the general good effects of the measure that few definite points of opposition are discovered. Singular to state, the few opponents which the measure seems to have are very largely in those centers to which reference commonly is given by naming them the money marts.

The question is logical in our minds whether or not this Nation should go much further along what seems to be its present course of forming all legislation to benefit first the aggregation of wealth. In this connection may I there say there are two ways to approach a legislative problem such as that which we are considering to-day. First, it may be approached in regard to its effects on what I may call giant industry; or in a second way, it may be approached in regard to its effects on the people as a whole. I may be permitted to observe that legislation thus far passed this session of Congress seems largely to be of the first classification. H. R. 11499, however, will have its beneficial effect on the great masses of our people in bringing more nearly into equilibrium the prices of the commodities purchased and sold by the people whether on the farms or in the cities with the prices of our monetary standard.

The American Farm Bureau Federation in all of its approaches to legislative projects surveys their effects on the common people. It is our belief that if the people can be made to be thrifty and prosperous in due time all else in our Nation will become prosperous. We antagonize the seemingly current idea that all must be made well for gigantic aggregations of wealth, after which the common people will be made servilely happy by infiltration of prosperity from above, by the droppings of crumbs, so to speak, beneath the Lazarean tables of the rich.

This bill is, however, when scientifically examined, not a poor man bill. Nor is it, as I have just stated, exclusively a farm measure. It is a bill which will stabilize our entire economic structure so far as money matters can stabilize that structure all the way from the biggest bank or trust company in our Nation down to the least conspicuous industrialist or farmer in our Nation. The tendency of the measure will be in effect that when a citizen has something to sell, whether it be his time expended in labor, his products raised on the farm, or his industrial products fabricated in his plants, a condition will be brought to pass which in selling these commodities in exchange for a unit of value will be fairer than it is now, and ordinarily has been in times past.

To show the need of this legislation on the part of banks as well as the average citizen, may I state that in excess of 8,000 banks have closed since 1923 in this Nation of ours. The American Federation of Labor gives us various estimates as to the unemployed, which estimates run from five to seven million individuals, I believe. In Mississippi, according to recent press reports, one-fourth the farms in that State are being foreclosed under the sheriff's hammer for taxes. These incidents show that our banking interests, labor, and agriculture are alike in desperate condition.

Among the causes, differing in name and nature, which have brought on such a calamity, a main contributing cause is that the people of the country having something to sell, whatever it may be, on account of the high prices of the dollar, are required to exchange more units of whatever commodity they offer for sale to secure the dollar. We assert the previous inflexibility of the value of the dollar is a false standard if we really desire to secure stability in our economic structure and a more noticeable equilibrium in the prices we secure for whatever commodity we may produce and sell.

All this has caused a slogan to be used known as the honest dollar. We do not mean to assert that the present dollar of itself is dishonest but manifestly does create a false standard when commodities of any form are required to be exchanged for it year after year.

The bill now pending does not check, does not even infer, that there shall be any fundamental change in our monetary system, so far as the basis, gold, of that system is concerned. In fact the pending measure is an effort to fit into our monetary system, whatever it may be, a recognition of commodity values as well as a continuation of monetary values of undoubted integrity. We are not asking an abandonment of present monetary standards. We are merely asked, and in the asking, expecting, that Congress will realize the necessity to put at work all instrumentalities and powers resident within the Federal reserve system to stabilize prices somewhat on that average which existed between the years 1921–1929 inclusive, as stated in the present law.

I have a supplemental statement to the above introduction to our position which I shall be glad to file for inclusion in the record.

"Money, the love of it, is the root of all evil, and the love of it, and the desire for it are the chief sources of our world troubles to-day." Our worship of the golden calf has brought disaster upon the world. The whole world has lost faith and confidence in its money as medium of exchange. We have applied science in all our economic affairs, which has helped greatly the advancement of the human race, but not to our monetary system. Antiquated methods, no scientific development to meet the demands of modern affairs are found to exist in our money affairs. Are we going to let this destroy our civilization?

Now, there are those who say that our capitalistic system has failed. What is the cause? The manipulation of money in the selfish control of a few is one cause. As the Right Honorable Winston Churchill said in an address on the world economic crisis: "The hideous processes of deflation have but to go on to isolate the nations and reduce them to the barbarian and barter of the dark ages * * * Frankly, I think we are all in the same moats. * * * We have slipped off the ledge of the precipice and are at the bottom. The only thing now is not to kick each other while we are there."

World trade has broken down. Commodity prices have tumbled, all because there is no adequate medium of exchange. The supply of gold, the basis of world exchange, has run low. It is in the hands of practically two nations—France and the United States. How can other nations trade with us, which have no gold? The result is the terrible increase in the purchasing power of gold. It is the cause of the greater part of our suffering to-day. The hardships under which so many millions of our people are laboring are chiefly due to the fact that prices have so terribly dropped, bringing trouble and sorrow and disaster by the great fall in the general price level in the last three years. The producers of the wealth of the world have lost faith in their commodities.

Economists tell us that the deflation of the Federal Reserve Board in 1921 brought about the confiscation of wealth from its rightful owners amounting to $40,000,000,000. The present deflation of commodity prices it is estimated, because of confiscation of wealth in this Nation has resulted in the loss of over $100,000,000,000.

Not only the loss of wealth, but suicides, the wreckage of homes, the destruction of happiness, and the general discontent has brought about disaster in the Nation.

A recent statement shows that the value of our dollar is 161 in our basic commodities. How is America going to liquidate on this basis? The cotton farmer pays his debts with cotton; the wheat farmer with wheat, the hog farmer with hogs and so on. This golden dollar will destroy him.

Doctor Warren, of Cornell University, in his February report shows the estimated public and private debts of the United States to be over $200,000,000,000.

He goes on to say that "most of the indebtedness doubles since 1922 and is about four times the pre-war amount." How are we going to pay them? He goes on to say "the total debt is approximately $1,700 per capita, or about one-half of the national wealth." Might I say to-day I think it is more than we would sell for under the hammer.

We farmers can not pay in the commodities we produce that the world must have. Unless our commodity prices are raised, American agriculture is ruined. The papers we see daily are saying that the foreign nations are not going to pay their debt to us. How can they, with our high-priced dollar? What does this mean? If they can't pay us, are we isolated, or are we to take the other alternative? Are we going to have to fight other nations of the world to collect these debts? This was the old way. A horrible thought. Would it not be best that we have a fair dollar, one that our foreign debtors may pay us? If they don't and the heavier tax burden is put on us, as I say—there may be revolution. If we do not have an honest dollar, capitalism is threatened. The result—revolution—bolshevism.

Twenty-five per cent of the farms in Mississippi were foreclosed for taxes. The State became the owner of the property not so much because taxes were too high or that property taxes were out of proper proportion with other taxes, but, primarily, because commodities produced on the farms of Mississippi are so low in value they can not meet their fixed obligations. What will become of this land and these people? Other great sections of our Nation, while not in quite as bad shape, are threatened with the same situation.

France has been the wonder of the world since the French Revolution. Her leaders have protected her farmers; and that has been the prime object of her statesmanship, not the building of industry and commerce. They were wise enough to know that in protecting her rural people would mean not only success but a survival of the nation and the nation's welfare.

The policy of Great Britain has been to build industry and commerce primarily and how she has suffered and is suffering. Let us adopt the policies of France and we will survive through the centuries as she has. She is the wonder of Europe and the world.

The Chicago Tribune of Sunday, May 8, in a leading article, Steel Leaders Asking Higher Tariff Wall, goes on to say that the American steel manufacturers, led by the iron and steel institute, have launched a concerted drive for the exclusion of foreign steel. They are demanding higher tariffs to prevent dumping of European steel on our markets; as one of their leaders said, "Taking work right out of the hands of American wage earners." They say, "While any increases which are obtained would be partly offset by the depreciated currencies of several European nations, the American Iron and Steel Institute and many steel executives are urging the passage of an emergency bill which would adjust the tariff to the depreciation in foreign exchange." Hadn't these leaders better join hands with the farmers in order that we may have an honest dollar? This would help solve this problem of theirs. Other groups in this Nation will be making the same appeal, to raise the tariff, if we continue our present dishonest dollar.

According to the press, some of our bankers and political leaders are fighting our honest-dollar bill. Wish you would all read the May number Review of Reviews; on page 10, Albert Shaw says, "This, of course, is good as far as it goes. The local banks do not desire to be loaded up with unsalable farms; while, in turn, the farmers' families shudder at the thought of losing their homes and their familiar possessions. They all work desperately to pay the mortgage interest, but all the 'farm relief' that we are reading about does not emancipate the farmer from any part of his burden of indebtedness. It does not reduce his obligations in proportion to his ability to pay. Nothing can relieve him except higher prices for what he has to sell."

In spite of all the measures that have been passed by Congress to restore confidence, none of them have gone to the grass roots; none of them have helped to restore commodity prices. On the commodities we produce we base the wealth of our Nation. The last report of April 29 from the Department of Agriculture, showing the average price of farm products up to April 15 last, gives the farm-price index as 59; prices paid by farmers 114; ratio of prices received to prices paid 52; a gradual decline in the farm-price index, still going down. Unless there is some radical change the price the farmer receives for his products will not pay his freight to the nearest consuming market.

The passage of the Goldsborough bill through the House, largely on a nonpartisan basis, was a great victory for organized agriculture. The three national farm organizations fought hand in hand for this measure; 229 to 59, a nonpartisan vote. It was a vote to stabilize the buying power of the dollar and restore commodity prices.

Congress lays down a mandate to the Federal Reserve Board to use its powers to stabilize the purchasing power of the dollar and restore commodity prices to the average price level for the years 1921 to 1929. This is declared to be the policy of the United States. The bill has the double purpose of restoring commodtiy prices and retaining that normal price level once it is attained.

We regretted the omission of section 3 in the original Goldsborough bill that said, "If, in carrying out the purposes of section 1, the gold reserve is deemed by the Federal Reserve Board to be too near to the prescribed minimum, the board is authorized to raise the official price of gold if the other methods already authorized appear inadequate; if, on the other hand, the gold reserve ratio is deemed to be too high the Federal Reserve Board is authorized to lower the official price of gold if the other methods already authorized appear inadequate."

Frankly, gentlemen of the committee, I feel that this must be done in order that we may control our medium of exchange. I think that currency and credit control will go a long way to stabilize our price levels but let's do the job thoroughly by changing our gold standard. Let's dethrone the golden calf and make gold a servant of humanity. This will give us an honest dollar; an honest medium of exchange; restore commodity prices. This will go a long way to open our commerce with nations of the world and bring back confidence to us all.

A distinguished friend, a Member of Congress, who is a great advocate for this bill, said, "We must first have an elevation in the general level of commodity prices and thereafter stability in commodity prices. This bill, if enacted into law, will direct the Federal Reserve Board, the Federal reserve banks, and the Secretary of the Treasury by their control over the volume of credit and currency to restore the average commodity price level to the same level that existed when the farmers and other producers contracted their debts."

WHAT ENGLAND HAS DONE

During the war England, while theoretically holding the gold standard, actually abandoned the gold standard because of her heavy obligations abroad. The pound sterling was pegged at about $4.76, or slightly below par ($4.8665). This went along until the war closed, then the pound was unpegged by the withdrawal of the Government stabilization operations. The value of the pound dropped from $4.76 to $4.43 in 1919, $3.66 in 1920. In the period 1921–1924 the value of the pound rose somewhat, due to a more favorable position of Great Britain in its international payments, which in itself had a tendency to increase the value of the pound.

In 1925 the government decided to restore the gold standard. Instead of continuing the reduced valuation of the pound, it attempted to revalue it on a pre-war basis of $4.86 in our money. The effect of this action was to lower prices and thereby make it more difficult to pay debts and interest charges. Unemployment was increased and business was stagnant. The maintenance of the pound on a $4.86 basis caused a continual drain on the gold supply of Great Britain. Despite great efforts to maintain the gold standard, it was found necessary to abandon it on September 20, 1931, on account of the disastrous conditions created following the revaluing of the pound in 1925.

When England abandoned the gold standard and the attempt to value the pound at the $4.86 level, the effect was to increase prices for domestic products in England. Lard at Liverpool increased from 42 shillings in early December to 53 shillings in late December. During the same period, when the United States was pursuing a deflation policy, lard at Chicago dropped in price from $7.50 a hundred to $5 a hundred. While there were no increases in the prices of numerous commodities, the sharp decline in prices which had been going on in England was greatly checked as a result of this action, and the unemployment situation was relieved to an appreciable extent. There was also some improvement in the export trade, particularly in the case of textiles and manufactured goods. The benefits to the British export trade would have been still larger had it not been for countervailing duties put on by countries importing British goods.

In other words, the abandonment of the effort to maintain arbitrarily a high value for the pound, and the decision to let it be valued by supply and demand has reduced the exchange value of the pound, but has resulted in increased prices in England, greater ability to pay debts, stimulation of the business, and improvement in the export trade.

WHAT FRANCE HAS DONE

France, instead of pursuing a deflationary policy such as was followed by the United States and such as was followed by Great Britain in 1925, revalued the franc at a level of one-fifth of its pre-war value. It did this by reducing the weight of gold in the franc to one-fifth the pre-war amount, reducing it from 322.58 milligrams of gold 900/1000 fine to 65.5 milligrams of gold 900/1000 fine. This action was taken by the French Government on June 25, 1928.

If France had attempted to revalue the franc at the old pre-war ratio, it would have precipitated a terrific decline in prices because the prevailing prices were based on the prevailing value of the franc which was about one-fifth of the pre-war level. Obviously an increase in the value of the franc to five times the prevailing level would have resulted inevitably in a crash in commodity prices which are valued in terms of currency.

France therefore avoided a deflationary policy by revaluing its franc at one-fifth of the pre-war level. As a result no serious decline in prices took place until 1930-31. Debts could be repaid without paying back a great deal more than was borrowed. Farm land has a higher value than before the war.

The following extract from special circular No. 143 published by the United States Department of Commerce, contains the following analysis of the favorable results expected to follow this action in France:

"A further revival of economic activity which is, with few exceptions, already at a satisfactory level, may reasonably be expected and, if political stability and the equilibrium of the budget can be maintained and the sound policies that have been strictly adhered to by the present Government are continued, France should enjoy a period of increasing productivity and growing prosperity."

The action of France shows how a government can avoid the evils of deflation and stabilize commodity values at a reasonable level so that debtors can repay their debts, employers can keep their factories running, and farmers can sell their products at prices somewhere commensurate with their true value.

The CHAIRMAN. Doctor Warren, please come forward.

STATEMENT OF GEORGE FREDERICK WARREN, PROFESSOR OF AGRICULTURAL ECONOMICS, CORNELL UNIVERSITY, ITHACA, N. Y.

The CHAIRMAN. Give your full name, your residence, and your occupation, and your experience, please, and then proceed in your own way.

Mr. WARREN. My name is George Frederick Warren. I am professor of Agricultural Economics, Cornell University, Ithaca, N. Y. I have been working on the price question for a considerable period of time. I have been in this position for 26 years.

I brought a very brief statement, and if you do not object to proceeding in that way I should like to read it, and then perhaps go over the details afterwards, if that is satisfactory. I have a couple of copies for the record. I thought perhaps some of the Senators might want to follow it as I go through. This is a very brief statement, and I think perhaps we will gain time if the questions are left until I run through it.

All of the available statistical evidence indicates that this is much the most serious economic crisis that has ever occurred in this country.

The most violent drop in prices that ever occurred in the United States came in 1920–21, but at that time, as in 1815 and 1865, the high prices had not lasted long enough to cause debts and taxes to be adjusted to the high price level.

The depressions of 1837 and 1873 were comparable to the present crisis, except in degree. In the first three years of the panic of 1837 wholesale prices of all commodities declined 24 per cent. In the first three years of the panic of 1873 they declined 18 per cent, and in the last three years they have declined 31 per cent, showing it is much more serious.

Every per cent of decline in commodity prices destroys more equities than the previous per cent decline. That is, the bankruptcies caused by a 30 per cent decline are much more than twice as numerous as those caused by a 15 per cent decline.

I have here a table showing these changes in wholesale commodity prices during three major panics.

Senator FLETCHER. Do you separate agricultural commodities from other commodities in that table?

Mr. WARREN. Not in this table. I have them separately. But this is all commodities.

Senator FLETCHER. Do you know how agricultural commodities compared with other commodities?

Mr. WARREN. They dropped more. Basic commodities dropped much more.

(The table presented by Mr. Warren is as follows:)

TABLE 1.—*Changes in wholesale commodity prices during three major panics*

[1910–1914=100]

Panic of 1837		Panic of 1873		Panic of 1929	
March, 1837	127	March, 1873	139	March, 1929	140
March, 1840	97	March, 1876	114	March, 1932	96
March, 1843	73	March, 1879	87	March, 1935	
Per cent decline:					
In 3 years	24		18		31
In 6 years	43		37		

Mr. WARREN. Index numbers of wholesale prices for 135 years are shown on the following pages. The index numbers since 1890 are the Bureau of Labor statistics index numbers of wholesale prices of all commodities converted to a 1910–1914 base. Those before 1890 were prepared by Professor Pearson and myself and are comparable with those of Bureau of Labor statistics.

(The index numbers referred to are here printed in the record in full, as follows:)

Index numbers of the wholesale prices of all commodities

[1910-1914=100]

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct	Nov.	Dec.	Year
1797	-----	-----	-----	-----	-----	-----	-----	-----	-----	124	127	126	-----
1798	127	125	123	123	121	119	120	120	120	121	122	123	122
1799	124	123	123	122	123	124	126	126	127	129	130	130	126
1800	127	125	125	123	125	127	129	131	133	134	135	134	129
1801	140	142	144	145	146	147	148	146	145	139	136	129	142
1802	126	121	119	117	116	117	117	116	116	115	113	111	117
1803	113	113	114	114	115	116	118	122	123	123	119	122	118
1804	123	123	124	122	120	121	122	124	128	130	134	139	126
1805	140	141	145	144	142	143	140	138	139	139	140	139	141
1806	137	137	134	132	133	132	136	135	135	133	129	130	134
1807	131	133	132	130	131	131	130	129	129	128	127	126	130
1808	124	119	115	112	112	112	112	113	113	113	117	121	115
1809	124	126	135	133	132	132	129	129	130	127	129	128	130
1810	128	130	128	129	131	130	133	132	134	133	133	131	131
1811	132	128	127	127	128	124	124	126	124	125	124	122	126
1812	127	129	128	126	122	125	128	133	135	137	142	144	131
1813	150	152	153	157	160	158	159	161	164	171	178	186	162
1814	186	184	182	182	179	179	178	177	177	183	187	193	182
1815	193	185	176	166	164	165	163	165	166	166	168	163	170
1816	160	160	158	151	150	150	150	149	148	144	145	149	151
1817	152	155	156	156	157	154	149	153	147	145	144	146	151
1818	149	151	149	144	142	144	142	147	146	151	149	145	147
1819	141	137	134	130	125	124	121	119	119	120	117	114	125
1820	114	113	109	106	108	106	104	107	106	103	100	100	106
1821	100	99	98	98	100	99	100	103	105	107	108	109	102
1822	109	108	108	108	107	107	106	104	104	104	106	104	106
1823	104	104	103	103	102	103	104	104	103	102	99	100	103
1824	98	97	97	96	97	98	98	98	98	99	99	98	98
1825	97	98	98	102	106	107	106	105	106	105	104	103	103
1826	103	102	100	100	98	99	101	98	98	98	98	98	99
1827	99	99	99	99	98	90	96	96	96	96	96	99	98
1828	98	97	95	94	94	94	95	95	96	99	99	101	97
1829	102	100	99	99	97	97	93	92	92	92	92	91	96
1830	91	91	91	89	90	91	91	92	93	92	91	90	91
1831	91	92	93	95	95	94	93	92	94	95	96	96	94
1832	100	98	97	93	93	92	92	92	93	94	95	96	95
1833	96	94	93	94	94	93	93	95	96	96	96	95	95
1834	92	92	90	88	88	88	88	89	90	90	90	91	90
1835	92	93	94	97	100	102	104	104	102	101	102	106	100
1836	107	108	112	116	115	111	110	112	115	120	122	123	114
1837	123	129	127	120	110	110	113	111	107	107	110	114	115
1838	112	109	108	108	109	107	107	107	110	115	115	116	110
1839	117	119	118	119	116	114	111	109	108	106	104	102	112
1840	99	99	97	97	95	93	92	93	94	94	94	94	95
1841	93	93	91	90	91	89	90	92	95	93	92	91	92
1842	90	88	86	84	83	82	81	79	77	77	75	76	82
1843	76	74	73	74	75	75	76	76	77	75	77	77	75
1844	76	77	77	78	78	77	77	77	77	77	78	78	77
1845	79	79	81	83	83	82	82	83	85	95	88	91	83
1846	89	87	86	85	83	81	79	78	78	82	83	83	83
1847	84	90	92	93	93	95	91	88	89	88	89	87	90
1848	85	85	84	84	83	80	79	79	81	82	80	80	82
1849	83	83	83	82	81	80	81	81	83	82	81	82	82
1850	83	84	85	84	84	84	84	83	83	84	85	85	84
1851	87	87	86	85	84	82	81	81	81	81	81	81	83
1852	83	85	87	86	86	86	88	90	91	91	93	95	89
1853	96	97	97	95	94	93	93	95	97	101	102	103	97
1854	105	112	109	109	109	110	106	108	110	105	108	107	108
1855	107	107	109	111	114	115	109	109	109	109	111	112	110
1856	108	107	106	105	102	99	102	104	103	105	107	108	105
1857	111	113	115	114	115	114	114	115	114	106	101	98	111
1858	93	93	95	95	94	92	92	94	94	93	92	93	93
1859	95	99	99	98	97	97	95	92	91	90	92	93	95
1860	94	94	94	93	93	91	92	92	92	93	93	91	93
1861	92	90	90	89	88	85	83	85	86	89	92	94	89
1862	98	99	98	98	95	94	98	105	107	111	120	123	104
1863	126	147	141	137	130	126	127	127	123	134	142	148	133
1864	153	156	161	168	174	189	219	225	225	207	216	222	193
1865	223	217	206	179	169	159	161	168	179	190	189	184	185
1866	182	177	174	167	171	173	175	176	174	180	176	170	175
1867	168	167	166	167	168	169	158	168	158	159	156	155	163
1868	157	158	163	165	163	158	157	158	157	154	153	153	158
1869	155	157	154	151	149	147	148	153	152	149	149	147	151
1870	142	138	135	134	136	135	135	134	134	133	131	128	135
1871	131	135	137	132	129	127	127	125	128	130	130	133	130
1872	133	133	135	138	138	137	135	136	137	134	138	136	136
1873	136	139	139	139	136	132	132	132	132	129	125	128	133
1874	130	130	130	128	127	124	125	124	124	122	121	121	126
1875	121	121	121	122	119	117	117	118	117	117	116	115	118
1876	114	114	114	113	109	106	106	107	108	110	111	113	110
1877	115	112	107	110	112	106	107	103	102	102	100	100	106

Index numbers of the wholesale prices of all commodities—Continued

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Year
1878	97	96	94	93	90	88	89	90	90	89	88	86	91
1879	87	88	87	86	86	85	86	86	89	94	99	102	90
1880	105	105	106	102	99	97	97	97	98	98	99	100	100
1881	99	100	100	101	100	100	101	103	107	108	107	107	103
1882	107	108	108	109	110	111	110	111	108	107	106	105	108
1883	105	106	105	104	103	100	98	98	97	97	96	97	101
1884	97	97	97	95	93	93	92	92	91	90	88	87	93
1885	87	88	86	87	85	83	84	84	83	83	84	86	85
1886	84	84	83	82	80	79	80	81	81	81	81	82	82
1887	84	85	85	85	85	84	83	84	85	84	85	87	85
1888	88	87	87	86	85	84	85	85	85	86	87	87	86
1889	84	83	82	82	80	80	80	80	81	81	81	82	81
1890	80	80	80	80	81	81	81	84	85	85	83	83	82
1891	82	83	84	85	84	82	81	81	80	80	79	79	82
1892	77	77	75	74	74	74	76	77	77	77	79	80	76
1893	83	84	82	81	80	78	76	73	76	77	75	74	78
1894	72	71	69	69	69	69	69	71	72	70	70	69	70
1895	69	69	69	72	73	74	73	72	72	72	72	71	71
1896	70	69	69	68	67	66	66	66	66	68	70	70	68
1897	68	68	68	67	66	66	66	69	71	70	70	70	68
1898	70	71	71	71	76	71	70	70	70	70	70	71	71
1899	71	73	73	74	74	75	76	77	80	81	82	83	77
1900	83	84	84	84	82	81	82	81	82	81	81	80	82
1901	81	80	80	79	79	79	80	81	82	82	83	84	[illegible]
1902	83	83	83	84	85	86	86	85	86	92	89	90	[illegible]
1903	91	91	88	88	86	86	86	86	87	86	85	85	87
1904	87	89	88	87	85	85	85	86	87	87	89	89	87
1905	89	89	88	88	87	87	87	88	87	87	88	89	88
1906	89	89	89	89	90	90	87	89	90	92	93	94	90
1907	93	95	94	94	96	97	97	97	97	98	94	92	95
1908	91	90	90	91	91	91	92	92	92	93	94	95	92
1909	94	95	95	97	98	99	99	100	101	103	104	105	99
1910	104	104	106	107	105	104	104	103	102	99	97	97	105
1911	97	94	95	92	92	92	93	96	97	97	96	95	95
1912	96	97	99	102	102	101	101	102	103	103	103	102	101
1913	103	102	102	102	101	101	102	102	103	103	102	101	102
1914	100	100	99	99	98	98	99	101	103	99	99	98	99
1915	99	100	100	100	101	100	101	100	100	103	105	108	101
1916	112	115	117	119	121	121	122	124	127	133	142	145	125
1917	149	153	157	167	176	178	180	182	180	178	179	180	172
1918	183	179	185	187	187	188	193	196	201	199	199	199	191
1919	196	190	192	194	198	198	206	211	206	207	211	220	202
1920	230	229	232	242	244	243	242	236	227	211	195	176	226
1921	167	153	150	144	141	136	136	137	136	137	138	136	143
1922	134	136	136	136	140	141	145	144	145	145	147	147	141
1923	149	151	153	152	149	147	144	143	146	145	144	143	147
1924	145	146	144	142	140	139	140	142	142	143	145	148	143
1925	150	152	152	149	148	150	152	152	151	151	153	151	151
1926	151	149	147	147	147	147	145	145	146	145	144	143	146
1927	141	140	138	137	138	137	138	139	141	141	141	141	139
1928	141	140	139	141	142	141	142	143	144	141	140	140	141
1929	140	139	140	139	138	139	141	141	140	139	137	136	139
1930	135	134	132	131	130	127	123	123	123	121	119	116	126
1931	114	112	111	109	107	105	105	105	104	103	103	100	107
1932	98	97	96										
1933													
1934													
1935													

Warren, G. F., and Pearson, F. A., Wholesale Prices in the United States for 135 years. Farm Economics, No. 32, p. 1586–87, September, 1931.

Warren, G. F., and Pearson, F. A., Revised Index Numbers of Wholesale Prices. Farm Economics, No. 74, p. 1634, February, 1932.

Mr. WARREN. A given amount of decline in prices is much more serious than it was in 1873, because a greater dependence is placed on credit than was the case at that time. The various units of government perform more services, hence taxes are more important and farmers as well as others are less self-sufficient than they were 50 years ago. Communities are also less self-sufficient. Progress of society depends on division of labor, commerce, and credit. The more highly developed society becomes, the less able it is to withstand a breakdown in the exchange system.

Most measures of industrial activity are 40 to 50 per cent below normal. During the depression of 1921, Ayres's index of American industrial activity fell to 27 per cent below normal. The panic of 1893 was the only other one in which business fell as much as 20 per cent below normal.

The credit structure is primarily based on commodity prices—livestock on the farms, goods in the stores and warehouses, and commodities in the more permanent forms such as fences, steel rails, box cars, homes, and the like. A drop in the price level undermines the credit structure. If the cost of building a house is reduced a third, the houses already built decrease in value one-third, and wipe out owners with small equities. This throws such properties on the market, and prospective buyers are frightened by the losses that their friends have suffered. Such a situation might cause the market price to drop a half. This would destroy the equities of all those who had paid a half down and throw many of these properties on the market. There are no buyers and many sellers, and it is very easy to have the price level drop to one-half. That wipes out the equities of those who paid a half down, and throws many of those properties, as I said, on the market, and thus continues until the liquidation is completed, because you lower the value of the properties already built. They are not worth any more than the cost of building new ones. And when you lower the values of the properties already built, they are thrown on the market, not at cost of production, but at any price. For example, a house in Rochester that sold for $14,000 was just foreclosed. The owner has lost all his payments. The second-mortgage holder has lost $2,500. The first-mortgage holder got it at $5,000. That is not the cost of producing that house, but probably it could be bought for less than $5,000 now.

This explains why the more reductions in wages in the building industry we have the less building there will be until liquidation is completed. The public is clamoring to have Congress take the lead in reducing wages, not realizing that every wage reduction destroys values and causes bankruptcies until liquidation is completed. Those who expect wage reductions to restore prosperity will be disappointed.

I have a few facts here on the debt situation.

The Chairman. Would you mind if I asked you some questions at this time?

Mr. Warren. No; I would be glad to have you do so.

The Chairman. I do not find myself in disagreement with you. I have been hoping that our higher cost levels could prevail. But what is your thought of equalizing agriculture with industry under the high wage scale?

Mr. Warren. I think that that will be easily done. I have some data just a few steps further along that will take that up.

The Chairman. Very well. I want you to go into the relation of wages to commodity prices while you are here.

Mr. Warren. I will do that just a little later on, if you do not mind. I have a statement on debts here first.

This is in relation to deflation and debts. In 1929 the national debt was about sixteen billion, and State, county, and local debts about seventeen billion. The sum of these two which had to be paid by taxes amounted to about 9 per cent of the total wealth. The total of all private debts was estimated at about one hundred and seventy billion, or the total indebtedness was about $203,000,000,000.

The national wealth at that time was estimated at $362,000,000,000. The debts were 56 per cent of the national wealth. The debts in 1912 were 34 per cent of the national wealth; those of 1922, 42 per cent. Debts in 1929 were rather high even for the price level at that time, but most of them could have been paid without difficulty if the price level of that time had continued.

The wealth of the country is shrinking so fast that any estimate at this time must be a guess and if right to-day would be wrong to-morrow. But I think, as a wild guess, if you were to sell the physical property of the United States to-day at to-day's prices, you would be fortunate if you got half of what it was worth in 1929. If that is the case, the debts are equal to the value of the property.

Senator FLETCHER. How about the incomes?

Mr. WARREN. The incomes I have not figured, Senator.

Senator WAGNER. In 1929 about $90,000,000,000.

Mr. WARREN. I have the debts in tabulated form.

Senator GORE. Breaking them down into different kinds?

Mr. WARREN. Yes.

(Tables 3 and 4 on debts, presented by Mr. Warren, are here printed in the record in full, as follows:)

TABLE 3.—*Estimated debts in United States in 1929* [1]

	Total debts
National	$16,000,000,000
State, county, and local	17,000,000,000
Corporation	76,000,000,000
Urban mortgages	37,000,000,000
Bank loans	42,000,000,000
Farm mortgages	9,000,000,000
Life insurance policy loans and premium notes	2,000,000,000
Retail installment paper	3,000,000,000
Pawnbrokers' and similar loans	1,000,000,000
Total	203,000,000,000

TABLE 4.—*Estimated public and private debts in the United States, 1912–1929*

Year	Public debts	Private debts	Total debts	Public debts per capita	Private debts per capita	Total debts per capita
1912	$5,000,000,000	$58,000,000,000	$63,000,000,000	$53	$610	$663
1922	31,000,000,000	105,000,000,000	136,000,000,000	282	956	1,238
1929	33,000,000,000	170,000,000,000	203,000,000,000	272	1,400	1,672

TABLE 5.—*Relation of wealth to debts*

Year	Estimated wealth of the United States [a]	Estimated public and private debts	Per cent indebtedness
1912	$186,000,000,000	$63,000,000,000	34
1922	321,000,000,000	136,000,000,000	42
1929	362,000,000,000	203,000,000,000	56

[a] Estimate of National Industrial Conference Board.

[1] Warren, G. F., and Pearson, F. A., Effect of Declining Prices on Debts. Farm Economics No. 74, p. 1667, February, 1932.

Mr. WARREN. Many farm and home owners are out of debt, but must pay taxes. If public debts amounted to 9 per cent of the property in 1929, they are probably nearer 20 per cent to-day, because the property has shrunk. Taxes do not yield the anticipated income and expenditures for relief are high. This results in deficiencies which mean more public debts.

Coming to this question of price disparity, which is your question, Senator Norbeck.

Whenever prices rise or fall, disparity in price relationships results. For example, if the retail price of food rises 10 per cent, prices which farmers receive rise nearly 20 per cent. Conversely, when retail prices decline 10 per cent, prices which farmers receive decline almost 20 per cent.

The following are some facts from the index numbers for the entire United States. From June, 1916, to June, 1917, retail prices of American-grown food rose 42 per cent. Prices paid to farmers for the same food rose 73 per cent. Now take the deflation side: From June, 1920, to June, 1921, retail prices fell 29 per cent and prices paid to farmers fell 50 per cent. Then, again, in a deflation situation. From August, 1929, to March, 1932, the retail prices of food fell 36 per cent, and prices paid to farmers for the same food fell 57 per cent.

The reason for this disparity is that distributing charges tend to remain fixed or change very slowly. In fact freight rates were actually raised following the panics of 1920 and 1929. The same principle applies to all basic commodities when compared with manufactured goods. The law, which is just as fundamental as the law of gravitation, is as follows:

When prices rise, producers' prices rise by a larger percentage than retail prices. When prices fall, producers' prices fall by a higher percentage than retail prices.

In other words, if you will raise the price of food in the United States at the present time by 20 per cent, you will raise the farm prices by about 40 per cent. For example, not so very long ago eggs were selling for 30 cents wholesale in New York City. The California man got 20 cents. Now the New York price at wholesale has dropped to 20 cents, or from 30 cents to 20 cents. This is a drop of one-third. The California price dropped from 20 cents to 10 cents, or a drop of 50 per cent. Now, if we turn it around and raise the wholesale price in New York City from 20 cents to 30 cents, the California price will go from 10 cents to 20 cents. That is, this price disparity is an inevitable result of a decline in prices and a recovery in prices restores the balance. It will also bring labor back into line.

The CHAIRMAN. Assuming that the wages respond to the same influences as others, you mean?

Mr. WARREN. No; it is because they do not respond. Wages respond very slowly.

The CHAIRMAN. Well, you spoke of the freight rate here as having been increased in recent years. What is your explanation of that?

Mr. WARREN. Because the railroads were not making money. They had less to haul and so they raised the rates on what they did haul.

The CHAIRMAN. Would that rule hold good all the way back during the 15 years of railway rate increases?

Mr. WARREN. No; not altogether. If we could restore the price level to the commodity price level that prevailed from 1921 to 1929, we could pay the freight rates and the railroads would have products to haul.

The CHAIRMAN. Yes; but is it not a fact that the freight rates increased almost in proportion to the wage increase?

Mr. WARREN. They increased somewhat less. Of course there was a greater increase in efficiency of labor.

The CHAIRMAN. But are not the high freight rates that now prevail a direct reflection of the wage scale that prevails?

Mr. WARREN. They are partly a reflection of the wage scale and partly of the quantity of freight being handled.

The CHAIRMAN. Yes. Of recent years there has been an effort made to increase the freight rate to increase the revenue, and in some cases that has resulted in a loss of revenue instead of an increase in revenue, has it not?

Mr. WARREN. Yes.

The CHAIRMAN. Go ahead.

Mr. WARREN. It is important, I think, in deciding whether anything should be done or not to see the duration of similar panics.

The panics of 1815, 1865, and 1920 were not similar to the present situation, because they came after a period of reduced building and after such a short period of high prices that public and private debts were not adjusted to the price level. The panics of 1837 and 1873 were similar to the present one but much less severe. In each of the previous cases the declines lasted for six years, and the after effects continued for many years. The panic could, of course, be ended quickly by a rise in commodity prices to the level at which debts were contracts and make liquidation unnecessary. If the present movement of cutting wages, taxes, and everything else so as to complete the deflation process is continued, it will take a long time to complete the bankruptcy procedure, if we follow the present do-nothing or laissez faire plan.

Senator WAGNER. Because of what, did you say?

Mr. WARREN. Bankruptcies. This is the important part of the situation, it seems to me, at this moment, with city real estate.

The process of mortgage liquidation is very slow. For several years borrowers and lenders both hold on, expecting that prosperity is "just around the corner." There are no market quotations for homes, hotels, and office buildings, so that neither party realizes the situation. When foreclosures do occur, properties are commonly taken over by the creditors, like the house I just mentioned, the process is not complete. The owner lost his home. The second-mortgage owner lost everything. The first-mortgage holder has a place that will not pay expenses. The liquidation is not complete until this man can sell. We do not know when that will be. When foreclosures do occur, properties are commonly taken over by the creditors, partly because of the dearth of buyers and partly because the creditors do not realize the situation. Before it is cleared up, the creditors must be willing to sell at market prices, and the properties must pass back into the hands of persons who want them. Many creditors still hold farms that were taken over in 1921. These have been held because of unwillingness to accept the loss, expectation of profit, or fear of breaking the market. Before the situation is cleared up, these properties must pass into the hands of persons who want them. This is entirely different than the process of liquidating prices of stocks and bonds which are usually sold on the market of the day and not taken over by the creditors.

When a creditor who has loaned on stock finds the stock falling below the loan, he knows it. Ordinarily he does not take the stock over. It is sold to some real buyer and the job is done. It may have to be done over. But it is done for that time. With real estate the creditor often takes over the physical property and the job is not finished. He has to wait to find a buyer. That is why no selling takes place.

The CHAIRMAN. Would you pardon me if I interrupted you?

Mr. WARREN. Certainly.

The CHAIRMAN. I can follow you on the general theory very well, but I wish you would devote some time to the interferences with these plans. There are certain natural forces which, if permitted to work, bring certain results. That seems quite simple. But what, for instance, is the effect of the monopolistic control of certain commodities or the fixing of wages by the Government or by agreement? Do they not interfere with this plan in a substantial way?

Mr. WARREN. They are a part of the picture, and a rise in the value of dollars interferes with the situation. The more complicated our civilization gets the more numerous the debts which are fixed.

The CHAIRMAN. And the less elastic the situation?

Mr. WARREN. Everything is less elastic.

The CHAIRMAN. And the less effective all these remedies we are talking about; isn't that right?

Mr. WARREN. No; the more these remedies are needed.

The CHAIRMAN. Yes; but the less effective they are. If a lot of these are controlled, you are dealing only with those that are not controlled.

Mr. WARREN. If we are going to deflate everything down to the pre-war situation. The biggest situation that is not deflated, and which is the hardest to deflate, is debts. That means bankruptcies.

The CHAIRMAN. Yes.

Mr. WARREN. Now, telephone rates will come down slowly. Postage is going up instead of down. That is one of the costs. Railroad rates are going to come down pretty slowly.

The CHAIRMAN. They are going to come down slowly because they are based on a wage level that does not change easily—not only in the movement of the trains but in the production of the ties and the building of the cars and the locomotives; is that not true?

Mr. WARREN. Yes, that is true; but it is also true that there are other reasons why they do not come down quickly.

The CHAIRMAN. Yes; but is it not a fact that most of the railway revenue goes directly or indirectly to labor?

Mr. WARREN. Very largely.

The CHAIRMAN. Very largely. It therefore is a matter of a wage level, is it not?

Mr. WARREN. I would say this: That the chief difficulty is not wages but debts. The big problem of the railroads is to pay the interest on their bonds, and I think you would find that the chief people who are interested in having freight rates raised were bondholders of railroads, financial institutions.

The CHAIRMAN. Do you mean to say that the larger part of the railway revenue goes to pay interest on the debt?

Mr. WARREN. No. But I would say that the debts are much harder to reduce than the wages.

The CHAIRMAN. Yes. Would you mind putting into your remarks here exactly what percentage of the railway revenue goes to pay interest on bonds and what percentage goes for other purposes?

Mr. WARREN. I do not have the figures here with me.

Senator COUZENS. Eighty per cent of the income of the railroads goes to labor.

The CHAIRMAN. Direct to labor. The material they buy is also largely labor.

Senator COUZENS. Well, that is included in the 80 per cent. The other 20 per cent goes to interest on bonds and dividends practically.

Mr. WARREN. I would like to call attention to the wage question, if you are interested in it——

The CHAIRMAN. I am interested in it only in this, as the controlling element in commodity prices. Assuming that the laboring man is not so much interested in whether the wages for labor are $5 a day or $10 a day, but he is interested in what the wage will buy. And when you speak about the wage question relating to agriculture, can you maintain a high production cost in this country and produce products at a profit that come in competition with cheap foreign labor? I wish you would enlighten the committee on this.

Mr. WARREN. I would like to answer just a little further on wages at this point. There is a difference between wages and debt. The efficiency of labor steadily increases.

The CHAIRMAN. That may be true as an average, but are there not very notable exceptions to that?

Mr. WARREN. Yes.

The CHAIRMAN. Does it not apply especially to what we call machine production?

Mr. WARREN. No; it applies generally.

The CHAIRMAN. Does it apply on the farm?

Mr. WARREN. Yes; about the same rate as the average of industry.

Senator GORE. You mean that the efficiency of labor goes up?

Mr. WARREN. Decidedly.

The CHAIRMAN. You mean that the laboring man milks more cows than 20 years ago?

Mr. WARREN. Yes.

Senator GORE. I see some concern in Connecticut in 1921 had laid off 20 per cent of its hands during the depression, and they were getting more labor output from the 80 per cent than they had from the 100 per cent of the employees before. The point being that the 80 per cent were afraid of losing their jobs and increased their efficiency.

Mr. WARREN. We made a study of that on 500 farms in New York State over a 20-year period, and we found that the average rate of increase in efficiency, cows milked per man, and so forth, on these farms, was keeping pace almost exactly with the increase in efficiency or output per capita in the United States, which is 1.7 per cent a year. Over a long period of time in this country the physical quantity of output per worker increases 1.7 per cent per year. And on the average the purchasing power of wages increases 1.7 per cent per year. That is over a long period of time.

Senator FLETCHER. You say the output increases 1.7 per cent. How would the wage increase?

Mr. WARREN. The wages increased in buying power 1.7 per cent. Comparing wages not with money, but wages with the actual product of labor, which is not money, but commodities.

There is a serious misconception about wages. The prevailing idea is that if the commodity price level goes to pre-war, wages should go to pre-war. That would be an entirely unstable situation, because it has been a long time since pre-war. And this increase in buying power of wages, 1.7 per cent per year, if we had proceeded with just our normal increase in efficiency, just multiplying that out would mean 137. In other words, if the price level of commodities should go to pre-war we would expect wages to be at 37 per cent above pre-war.

Senator GORE. State that again.

Mr. WARREN. If the whole price structure should go to pre-war and get adjusted there, then wages would be in adjustment, not out of adjustment, but in adjustment at 37 per cent above pre-war. That would take care of the normal increase in efficiency. Now, we have probably increased efficiency a little more rapidly than normal in this period, but that would be the normal increase. If there had been no war and if prices had stayed at pre-war, wages at 137 would be in adjustment with prices at 100.

But deflation wrecks the machinery. For 1931 the average of wholesale prices, according to the Bureau of Labor index, the one I have given you here on a 1910–1914 base, the average wholesale price of all commodities was 107, when pre-war is 100.

If a man produced all the products of America last year, including all the farm products, and sold them at the average price of 1931 he would have received 107. For him, wages of 137 if he had got 100 would have been normal. But with his price at 107 he could have paid 147 for labor and done business. In fact, he would have made good profits.

But the laborer needs a buying power of 37 per cent above pre-war to consume our products, and he does not buy at 107. He buys at the cost of living figure, which was 151. And to buy 137 products at a price level of 151 calls for wages of 207.

Now, that is the inevitable thing you get into when you raise the value of the dollar. The manufacturer can hire labor and go ahead and do business and make money, last year, say, at a 150 wage level. The consumer can not buy at that wage level. He has to have wages at 200. So that the manufacturer can not see what is the matter with the laborer. He is asking too much. And the laborer can not see what is the trouble with the manufacturer; he is paying too little. We have a stalemate. And it takes years to overcome it. This is an inevitable result every time you drop the price level. The manufacturer's price goes so low he can not pay much for wages. The cost of living remains up and the laborer can not buy the product that he, himself, produces.

Senator COUZENS. Is there any relationship between those figures that you have been giving us, and those of the white-collar workers? Their various scales of wages?

Mr. WARREN. Their wages would be approximately in this line.

Senator COUZENS. You make that answer from a study of the situation?

Mr. WARREN. Yes. But I will say this. The white-collar worker's cost of living falls less, so he needs a higher wage. For example, the cost of living figure with index of 151 as an average of last year—it is less now, of course—includes one item of miscellaneous, in which there are books, and railroad fares, and telephone charges, and newspapers, and doctors' fees, and so forth. I made a study of that with university professors. And that item, which is about 20 per cent in the average cost of living is about half of the budget. It stands at an index of about 200 at this time. Since university professors spend half their money for the miscellaneous item instead of 20 per cent their cost of living would be—I haven't the figure in mind—about 170. In other words, the white-collar worker's cost of living declines more slowly than the Bureau of Labor figure.

And if you will go to the other extreme, to the lowest class of labor, where the living is very little besides food and clothing, the cost of living has declined more than the Bureau of Labor figures.

Senator COUZENS. So that, in the up and downs there is a constant relation between the industrial workers and the white-collar workers?

Mr. WARREN. Well, you see the relation is thrown out of joint in a situation like this.

Senator COUZENS. But I mean during normal times, is it?

Mr. WARREN. In normal times; yes. But if we go ahead with deflations, we probably won't get these various classes—the white collar one and the average workman and the lowest group of day laborer—into proper adjustment again in 10 or 15 years. That is, if we throw things out of line they will come back, but it may be in the next generation.

Senator COUZENS. Would you say it would be the next generation before we get back out of this condition?

Mr. WARREN. I think so. I think if we go ahead with the deflation process, that the children of the next generation may be born out of debt, unless they assume their father's debts.

Senator FLETCHER. Can we not do something to check that deflation? We want reflation, do we not?

Mr. WARREN. I think there are two ways to proceed. One is reflation and the other is this liquidation of debts, which has not begun to be finished. The liquidation of city real estate and real estate generally has not really begun. You can take the tax situation. I asked a hotel man, the manager of quite a chain of hotels, this question: "How much taxes can you pay on a hotel normally, and what would you say was a normal tax?" Well, he said he could pay 2 per cent.

Senator COUZENS. On the value?

Mr. WARREN. On the full value. He figured it over and said that was a reasonable tax. He has a chain of hotels in a number of cities.

Senator COUZENS. What basis of income would that be?

Mr. WARREN. I do not know. I did not ask him. But he said 2 per cent on the full value. I asked him, "What is the value of those hotels nowadays?" "Well," he said, "they have gone down more than one-half." In fact, he cited one very good one. He said, "I would not give anything for it." Suppose the hotel dropped 50 per cent; it has a tax rate of 4 per cent. Then I asked him the next question: "Now, if you do all you can in reducing taxes, how much do you think you can cut them?" Well, he didn't think he could cut them to 3, because the sewers have been laid, and they are not paid for; the city has obligations of many kinds. It can not stop. I asked, "What is the hotel worth?" He said, "Precisely what it is bringing. Nothing." Now, you have got to wait until finally somebody will buy one of those.

Senator GORE. In connection with the real estate liquidation, I heard a man who was more or less familiar with stock liquidations say yesterday that the speculators had just about completed their liquidation and the investors had just started theirs.

Mr. WARREN. Scarcely begun. And there are two steps in it. A hotel sold here recently in Washington; I am not certain who got it, but I will certainly be pretty safe in making the guess that the creditors got it. Then it has not been liquidated. It is no liquidation. The creditors do not want it.

Senator COUZENS. It is liquidation so far as the original owner is concerned.

Mr. WARREN. Yes. He is gone. But the job is not done.

Senator COUZENS. It has been done for a long time, I can assure you that.

Mr. WARREN. The job will not be completed until the creditors can sell.

Senator COUZENS. Are you going to tell us how we can stop the deflation?

Mr. WARREN. There are many ways.

Senator FLETCHER. In other words, we want to know if any legislation can help out that situation.

Mr. WARREN. I think there are some fundamental questions here that will need some further discussion.

Senator GORE. Are you passing on from wages now?

Mr. WARREN. Yes.

Senator GORE. Would you mind if I ask you a question right here, or would you rather have me ask the question when you get through?

Mr. WARREN. Perhaps it would be best to ask it here, Senator.

Senator GORE. It is this, Doctor, and I might call it the equation of purchasing power. I have a concrete case in my mind. A farmer down in a county in my State had a plumber come out and do his day's work. I suppose he had his helper with him. He charged $15 for the day's work.

Now, that was a half a bale of cotton at present prices. That was about 45 bushels of wheat at present prices. Now, then, in considering this equation, if you cut down this $15 a little, this farmer's purchasing power that he is getting out of 5-cent cotton and 30-cent wheat would go a little farther from his standpoint. Now you want to bring back an approximation of some sort. Do you not think that both ought to move a little in order to establish that?

Mr. WARREN. Of course we have a question whether that plumber's wages were in adjustment with the price situation in 1921 to 1929. I think some were out of adjustment even then. But we have another situation. We have increased the value of money and stopped business. Therefore most of the plumbers were not working the day that man went out. Therefore, they could not buy cotton. Therefore, cotton is cheap. If we can restore the value of the dollar to say what it was in 1921 to 1929—I am not particular whether these exact years be used—that would restore the buying power for cotton and cotton would not be 5 cents a pound. The under consumption of cotton has continued for some time. The resulting high stocks could not be disposed of at once. And if the plumber was at $15—that sounds a little high for a rural region——

Senator GORE. Yes.

Mr. WARREN. Perhaps a little high for a city at any time.

Senator GORE. He came out of a city.

Mr. WARREN. But if it was high that will get adjusted. The general wage level was not badly out of line.

Senator GORE. Let me ask you this. We are talking about reducing the salaries of Government employees, say, 10 per cent.

Mr. WARREN. Yes.

Senator GORE. A Government employee who now gets a thousand dollars under that would get $900. A clerk with $900 could buy more to-day than in 1929 with $1,000. Now, considering this equation of purchasing power, these farmers have to pay the governmental services of this particular clerk that I have in mind, they have to pay that salary with the purchasing power acquired from the sale of cotton at 5 cents and the sale of steers and hogs at 3 cents. Now, if that was cut down $100 dollars, what little purchasing power he gets out of these prevailing prices would go a little further.

Mr. WARREN. I do not think it would make enough difference so that you can ever find it.

Senator GORE. It illustrates the point. That is what I had in mind.

Mr. WARREN. There is one objection to the Government cutting wages, which has nothing to do with wages.

Senator GORE. There is more than one, as everybody who is employed knows.

Mr. WARREN. Well, the person who ought to be the chief objector to the Government cutting wages is the man who owns physical property. The Government is looked upon as the key mover in the wage situation. And if it will cut wages, then we will all cut wages. Then the building trades should be cut. Then the house that the laborer perhaps had paid 50 per cent down on, can be reproduced for say 50 per cent less.

Senator GORE. Yes.

Mr. WARREN. He has lost his equity. In other words, the chief objection to cutting wages at this particular time is that it destroys the value of the physical property of America which underlies our debts.

Senator GORE. Yes; but if you keep wages artificially high that is an artificial maintenance of the prices.

Mr. WARREN. Prices are artifically low.

Senator GORE. Well, one way or the other. Should we move both ways?

Mr. WARREN. It is essential that you raise the price level, because it is not merely wages, but debts and innumerable other things. Now, if you can cut wages 30 per cent over the whole United States, and cut debts 30 per cent over the whole United States, and cut every figure that has a price involved 30 per cent we might proceed—well, that, of course, is purely visionary. It can not be done. Debts, not wages, are the major situation in this matter.

Senator GORE. They are the big factors in the equation.

Mr. WARREN. Yes.

Senator GORE. But I was wondering if you could peg wages.

Mr. WARREN. Well, wages are not pegged. In the long run wages go up as the production per capita. Whenever prices rise or fall wages rise or fall less rapidly. That is not pegging. Because wages are not a commodity. It happened a century ago. For example, in the Napoleonic war period in England, which certainly gets it away from any of our pegging of the wage situation—in the Napoleonic war period in England prices declined one-half and the wage level declined 15 per cent.

Senator GORE. Pretty much the same after the Civil War, too.

Mr. WARREN. It was the same. Prices declined one-half and wages declined 15 per cent. Then they turned upward. And prices went on down. When wages turned upward and prices went on down, it was because we had then reached a point where, with the increased efficiency, wages were not out of line. If we would hold wages at the level of to-day long enough they would be too low because of the increased efficiency; they should rise relative to commodities. I do not know whether I answered your question or not.

When you get back to the question of a particular employer, he has to keep solvent. And what he personally should do with wages I leave to him. I am merely stating what a general reduction of wages over the country will do to the country. Not to one firm. To the country, a general reduction of wages reduces the values of the properties already built without a corresponding reduction in the debts. Therefore undermines the equities, undermines the banks. Don't think that I am saying that wages should or should not be reduced. I am merely stating that wage reduction is not a solution. It is a solution that gets us into a worse difficulty.

Senator FLETCHER. Of course, there is some limitation on that. You can not carry that too far.

Mr. WARREN. Oh, no.

Senator FLETCHER. The time comes when you can not adopt that rule.

Mr. WARREN. I am not saying that you should not cut wages at all. I am saying what the effect is on cities. What I am really emphasizing is not wages, but the thing I want to bring out by contrast is debts.

Senator GORE. That is one reason why the rents are so stubborn in going down. The capitalization in buildings.

Mr. WARREN. Yes. If a man has a mortgage on a building he does not want rents to go down, and if the owner thinks he has an equity he does not want rents to go down. We have a great resistance to reducing rents. We have empty properties before we reduce rents. It is just a resistance which is not the fault of anybody.

Senator WAGNER. Professor, you say that you do not advocate, that you are not taking a position as to whether wages ought to be reduced or not.

Mr. WARREN. No.

Senator WAGNER. Yet you do say that our reduction of wages will cause a further depression.

Mr. WARREN. Yes.

Senator WAGNER. Now, we ought not to do anything which might add to our difficulties, should we?

Mr. WARREN. If we are to follow out the deflation proposal, then, of course, we have to cut wages and go through bankruptcy.

Senator WAGNER. You mean go through a complete deflation?

Mr. WARREN. Yes. If we are to deflate everything down to the present commodity price level, we have a long job ahead.

Senator WAGNER. Well, do you not think that ought to be arrested? Do you think we ought to go so far as that?

Mr. WARREN. I think we ought to have sense enough not to have gone this far.

Senator WAGNER. I think so, too.

Mr. WARREN. And not having done it before, we should change now. Not having changed this year, we should change next year. We can not afford to go through it.

Now, the general impression is held that depression is due to overproduction. Some charts were presented in the hearing in the House on H. R. 10517, pages 220 to 229, which I did not present, but which were prepared by Professor Pearson and myself, which show the physical value of production in the United States and in the world for many years, and they show that there has been no unusual production. But the depression is causing unusual underproduction.

Senator COUZENS. Would you discriminate there between the facilities for production and the actual production? Is there not a difference there?

Mr. WARREN. Yes; there is a difference between facilities and the actual production, but I do not think that the facilities are strikingly out of line with the actual production when we are working in a normal situation.

Senator COUZENS. Are you talking now as an isolationist or an internationalist?

Mr. WARREN. Either one.

Senator COUZENS. I do not think you can talk as an isolationist when it is evident that many of the countries of the world can not purchase products which we have facilities for.

Mr. WARREN. Well, there are other countries besides us suffering under the same difficulty.

Senator COUZENS. Yes. But take the shoe industry, for instance. That industry has a capacity for two or three times as many shoes as we can use. Certainly they are overproduced, and the products of those factories can not be used in the oriental and other countries, because they have not got the purchasing power. Now, have we got to wait and keep on expanding, or must we be isolationists enough to conserve our facilities for our own consumption?

Mr. WARREN. Well, of course, to a very large extent the whole world situation has been brought on by the same situation as we have, which I think I can show a little further about on this point. And it is underconsumption rather than overproduction that is the difficulty, I think.

Senator GORE. In connection with whose statement were these charts presented in the House hearing?

Mr. WARREN. I think with Mr. White's. They are in this bulletin, which I have handed to you. It shows the original figures also.

Senator GORE. In this bulletin?

Mr. WARREN. Yes. And I will give you the conclusions very briefly.

The physical volume of production of all kinds of commodities in the United States normally increases about 4 per cent per year. That includes everything. All the agriculture and all the lumber and everything.

Senator COUZENS. There were some industries that expanded at a greater rate than that, were there not?

Mr. WARREN. Yes.

Senator COUZENS. Have you got what percentage the automobile industry expanded per year?

Mr. WARREN. The automobile industry is not included in this figure. It is physical volume of basic production, which includes all the iron and not what was done with it. It includes all the lumber and so on. The production of manufactures increases more rapidly. But about 4 per cent per year is the normal increase for all.

Senator GORE. That is in the United States?

Mr. WARREN. Yes. The world physical volume of production normally increases 3.15 per cent per year. The production was interfered with by the war and has been low since the war.

The rates for some groups in the United States are as follows: From 1839 to 1914 the rate increase in production of food and feed crops was 3 per cent per year. Of agriculture, 3 per cent. Fuel and power was nearly 6 per cent. And if we take all minerals and metals, other than fuel and power, 7 per cent. All products put together, the average rate increased 4 per cent. And for the world, 3.15 per cent.

Senator FLETCHER. That did not exceed the increase in population, did it?

Mr. WARREN. Yes. You see we are steadily becoming more efficient. It is about 1.7 per cent increase in production per capita per year in the United States.

Senator COUZENS. What do you have to say to that question that I asked the previous witness with respect to whether we can keep on taking our earnings out of industry and saving them for further productive industry?

Mr. WARREN. I think that we have probably not quite rapidly enough put our earnings into consumption. That is, there are millions of farms in the United States without any facilities for taking a bath, without electric lights, houses unpainted, poor houses. There are any number of people in the cities who are living far below the standard of what the efficiency of the American people justifies us in having. Now, somewhere you have to bring a balance in using the year's earnings—a balance between what you consume that year and what you put into facilities for future production. I am merely expressing an opinion. I have no figures on this.

Senator COUZENS. The old statement used to be made by industrialists and bankers that you must plow back your earnings into your business and keep on expanding and putting your money back into productive industry. I wonder whether we have gone as far as we are justified in going back and plowing our earnings back into expanding industry beyond the point where we can consume the products of industry?

Mr. WARREN. I think not over a period of 30 or 40 years, but over a short time we have expanded our living a little too slowly. For example, during the past few years there has been a vast portion of the population, not only in the rural communities and on the farms, but in the rural cities as well, that have not increased their consumption in accordance with production. Somewhere we must have a balance between capital facilities and consumption. Also between increased consumption and increased leisure.

Senator WAGNER. They did not earn enough to do that.

Mr. WARREN. It was because of instability of money primarily. It throws the earning power of different classes out of line. It gives first this group a jolt and then that group a jolt.

Senator WAGNER. I was wondering if you have figures as to what is earned per year that is not consumed? That is left over for capital investment? That is what you had in mind, Senator?

Senator COUZENS. That is what I meant; yes.

Mr. WARREN. I have no statistics on that subject.

Senator COUZENS. Would it not be interesting to ascertain how much further we can keep on going in plowing back into industry all the surplus earnings?

Mr. WARREN. Yes.

Senator COUZENS. My judgment is that we have gone off on a wild trend of saving; saving and saving to put into more productive industries and not consuming or building enough of nonproductive facilities.

Mr. WARREN. Nothing throws the point of view of people more out of line than what we are getting right now. The rise in the value of money. Not just manufacturers but individuals. That we must not spend the money we get; we must keep it.

Senator GORE. It is a buyer's strike, don't you think?

Mr. WARREN. Yes; you can call it a buyer s strike. I don't like the word. The people have suffered, and they say "I will never be caught again without money." And some of them say, "Without money in the house."

Senator WAGNER. Yes; a good many of them just now.

Mr. WARREN. Now, it will take us a generation to get over that point of view. A man who has been caught by this is not going to want to spend. And so we are going to get into the situation of not the capitalist class alone, but the individuals, figuring that we must save most of what we earn. A man who is going through this is going to figure on saving hereafter. He does not want to get caught again.

Senator COUZENS. What do you think as to consumer's credit as an effect on the situation?

Mr. WARREN. It is rather minor. That is, the situation is so enormous. For example, in this list of debts in 1929 the retail installment paper is estimated at $3,000,000,000 out of $203,000,000,000.

Senator COUZENS. Yes; but I was not speaking so much of the specific figures as the psychological influence on the population.

whether you spend it in cash or whether you spend it on installment buying. You had it preached into you day in and day out—consumer's credit. It used to be a disgrace to be in debt, so they changed to consumer's credit.

Mr. WARREN. But if we go on with deflation, it will be a disgrace to be in debt again.

Senator GORE. Don't you think that the reason why the standard of living in the country has lagged behind is that the installment credit buying did not come out into the country as much as it did in the city?

Mr. WARREN. I think it was primarily because of the disparity between prices brought about by the fall of prices in 1920. The farm prices never got fully back in proportion to the retail prices. They had not even reached that in 1929. So that the farm population was in effect feeding the city unreasonably cheaply. That happens in every case when prices decline. And in every case the first deflation, as in 1920, and as in 1865, and as in 1815, the first effect of the depression is to drop retail prices with the cost of distribution remaining up. The farmer then gets a small proportion. And then with a shortage of building you have this situation. The farmer feeding the city for less than his normal share. That accentuates the building boom. No small factor in the building boom which followed 1865 and followed 1920 was the fact that the farmer got less than his normal share. Then the cities, not knowing that this was not a permanent thing, and that prosperity had not been made permanent, not knowing that, they began to expand their housing needs on the basis of cheap food, which could not be permanent. We have called attention to that repeatedly since about 1916. Incidentally, this panic was correctly forecasted by the fact that following the Civil War it was exactly nine years after deflation began before the break came.

Returning to the physical volume of production that I have mentioned. In 1914 we produced 74 physical units. In 1929 we produced 104. The production of the Nation rose from 74 to 104. In 1931 it was about 85.

Senator TOWNSEND. That is production?

Mr. WARREN. Production about 85. It is very low. Entirely out of line.

Senator TOWNSEND. And this year it will be very much lower than that?

Mr. WARREN. Yes. In other words, instead of overproducing we are so much more below normal than ever before in the history of the country.

Senator TOWNSEND. If we follow that cycle along?

Mr. WARREN. If we go on with deflation we will be even lower than that. Agriculture holds up, of course, and industry is less than 85. Everything put together is 85.

Senator WAGNER. Well, isn't there a danger of social upheavals if this deflation continues?

Mr. WARREN. I think there is grave danger. I think it is something we must carefully consider before we go ahead with deflation. Trying to cut everything down.

We have made a study of the relation of gold to prices for a long period of time. The world gold production was high from 1848 to

1860. A long period of decline then set in. The production of other things continued to increase while gold production declined and its value steadily rose. Production then began to increase and reached a peak in 1915. Since that time it has been low. It is now increasing, but gold production is still less than that of 23 years ago.

The influence of gold supply on prices also was presented in the House hearings (pp. 229–238), the same material which we have here. Probably you do not care to read it. But I will just give one or two points.

Senator GORE. Was that recently, Doctor?

Mr. WARREN. Yes; in the hearings on the same bill in the House.

Senator FLETCHER. Doctor, may I ask: Is it your view that deflation is still continuing? That there has been no check or stop in deflation?

Mr. WARREN. Yes. There has been no check.

Senator FLETCHER. You think it is still going on?

Mr. WARREN. There is no evidence that I have seen of any check.

Senator FLETCHER. Do you think that if we try to pass some legislation here we might check that?

Mr. WARREN. I can not see any chance of deflation stopping of its natural causes, if you call them that, until city real estate is liquidated, which is several years. We might get a little recovery. I think we had a business cycle of good business last year. I think last year there was a little business improvement, which was a cycle on top of the depression.

Senator GORE. Have you got a microscope that you detected that with? It would need a microscope, wouldn't it?

Mr. WARREN. One is needed. But later we will be able to tell whether it was a cycle.

Senator FLETCHER. With this reconstruction finance act and the Glass-Steagall Act and these various other measures that we have adopted, you do not think they have had any effect yet?

Mr. WARREN. We have not stopped the depression. Take the lending plan, for example. If a farmer owes the Federal land bank and can not pay his installment, he can get another loan to pay the installment. And next year he will have two installments. Unless prices rise, two installments will not be any easier to pay next year than one was this year. He is merely putting it off. Shifting the debt burden from one agency to another does not pay the debt.

Senator GORE. The break in the stock prices in the last six weeks since these measures were enacted has been the worst break we have had. About 37 per cent.

Mr. WARREN. There are only two possible cures for debts. One of them is to restore the price level to the one in vogue at the time the debts were incurred, and the other is finding some money to pay them or going bankrupt.

Senator GORE. Or doing like France did.

Mr. WARREN. Well, that is restoring the price level.

Let me pick out from this study of many years two or three points on the gold situation.

The world total stock of monetary gold in 1870 was 131,000,000 ounces. By 1890 this had increased to 169,000,000 ounces. Then as now some persons said the trouble could not be gold as there was more gold than ever before in the history of the world.

If these world gold stacks are placed on an index number basis, with 1880-1914 as 100, the figure for 1870 is 57 and for 1890 is 73. These were the relative amounts of gold in the world. The index numbers of the production of all commodities for these two years were 42 and 74. Gold stocks increased less rapidly than other things. If we divide the gold by the other things, the 57 divided by the 42 gives 136. The prices at that time were 131. If we divide the 73 units of gold by 74 units of production of other things we get a ratio of 99. And prices fell to 98. Gold then began to increase more rapidly than other things so that in 1914 the ratio was 115. Prices then went to 117 on and 1880 to 1914 base.

This 75-year relationship can be expressed as follows: Prices in England equalled world gold divided by the world physical volume of production of other things. The details of this are, as I have said, published in the House hearings. A graph showing this is on page 1689. Those of you who wish to turn to it may see it there.

Senator GORE. What page?

Mr. WARREN. 1689 in Form Economics that you have here. It is reproduced in the hearings on page 232. By looking at this graph one will see that the price level followed the ratio of gold to other things for 75 years before the war.

Similarly in the United States for 30 years before the war our gold supply divided by our production of other things equalled our prices.

The short time fluctuations are largely business cycles; a little overexpansion and a little underexpansion.

Prices went out of line with the 75-year relationship, from 1915 to 1931, and they are now back again.

That leads me to this, which I think is the key to many of the questions we ask. Why were prices high? Why were they out of line?

It is commonly said that supply and demand govern prices. This is a half-truth and leads to endless confusion. The price of wheat is a ratio of the supply of gold and demand for wheat to the demand for gold and supply of wheat. An increase in the demand for wheat or decrease in the demand for gold raises prices of wheat. An increase in the supply of wheat or an increase in the demand for gold decreases the price of wheat. The supply of gold or demand for it are just as important in wheat prices as the supply of wheat and demand for it. The same principle applies to prices for other commodities.

Many economists are misled into thinking that gold has nothing to do with the present situation, since no phenomenal change in the supply of gold has occurred since 1929. They forget that demand affects the value of gold the same as it affects the price of pigs. If there were in the world just two countries using gold as currency and each of them used half of it, and if one of these countries discontinued using gold and discontinued bidding for it, prices in the other country would be expected to double. If at a later date the first country decided to reestablish its currency and bid for gold, prices in the other country would be expected to be cut in half. Such phenomenal changes in the circulation of the first country would cause a first period of prosperity and then a period of collapse so that prices would be expected to overshoot the 20 mark on the rise and to fall below the 100 mark on the decline.

For half a generation most of the gold-using world left the gold standard and most of the countries ceased to bid for gold, and many of them lost nearly all of their supplies. As a result, prices in the United States on a gold basis rose to over 200. After the war was over one after another of the countries became interested in returning to a gold basis. From 1921–1929 the price level in the United States stood at 40 to 50 per cent above pre-war. The countries desiring to return to a gold basis, observing that we were on this price level on a gold basis, assumed that they could return to the gold standard and that all could have a price level 40 to 50 per cent above pre-war. A few economists in England and the United States called attention to this foolish assumption, but they were not listened to by the majority of economists in either country or by the public. Americans took a leading part in helping the world to go into debt to reestablish the gold basis. The soundness of the debts was based on the assumption of the continuance of prices in gold 40 to 50 per cent above pre-war. From 1925 to 1929 many steps were taken to restore the gold standard. Only a few of the countries had fully established a full gold basis, most of them had a gold-exchange basis. The gold panic came long before the gold standard was fully established.

This gold panic is not a business cycle. A cycle is rhythmical fluctuation. This crash was due to the returning demand for gold and was accompanied by a business cycle just as a tidal wave may be accompanied by a tide. The business cycle assumption led to the erroneous idea that prosperity is just around the corner.

It is not a question of confidence. If the demand for gold is to be almost double what it was during the war period, the value of a house, railroad, or a bushel of wheat is reduced, and no amount of confidence can change it. The country was not short of confidence in 1929, but the world was short of gold to support the price level to which business was adjusted.

In other words, the thing to explain is not merely the decline in prices but the rise in prices. Then the question is: What are we going to do about it?

Efficiency in the use of gold is one of the next questions.

The amount of currency and circulation per dollar of gold is shown in the accompanying table. The monetary circulation per dollar of gold has steadily declined. Bank deposits per dollar of gold have risen. But there has been no striking and sudden increase that has not been followed by a reaction. Before the war, a total of about $11 of monetary circulation and deposits per dollar of gold seemed to be normal. Apparently a little more than this can now be supported without panic, but no phenomenal increase in the efficiency in the use of gold has occurred.

Debts, taxes, and most other business relationships are adjusted to a commodity price level 40 to 50 per cent above pre-war. If all the former gold-using world returns to gold, it is doubtful if there is gold enough to maintain pre-war prices, unless some phenomenal increase occurs in the efficiency with which gold is used. No

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such increase in efficiency is probable after 18 years of monetary chaos. Decreased efficiency and prices below pre-war are more probable.

Figure 1 shows the total monetary circulation plus bank deposits in the United States per dollar of gold. The credit structure based on a gold dollar appears to have been too high in 1920 and 1929.

(Table 6 and a graph were here placed in the record as follows:)

TABLE 6.—*Monetary gold, money in circulation and bank deposits in the United States on June 30, 1880–1931* [1]

Year	Monetary gold coin and bulletin [2] (000,000 omitted)	Total monetary circulation [3] (000,000 omitted)	Total individual deposits [4] (000,000 omitted)	Monetary circulation per dollar of gold	Deposits per dollar of gold	Monetary circulation and deposits per dollar of gold
1880	352	973	2,134	2.76	6.06	8.82
1881	478	1,114	2,539	2.33	5.31	7.64
1882	507	1,174	2,756	2.32	5.44	7.76
1883	543	1,230		2.27		
1884	546	1,244		2.28		
1885	589	1,293		2.20		
1886	591	1,253		2.12		
1887	655	1,318	3,305	2.01	5.05	7.06
1888	706	1,372	3,419	1.94	4.84	6.78
1889	680	1,380	3,776	2.03	5.55	7.58
1890	696	1,429	4,061	2.05	5.83	7.88
1891	647	1,497	4.197	2.31	6.49	8.80
1892	664	1,601	4,665	2.41	7.03	9.44
1893	598	1,597	4,627	2.67	7.74	10.41
1894	627	1,661	4,651	2.65	7.42	10.07
1895	636	1,602	4,921	2.52	7.74	10.26
1896	600	1,506	4,945	2.51	8.24	10.75
1897	696	1,641	5,095	2.36	7.32	9.68
1898	862	1,838	5,688	2.13	6.60	8.73
1899	963	1,904	6,769	1.98	7.03	9.01
1900	1,034	2,081	7,239	2.01	7.00	9.01
1901	1,125	2,203	8,461	1.96	7.52	9.48
1902	1,193	2,279	9,105	1.91	7.63	9.54
1903	1,249	2,400	9,554	1.92	7.65	9.57
1904	1,328	2,553	10,001	1.92	7.53	9.45
1905	1,358	2,623	11,351	1.93	8.36	10.29
1906	1,476	2,775	12,216	1.88	8.28	10.16
1907	1,466	2,814	13,100	1.92	8.94	10.86
1908	1,618	3,079	12,785	1.90	7.90	9.80
1909	1,642	3,149	14,108	1.92	8.59	10.51
1910	1,636	3,149	15,283	1.92	9.34	11.26
1911	1,753	3,263	15,906	1.86	9.07	10.93
1912	1,818	3,335	17,024	1.83	9.36	11.19
1913	1,871	3,419	17.476	1.83	9.34	11.17
1914	1,891	3,459	18,518	1.83	9.79	11.62
1915	1,986	3,320	18,966	1.67	9.55	11.22
1916	2.445	3,649	22,526	1.49	9.21	10.70
1917	3,220	4,066	26,058	1.26	8.09	9.35
1918	3.163	4,482	27,716	1.42	8.76	10.18
1919	3,113	4,877	32,629	1.57	10.48	12.05
1920	2,865	5,468	37,268	1.91	13.01	14.92
1921	3.274	4,911	34,791	1.50	10.62	12.12
1922	3.785	4,463	37,144	1.18	9.81	10.99
1923	4.050	4,823	39,984	1.19	9.87	11.06
1924	4,488	4,849	42,904	1.08	9.56	10.64
1925	4,365	4,815	46,715	1.10	10.70	11.80
1926	4,447	4,885	48,827	1.10	10.98	12.08
1927	4,587	4,851	51,062	1.06	11.13	12.19
1928	4,109	4,797	53.245	1.17	12.96	14.13
1929	4,324	4,746	53.158	1.10	12.29	13.39
1930 [5]	4,535	4,522	53,564	1.00	11.81	12.81
1931 [5]	4,956	4,822	50.485	.97	10.19	11.16

[1] Warren, G. F., and Pearson, F. A., Money and Prices, Farm Economics No. 71, p. 1696, February, 1932.

[2] Statistical Abstract of the United States 1930, United States Department of Commerce, No. 52, pp. 246–7; 1930.

[3] From 1880 to 1899, inclusive, Statistical Abstract of the United States, 1923, No. 46, p. 605, 1924; and from 1900–1929, Statistical Abstract of the United States, 1930, No. 52, p. 247; 1930.

[4] From 1880–1914, Statistical Abstract 1923, No. 46, p. 798, 1924, and from 1915–1929 from Statistical Abstract of the United States 1930, No. 52, p. 262; 1930.

[5] Annual Report of the Comptroller of the Currency, Dec. 1, 1930, pp. 57. and 138, 1931; and Text of the Annual Report of the Comptroller of the Currency, pp. 128 and 46; December, 1931.

The chart shows the monetary circulation plus bank deposits per dollar of gold in a long time trend. They were high before the panic of '97. In the early stages of the war we had an influx of gold, and so the circulation and deposits were very low per dollar of gold because a lot of gold suddenly came in. Our circulation and deposits were very high before the panic of 1920 occurred. They were high again in '29. It looks as if our gold was over used in 1929.

Senator WAGNER. By "over used" you mean what, more credit?

Mr. WARREN. Used so much that we got scared.

Senator GORE. Just what idea do you attach to the world circulation there, Doctor?

Mr. WARREN. It is the monetary circulation as reported by the Treasury Department.

Senator GORE. Oh, yes.

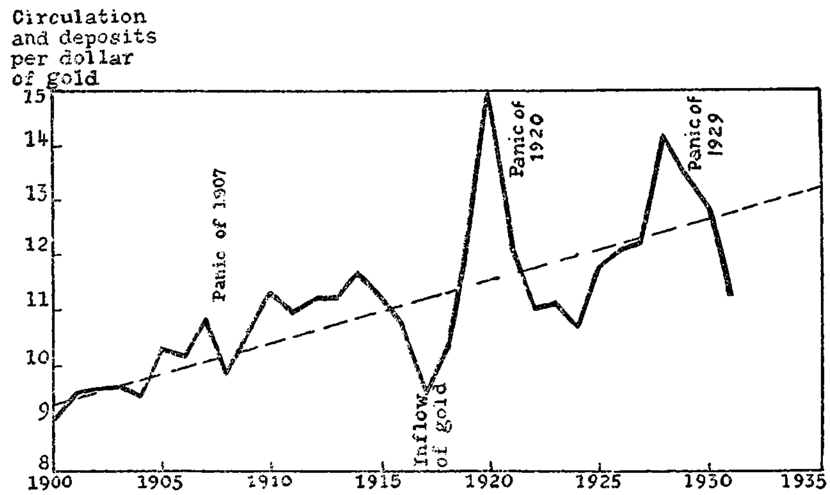


FIGURE 1.—Monetary circulation plus bank deposits per dollar of gold in the United States, 1900–1931. Apparently, the money and credit structure per dollar of gold was too high in 1920 and in 1929

Mr. WARREN. The figures I am giving are monetary circulation plus deposits. We have added the two together. For example, the monetary circulation plus deposits in 1929 amounted to a little more than $13. In 1931 they were reduced to $11.

Senator GORE. As related to gold?

Mr. WARREN. Yes; for a dollar of gold.

My conclusions are as follows:

A rise in commodity prices to the level that prevailed when public and private debts were incurred would quickly restore equities, stop bankruptcies, start the sale of commodities, and restore employment.

This does not mean that any commodity would be freed from fluctuations in its value due to changes in the production of it or demand for it.

A restoration of prices to the level to which debts are adjusted is commonly said to be injurious to creditors. This is not the case. A slight decline is a benefit to creditors, by the amount which it unjustly takes away from debtors, but a drastic decline such as the present one leaves such a high percentage of the debts unpaid that creditors lose. Even if creditors do lose an opportunity for an unjust gain, there would be few individuals who would not be benefitted by stable prices. Because there are only a few persons who are not interested in the prosperity of some industry or in employment and who do not have dependents thus interested. The person who owns a house and who has life insurance and a job is a capitalist, a lender and a wage worker.

Commodity prices can be raised by increasing the amount of currency in circulation. A considerable amount is necessary for a time. Every bank is trying to improve its liquid position, which means that it is increasing its ratio of currency to credit. In many regions, there are no banks and persons much use currency instead of bank checks. The proposed tax on checks is also a deflationary measure, because it will cause some substitution of currency for checks. Under these circumstances, a material increase in currency is necessary to start recovery.

The present situation is not merely bankrupting individuals and causing physical suffering, but is likely to place a severe strain on our social structure, which is based on private enterprise. This social structure should not be blamed for failure to invent a stable measure of value, any more than it is blamed for the present calendar.

It is not to be expected that a flawless plan can be instantly put into effect. All that is necessary to make a plan worthy of consideration is that it work better than the present system is working. Sooner or later a stable measure of value must be established.

The use of any given weight of any single commodity can never be a stable measure of value. It makes money a fixed weight with varying value. If we are to avoid having our social and business structure perpetually subject to accidental discovery of a single commodity or chaotic changes in world demand for that commodity, it is necessary to be in a position to allow the price of gold to vary with the supply of it and demand for it.

This bill is a step in the right direction. It recognizes first that the fall in commodity prices is the major source of the difficulty. That is an important contribution, the recognition of that fact.

Second, it recognizes that when the whole price level falls it is due to money, which is another distinct distribution. It attempts to use the present machinery as far as possible. Personally, I would say that this is good if you will do nothing more, but it does not go far enough. To really be sure of being able to take care of the situation it would be necessary to take the next step and allow the price of gold to vary, and to do that might require, in getting it started, authority to prohibit exports of gold.

Senator WAGNER. You mean an embargo?

Mr. WARREN. Yes; the same as we had during the war. I suspect that foreign countries might withdraw too much gold. The question in my mind is not whether this bill or any of these measures are ideal. The question is, what are you going to do about this situation we are in, which is also not ideal?

Senator GORE. I notice that.

Senator FLETCHER. You will agree, understand, Doctor, to the policy expressed in this bill?

Mr. WARREN. Yes. I agree first that the commodity price level is the trouble. Money is the reason for the commodity price level. There are many ways of proceeding from that point, and this is one way. Personally, I would go considerably farther. I think it is not far enough.

The CHAIRMAN. You think this bill does not go far enough?

Mr. WARREN. Not far enough. But it is much better than doing nothing. For one reason, if you will pass a bill like this we will try it and if it does not go far enough we can take the next step, and we will at least know whether this will be sufficient by trying it. My own judgment is that it is not sufficient. I think we will have to be in a position to vary the price of gold in order to solve the situation.

The CHAIRMAN. In other words, we may have the quantity of circulation but we will not be able to secure the velocity to bring about the desired result; is that it?

Mr. WARREN. You see, I am favorable to doing this rather than nothing.

The CHAIRMAN. Yes; I understand.

Mr. WARREN. Now, the reason why I think this will probably not be fully successful, although partially successful, is that I do not believe there is enough gold in the world, with the amount of confidence there is in the world, if England and other countries come back on the gold standard, to allow the world suddenly to have its price level 30 or 40 or 50 per cent higher than normal in proportion to the world's ounces of gold.

The CHAIRMAN. In other words, our business has outgrown our gold, and credit has supplemented it and that will do it in periods of confidence; is that it?

Mr. WARREN. I would change that a little. While you were out I called attention to the explanation which I would make of how we got adjusted to the high-price level; that about half of the gold-using world stopped bidding for gold. They not only went off the gold standard, they didn't care whether they had the gold or not. Then, regardless of the location of that gold, it became cheap, because of its reduced demand. Therefore, we having a large amount of gold available here or in other countries, much of which we owned although not located there, could have a price level rise decidedly on a gold basis, because a large supply of gold became available. Now the rest of the world wants the gold back again and they are bidding for it.

The CHAIRMAN. And that creates a condition that you feel might have to be remedied only by arbitrarily changing the price of gold?

Mr. WARREN. I think so.

The CHAIRMAN. I am very glad to get your idea. Now, as I understand this whole matter, the whole purpose of this bill is to change the relative prices between money and commodities as a whole?

Mr. WARREN. Yes.

The CHAIRMAN. And will have no appreciable effect where there is a discrepancy between commodities and their exchange, like between agriculture and industry?

Mr. WARREN. It will correct that, because raising the price level automatically raises the price level to producers as compared to consumers' prices. And not only that, it corrects the situation as between parts of the United States, which is extremely important. It is no accident that the western people in all these depressions, the people far from markets, raise most trouble, and a rise in prices corrects that.

The CHAIRMAN. And speaking of prices, are you thinking of American prices or world prices?

Mr. WARREN. American prices.

The CHAIRMAN. But is it not a fact that while we maintain here an American price on most of our commodities, certain agriculture staples are always on a world basis?

Mr. WARREN. Yes; but with some qualifications.

The CHAIRMAN. And does not that create another problem there?

Mr. WARREN. Cotton is the best illustration of the point you are making, because it is shipped so cheaply. The chief difficulty with cotton at the present time is that we have stopped consuming it. It is an industrial crop, and if we raised the price of it——

The CHAIRMAN (interposing). But is it not also a fact that it costs more per pound to produce it than it has in previous years?

Mr. WARREN. Decidedly.

The CHAIRMAN. And is that not the chief difficulty with cotton, as well as with certain other agriculture staples that have to be sold on the European basis?

Mr. WARREN. No; I would say the chief difficulty with cotton is unemployment, and raising the price of cotton——

The CHAIRMAN (interposing). But if it could be produced cheaper there could be more of it bought?

Mr. WARREN. It is pretty cheap now.

The CHAIRMAN. I think it is altogether too cheap, but I do recall; a southern Senator, when I asked how low had cotton been in previous years, said there was some time, 30 or 40 years ago, when it was lower than this. I said, "Did they lose money on it then?" And he said, "No; it was profitable at that time."

In other words, the cost of living was less, the wages were less, and machinery was cheaper, and it was a different condition.

Mr. WARREN. If the wholesale prices of all commodities as reported by the Bureau of Labor Statistics could be raised—I am not particular what level, whether it is 1921 to 1929, somewhere near to that—that would restore employment. Then people would begin to buy cotton and the price of cotton would rise because of demand here.

And, furthermore, if we would do something which raises our price level we are influencing the whole world most decidedly at this time. England is largely waiting for action here to see what will happen.

The CHAIRMAN. Oh, there are certain relations, even though they are not close relations; of course, it has its effect. But if this will remedy the relative purchasing power between cotton and manufactured goods or wheat and manufactured goods, then it might be another way of saying that it was the cause of that relationship being wrong.

Mr. WARREN. I should say that it is primarily; that the primary cause——

The CHAIRMAN (interposing). You do not attach any importance to the higher manufacturing cost coming into the picture so that it costs more for a binder or a fork or a suit of clothes or a pair of shoes than it did before then?

Mr. WARREN. If the price level is raised, the price of a binder would raise a very small amount.

The CHAIRMAN. Of course, I can not analyze exactly what will happen in the future. I know what we have had in the past. Does this relation between money and commodities do two things? Does it first fluctuate the general price level up and down? Second, does it create discrepancies between localities and commodities also?

Mr. WARREN. Exactly.

The CHAIRMAN. Well, I do not think you made it clear. Does it send the freight rate up on wheat so we can not ship it to Europe, too?

Mr. WARREN. Yes.

Let me back up a minute on that and take a few illustrations. For example, the price of a horse in Massachusetts was $150 and the price of a horse in Montana was $50. There is a difference of $100. That $100 still exists, but the price of horses in Massachusetts has dropped to $105 now and the price of a horse in Montana is substantially zero. Now, the Massachusetts price dropped a third. The Montana price—there is not any.

The CHAIRMAN. Then, how in the world could this discrepancy develop when these changes did not take place in the monetary system?

Mr. WARREN. They developed when it did take place.

The CHAIRMAN. Then the change in the monetary system sends wheat up and shoes down, doesn't it?

Mr. WARREN. The change in the monetary system and the rise in money reduces the price of shoes a little, but it reduces the price of hides immensely more.

The CHAIRMAN. I do not see how anything can reduce the price of hides any. They are down to about nothing now, are they not?

Mr. WARREN. That is like the price of that horse in Montana.

The CHAIRMAN. There is no danger there any more, is there?

Mr. WARREN. A very trivial rise in the price of shoes would put the price of hides back where they were.

The CHAIRMAN. For instance, a labor group decides that they want a certain price for a certain kind of work, railway work or plastering, and they succeed with it. That is due to the monetary system, is it not?

Mr. WARREN. No; not necessarily.

The CHAIRMAN. Then there are other causes in the picture; is that it?

Mr. WARREN. Certainly.

The CHAIRMAN. Then there must be other remedies necessary also.

Mr. WARREN. Remedies for what?

The CHAIRMAN. For the inequality that exists.

Mr. WARREN. I would not want to make the statement that at all times in history the relative pay for a carpenter, say, a plumber, a janitor, a Congressman, were always in adjustment; correct adjustment.

The CHAIRMAN. No; but when you get one out of line, does that not tend to throw the balance out of line?

Mr. WARREN. Yes.

The CHAIRMAN. Is not the very fact that it costs more to build a house now than it formerly did one reason why people are holding back on further house construction?

Mr. WARREN. Not at the present time.

The CHAIRMAN. Well, I don't know. I had a Los Angeles man tell me that that was the feeling out there; that houses had already shrunk in value and wages were shrinking, and they had the feeling that with further shrink in wages, there would be shrink in the production costs and shrink in values and they did not like to be caught in it and they were holding off.

Mr. WARREN. I think that is the general opinion, but I think it is entirely wrong.

The CHAIRMAN. In other words, you think whether one pays plasterers $5 or $15 does not change the price of the house?

Mr. WARREN. Yes; I think the less you pay the builders at this time, with the situation as it is to-day, then the less value for all the houses built, and that those houses which are built and which already have debts on them are thrown on the market and will be sold for less than whatever this new cost is, and, therefore, the more you reduce the wages, the less building you get until you get liquidated, which will be several years.

The CHAIRMAN. All right; I can follow you on that all right. Therefore, as I said in the beginning, I should like to have maintained our high cost and our high prices, once having reached that level. But, of course, we were up against this thing; that we should be deflated out West because we had gone up during the war and the rest of the country should stay up because they belonged up. I am wondering how the change of the currency system would change that relationship.

Mr. WARREN. It changed it most decidedly. I have some figures here——

The CHAIRMAN (interposing). We are up against this now. As you said, the cost of producing commodities is greater. Our market, or rather, the farmers' market, is the European market. Other people with the high costs had the American market, which was a different price level from the other. How can a change in the currency system bring about anything like a situation similar to that?

Mr. WARREN. The major market for the American farm products is the American market.

The CHAIRMAN. It ought to be. May I ask now, what difference does that make, that we sell 99 pounds of butter in America and one in Europe, providing the one we sell in Europe fixes the price on the other 99 at home?

Mr. WARREN. Well, it does not. It is the total supply balanced against the total demand that fixes the price.

The CHAIRMAN. Well, this you are agreed; that we can not get any better price for a pound of butter consumed in New York than we can realize for it on export?

Mr. WARREN. The biggest discrepancy in that situation is not as between America and Europe but between an American farm and an American export point.

The CHAIRMAN. All right; but, of course, it has been generally recognized, and I think you will agree to that, that Liverpool generally fixes the price of wheat in the world, and that we get Liverpool price less cost of transportation.

Mr. WARREN. No; I can not agree with that.

The CHAIRMAN. Generally.

Mr. WARREN. No; not generally true. It would be just as true to say that Chicago fixes the world price. In fact, we know definitely; we have worked out a percentage basis on the relative importance of American production on American price and world production on American price and world production on world prices. The statement that the Liverpool market fixes the price is not true. In fact, a great deal of the time, most of the time, our price is higher than Liverpool prices.

The CHAIRMAN. I realize that when the Farm Board tried to peg it, it had no relation to Liverpool. I realize that. But I am speaking of the 30 or 40 years I have had experience in selling wheat. The Liverpool market is what has governed it. I will admit that the markets in every land have an influence, including the Chicago market. It seems to be a sort of a clearing house. However, we have never been able to get Liverpool prices except under extraordinary conditions.

Mr. WARREN. The most important effect of a decline in the price level to an American farm is the discrepancy that it injects between the American farmer and the American consumer's price if he sells here, or on the American export point price if he sells foreign.

Now, for example, when prices rise, prices in Saskatchewan as compared with eastern Canada I happen to have in mind, prices in western Canada trebled, Saskatchewan selling on the same market.

The CHAIRMAN. You are speaking of just recent years?

Mr. WARREN. Yes; in the rising-price period. Now, the same in the reverse. For example, take this egg situation. Eggs are 5 cents, I understand, in Texas. Those same eggs would be about 15 cents in New York. Now, a Rhode Island farmer—of course, he will have better eggs than that and he gets more—but, suppose he had the same eggs, and if eggs drop from 30 cents to 15 cents in New York the Rhode Island farmer would be getting half what he got, but the Texas farmer's price would drop from 20 cents to 5.

The CHAIRMAN. On account of the longer transportation?

Mr. WARREN. The fixed charges in between. And here is an interesting result of that——

The CHAIRMAN (interposing). Let me ask, does that not also establish the domestic price in Texas? In other words, the New York market price fixes the domestic price in Texas?

Mr. WARREN. Always less a constant amount, and there is where——

The CHAIRMAN (interposing). Oh, yes; but comparatively speaking?

Mr. WARREN. Yes; that is right.

The CHAIRMAN. I think that illustrates the very point I was speaking of about Liverpool and here. In other words, if you have a central clearing place——

Mr. WARREN (interposing). Provided they ship to that point.

The CHAIRMAN. Yes; but the man who sells eggs in Texas that are eaten in Houston does not ship to New York, and still he gets the New York price, less transportation to New York.

Mr. WARREN. Provided most of the Texas eggs are shipped that would be true; but if most of them are eaten in Texas, that would not be true.

That situation, or that discrepancy, is also illustrated by this point, that when we had this terrible agricultural depression which has lasted so long, the Federal land bank, up until recently at least, had never taken possession of a farm in the State of Rhode Island. Now, you may think that there are no farms there.

The CHAIRMAN. I have been there. It is quite a farming district.

Mr. WARREN. Yes.

Senator GORE. Is all the farm in the State?

Mr. WARREN. There is about the equal of three or four Oklahoma counties.

Senator GORE. And if this one farm lay within the State of Rhode Island——

Mr. WARREN (interposing). It would be equal to two or three good counties.

But the point is this, that southeastern New York, northern New Jersey, Connecticut, and Rhode Island, when this depression came on, because they are near market and these distributing charges do not eat them up, have not had a real depression. Western New York is hit a good deal like the Western States, not so much.

The CHAIRMAN. I agree absolutely with your statement as to the effect of shipping and transportation cost between New York and the interior of the country, only I insist that it is a general rule; it is not a special American rule; it is a rule any old place.

Mr. WARREN. Certainly.

The CHAIRMAN. That if you sell goods, you have got to deduct the transportation charges.

Mr. WARREN. That is certainly true; and when transportation charges remain fixed, then a drop in the price level which might not be serious near a market, becomes overwhelming when you reach Iowa, and when you reach Montana, things may have no value.

Now, conversely, if you restore the price level it might raise very little the man near market, but to the man farther from the market it becames of supreme importance, and the difference is greater than is generally realized. We have worked that out for different regions in the United States, and it explains very definitely why in every period of depression it is the farmers far from market who are considered to be radical. It is because they are hurt so severely. Now, you take right now——

The CHAIRMAN (interposing). That is on the theory that it is the hungry man that is radical?

Mr. WARREN. Yes; that is it; the man that is hit becomes radical.

The CHAIRMAN. In other words, there may not be anything the matter with his head; it is his stomach?

Mr. WARREN. We have an interesting situation on that this year. The Department of Agriculture figures show that the incubation of eggs in California is decidedly down. For the United States about the same, I believe, as last year, and for the Eastern States it is rising. For instance, New York is incubating more eggs than before.

New York competes directly with California on eggs; two competitors in the same New York market. We will say a year ago they were both getting 30 cents in New York, and now prices have dropped to 20 cents. The California producer was getting 30, less about 10, or 20 cents. The New York farmer was getting about 28. Now California is getting 10, the New York farmer 18. My illustration is just a little too optimistic for New York City is now below 20.

Rising prices, conversely, will help the California man more. The West had a stimulus to agriculture in the rising price period. It was the principal cause of the rise in price of land in the West.

The CHAIRMAN. The West had the rising land values. Did anything else rise in the West faster than it did in the East in the same period?

Mr. WARREN. Yes. The land values rose decidedly in the West on farms.

The CHAIRMAN. How much did they rise?

Mr. WARREN. Well, I haven't the figure right here; about doubled.

The CHAIRMAN. Seventy-five per cent; all right.

Mr. WARREN. Here is what has happened to farm values——

The CHAIRMAN (interposing). What was the increase in the price of building in the East during that period?

Mr. WARREN. During that period relatively little. It came later when they got cheap food.

The CHAIRMAN. What was the cost of replacement of building at that very period in 1919?

Mr. WARREN. I think more than the price of buildings?

The CHAIRMAN. In other words, if you were to rebuild a building in the East it would cost you at least 75 per cent more than it would a few years before?

Mr. WARREN. I would have to look it up and check it.

The CHAIRMAN. No: but you recall that in 1919, the high production costs, and still you are talking about western lands going high. You will find your eastern stuff went higher than the western lands did, if you use the census figures. If you take a certain Iowa newspaper that wrote up the sale of a piece of land somewhere, of course you get a different idea.

Mr. WARREN. The figure I have taken is the comparison I wanted to make about eastern farm land and western farm land competing on the same products.

The CHAIRMAN. That is hard to do, because that is often a question of fertility. Land values are not based on acreage. It is often based on soil conditions. So I will admit the difficulty in that. The rise was less than in the East.

Mr. WARREN. The rise in the East was less and the decline is now less.

The CHAIRMAN. Of course, there was this element, that some of the eastern land like Connecticut and Rhode Island is really a residential section. It is not so much dependent upon the earnings of the land. The other thing is the very thing you stated and that was this, that they did not suffer in earning power like the West did. They were closer to market.

Mr. WARREN. Yes.

The CHAIRMAN. And does not that explain the very thing you are mentioning?

Mr. WARREN. If you had identical farms near market and far from market, a rise in prices causes a greater rise in prices of that farm which is far from market than the one nearest, and the decline in prices hurts the farm far from market much more than the farm near by. It may overwhelm it.

The CHAIRMAN. I agree with that absolutely, but there is one more element in it. The production record shows the West and the South raise staples. They confine their market largely to Europe. This section products for local consumption, and the Industrial Conference reports show this, that when the western and southern farmer took a shrink of 15 per cent, New York State took only 12 per cent, Pennsylvania about the same, and that the New England farmer actually gained about 6 per cent in his current income over that same period when the shrink was in the West. Was it not due to the fact that he had the ability to boost his price in proportion to the cost of production, and having a local market he was not dependent on Europe?

Mr. WARREN. Well, you take the egg situation, which has nothing to do with Europe. You have the New York farmer competing directly with the California farmer, both using Iowa corn and selling in the same market. It is a much better market than anything that ever existed in Europe for eggs. They are absolute direct competitors. Now, when the price level was rising it was a much greater stimulus to California and the Pacific coast pushed into the poultry business. Now, this stimulus has fallen and the eastern farmer is not so bad off as the Pacific coast, because the 10-cent intermediary charge sits there, and if prices in New York City drop to 10 cents the western farmer gets zero.

The CHAIRMAN. Well, if you want us to admit a man remote from the market with a high transportation cost is in a risky business, I think we can all agree that the record should show that, and that raising eggs 3,000 miles from the market is more hazardous than raising them 30 miles from a market and it is bound to fluctuate more. I do not think we have any difference of opinion on that at all. And you will pardon me for so many interruptions here, but it is helpful to me if it is not to the other members of the committee.

Senator THOMAS of Oklahoma. May I ask some questions?

The CHAIRMAN. Certainly, Senator Thomas.

Senator THOMAS of Oklahoma. I am not a member of the committee, but for the benefit of Congressman Pettengill, of Indiana, I would like to ask these questions.

You stated that you did not believe this bill would do as much as you would like to see done. As reflationary measures what are your views about the respective merits of the Goldsborough bill and the pending soldier bonus bill or bills?

Mr. WARREN. You have two questions, if I may divide it. One is as to what would happen if you do a certain thing and the other is which is it desirable to do? The latter includes the question of expediency. The monetary effect of any two measures will depend on which causes the greatest increase in monetary circulation. That is equal amounts of additional currency put in circulation, for whatever reason, would have the same effect on prices.

If you were to take the soldiers' bonus, say, with X dollars increase in the currency and we were to, say, change the weight of gold in a dollar or by some other means increase the currency by X dollars, the effect on prices would be the same.

Senator THOMAS of Oklahoma. Do you hold to the quantitative theory of money?

Mr. WARREN. Yes.

Senator THOMAS of Oklahoma. Do you not agree that the velocity of the money in circulation would have something to do with the commodity prices?

Mr. WARREN. Yes.

Senator THOMAS of Oklahoma. In other words, the banks might be full of money but if that money could not be gotten out where the people could get it, it would not have any particular effect upon commodity prices?

Mr. WARREN. Under a situation such as we are in to-day, with banks of necessity having extremely high cash reserves and thereby in effect practically sterilizing money, many individuals fearing to put money in the bank, with a proposal to tax checks, which will tend to suggest payment with cash—all these different things show that a larger amount of currency than normal would be necessary to get normal price results, because much of it would be idle.

After we have put out enough currency in some form to satisfy the cash reserve which the banks need, and the man who wishes to hoard, then we will get some effects of increasing currency.

Senator THOMAS of Oklahoma. The Federal reserve at this time is buying approximately one hundred million dollars of bonds weekly. Do you not believe that it would be necessary for the Federal reserve to continue this operation until such time as they have bought enough bonds to permit the banks to liquidate their indebtedness with the Federal reserve, so that the excess notes will begin to coagulate or assemble in the banks, and that we must wait till that point is reached before we see any perceptible change in commodity prices?

Mr. WARREN. If they would buy enough securities and continue long enough, ultimately it would result in an increase in currency and accomplish the same result. Of course, we do not know how long they are going to continue that policy or whether they are buying fast enough.

If we had legislation such as this proposes, it would recognize two things: the importance of the commodity price level, and we would recognize what commodity price level to use, the United States Bureau of Labor statistic index of wholesale prices of all commodities, which is the best there is; that monetary means can raise it, and we expect our banking system to act with that in view. If we adopted any such policy it would also have a psychological influence on prices.

Senator THOMAS of Oklahoma. If the Federal reserve policy is continued it will be away up in the summer, August or September, before we see any appreciable change in commodity prices. Do you not agree to that?

Mr. WARREN. I should hesitate to say at what date we would reach it with that particular sum. Apparently progress in effecting a price level is not in sight.

Senator THOMAS of Oklahoma. Well, the facts show that the more bonds they buy the scarcer money is, because circulation shows that.

Last week it decreased and the week before it increased, and it has fluctuated in that way from time to time. So the net results since the first of the year is that we have had a decrease in circulation of 200,000,000. This shows that we are going in the wrong direction.

Mr. WARREN. We are either going in the wrong direction or we are not going fast enough in the right direction.

Senator THOMAS of Oklahoma. I agree with you thoroughly.

The CHAIRMAN. I am quite impressed, Doctor, with your thought that after all there may not be gold enough in the world to meet the present business situation with the present state of mind and that these matters we are trying to work out may not have anywhere near the desired effect. What would be your thought as to the method of working that out? Supposing it should be found here by fall that we are not getting the increase in the price level that you hoped for? Is it your thought that this country alone could change the ratio of gold in the dollar or the weight of gold in a dollar or that it would have to come in some other way.

Mr. WARREN. We can change it any time we wish. France changed hers, and is therefore on a certain price level. There is about a fifth as much gold in the franc as there used to be. Of course, we do not need to do anything so drastic.

By the way, we changed the weight of gold in a dollar in this country in 1834 by congressional action. We reduced it by about 6 per cent, and that is the way we got on a gold basis without intending to. We changed the ratio of gold to silver by reducing the weight of gold.

The CHAIRMAN. The discouraging thing to the layman is to have his attention called to the fact that so many things happen that we do not intend should happen as a result of certain acts.

Senator GORE. That effort in 1834, the change in the weight of a coin, was intended to establish a parity between gold and silver, was it not?

Mr. WARREN. Yes.

Senator GORE. And to reconcile the legal ratio?

Mr. WARREN. But it went too far, because Europe had different ratios, and therefore we shipped silver and they shipped gold.

Senator GORE. Yes; and we changed again in 1837.

Mr. WARREN. Pardon me. I do not think I answered you yet [addressing the chairman].

The CHAIRMAN. Yes; I think you did that very well, Doctor. You take the position that simply an act of our own Government will accomplish that purpose.

Mr. WARREN. There are many ways in which you can increase the currency. The soldier bonus will do it. That is issuing money.

The CHAIRMAN. That is simply by the inflation method?

Mr. WARREN. Yes.

The CHAIRMAN. By more money?

Mr. WARREN. Yes.

The CHAIRMAN. May I ask this: Do you feel that an issue of $2,000,000,000 of Government currency at this time would still keep us on the gold standard?

Mr. WARREN. I should doubt it, as I should think we would have to put restrictions on the withdrawal of gold by foreign countries.

The CHAIRMAN. You think with that we might have inflation and still be on the gold standard of the present gold dollar, do you?

Mr. WARREN. Of course, there are various degrees of the gold standard. You might maintain a gold standard in this country but not allow export, as we did during the war. Yet we were on gold standard internally. There was a slight premium at one time on gold in Mexico, showing that they began to think that they would rather have gold than our dollar. But within the United States we were on a gold basis, although gold was not too easy to get.

The CHAIRMAN. As I understand it, then, there are two methods of inflation; one is to inflate on the gold standard, and the other is to cut the gold dollar and get the inflation that way?

Mr. WARREN. That would be one of a number of ways.

The CHAIRMAN. And the third one would be to ignore the gold dollar and be on some other basis; is that it?

Mr. WARREN. Yes; you could do it any number of different ways. A large part of the world has reduced the weight of gold in the monetary unit. France and Belgium and Italy and most of the Continent of Europe has done so. If England should finally decide to establish the pound on their approximate present ratio, she would cut down 25 per cent. Of course, it is within their power——

The CHAIRMAN (interposing). Would we not be materially handicapped if we were on a different gold standard from the rest of the world? Would we not find it difficult to compete in the markets of the world with our commodities?

Mr. WARREN. If England reduces the weight of gold in the pound by 25 per cent it will help her in the competitive position in foreign countries rather than hurt her. Her pound then would be just as stable relative to our money as it was before the war, and by reducing the weight of gold in a pound she would reduce her costs of production and make it easier to sell in foreign markets, just as France made it easier for her to sell in the foreign market when she stabilized the franc with one-fifth of its former weight of gold.

Senator GORE. But that, Doctor, was virtually a repudiation, was it not? That is what it was, was it not?

Mr. WARREN. Any such means, of course, means that the internal debt of the country is ordinarily reduced by that amount.

Senator GORE. She reduced her external debt; that is, she paid people with her francs at full value?

Mr. WARREN. Yes.

Senator GORE. There is no controversy about that. Now, I want to ask you a question or two about this changing the number of grains in a gold dollar, because I rather get lost in a moral and economic morass there. I think you put your finger on the correct spot when you say the debt is the chief trouble, but it seems to me that you bring us up against the choice of evils.

Now then, supposing I enter into an agreement with you to pay you a thousand dollars in gold. Time passes and Congress decides that that is a little too heavy; that my debt is a little too heavy for me to pay. Under our agreement I would have paid you a thousand gold dollars 25 grains fine, say, 25 grains in round numbers. That would be 25 grains of standard gold, not fine gold. Congress comes along and says my debt is a little too heavy for me to pay and passes a law reducing the number of standard grains in the standard gold dollar to 20 grains, and says that I can pay you a thousand dollars with that kind of gold. I pay you with gold which would have paid $800 at that time.

Now, then, at the time I made that contract with you to pay you a thousand gold dollars I agreed to deliver you a thousand bushels of wheat at the same time. Congress comes along and says that wheat debt is a little too heavy to pay, and Congress passes a law providing that I can pay you a thousand bushels of wheat with 800 bushels of wheat.

And I also made a contract to pay you a thousand bales of cotton with a 500-pound bale. Congress says that debt is just a little too heavy to pay and passes a law that I can pay you a thousand bales of cotton with bales of cotton that weigh only 400 pounds.

Now, is that honest?

Mr. WARREN. The situation as I see it is about this: That we have incurred debts which if paid would be very good for the creditor, but they can not be paid.

Senator GORE. That is the pity of it, Doctor.

Mr. WARREN. The creditor was not expecting to use gold when he made the contract.

Senator GORE. The trouble is a great many of them stipulate gold.

Mr. WARREN. Yes; but I mean the creditor was not expecting to use gold. He expected to use the buying power when the debt was returned. If the creditor gets the buying power which he anticipated when he lent the money there has been no injustice done him.

Senator GORE. Then you think the 800 bushels of wheat—wouldn't that be the shorter route, just to have that 800 bushels of wheat count for a thousand?

Here is what I have in mind in my question: One king of France is reputed to have changed the weight of their standard of value seventy-one times in nine years. The Roman Empire increased the alloy in its coin in course of history down to three-fourths of the value of the coin, and the legal tender of the value of the coin stayed the same. When the French Revolution broke out they changed their unit of value from a lire to the franc. The standard of the lire at that time contained one-seventy-eighth of the amount of precious metal it contained when it was adopted as a unit of value.

Now, you know kings who have done that have been reprehended in the course of history as being dishonest.

Now then, I get your point and I agree with you that it is a great tragedy for these public debts to have to be paid three times and the farmers have got to dig three times as much out of the ground to pay these debts as they were worth when they were contracted. But if I shoot you accidentally it is just as bad for you as a misfortune, but if I deliberately aim a gun at your heart and shoot you dead it is a very different moral transaction from my point of view.

How do you escape that moral phase of this problem? I know France repudiated, and I think it would be better and a little more straightforward for us to pass a law and say that $500 should pay a $1,000 debt. It is mystifying to me.

Mr. WARREN. I should think that as a long-time policy ultimately we have got to come to an all-commodity dollar of some form, rather than a one-commodity dollar. This means varying the price of gold from time to time so that all our currency will have a constant buying power instead of being a constant weight as it is now.

Senator GORE. Would it not be better to vary the amount of the debt instead of tinkering with the gold dollar and changing a few grains now and then and taking a few away and putting a few back now and then; just pass a law and say you owe $1,000 and you can pay it off with $600?

Mr. WARREN. You would have to change too many other things.

Senator GORE. That is all you have to change. Of course, you would have to stratify your debts in a way.

Mr. WARREN. I think we will eventually come to an all-commodity dollar which has a constant buying power but varying weight as the best dollar for society. The way in which it is feasible to change is a political and public question. The justice of it is not debatable.

Senator GORE. That is true. I wondered about this and I would like to get your reaction to it: When I was a youngster I used to tinker a good deal with perpetual motion. I tried to make a thing move all the time and it showed an uncontrollable disposition to stand still. In our efforts to change and vary this dollar are we not trying to make a thing stand still that has an ungovernable tendency to move? Are not the two things equally impossible?

Mr. WARREN. No; I should say not. A decided change in the weight of gold in the money, such as has been made by a large part of the world and promises to be made by most of the rest of the world, such a decided change as that, which looks as if it were likely to be nearly world-wide, is only justified by being better for society than the next best alternative.

Senator GORE. I am not certain that repudiation is always the worst of evils. I am not passing opinion on that.

Mr. WARREN. But as a long-time proposition I think we have the wrong kind of a dollar. It is a measure of weight, not a measure of value, and when I borrow a thousand dollars of you I lend you buying power.

Senator GORE. Yes.

Mr. WARREN. Not gold.

Senator GORE. Surely, and if you could return the equivalent——

Mr. WARREN (interposing). I want to return to you the equivalent buying power.

Senator GORE. That would be ideal, but now, Doctor, is not this a fundamental and insuperable difficulty, that value is not inherent in things? It is not the property of things; it is a relation between different things, and our dollar attempts to measure that relationship and used to do that which it does not do now.

Mr. WARREN. If we took this Bureau of Labor index number that is the best measure of relationship as a standard. But I think really I should not be going on with this particular phase of the discussion.

Senator GORE. Well, I beg your pardon.

Mr. WARREN. This is a thing that Professor Fisher or some one who has worked more in that field would be much better qualified to answer than I am.

The CHAIRMAN. The committee is in no hurry to adjourn, and if Mr. White will come forward we will be glad to hear him.

STATEMENT OF C. R. WHITE, PRESIDENT OF THE NEW YORK STATE FARM BUREAU FEDERATION, IONIA, N. Y.

Mr. WHITE. C. R. White, president of the New York State Farm Bureau Federation, Ionia, N. Y.

Mr. Chairman and members of the committee, I want to say that I am going to be very brief, because I am very close to Doctor Warren in the work he is doing, and I induced him to come down here to give you the actual facts and statistics in regard to this, which I thought would be very much more valuable than anything I might say.

I want to say this, that I am a very strong supporter of the theory of an index dollar governed on commodity values, because the purchasing power of commodities, a level price of commodities, is the basis on which we can arrange all of our human affairs. Our difficulties and our distressing conditions come from the uneven conditions that are brought about through decline or the enhancement of these values and the adjustment of all other things to correspond to the decline or the increase in the value.

When we have a stable commodity price everything else finally adjusts itself to it. Wages, salaries, values of property, transportation charges, every last thing adjusts itself finally to commodity values. That is to say, if we should have a period of 10 years of a stable price level, that is, the average commodity price level should be stable, we would finally find adjustment of all of these things and we would be in a very fine position as long as that remained.

We have the example of that during Benjamin Strong's administration of the Federal reserve bank, where we had a very stable level of commodity values. Before that time when we were inflating, we were talking all the time about the "vicious circle" we were going through. Labor was making its demands for increased wages. Salaries had to be increased, and you know the papers were full of the fact that we were going through a vicious circle. Wages only increased cost of commodities, and then it just went on and on.

We are now in a "vicious circle" going back, and the vicious circle going backward is very much more tortuous because it is very much harder to adjust than where the vicious circle is going up. Because, as has been pointed out here, our debts do not come down. Of course, in the going up the creditor or the person with fixed incomes were the ones to suffer, because they did not have income enough to buy the necessities of life. Now we have just the opposite case, where they can buy more but other people can not get enough to meet their obligations, and therefore we are in state of liquidation.

I see no difficulty, especially through the more arbitrary means of changing the price of gold to correspond to an index level in raising the general price level.

The CHAIRMAN. I am not sure I understood your last statement.

Mr. WHITE. I see no difficulty in having either a bureau in the Treasury or the Federal reserve bank change the price we pay for gold from time to time as shall be indicated on an index figure of commodity prices.

The CHAIRMAN. Paper gold in commodities?

Mr. WHITE. No, what they would pay for gold in the dollar. We are paying $20.67 an ounce for gold. That was established in 1837.

We have paid it ever since. If we should pay $30 an ounce for gold now we would be approximately with the dollar on the same corresponding value of the English pound. They deflated their pound to the market value of gold, deflating it about one-third. If we paid $30 an ounce we would have 15.5 grains of gold in a dollar, which would be a deflation of the value of the dollar by about one-third, which means a corresponding increase of commodity prices.

I think we have got to come and should come to a scientific basis of fixing a static value in the dollar.

I just want to call your attention to this fact, that section 8, Article I of the Constitution places the burden of doing just that thing upon the Congress; that they should coin money and fix the value thereof on the value of foreign coin and establish weights and measures.

And, gentlemen, when you study into the weights and measures that we have to-day and see how finely they are adjusted, and even the Bureau of Standards is not satisfied with adjustments that are so fine that to the layman they are almost beyond their comprehension, yet we have taken two plans of fixing the value of the dollar. One is that we will pay a constant price of gold regardless of what the world demand is or what the world supply is, and the other is that we will allow a banking institution, semiofficial and semibusiness, to, without any mandate or any particular standard that they shall work to, solely upon their judgment, increase or decrease the currency as they see fit.

I want to say, gentlemen, it seems to me that is a tremendously dangerous power to place in the hands of any body of men. I do not believe that any group of men, public officials, ought to want such a power. I was for some years connected with the Department of Agriculture and markets of the State of New York, which is a regulative department very similar to the Agriculture Department in Washington in many respects, and I know that the officials in that department do not like to have laws passed by the State of New York which give them wide discretionary powers. It is necessary to give them some discretionary powers, but they like to have the direction made in the statute just as clear as possible to govern them in the exercises of those powers. Because, when you grant broad discretionary powers to men they may be perfectly honest in the exercise of that discretion, but if they err, why, they are subject to very severe condemnation.

On the other hand, without any reflection on the Federal Reserve Board or anybody else, I can not conceive of an institution so close to great monetary interests that there might not be pressure brought to bear upon that body to do things which were contrary to the best interests of the people of the United States. It puts a man in a position of that kind in a very difficult situation indeed.

I want to say there, as I said before, I am not reflecting on anyone and I do not want to cast a suspicion, but there is a possibility.

I would like to just give a little illustration of my conception of money and say it is the lifeblood of trade. It is just as essential to trade and commerce and all things that relate to the welfare of our people as the blood of the human body.

But I want to make a contrast, gentlemen, upon how the blood of the human body circulates and how the circulating medium upon which commerce is carried on circulates. The supply of the lifeblood of your body responds to your brain as to the action of the members of your body and does it properly. That is, you start and walk or run. It is the inspiration coming from your mind that compels you to do it. But when you use those muscles your heart has to respond with increased circulation.

And the opposite is true, and we all know, gentlemen, what happens when that heart takes a notion it wants to run the machine. You do not run and you do not walk, and the probabilities are you are gone. That is exactly what has happened in the United States.

Senator GORE. Now, in your illustration, Mr. White, you say when a man runs his blood circulates faster. It does not increase in quantity; it just increases in velocity?

Mr. WHITE. Velocity, yes. But what I am getting at, Senator, is the fact that that power which dictated that is not the heart itself but is your brain. Therefore I want to bring this fact out, that it ought to be the brains of the commerce and the business of the United States that directs the amount of circulation and those things which direct the flow of lifeblood of business, and not some central organ which closes it down either because it can not function because some one's desire or judgment keeps it from functioning.

Senator GORE. I was wondering, your illustration being money as the lifeblood of the body economic, if it might not be the increase in the rapidity or velocity of circulation that would suffice there, like the increase of volume of blood in your veins. It is not the volume of blood; it is the velocity.

Mr. WHITE. You have to have quality of blood as well as velocity, which is a very essential thing, and that is the same thing as the quality of money.

Senator GORE. Without any change in the volume or quality of blood, in your illustration a while ago about running, you accelerated the flow there.

Mr. WHITE. Yes; but it is the mental part of the body that dictated what the circulation should be, not the heart which does the pumping. That is what I was getting at in this. I feel that the American business man and the American people are more competent to decide when they ought to do business and the flow of money into channels of trade than any body of men that can be selected by the President of the United States or by Congress or by anybody else. I believe we would be on a perfectly safe basis when money responds to the requirements of the people, rather than through any arbitrary power. The value of money I think should be maintained as static as possible, just as near comparable with our other units of measure as it is humanly possible to make it on a scientific basis.

And, gentlemen, I have a very strong suspicion—I have not been to see them—that if you should ask the Bureau of Standards to set you up a dollar which would be static as their other measures are, those gentlemen would give it to you.

When we get it out of the generalization of thought into a scientific consideration, I think you would find a solution. You know it occurred to me sometimes as I hear the discussions over the country that so many people are about in the same position as the woman was who had a sick boy and sent for the doctor. The doctor came in and looked over the child and said, "Well, he is a very sick child," and the woman's remark was, "Larnin' is a very great thing." That is the great trouble of this. Our learning is all right, but we have not got it boiled down to a scientific basis.

And how much more necessary and material it is that this particular measure be accurate than any other measure we have. We use it pretty nearly as much as we use all other measures. We use it to make measurements, as the criteria to enter into bargains which last over long terms of years. It certainly ought to be static. No manufacturer would care to make a contract for a given number of yards of cloth if he did not know whether his yardstick by which he measured it would be 24 inches long or 48 or 36.

Senator GORE. Is that quite an applicable analogy, Mr. White? The point I made a minute ago—value does not inhere in commodities; value is the relationship between different things, and if either one varies the relationship varies and therefore the value varies, and how can you have a fixed measure of value when value itself, being a relationship between different things, is constantly varying?

Mr. WHITE. There will be between the individual things but with an average price level of 740 commodities as your index it will not. We want that dollar to agree to that index figure, because you can not make it agree to all different commodities any more——

Senator GORE (interposing). And on your own theory you will have to change the number of grains in the gold dollar off and on from time to time.

Mr. WHITE. No; we would buy and sell. We would do just what France does, stop coining gold entirely, and would use it purely for redemption purposes, and we would redeem our money in the dollar of gold that carries the exact value that was indicated by the index figure. That is what we want.

Senator GORE. You do not mean that we fix the number of grains. You do that now.

Mr. WHITE. No. It would fix the price of gold, which is the equivalent of determining how many grains the dollar would represent.

Senator GORE. From time to time?

Mr. WHITE. Sometimes it would be one amount and some another.

Senator GORE. Yes.

Mr. WHITE. But it would correspond to the value of gold and not the quantity.

Senator GORE. Something has got to vary in this measure of value. If you stabilize your value and vary the standard, if that were a human possibility——

Mr. WHITE (interposing). You raised the question with Doctor Warren a few minutes ago, Senator, on the basis that if you had made a contract that would require a certain amount of gold and it ran for a certain period of years and then he wanted to pay you with half as much gold, if that half as much gold bought as many of the commodities and the things we require in life as double the amount bid when the contract was made, it was just, and that is exactly what we want to do, to scientifically adjust the dollar. We want to give you an amount of gold which will buy the same commodities that would correspond exactly with the same things that you could have bought when you made the obligation.

Senator GORE. If you could buy only half as much with the gold when you paid me——

Mr. WHITE (interposing). Why, I ought to be placed where I would give you twice as much gold, and that is exactly what the index figure will do. If prices went up, and up, and up, why, then the amount of gold that you redeem your dollars on would go up correspondingly, and that will give you gold enough to buy the same amount of commodities.

Senator GORE. Why wouldn't it be just as well, Mr. White, from time to time to provide that we pay it off with $500?

Mr. WHITE. That would be just if you happened to have a man who happened to be in the particular situation that you offer here. If it were a man who made a $10,000 salary and I loaned him $1,000, there would not be any particular reason why I should make any adjustment with him at all.

As a matter of fact, there was an article in Forum Magazine some time ago where a man offered the plan based on the index, changing the amount of gold in a dollar to keep the dollar static, with the idea that we should adjust every transaction upon the index basis. That is, if a man gave a note for $1,000 due in six months, if commodity values increased he would give a correspondingly increased number of dollars. If they had gone down he would be let off with a correspondingly less amount of dollars. That would mean with hundreds of thousands and millions of transactions we are entering into every day among our people adjustments would have to be made all the time, and I am very fearful that the man who is very smart would probably get the best of the bargain. I think it is a good deal better for the Treasury Department or the Federal Reserve Board to fix those adjustments in one item.

I want to go back on just two matters. We go back to the Colony of Massachusetts and they recognized that exact point. There was a bond issued in the Colony of Massachusetts on which they used the index. They agreed to pay a certain number of Spanish mill dollars, and then they enumerated certain articles which were the articles of common production for use, and named the prices, and stated the amount should be less or more as the average price of the said commodities was less or more.

In another case Franklin D. Roosevelt, when he was Assistant Secretary of the Navy, adopted an index number before the war broke out to determining of wages that the employees in the navy yard should get, and the first year their checks through the accounting department were changed five times to keep up with the amount of salary that was necessary to cover the index on the cost of living, and they changed when it went the other way. It all comes down to a scientific problem.

I want to say this, that the favorable sentiment on this matter is gaining, Mr. Chairman, very rapidly in the State of New York. As a matter of fact, our people are understanding this proposition pretty well up there.

The CHAIRMAN. And you think it has gotten so the creditor would rather take the commodity than foreclose on the property?

Mr. WHITE. Well, Mr. Gannet, head of a chain of newspapers, I think some 12 or 14, came out with a very long article this week in which he is taking that position very strongly. The lieutenant governor of the State of New York, Mr. Lehman, who is one of the four members of the Lehman Bros. banking institution, made a speech in New York City to the Ad Club, in which he said we must have some inflation.

And yesterday I happened to meet the governor and talked to him just as he was leaving the hotel where I was, and told him what I was coming here for and something about it, and he said, "Well, we must have some inflation, Mr. White, but we do not want any fiat money business, but we must have some kind of inflation."

The CHAIRMAN. If they do not want one kind they might get the other kind.

Mr. WHITE. They will, and that is what we fear. We want the right kind and not the wrong kind. I do not have anything more to say, but in closing I will say that we held a meeting of the secretaries and presidents of the farm bureaus and some other men of the States of New England, New York, Pennsylvania, and New Jersey, at Albany a short time ago, and they passed this resolution [reading]:

Resolved, That we reiterate our approval of the program of the American Farm Bureau Federation in relation of money adjustment and restoration of the commodity price level as of 1929, as a sound means of relieving economic depression. The decreasing supply of gold which has caused gold to increase in value 29 per cent since 1929, has brought commodity prices below pre-war levels.

Resolved further, That we request all groups interested in economic welfare to study the monetary problem and note the situation whereby the supply of gold determines the level of commodity prices.

Resolved further, That we urge support of this farmer movement for "the honest dollar" as a protector of the property and investments of the American people.

Those in attendance were as follows:

William C. Spargo, president New Jersey Farm Bureau, Mendham, N. J.; George M. Putnam, president New Hampshire Farm Bureau, Concord, N. H.; N. M. Flagg, secretary New Hampshire Farm Bureau Federation, Concord, N. H.; Howard D. Russell, secretary Massachusetts Farm Bureau Federation, Waterbury, Conn.; George H. McKay, secretary-treasurer Connecticut Farm Bureau Federation, Danbury, Conn.; A. H. Packard, president Vermont Farm Bureau Federation, Burlington, Vt.; J. E. Carrington, acting extension director, Burlington, Vt.; W. E. Beanblossom, secretary Pennsylvania Farm Bureau Federation, Harrisburg, Pa.; C. R. White, president New York Farm Bureau Federation, Ionia, N. Y.; E. S. Foster, secretary New York Farm Bureau Federation, Ithaca, N. Y.; M. S. Winder, secretary American Farm Bureau Federation, 58 East Washington Street, Chicago, Ill.

Now, Mr. Chairman, I had a written statement that I wanted to put in and I dictated it day before yesterday just before I left Ithaca, but I failed to get it before I left. I had to go to Albany, and it has not arrived. I would like to have that put into the record.

The CHAIRMAN. If there are no objections, when the committee meets it will be placed in the record. I shall be glad to offer it for the record as following your remarks.

Mr. WHITE. It is short and concise along these lines that I have stated. I thank you very much.

I desire to plead for immediate action on the part of the Senate to permit restoration of commodity prices to the 1921–1929 level as the only sound and effective method of relieving the unprecedented economic depression and of restoring reasonable purchasing power of the American people in their effort to meet their obligations, and to maintain their equities in American business and property. There has never been a time in all history that the American people have suffered such great economic loss as is being experienced at the present time. All individuals are losers during a period of deflation, and drastic steps should be taken to prevent further loss. Temporary measures of checking deflation or restoring business confidence can be effective to only a minor degree, and never until we establish a scientific method of governing the value of the dollar can we hope to escape the calamity which results from overinflation and undue deflation.

The American people must have an "honest dollar." The "honest dollar" could be made possible through control of money value. Such a dollar demands of the debtor that he should give as much of his products or his services as he would have been called upon to give at the time the obligation was contracted, and guarantees to the creditor that he should receive payment in dollars with the same purchasing power as the dollars which he loaned.

Commodity prices represent the center of gravity of all business relationships. Wages, salaries, fees, interest, taxes, property values, etc., are either directly or indirectly, ultimately determined by the general commodity price level. When the general commodity price level is permitted to fluctuate unduly, corresponding readjustments must be made by all classes of society, bringing about strained relationships between debtor and creditor, capital and labor, the people and support of government.

The purchasing power of the dollar should be made constant in so far as is humanly possible, thereby guaranteeing to producers honest values for their products and services while protecting consumers against inflated prices. The index of the general commodity price level should be used to determine the purchasing power of the dollar.

The Goldsborough bill is designed to increase and stabilize the commodity price level to that existing before the present deflation.

The CHAIRMAN. We thank you. That will conclude the hearings for to-day. We will try to continue to-morrow in this room at 2.30, and will if we can get a quorum. The committee has another meeting on another matter to-morrow morning. That is why we can not have a morning meeting, but we will try to have one in the afternoon if we can, in the hope that we can complete the hearings to-morrow afternoon.

(Accordingly, at 5.55 o'clock p. m., the committee adjourned to meet at 10 o'clock a. m. the next day, Friday, May 13, 1932, on a different matter, but to continue this hearing at 2.30 o'clock p. m.)

RESTORING AND MAINTAINING THE PURCHASING POWER OF THE DOLLAR

FRIDAY, MAY 13, 1932

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 2.30 o'clock p. m. in the hearing room of the Committee on Interstate Commerce in the Capitol, Senator Peter Norbeck presiding.

Present: Senators Norbeck (chairman), Goldsborough, Townsend, Walcott, Blaine, Carey, Fletcher, and Gore.

Present also: Senators Howell, of Nebraska; Smith, of South Carolina; and Thomas, of Oklahoma; and Representative T. Alan Goldsborough, of Maryland.

The CHAIRMAN. The committee will come to order. I will ask Senator Fletcher to take the chair and take charge of the meeting.

At this point I desire to submit for the record the report of the Secretary of the Treasury on Mr. Fletcher's bill (S. 4429), which has just been received, as follows:

THE SECRETARY OF THE TREASURY,
Washington, May 13, 1932.

Hon. PETER NORBECK,
Chairman Committee on Banking and Currency,
United States Senate, Washington, D. C.

DEAR MR. CHAIRMAN: In your letter of April 21 you requested a report from the Treasury Department on S. 4429, entitled "A bill to restore and maintain the average purchasing power of the dollar by the expansion and contraction of credits and currency, and for other purposes."

Under the terms of this bill the Federal Reserve Board, the Federal reserve banks, and the Secretary of the Treasury would be charged with the duty of making effective a policy that the average purchasing power of the dollar in the wholesale commodity markets for the year 1926 shall be restored and maintained by the expansion and contraction of credits and currency through the powers of the United States and its agencies.

In my opinion, it would not be possible for the Government of the United States to carry out such a mandate. Price levels are dependent upon a large number of factors that are beyond the control of the Federal reserve system, the Treasury Department, or any other agency of the Government, and I do not believe that it would be wise to impose upon them a duty and a responsibility which they could not discharge. Such an attempt would tend to undermine the confidence of the people in the various agencies of the Government and the result would be unfortunate.

In this connection, a subcommittee of the Committee on Banking and Currency of the House of Representatives held extensive hearings on the subject matter of a bill having a similar purpose, which has passed the House of Representatives and has been referred to your committee. During the course of these hearings Governor Meyer, of the Federal Reserve Board, and Doctor Goldenweiser, chief of its division of research and statistics, appeared before that committee and testified very fully as to factors which are beyond the control of legislation of this character and which would render it ineffective. For your convenience, I inclose a copy of the part of these hearings which contains this testimony.

I may add that the passage by the House of the bill referred to was a disturbing factor both at home and abroad, and that the members of the Federal Reserve Board unanimously oppose the enactment of legislation of this character and approve the position taken by Governor Meyer in his testimony on this subject.

Very truly yours,

Ogden A. Mills,
Secretary of the Treasury.

Senator Fletcher (presiding). Mr. Gregory, please come forward to the table and state your name, place of residence, and occupation.

STATEMENT OF C. V. GREGORY, EDITOR OF THE PRAIRIE FARMER, CHICAGO, ILL.

Mr. Gregory. Shall I proceed, Mr. Chairman?

Senator Fletcher. Mr. Gregory, you have seen the bill H. R. 11499 and also the bill S. 4429 and examined them, I take it. You may proceed in your own way to give your views on the subject.

Mr. Gregory. The purposes this bill seeks to accomplish are two:

1. To raise the average commodity price level to a certain specified point; and

2. To stabilize the price level at that point.

I think that particularly after the testimony given to the committee on yesterday, and probably before that time, there is needed very little argument on the question of the desirability of a stable price level. It seems to me after the experience of the last three years all of us are pretty well convinced, as I think most economists were before that time, that there is great advantage to the entire community in stability in the average commodity price level. On the other hand instability, where the price level goes up or down, creates a dislocation between prices, and causes the exchange of goods and services to face more difficulties and brings into being a great many economic strains that have serious consequences.

So as I say I think we will all agree that stability is a desirable end to be achieved.

The objective which the bill seeks to achieve, to raise the price level, presents a question whether or not, if we agree that stability is desirable, we shall attempt to stabilize prices on the present level or somewhere near that, as some people evidently believe should be done, or to raise them.

The first and most obvious difficulty of course to seeking to stabilize on the average of the level where we are now, is injustice to debtors—and any fall in the general price level brings about injustice to debtors, just as a rise in prices brings injustice to creditors.

But we are now beyond the situation of mere injustice to debtors. We have reached a point where a very large portion of the debts, not only private debts but many public debts as well, can not be paid on the present price level and on the basis of the present earning power of the community.

You gentlemen are having a great deal of trouble in Congress now attempting to balance the Budget. I do not see how you can hope to balance the Budget until we can balance the budget of the taxpayer. I think we must raise the earning power of the people before we can balance the national Budget, and that any temporary balance will prove to be only temporary unless we increase the earning power of the people; and when we do that the balancing of the Budget will come about more or less automatically.

The farmer in particular, and I am speaking particularly for the farm folks of the Middle West in appearing here; the farmer in particular faces a situation that is so difficult now as to be almost impossible. His products on the average are selling for about half I think now, or a little less than half, the price level of 1926, or as this bill puts it, the average from 1921 to 1929, which is about the same as 1926.

That means that farm indebtedness which was incurred on that price level, and practically all of it carries over from that time, some of it being worse than that, some of it carrying over from the high price period before the deflation of 1920–21; that indebtedness now must be paid on the basis of 2 for 1. In other words, the farmer must raise and sell and market fully twice the amount of products to secure a dollar to apply on his indebtedness as the dollar would buy when that indebtedness was incurred.

Now, as to this farm indebtedness—and when I speak of farm indebtedness I might say that that could be very easily expanded to cover practically all indebtedness, but I am speaking particularly in farm terms at this moment. This farm indebtedness was not excessive at the time it was incurred. Practically all of it could have been paid as it came due on the basis of prices as they existed then.

It can not possibly be paid on the basis of present prices. If we are to accept the present price level as permanent, there is only one alternative for the farmer and for a large part of the business community, and that is to go through a period of deflation of debts.

Now, there are two ways in which it can be done. It can be done in a legal way, and it can be done in an extralegal way. A good deal of it has already been done in a legal way; that is, by the process of bankruptcy in the case of private debts or defaults in the case of public debts. There has already been a great deal of it. We have had out through the Middle West, the country with which I am most familiar, quite a large amount of defaulting in public debts, and there will be a great deal more if this situation now existing continues.

Senator FLETCHER. What do you estimate the farm indebtedness to be?

Mr. GREGORY. It is said to be somewhere around $10,000,000,000.

Senator FLETCHER. I have seen the statement that there are $9,000,000,000 of mortgages.

Mr. GREGORY. I was referring to mortgages. Between nine and ten billions of dollars of mortgages. As to the short-time indebtedness I am unable to give you the figure. I think perhaps Doctor Fisher, who is to follow me, could give you that figure.

Senator TOWNSEND. Have you any estimate of the amount of defaults in public debts out in your section of the country?

Mr. GREGORY. No. I have not estimated that in order to get it down into the matter of figures. I am just speaking from cases that have come to my attention.

Senator TOWNSEND. That is, of counties and towns and cities?

Mr. GREGORY. It may be possible that I might exaggerate that a little, coming from Chicago, where we have not paid our school-teachers for so long that they have pretty nearly gotten used to getting along without any pay. But it is a notorious fact, I am sorry to have to report here, that the city of Chicago is bankrupt, and there are several other large cities in this country that are practically in the same shape. In the matter of our smaller communities I will say that we have many communities in southern Indiana and southern Illinois particularly where the schools had to be closed this spring and are closed now, one or two months before the close of the school term, because they had no money with which to operate.

Senator TOWNSEND. Has the city of Chicago defaulted on its interest?

Mr. GREGORY. I can not answer that question. I think they have on certain obligations, certain governments, the South Park board, I believe, defaulted on a recent interest payment. The city itself, I think, has not as yet defaulted on any interest.

Senator CAREY. Do you know of any cases where farmers have given up their farms on account of mortgages and buying other places for less money?

Mr. GREGORY. We have had many cases of that kind. And we have had many cases of debt reduction by private negotiation, where the holder of the mortgage has been willing to scale it down rather than accept the land. Some insurance companies have done that.

Senator FLETCHER. Speaking about the condition of the city of Chicago in a financial way, can you give us an idea as to the relation between that and the situation of agriculture?

Mr. GREGORY. Well, there is a very distinct relation as to that. I intended to get to that a moment later, but I can take that up right now just as well.

Senator FLETCHER. You may pursue your own course. I will not interrupt you.

Mr. GREGORY. I can just as well go into that now. Some of us who have been rather close to the farm situation have felt for some time that the cities were bound to suffer if the farm situation were not remedied. We felt that even before the close of 1929. The deflation of 1920–21 hit the farmer more severely than it did the rest of the community. But it was a rather short period of deflation. The superior resistance to deflation on the part of industry kept the cities from being affected as severely as the farmer was.

Senator SMITH. Have you any figures to show the aggregate income or the aggregate value of farm products over a period of years, and you can take pre-war or postwar, as compared with their earnings for the last three years, to show the gross shrinkage of income to the farmer and therefore the contraction of the currency in that respect?

Mr. GREGORY. I did not attempt to bring any figures here with me, Senator Smith, but I can give you that in general terms. The high point of farm income was 1918 and 1919, when it reached about $19,000,000,000. During the period from 1922 to 1929 it ran along, roughly, about $10,000,000,000. And it was down in 1931, if I remember correctly, to something like four and one-half billions of dollars, down to less than one-fourth what it was at the highest point.

Senator SMITH. It would be very instructive and interesting if we could get the farm income from 1921 to 1929 as compared to what it has been from 1929 to the present date, showing the distribution of wealth. That is, all returns from sales of farm commodities have shrunk in such volume as to be felt in every department of our commercial life. I think it is something like $5,000,000,000. I think that is the shrinkage from 1928 when compared to the last three years. Can you tell me about that?

Mr. GREGORY. Just about that shrinkage, I believe. The 1931 total farm income was less than half that of 1929.

Senator SMITH. Now, we are attempting to inject back into the arteries of our commercial and economic life about two or three billions of dollars through legislation, whereas if there was any possibility of raising the price level back to where it was even just antedating 1929 you would have already provided something like four to four and a half billions of dollars in circulation.

Mr. GREGORY. That is very true, Senator Smith. Now, in answer to Senator Fletcher's question, this questioning has brought out the way in which farm income has shrunk. The farmer, like everyone else, has certain fixed expenses. First, he must pay the interest and make the payments on his indebtedness. Second, he must pay his taxes. Those are expenses that have to be paid and that can not normally be reduced in any degree. Whatever income he has over that certain amount goes for living expenses which is flexible. In times like these he can secure more of his living from the farm, so that those expenses can be reduced. Then he has his operating expenses, such as fertilizer, farm machinery, and so on, and only after he gets beyond that expenditure in his earnings does he have any surplus left for general buying.

Now, the situation at this time is this, and I am speaking not statistically but from observation. However, the statistics will bear this out if I had them here: That farm income has shrunk to the extent that the farmer has almost stopped buying equipment. Any farm machinery maufacturer knows that. He has been patching up his old equipment. The effect of that on the City of Chicago, where we have the largest manufacturers of farm machinery, is, of course, very direct and very considerable. Many thousands of men are out of employment in Chicago who normally are employed in the farm-machinery industry.

Second, he revises his living expenses, and that affects concerns like Quaker Ooats and the food companies, and it affects the clothing companies and all concerns of that sort, of which we have many in Chicago, producing the daily necessaries of life, and which of course depend roughly upon 40 per cent of the people living in the country. While there is not 40 per cent of the population on the farm, there is about that percentage on the farm and in towns of under 5,000 population, and those towns go up and down in their buying power almost directly as the farmer himself does, because they depend almost entirely upon agriculture for their income.

The net result of that is that the farmer's buying power has shrunk to almost nothing. It takes almost all of his income to take care of indebtedness and taxes and certain items of operating expenses which can not be deferred. So that the general buying power of the farmer has almost evaporated.

The result of that situation, on Chicago particularly and to the balance of the country in general, is very direct. We often talk about our foreign markets and regret the shrinkage in them. But the shrinkage in the farm market is far more important to any manufacturer in this country, it has a more direct influence on the unemployment problem, than any foreign market. We can lose all of the foreign markets and it would be only a small fraction of what we have lost in the farm market, a restoration of which could be brought about if we could restore the buying power of the farmer even to the point of 1929, which was still low as compared to his pre-war relationship.

Does that answer your question, Senator Fletcher?

Senator FLETCHER. Yes.

Mr. GREGORY. Now, right at this point, if I may be permitted, and I do not think it is necessary to say much to you gentlemen as all of you are closely in touch with conditions back in your States, but I do want to say this: That in my own State of Illinois we are facing an extremely serious situation, which to my mind makes it impossible for us to think of continuing the policy of continued deflation, or even of stopping deflation now and trying to stabilize on the present price level.

Last fall we raised in the city of Chicago by public subscription ten and one-half millions of dollars to feed the unemployed. That money was all gone by February. The city and county had no credit. The State came to the rescue and issued $20,000,000 of anticipated warrants, practically all of which money went to the city of Chicago, and which will be entirely exhausted by the middle of August.

Now, the State of Illinois still has some credit, but I do not believe the State of Illinois has enough credit at a reasonable rate of interest anyway to take care of the situation for another winter. I feel that if this present price situation continues you gentlemen are going to have to come to the rescue, not only of our city but of many cities next winter, because much as we regret having to do some things, there is one thing I think the American people will not fail to do, and that is to feed the people. I think in the matter of any other evil we will decide when the time comes but almost anything is preferable to the people going hungry.

Now if we do continue, as some of my friends, particularly as some of my banking friends feel we should do, if we continue deflation, if we accept the viewpoint that the job is not yet done, and that we must take the consequences, it will mean not only a continuation of unemployment, a continued charge on the public, but it will increase our financial difficulties. The one financial institution which is still stable and in which the public still has confidence, and that is life insurance, can not stand very many more months' continuation of this situation. As all of you probably know, the life-insurance statements have all been made up on the basis of security prices as of July 1 last. These has been a great deal of shrinkage since then, so that life-insurance companies are not nearly so solvent as their reports might indicate. A tremendous load of credit loans has been transferred from banks to life-insurance companies. Their position is such that further deflation is bound to affect them seriously, and I think you will all agree with me that the failure of even one large insurance company would be something that we could not contemplate at this time except with a great deal of trepidation.

Senator SMITH. It is true that a good many securities in which they have invested surplus funds are jeopardized. They can not find a profitable market for the securities that they have invested their money in, and that goes right back down to this situation, it is deflation.

Mr. GREGORY. These things all come back to that. We have temporarily checked bank failures. But the United States Government or the Reconstruction Finance Corporation can not indefinitely underwrite the entire banking structure of this country. It all comes down to this point, that fundamentally there is only one answer, and that is to increase the earning power of the people.

Now, there are two primary ways in which the earning power of the people can be increased, and they are very closely interrelated. One is to put the 8,000,000 or 10,000,000 idle men back to work. The loss from idleness is the biggest loss from this present condition.

Deflation of values, as long as we have the property, does not make so much difference as to what we may call its worth. A transfer of wealth from debtor to creditor is not a loss, but the loss of labor of workingmen is something that can not be made up. No man can do to-day's work to-morrow.

The other thing that must be done to restore earning power is an increase in the price of farm products, restoring the farm buying power, and as I say that is so closely interrelated with the unemployment problem that the two are tied right up together.

Some of you were not here on yesterday when Doctor Warren of Cornell University proved convincingly to all present that farm products and raw materials of all kinds have less resistance than anything else to inflationary or deflationary tendencies. And the statistics which he gave were very convincing in proof of the fact that when the tendency is in the direction of price deflation raw materials bear the brunt of it, they have almost no resistance. And on the other hand when the tendency is inflationary their resistance is just as small and they go up more rapidly than other prices. He estimates that farm products will go up in price about twice as rapidly as other products when the current turns in that direction.

I think perhaps all of you gentlemen will agree in the main with what I have said so far. Now we come to the question as to what can be done to increase the price levels, to start, say, in the direction of raising prices, reversing this current of falling prices. I think there is very little disagreement among economists or business men who have studied this question, as to this point, and that is that there is a very direct relationship between money and credit and the general price level.

In other words, money responds to the law of supply and demand just as directly as wheat does, or pig iron, or anything else. If money is scarce it becomes more valuable. But the Government of the United States has fixed the price of money. Consequently any change in its value has to be reflected in the price of commodities. The result of that is that in times of money scarcity—and bank deposits when you are talking about money must be included as money because they have the same economic effect; when there is a scarcity of money and money becomes more valuable the effect of it is shown in a falling price level. Supply and demand of course affect the price of any individual commodity, but when prices of all commodities go down or up the effect is very largely monetary.

It is true that there are many non-monetary causes of price changes, and those non-monetary causes, at least until recently, have received I think perhaps an undue share of attention.

I am convinced that the more anyone studies this question the more he comes to the conclusion that the monetary factor is the overwhelming factor, that changes in the average commodity price level are very largely due to monetary factors, and that those monetary factors are so important that they can be used in such a way as to largely minimize the effect of the nonmonetary factors.

Now, the thing that this bill proposes to do is nothing more than is being done at the present time, with the exception of the end to be achieved. We have not had since the World War the old fashioned gold standard of money in the sense that we know it and learned to revere it. We have had since the war in this country, in common with almost every other commercial nation, managed money. Even though we have been on the gold standard our money has been very definitely managed. When the great inflow of gold was on towards this country last year we had at one time I believe about $1.05 worth of gold for every dollar in currency in circulation. Now, without a condition of management of money that would not have happened. That influx of gold would have caused a very rapid rise in prices, and that rapid rise in prices in turn would have caused gold to flow out. The chief advantage of the gold standard is that it is automatic in its effect, that it flows from nation to nation and tends to keep price levels of the various nations in adjustment. But we have stopped it from operating in the normal way. We have got managed money in this country.

Senator FLETCHER. And that has been true ever since we passed the Federal Reserve Act, has it not?

Mr. GREGORY. Yes. Of course we had the war conditions that were not normal, but it has been true even since that time.

Senator SMITH. Perhaps you would use the term "mismanaged" instead of managed, but they are interchangeable.

Mr. GREGORY. Well, I am trying to be polite.

Senator SMITH. I see you are.

Mr. GREGORY. I think we must face this fact, that that condition is going to continue. We have the Federal Reserve Board with broad powers, and I think it is only reasonable to assume that the Federal Reserve Board will continue to manage money, and will continue to expand and contract credit, and very rapidly and severely at times, and the only question to my mind involved in this bill of any particular importance is this: Shall the Congress of the United States, the policy-making body of this country, lay down a definite policy to guide the Federal Reserve Board in its management of money and credit? Or shall we leave the Federal Reserve Board free, as it is now, to manage it, and if so by what standards?

The Federal reserve system is a sort of dual system. It owes obligations not only to the Government but to the people who own it, the bankers of the country. And the question of profit to banks can not help, and, legitimately, from having an influence on the policy of the Federal Reserve Board.

There are many other questions that come up from time to time which are almost certain to affect the policy of the Federal Reserve Board. And without any criticism of the Board, and I am not desiring to make any criticism of the board in this connection, and without any criticism of the system, I will say that in the absence of any mandate from the Congress as to what should be the guiding factor in its policy, that guiding factor at certain times in the future as in the past, to be something that is not always compatible with the highest public interest.

The question before you gentlemen, and the only important question involved in this bill is: Shall the Congress lay down a policy to guide the Federal Reserve Board in its management of the credit and money of the country? Or shall we leave it unguided, or rather guided by influences that are not always in the public interest?

Senator FLETCHER. How can we connect that up in a way that will accomplish the result and improve the situation? Will this legislation enable you to raise the price level and stabilize it?

Mr. GREGORY. Of course you all know that the Federal Reserve Board has two principal means of contracting and expanding credit. One is to change the rediscount rate, and the other is through open market operations. Rather recently the Federal Reserve open market committee has been buying Government bonds. I think about four weeks ago their buying was accelerated to about $100,000,000 a week, and I understand it was contemplated there would be a continuance of that policy for several weeks, I believe seven weeks, and three weeks are still to run. The effect of that so far has been obscured. It has resulted in improving the reserve position of the banks but very little of it has been translated into expanded commercial loans, partly I think due to the policy of commercial bankers.

I will say that commercial bankers have been through a great deal of punishment in this country. The ones that have not failed are naturally in a very conservative mood because they have seen so many of their fellow bankers fail and they are very cautious. They hesitate to expand loans, and the most of them are not doing so. Out in my country at any rate they are still liquidating, and are still refusing to make loans for business purposes to any extent even on the best of security.

I will say that I know personally of a number of business concerns in Chicago and in the Middle West which could sell more goods than they are now making, could give employment to more men than they are now employing, if they could get even a fraction of the amount of credit which they normally enjoyed in 1929. But they are unable to get it. The banks still do not want to make new loans. They still do not want to renew old loans except in lesser amounts. In other words, in the minds of most commercial bankers with whom I am familiar, liquidation is still a desirable thing.

Now, the open market buying policy on the part of the Federal reserve system runs up against that thing. My own opinion is, and it is only my opinion, that a continuation of open market buying at the rate of $100,000,000 a week will pump up enough credit, will create enough credit pressure, enough idle credit in the banks, so that sooner or later we will overcome that condition. I think perhaps even next month we will begin to see some effect from that in the shape of expanded commercial credits, which will mean an expansion of business activity.

Senator SMITH. Have you any figures as to the amount that these banks that are receiving this money in lieu of their bonds, I mean what is the total figure that they will absorb in adjusting their reserves and their indebtedness before there will be any overplus to reach the very object to which you are calling attention?

Mr. GREGORY. I think Doctor Fisher, when he comes on the stand, will be able to give you those figures. They are in the weekly reports of the Federal Reserve Board. If I remember the actual bank indebtedness to the board is down now to about a little over $200,000,000.

Senator THOMAS of Oklahoma. I think it was $530,000,000 last week.

Mr. GREGORY. It has been reduced very considerably. It will take a few weeks more of this policy before that process is completed. I have just been informed that for the reporting member banks last week it was down to $200,000,000. But the reports for all banks do not come out as regularly as for the reporting member banks.

Senator SMITH. What assurance have we that the policy inaugurated by the Treasury Department of its own initiative to supply this liquid currency in lieu of bonds will go on to the extent where it will give relief by way of creating an abundance of money.

Mr. GREGORY. To my mind that is one of the principal arguments for a bill similar to this one you are considering. One reason why bank confidence has not been restored to the point where they are willing to cease liquidation and perhaps begin a credit expansion policy is that no one knows how soon this policy on the part of the Federal Reserve Board may be stopped or even reversed. The story is going the rounds that there is a gentleman's agreement that it was to continue for seven weeks, but they may change their minds. Or, at the end of seven weeks we may not begin to see any effect. And there is no assurance that they will not turn around and begin to sell.

Senator SMITH. Doesn't that imply that there has been some understanding that this policy will only be pursued until the condition of financial institutions is relieved, and that so far as the public is concerned. that will have to depend upon some other process?

Mr. GREGORY. Well, that is possible. I have not talked to any of the members of the Federal Reserve Board and I can not speak from first-hand knowledge as to what their policy is.

Senator FLETCHER. Some of the banks claim there is no real demand for loans, safe loans, and that that is one reason why they are not making them and they are storing up their funds. Have you any observations on that? Do you think there is a real demand on the part of business and on the part of industry and on the part of agriculture for new loans now?

Mr. GREGORY. That is a question I can not answer statistically, and probably no one else can. But I should like to give you just two instances on that: One is the case of a farmer down in Illinois, who last week went to his banker and wanted to borrow $500. He needed $500 for feed, some equipment, and one thing and another connected with his season's operations. This farmer has 160 acres of good black Illinois land, free of encumbrance, with no chattel mortgage or any other indebtedness. The banker refused to make him a $500 loan. I happen to know about that case concretely. But that case could be duplicated many times, so far as farmers are concerned.

Senator SMITH. Well, isn't it a fact that under present conditions no one can say what is a safe loan? And who can judge as to what will be a safe loan? All our standards are submerged. Real estate has gone. The prices of commodities have gone, and no one has any assurance as to what to-morrow will bring forth.

Mr. GREGORY. That is true, Senator Smith; but if a loan of $500 against a quarter section of Illinois land is not a safe loan, then we better shut up the country.

Senator SMITH. Well, we have shut it up now. You see we are giving away what we have and through this tax bill we are paying them something to boot to take it.

Mr. GREGORY. Well, this thing is true, of course, that a loan to an industry, like agriculture, which is producing at a loss, is not a safe loan no matter how much the property back of it may be, because it is likely to become a frozen loan.

Senator FLETCHER. You may proceed.

Mr. GREGORY. Here is another instance that is a little more significant, I think. I was talking last week with the manager of the industrial development department of the Chicago Association of Commerce. He told me that he has had repeated instances in the last few weeks of business men coming in to see him and telling him that they had definite and bona fide orders for goods, and that they would like to make those goods and give employment to more men, but that in order to do it they must have credit to meet their pay roll and to buy raw materials during the 30 days or so those goods were going through the manufacturing process, but that the banks of Chicago were not willing to make manufacturing loans at this time, which in normal times would be regarded as the best kind of commercial loans any bank could get.

Senator SMITH. And that immediately reflected itself upon the price of raw materials?

Mr. GREGORY. Certainly.

Senator SMITH. And that reflected itself upon the thing out of which the raw material was gotten.

Mr. GREGERY. Now, personally, I do not criticize commercial bankers so much for that, because the central banking policy of the country is so obscure. In fact, there is no policy so far as the public is concerned. There is a policy now of credit expansion, but there is no assurance that that may not be stopped or even completely reversed. Three weeks from now the Federal Reserve Board might sell $200,000,000 worth of bonds and contract the credit. It is that uncertainty which is a big deterrent to commercial expansion at this time.

Senator FLETCHER. If that would work in the way that this bill would provide, then it would increase the circulation.

Mr. GREGORY. I think there is no doubt about that. If Congress sets up a guidepost for the guidance of credit expansion and contraction for the operators of the Federal reserve system, that guidepost being the price level as given each week by the Bureau of Labor Statistics, why, the country will then have assurance that we are at least going to follow a definite policy in our handling and management of money and credit. When you talk about confidence, this whole country is based on that and confidence is largely absent. What could give more confidence than assurance to the commercial public that we are going to have a certain definite credit policy in this country?

Senator FLETCHER. What do you think of the index of 1926?

Mr. GREGORY. Do you mean as to whether that is proper or not?

Senator FLETCHER. Yes.

Mr. GREGORY. Well, I personally feel that that is about the right point. The correct point, of course, is the average point at which the present outstanding indebtedness was incurred, and I think if you were to figure that out statistically it would probably fall at about that point. I think, however, that is less important than that we have some substantial increase in the price level. Now, if this committee were to decide to amend that and say, "We will go back 75 per cent of the way to that point," I would feel that that is not a vital matter.

Senator FLETCHER. Well, we thank you. That is a very interesting statement.

Senator BLAINE. Mr. Gregory, where do you find the power for the Federal agency to carry out the public policy declared in this bill?

Mr. GREGORY. Well, the Constitution gives to the Congress the power to fix the value of money, and the most accurate index of the value of money is certainly its purchasing power.

Senator BLAINE. Perhaps I did not make myself plain. That answer was not responsive to the question I intended to propound. Where is the power conferred upon the Federal agency, set forth in the bill, to carry out the public policy declared in the bill and imposed as a duty upon Federal agencies?

Mr. GREGORY. That power is implied rather than specific in the Federal reserve act. The Federal reserve act, as I recall it, giving the board the power of expansion and contraction of credit, is somewhat indefinite, and the guide given is the advantage to business and commerce, or something of that kind, that they shall use those powers for the benefit of business and commerce. And I think that certainly would be proper to add to that stability of the price level.

Senator BLAINE. A Federal agency created by act of Congress has no implied powers. It has only the powers expressly conferred by Congress.

Mr. GREGORY. Well, I think there is perhaps some question as to whether or not the Federal Reserve Board has not exceeded its powers in some degree in the matter of expansion and contraction.

Senator BLAINE. The Federal Reserve Board, in some of its reports, disputed the power designed to be given in this bill. That dispute, I assume, will continue or else the matter will rest entirely upon the judgment of men as to whether they have the power or not. Why shouldn't that power be expressly delegated in the bill, and then there will be no question about it.

Mr. GREGORY. I think it would be important in the bill to do that.

Senator SMITH. Senator Blaine, what is it that you suggest we express in this bill, the power to do the thing that the bill contemplates doing?

Senator BLAINE. Yes; and make it definite and specific, confer the power upon a Federal agency, the power to carry out the public policy declared by the bill. The duty is imposed upon them, but duty and power are two entirely different things.

Senator SMITH. And that is not included in the present Federal reserve act?

Senator THOMAS of Oklahoma. Under the Federal reserve act, the board, through the banks, has the right to buy and sell bonds, and has the power to increase circulation by buying bonds, and the power to contract such circulation by selling bonds. Now, all that this bill does is to direct the board to exercise that power granted to them. That is my understanding of the bill.

Senator BLAINE. I appreciate that; but it seems to me like this bill declares a public policy. That is not a law. That is just a resolution.

Senator FLETCHER. But section 2 provides for that, doesn't it?

Senator BLAINE. Section 2 charges them with the duty of making effective this policy. I suppose that they have that duty now. But the complaint is that they have failed to do it.

Mr. GREGORY. Well, they have not a definite policy. They have not been asked to do it.

Senator BLAINE. Not specifically as provided in the bill; that is true. I was just concerned about that.

Mr. GREGORY. I think your suggestion is a good one, that an amendment to that effect would improve the bill. There is one other point I should like to make, and that is this: That there has been some little consideration given in Congress to other means of increasing currency and credit than by doing it through the Federal reserve system, such as that proposed in the soldier bonus bill, and in some of the suggested silver legislation. I want to make this remark in that connection: I realize that those measures are not before this committee now, but I do want to say that if the Congress were to decide to adopt some such form of increase in money and credit as is provided by those suggestions, that that, in the absence of this bill, might easily be entirely ineffective. For instance, if the Patman bill were passed and the Treasury Department were to issue $2,000,000,000 in unsecured paper money, the effect of it could be easily offset by the Federal reserve system by the sale of Government securities, and to a considerable degree the effect of the proposed silver legislation might be offset in the same way.

Senator SMITH. They might work just in proportion as that would be inverse.

Mr. GREGORY. Yes, sir. They have the power to do it, and there is nothing in the law to prevent them from doing it.

Senator BLAINE. That is exactly the proposition. The Federal Reserve Board now has the power to expand the currency and it has the power to contract the currency. It has that power, and now if we confer upon them direction as to the operation of those powers in order to accomplish the purposes set forth in this bill it would make it specific.

Mr. GREGORY. Yes, sir.

Senator BLAINE. And it would prevent contraction expressly.

Mr. GREGORY. I think that would improve it.

Senator FLETCHER. Your suggestion then is that it be charged with the duty and vested with the power of making effective this policy, Senator Blaine?

Senator BLAINE. I have not considered the language. I mean I have not settled upon it. I have not really given serious consideration to what language would prevent that beyond a peradventure of a doubt. It may be effective as it is, but I was inquiring.

Senator SMITH. Suppose there is this power conferred upon them by the law in the Federal reserve act, and in pursuance of that law we give them a mandate to proceed to put into operation that law to the extent contemplated in this bill and they refuse to do it, wouldn't they then be acting in violation of law?

Senator BLAINE. They certainly would.

Mr. GREGORY. Now, there is one objection that is raised, and I understand it has been raised to this measure, by certain members of the Federal Reserve Board, and that is that they would be given by this bill a mandate to do something that is impossible for them to do. It seems to me the answer to that is this: That it is very apparent to anyone whether or not they are honestly trying to carry out this mandate. Their weekly reports would show very definitely whether they are trying to do it or not. And I think after an honest effort, if it proved impossible, then certainly the logical thing for them to do would be to come back to the Congress and say, "If we are to carry out this mandate, we need certain additional powers." And I am sure that they would be given every consideration by Congress in that respect.

It seems to me that in these times the situation is so serious, so tremendously serious, not only in the way of business consequences—and we have suffered severely from them—but in the way of social consequences, governmental consequences, from a continuation of this condition for even another year, that it is so fraught with peril that we are justified in adopting legislation that might have an element of experiment in it. I am willing to grant that this proposed legislation has that. But it does not have a dangerous element in it. If it fails it can not leave us any worse off than we are now. At the most they can attempt to do this, which in effect they are doing right now, and probably it will do some good. If they do not accomplish the entire purpose, it will help some. I can see nothing in here that would make the situation any worse than it is now. And if they make an honest effort to carry out this mandate and yet can not do it, I am sure the Congress will give them whatever powers they may feel are required to do that.

Senator BLAINE. It is experimental, but it could not be harmfully experimental, you say?

Mr. GREGORY. No.

Senator BLAINE. The board very effectively exercised the same power in 1920 when farm commodities were so tremendously depressed as well as farm values. They may have the power, but it was just an open question with me.

Senator GORE. I will say that I think the House of Representatives passed the original Federal reserve act with such a provision, and the Senate took it out, and it then went to conference.

Senator BLAINE. Was that it?

Senator GORE. Yes. They put in a provision attempting to give this power.

Mr. GREGORY. It was placed in the original bill by one of the Houses of Congress, but I do not remember which one.

Senator BLAINE. My suggestions were intended to be helpful and not critical.

Mr. GREGORY. I think they are very helpful, Senator Blaine. I quite agree with you.

Senator GORE. Mr. Gregory, you say this experiment could not do harm. If it should cause a flight of gold from this country, and if it should cause a dumping of American securities in this country from abroad, might it not be harmful and defeat the very ends of this legislation?

Mr. GREGORY. Well, that, of course, leads into matters that are questions of opinion.

Senator GORE. Yes.

Mr. GREGORY. My own opinion is that, if the flight of gold resulted in this country going off the gold standard, it might be a very good thing.

Senator SMITH. Senator Gore, may I ask you if, with the presence of gold here, we are in our present fix, where would we be if it were not here?

Senator GORE. I do not know.

Senator SMITH. Well, so far as I am concerned, we could not be any worse off.

Senator GORE. Well, I am not certain that if this legislation were enacted, we might not remember these days as the good old days, bad as they are.

Senator SMITH. We are looking up now in order to see the bottom.

Mr. GREGORY. Senator Gore, there is one further remark I should like to make in that connection: That, while the temporary withdrawal of gold from this country would scare certain people from a psychological standpoint, yet the effect of that would be very helpful, particularly to our farmers, because the transfer of gold abroad, where gold is very scarce, would have a price-raising influence abroad, and would tend to raise the world price of farm products, which would have a very definite tendency here in that direction.

Senator GORE. Yes; that might be the only way it would help the farmers, too. Because if you raise the farm prices here, I think you must, by some sort of manipulation, raise the price of articles manufactured here. But I do not think by any sort of manipulation of the currency, so far as this country is concerned, you can raise the price of wheat and cotton. And I think anything that would arbitrarily raise the price of manufactured products, that are protected by a tariff, would make the farmer pay more for those protected articles and would be an increased calamity to the farmers.

Mr. GREGORY. There is nobody in this country who has made a more thorough study than Doctor Warren, and his testimony given on yesterday was that, regardless of the international situation, a rise in the average price level in this country would cause more than an average rise in the price of farm products.

Senator GORE. I understood his testimony.

Mr. GREGORY. I have not studied that subject as much as Doctor Warren has, but I have a great deal of confidence in his judgment.

Senator GORE. So have I. I regard him as one of the best economists, certainly agricultural economists, in this country.

Senator FLETCHER. Doctor Warren said, if the price level were raised 10 per cent, the farmers would get a 20 per cent advance in their products.

Mr. GREGORY. There is another factor we should not overlook in discussing the foreign situation, and that is that, in spite of the fact that some people have blamed the world for our troubles, I think most economists agree that we are to a considerable extent to blame for the world's troubles; that the severe deflationary process in this country has had a very great effect in deflating world prices, and that, when we take steps toward price restoration in this country, that will have a beneficial effect on world prices, particularly in view of the fact that many of the leading statesmen of England have expressed themselves very definitely to the effect that they will follow our policy in that respect.

Senator FLETCHER. Representative Goldsborough, do you wish to ask any questions?

Representative GOLDSBOROUGH. I believe not.

Senator FLETCHER. Do any of the members of the committee want to ask any further questions?

Mr. GREGORY. What I want to say, in closing, is that this question which you have before you is an extremely live question all through the Middle West. Not only farmers, but business men, many bankers and country bankers, particularly, are deeply interested in this, and there is very little disagreement with the opinion that the only salvation for us is to do something that will raise prices. There may be some differences of opinion as to the proper and expedient thing to do, but they feel that we can not stand a continuation of this deflation policy. That is strongly the sentiment of the country.

Senator FLETCHER. We are very much obliged to you for your extremely interesting statement.

(Witness excused.)

STATEMENT OF FREDERICK BRENCKMAN, WASHINGTON REPRESENTATIVE THE NATIONAL GRANGE, WASHINGTON, D. C.

Mr. BRENCKMAN. Mr. Chairman and members of the committee, my name is Fred Brenckman, and I represent the National Grange. When this hearing was arranged, we invited Dr. Clarence Poe, editor and president of the Progressive Farmer and Southern Ruralist, also a recent master of the North Carolina State Grange, to testify in our behalf. Doctor Poe explained that, owing to a previous engagement, it would not be possible for him to be present, but he is so deeply interested in this question that he prepared a very convincing and illuminating statement on the subject of monetary stabilization. He sent it to me, and in order that the members of the committee might have the benefit of it in advance of the printed report of the hearing, I had it mimeographed and have passed it around.

If there is no objection, Mr. Chairman, I would like to have the statement inserted in the record at the conclusion of my remarks, which will be very short.

I think that this article throws so much light on the subject that it is well worth printing.

Senator GORE. I hope that will be done. I know Doctor Poe very well and have a very high regard for his opinion.

Senator BLAINE. It contains very valuable information, Mr. Chairman.

Senator FLETCHER. Then, if there is no objection, we will insert it in the record at the close of Mr. Brenckman's remarks.

Mr. BRENCKMAN. At our last annual convention, which was held at Madison, Wis., in November, the Grange passed resolutions in favor of monetary stabilization. In outlining our program we had the benefit of the guidance and advice of Dr. John R. Commons of the University of Wisconsin, in whom we have great confidence.

Our program asked the National Government and the Federal reserve system to take all possible steps to secure:

(1) The restoration as nearly as may be of the wholesale price average to the level prevailing in 1926, or the average of 1923–1928, and (2) stabilization of the price level as nearly as practical at that point.

Contributing to these ends the National Grange recommends:

1. Increased purchases of securities in large volume 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 points materially below the present 35 and 40 per cent established by law.

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.

The Grange is heartily in favor of the Goldsborough bill, Mr. Chairman, because it is an attempt to raise the prive level of commodities. Unless that can be done, agriculture is sunk. We must restore the commodity price level to restore the purchasing power of agriculture and to enable the farmer to pay his debts and taxes.

We have compiled a statement which shows that if the farmer borrowed a dollar in 1919, in order to pay back that dollar to-day at the prevailing commodity price level he must pay back $3.33. If he borrowed a dollar in 1925, in order to repay it to-day in terms of commodities which he produces, he must pay back $2.17. Even if he borrowed a dollar as late as 1930, under prevailing conditions he must pay back $1.77.

We all know that that is an utter impossibility. We are not asking for inflation, but we are asking for a restoration of values.

President Hoover remarked, about the time of the beginning of the present session of Congress, that we must do something to reverse the processes of deflation. That is what we are in favor of.

Senator BLAINE. I thought we had done that with the establishment of the Reconstruction Finance Corporation.

Mr. BRENCKMAN. Well, Senator Blaine, we think that something more is needed.

Senator BLAINE. I said that, of course, in irony.

Mr. BRENCKMAN. I was interested to note yesterday, Mr. Chairman, an article appearing on the first page of the Philadelphia Public Ledger, which was written by Raymond G. Swing, which shows that the people of Great Britain are thinking along the same line as we are with reference to raising the commodity price level. If there is no objection, I would like to read a few paragraphs of this article, because I think it will throw some light on the subject. It is dated at London, May 11, and reads as follows [reading]:

Great Britain has indirectly asked the United States to take part in a conference to raise prices. The invitation is vague and it came through Walter Elliot, the Financial Secretary of the Treasury, who spoke at the close of the debate on the second reading of the finance bill in the House of Commons last night. But he spoke under the strong pressure of two former Chancellors of the Exchequer, Sir Robert Horne and Winston Churchill, both of whom urged international cooperation and spoke with unusual gravity of the dangers of continued deflation.

"Any attempt at friendly collaboration," said Mr. Elliot, "to work more and more along parallel lines, to bring us to relations with men of good will who are pursuing a similar policy to our own, would be welcomed, and more than welcomed, by the Government."

Mr. Churchill asked whether such an important statement would be made known officially to the United States. Elliot replied that he was speaking for the Government and had no doubt that his statement would be received with attention both here and across the Atlantic.

A few hours earlier the Chancellor of the Exchequer, Neville Chamberlain, had told the British Bankers Association that "it might be" the policy of the Government to raise prices, but that this would only be done by international cooperation. This same speech was notable for its warning to the British to expect further painful sacrifices and by a forecast of economies amounting nominally to $300,000,000.

These statements taken together are considered here to be of real significance. But they do not mean that Great Britain believes it is possible to hold a conference with America to raise prices at an early date. The British Government knows that Congress adjourns on June 11 and that a presidential campaign is on. It knows that it is impossible to get American cooperation before the Lausanne Conference.

In order to conserve the time of the committee, Mr. Chairman, and appreciating your willingness to print the splendid statement prepared by Doctor Poe, I shall not continue my statement any further.

Senator FLETCHER. We are very much obliged to you.

(The statement by Clarence Poe, president Progressive Farmer-Ruralist Co., referred to and submitted by the witness, is here printed in full, as follows:)

WHY AGRICULTURE AND BUSINESS REQUIRE STABLE MONEY

(By Clarence Poe, president Progressive Farmer-Ruralist Co., Raleigh, Atlanta, Birmingham, Memphis, Dallas)

To the SENATE COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

GENTLEMEN: Having been invited by the National Grange to appear as one of its spokesmen in connection with the hearings on the Goldsborough bill "For restoring and maintaining the purchasing power of the dollar" and finding it impossible to attend in person on the day named, I beg to ask the privilege of presenting by letter the viewpoint of southern agriculture, as I believe I know it, and to ask, if you will grant it, that the facts be included in your published report.

In advocating the Goldsborough bill we are of course concerned mainly with a principle and a moral duty rather than any particular phraseology. The principle is stable money. The moral duty is that of enabling debtors to pay debts with dollars of the same value as they received from the creditor.

America, and the whole world in fact, has been through a Gethsemane of economic agony in recent years, but if out of it all we learn the chief lesson—namely, that the tragedy is largely the result of an unstable and hence dishonest money system—the knowledge gained and the reforms instituted may be worth to future generations all that it has cost this generation. On the other hand, if we fail, while the full sense of financial disaster is upon us and while the impulse for correction is strongest—if in this situation we fail to work out permanent and effective reforms, then no one can name the day or the hour when humanity may not be called upon to again go through the heartbreak of another national and international "deflation."

When Owen D. Young said recently, "The proper handling of price stability is one of the most important matters facing the capitalistic system; in it will be found the roots of those maladjustments which result in unequal and unfair distribution of wealth, in unemployment, and other serious problems," he uttered a tremendous but thoroughly considered indictment of our unstable money system. And what he said of America is paralleled by the conclusion of the recent MacMillan Committee Report on Finance and Industry in Great Britain:

"A study of history would, we believe, confirm the opinion that it is the changes in the level of prices and in the consequential alteration in the position of debtors and creditors that the main secret of social trouble is to be found."

Upon the correctness of these statements and the need for some such action as the Goldsborough bill proposes, I now wish to introduce the testimony of official statistics and of leaders in agriculture, business, economics, and statesmanship.

I. HOW DEFLATION HAS DOUBLED FARM DEBTS

Every Congressman and Senator knows how tremendously all forms of debt have increased in the last 15 years—Federal debts, State, county, municipal, and private debts; debts to commercial banks, land banks, mortgage companies, and all financial institutions—and all these debts, public and private, have practically doubled because of the increased value of money. As National Master Taber of the Grange has pointed out, if a farmer made a debt so recently as 1930, it now takes 77 per cent more farm products to pay the principal of the debt than then, and Mr. Taber has compiled the following table showing in terms of what the farmer has to sell just how much he now has to pay in the form of farm products (in principal alone besides interest) for each $100 borrowed or for each $100 of debt incurred in any of the years indicated in the table:

Present amount in commodity values

Year $100 borrowed:		Year $100 borrowed:	
1930	$177	1922	197
1929	202	1921	180
1928	208	1920	230
1927	209	1919	333
1926	196	1918	308
1925	217	1917	291
1924	215	1916	225
1923	$200		

There can be no economic recovery that ignores this fundamental situation. As Mr. James C. Stone of the Federal Farm Board said recently:

"The fellow who is in debt and whose debt was created when commodity values were much higher than now has only three ways to get out. He can repudiate his debt because he can not hope to pay it when the commodity upon which he based the debt was then selling for four times what it is now. For example, if a cotton grower borrowed money on his land when cotton was 25 cents a pound, it now takes five bales to pay the debt where it took only one when the debt was created—and it is impossible for him to produce five bales where he produced one then. The second way out for the farmer is for the price of the commodity to rise within a reasonable distance of where it was when that debt was created. The third alternative is in some way to provide cheaper money for him to pay his obligation. One of these three things is going to happen. We are going through the repudiation stage now and have been for several years. If that continues, it will keep business and finances upset. A great many people think that is the natural normal way for it to adjust itself, but personally I do not. One of the other ways should be adopted, and I do not believe it will be necessary for us to go off the gold standard to do it."

"One of these three things is going to happen," as Mr. Stone correctly said—increased commodity prices, cheaper money, or repudiation. There is no other way out for it is physically impossible to produce and sell enough extra commodities to equal the volume of debt unjustly imposed by our present money system.

II. BUSINESS MEN INTERESTED EQUALLY WITH FARMERS

And not only is it impossible for agriculture to recover without either increased commodity prices or deflated debts, but the same thing is true of all business. From no farm leader, from no spokesman of agrarian opinion, has Congress had any warning more emphatic or clear-cut than this voiced by the ablest organ of American business, The Business Week of New York City, in its issue of February 3, 1932:

"The only remaining road to recovery for ourselves and the world is by concerted and courageous action, through governments and central banks, to raise the commodity price level and reduce the value of gold to the level at which it was when the bulk of the world's public and private debt burdens were contracted. Otherwise universal bankruptcy, default, and repudiation are unavoidable.

"Every means to accomplish this purpose is justified, and every influence the United States can exert in this direction as the most powerful financial force in the world to-day is indispensable. If it can not be done by action of central banks, or collateral agencies like the Reconstruction Finance Corporation in forcing credit expansion through ordinary banking channels, it must come through deliberate devaluation or direct inflation of currency."

III. THE FUNDAMENTAL DISHONESTY AND IMMORALITY OF OUR PRESENT MONEY SYSTEM

If the "universal bankruptcy, default, and repudiation" suggested by the Business Week are necessary as a result of following rigid rules of honesty and fair dealing, that would be one thing. But when all this disaster is the result rather of a fundamentally immoral and dishonest standard of values (or absence of standards) the situation becomes entirely different. When we reflect that all debts must really be paid in commodities, and when we find the financial committee of the League of Nations reporting that whereas in 1928 it took 100 units of commodities to pay a debt of 100 gold units, to-day it requires 170 units of commodities, we must agree that this is not only "the crux of the crisis" but presents a ghastly and flagrant perversion of essential morality. As C. V. Gregory said: "If Congress had passed a law in 1926 requiring every debtor to pay back $1.50 for every $1 he had borrowed, besides interest, we would have had a revolution. Yet that is just what deflation has done. Suppose Congress had passed a law in 1926 doubling the size of the bushel basket or the number of pounds in a bushel, and had told us that in measuring out products to pay our debts we must give the same number of bushels of grain but measure it out in these new and enlarged bushel baskets. By failing to take action to stabilize the value of money Congress has done what amounts to the same thing."

When such conditions prevail and when a man may pay and pay on the principal of a debt and still find himself owing the creditor more in goods and commodity values than at first, then government is simply permitting and promoting robbery under the sanction of law. As Dr. Irving Fisher, of Yale University, is quoted as having said before a congressional committee recently:

"Not only are we having a tragic liquidation of debts through foreclosures, etc., but it is a liquidation that does not liquidate. You may pay $300 on a $1,000 debt, only to find that you have increased your indebtedness to $1,100 in terms of commodities. So in spite of all that America has paid on its debts, there has been no real liquidation since 1929. We are now in debt more than we were then in terms of what we have to pay with. We are told that the national debt has been reduced by 28 per cent, but that is an illusion. The remainder must be paid by taxes paid by the farmer and factory in commodities. Instead of our debt being reduced from twenty-five billions to eighteen billions, it now stands at thirty-five billions in market-basket dollars—ten billions more than it was in 1924. Of America's gross debt we have liquidated fifty billions of two hundred billions indebtedness, but now find ourselves with a debt of two hundred and thirty billions in market-basket dollars. Some think that we are working our way out, but we are working ourselves in."

IV. OUR PRESENT SYSTEM PUNISHES INITIATIVE AND ENTERPRISE, DESTROYS AMERICA'S HOPE

Not only does out present money system unjustly rob all debtors but it penalizes and pauperizes the groups who have made America great, while it rewards and enriches the timid, the unenterprising, the inactive. The men who had faith in America and wished to serve it, the men who from 1915 to 1930 invested in farms and homes and factories and buildings and machinery and equipment—they have been deflated or bankrupted down to $50 or less for each $100 invested. On the other hand, the timid man who put his money in a safety-deposit box can take it out and find it worth $200 in purchasing power for each $100 it formerly possessed. The unprofitable servant who hides his money in a napkin was condemned by the master, but he is the very man whom our money system selects for its richest rewards to-day, while the man of enterprise and courage is punished for his virtues.

And of all enterprising Americans who suffer, the farmer suffers most. This is true, because when hard times come and prices drop factories shut down and cut off production, but the farmer keeps right on producing for his fellows in normal volume and finds his prices cut more and more because of the surpluses accumulated in the face of a vanishing market.

V. WE NEED A MONEY SYSTEM THAT WILL STIMULATE PRODUCTION

In this connection I wish to stress the fact that we need a money system that will enable industry and business to render to mankind the almost limitless services they are prepared to render, instead of deliberately curtailing production as our present money system necessitates. About the most absurd figure in America to-day is some alleged statistician present charts of the deflation that followed the Napoleonic wars—in days before a locomotive was ever invented, a telegraph ever dreamed of, hydroelectric power ever conceived, a modern factory ever built, or a modern technician ever trained—and arguing that because a long period of near starvation followed Napoleon's wars we must suffer similar privation now in post World War days, when science has remade the world, studded the continent with factories, harnessed the rivers, bound all sections together with railroad and telegraph, automobile and airplane, and given the keys of science and education to high and low alike. On this point it is appropriate to quote the forceful words of President Glenn Frank, of the University of Wisconsin, who said recently in an address, The Problem of Economic Recovery:

"The supreme battle of this generation is on between the deflationists and the consumptionists. The deflationists are those business leaders who think that the way out of the current economic muddle lies in reducing the standards of living. The consumptionists are those business leaders who think that the way out of the current economic muddle lies in raising the standards of living."

Nothing Congress can do to raise living standards is more important than stabilizing the value of the dollar at average levels of the decade 1920–1930, so that the farmers of America (and all other citizens) can pay their debts, with money of the same value as that prevailing when the debts were created. It is not merely the burden of debt, but the excess and extra burden of debt which has been added through the unjust increase in the value of money—it is this which is making any economic recovery impossible. If the people could only pay debts on the basis of commodity values prevailing when the debts were made, they would not only pull through, but the mere prospect of this result would give a new confidence that would itself go far toward restoring prosperity.

And J. M. Kenworthy, a member of the British House of Commons, 1919–1931, writing under the title, "The Way Back to Prosperity," in Current History for May, points to America's supreme opportunity to serve a new age when he says in language of such memorable import that I quote him at some length:

"It would be possible to-day for the Federal reserve banks to raise prices in the United States to the 1927 or 1929 level by buying securities in the open market. This would make more funds available for the member banks; eight or ten times that amount could be given in credit or lent out to industry. But this might weaken the dollar in the world markets. Fluctuating exchanges are another great hindrance to international trade. Yet if the central banks of all the leading financial and industrial nations decided to expand credit simultaneously, there would be no fluctuation or little fluctuation in the exchanges and world trade would revive. Better still, the exchanges could be pegged in relation to one another and fluctuations thereby avoided. If prices rose too high, by selling securities the central banks could restrict credits and check the boom. The ideal would be to keep prices steady, to encourage the growth of production and to issue enough credits and currency to meet the increased needs of expanding activity. By this means we could steadily raise the standard of life of the people of all countries, avoid alternate slumps and booms and eventually abolish unmerited poverty.

"The economics of to-day, as taught by the orthodox, are out of date because they were meant for a world situation in which famine and scarcity were the normal conditions and in which mankind was engaged in a fierce struggle against the forces of nature. Men had to save and hoard and put by for a rainy day. But now modern science and industry, with better means of transport and communication, have removed the specter of famine and want. The need now is to spend, consume, and thereby use up the overflowing abundance which every civilized community can produce. Mass production must be accompanied by mass consumption, otherwise society will either bankrupt itself or seek relief in warfare and destruction. Nevertheless, we continue to urge the practice of thrift and penury, to deflate and restrict credits, when markets, warehouses, and granaries are choked with unsalable goods. * * *

"The test of whether our present civilization will survive depends upon our solving the modern problem of underconsumption in a world materially richer than ever before. Is mankind really to sit down and starve, because of lack of leadership and courage in the invisible governments of high finance, or will the common sense of the common people demand that a way out of the apparent impasse be found?"

VI. WHAT CAN CONGRESS DO ABOUT THE SITUATION?

Farm leaders and others interested in an "honest dollar" are not asking for the abandonment of standards of value, but rather for the establishment of real standards of value. As President Edward A. O'Neal, of the American Farm Bureau, said to a congressional committee:

"In asking that Congress give us an honest dollar, we are not asking that we abandon our standard. We want gold to be back of the dollar, but we want it to be back of an honest dollar. We ask that you regulate the value of our money so that money itself will not distort the exchange value of commodities, but will serve as an accurate medium of exchange expressing the true exchange value of two commodities or two services."

If the commodity price level of 1920–1930 can be restored and thereafter steadily maintained wholly by Federal reserve action, good and well. But millions believe that it is going to be necessary to provide that hereafter the quantity of gold in our standard dollar shall be increased or decreased so as to equal the average 1920–1930 purchasing power of a dollar. This could be done by storing gold bullion in the United States Treasury and issuing not coin but certificates against it—just as is now done with our silver certificates.

Farm leaders and others recognize the danger of asking the Government for fiat, or printing-press money, without intrinsic metallic value behind it. No inflation beyond 1920–1930 levels should be tolerated. We wish to have a genuinely honest dollar—just to creditors as well as to debtors.

VII. A MORAL ISSUE TO STIR AMERICA

And here indeed is a moral issue that should stir America. For this whole problem has its roots deep, very deep, in basic and essential moralities—in sheer fundamental common honesty as between man and man. Certainly every man in America ought to see it who professes to revere a God who hears "the needy when he crieth, the poor also, and him that hath no helper"; every man who professes to serve a God to whom, "a false balance is an abomination but a just weight His delight" and who wrote it into the statutes of Israel 4,000 years ago—

"Ye shall do no unrighteousness in justment, in meteyard, in weight, or in measure. Just balances, just weights, a just ephah, and a just hin shall ye have * * * not divers weights * * * not divers measures. But thou shalt have a perfect and a just weight; a perfect and just measure shalt thou have."

It would be impossible, it seems, for the genius of man to conceive and bring forth a more gigantic and colossal invention for making "the rich richer and the poor poorer" or for sheer robbery of the debtor class under the form of law than is such an unstable measure of value as our dollar now is. It is a system which makes the law an aid, an ally of the robber rather than defender of the robbed. When, for example, a debt is contracted when the dollars loaned represent 10 bales of cotton or 500 bushels of wheat, and the governments and financial systems of the earth make it so that the creditor collects dollars that represent 30 bales of cotton or 1,500 bushels of wheat (and in similar proportions as regards all other commodities), in addition to having all interest payments correspondingly increased—when this happens, has not a robbery been permitted as essentially immoral as the burglary of a home or the holdup of a bank? There may be law, but there is no morality and no honesty in requiring a man to pay in values twice or thrice what he received in principal plus twice or thrice in values what he agreed to pay in interest also.

And here, too, is an amazing contrast. In 1896 our captains, lords, and rulers in business and finance thundered in indignation against "permitting 100-cent debts to be paid with 50-cent dollars" and rallied America in behalf of "honest money" to protect the creditor classes. But to-day from what high quarters in press or pulpit or rostrum have we heard any Nation-summoning alarm in behalf of "honest money" to protect the debtor classes—any soul-stirring protest, tense with moral indignation, against the immorality of requiring debtors to pay with 150-cent dollars the debts they contracted with 100-cent, 80-cent, or even 64-cent dollars? Why the difference?

Why, is it that Congressman McFadden can denounce the Goldsborough bill with the charge that it "is dishonest to the American people, because it will permit bills contracted in terms of to-day's dollar to be paid in terms of dollars of one-half their purchasing power and values," when for three years past he has apparently seen nothing even remotely dishonest in requiring the farmer's debts contracted in terms of yesterday's dollar to be paid in dollars of twice their purchasing or commodity value? Why is it that men in high position can see great danger in "uncontrolled inflation" but have apparently seen none in the long tragedy of uncontrolled deflation with its foreclosures, its bankruptcies, its unemployment, its starvation, its suicides?

VIII. WE MUST HAVE A PERMANENTLY STABLE SYSTEM OF MONEY FROM NOW ON

Is is not enough just to remedy or patch things up to meet the present emergency. Congress will be guilty of an unpardonable crime against America's present and future if it does not provide that permanently from this time on the dollar shall be a stable measure of purchasing power—a real yardstick of value. We have a standard of time that never varies—the hour; a standard of length that never varies—the yard; a standard for liquids that never varies—the gallon; a standard for measuring corn and wheat that never varies—the bushel. And yet our national standard of value, the dollar, in real purchasing power, interpreted in terms of what it will buy, we permit to be as variable as would be a yardstick sometimes 18, sometimes 24, and sometimes 36 inches long; as variable as would be a bushel measure sometimes 2 pecks, sometimes 3 pecks, sometimes 4 pecks in capacity; as variable as if we had hours sometimes 30, sometimes 45, and sometimes 60 minutes in length.

And in proof of this declaration one has but to look at the following official statistics of the Department of Labor, Bureau of Labor Statistics, showing the purchasing power of the dollar expressed in terms of wholesale prices since 1915, taking average 1926 prices as 100 or $1:

Purchasing power of $1

Year:		Year:	
1916	1.170	1925	0.956
1917	.851	1926	1.000
1918	.762	1927	1.048
1919	.722	1928	1.024
1920	.648	1929	1.036
1921	1.025	1930	1.159
1922	1.034	1931 (January)	1.299
1923	.994	1931 (December)	1.406
1924	1.019	1932 (March)	1.503

After the tragic experiences America has just been through, all improvements will lag, all business will halt, all enterprise will be frightened, all development on farm and in business will be checked if every man must make future plans with no assurance as to whether the dollar at pay time will be worth 50 cents, $1, $1.50, or $2 in commodity values. On the contrary, if, as a result of this depression, Congress will for all future time provide two such measures as are now under consideration, (1) some effective plan for guaranty of bank deposits, and (2) a stable currency system based on average 1920–1930 commodity prices, then both American agriculture and American business can at once go forward to an assured and permanent prosperity.

STATEMENT OF PROF. IRVING FISHER, YALE UNIVERSITY, NEW HAVEN, CONN.

Senator FLETCHER. Doctor Fisher made a full statement at the House hearings and it has been printed, and I do not suppose it is necessary to go over all that, Doctor, but whatever you desire to say will be very interesting.

Doctor FISHER. My statement took a day and a half, so I think I will not try to cover it all this afternoon. Probably the best way would be to try to answer some objections that have been raised and that have been in the public mind, rather than to try to repeat the statement I made.

I have brought in some copies of that statement and would be very glad to give them to any member of the committee who would like to read it.

Senator FLETCHER. I am sure the committee would be glad to have it.

Doctor FISHER. I have noticed that some of the newspapers have reacted to the Goldsborough bill as though it were the same sort of bill as the Patman bill. It is not. Without going into the reasons for making that statement, I can simply say that I appeared in favor of the Goldsborough bill and I appeared against the Patman bill and gave my reasons for it at the hearing.

Senator GORE. I did not catch that, Doctor.

Doctor FISHER. I said, I was trying to separate in the public mind the Goldsborough bill from the Patman bill and other bills like that, and without trying to explain the differences I merely wish to say that I appeared in favor of the Goldsborough bill and appeared against the Patman bill.

Senator GORE. You appeared before the House Ways and Means Committee against the Patman bill?

Doctor FISHER. Yes, sir; and you can find the hearings there if you want to go into the reasons.

I have, probably as much as any writer, perhaps more than any writer, inveighed against unlimited inflation, in many books, including The Money Illusion which, at the suggestion of the House committee I offered to any member of either branch of the Congress who would like to get it and read it. I have inveighed against inflation, so that I am on record as not being an inflationist.

I do not regard the Goldsborough bill as being subject to criticism on that basis. On the contrary, it is to negative the deflation from which we have suffered, what Mr. Mills spoke of in his speech against the Patman bill as "controlled credit expansion," the object of which is to raise the price level. You can call it inflation, but it is "reflation" which means a great deal more than inflation. Reflation means inflation which is justified by virtue of its counteracting recent great and rapid deflation. Both inflation and deflation are harmful and should be prevented, and the only way to prevent it is to correct any sudden, great and rapid inflation or deflation by a movement in the opposite direction.

In order to answer objections I think we ought to start with the seriousness of the situation. I should like to make a few statements dogmatically, and if I do not justify them in what I say later, I hope you will ask me questions and see if I can justify them then.

I do not think the situation in this country has ever been as serious as in the last few weeks. I think we are at the parting of the ways, and it would not surprise me at all if within the next month we would know definitely which direction we are going. We have been one an even keel. I mean, the price level has stayed for the last few weeks about the same. It has sunk just a little. My index number went down 0.2 this last week; but I think the indications are that it will either make a fairly quick turn up or a very big plunge down, and if we go down I want to emphasize this, that there is practically no bottom.

It is a common idea—and that is one of the popular thoughts that I want to answer—that there is a natural resistance as you go down; that there is a sort of accumulation of pressure of some spring that will gradually stop the fall. There will be no such resistance until we have gone down a great deal farther than we are now. It would be quite possible, according to economic theory, for the price level to go down to half of what it is now, to one-fourth, to one-eighth, to one-twentieth, before we would get to the bottom where it could not get any lower, and that would be when we have everyone bankrupt who is in debt at all.

On the other hand, we may go up, and if I were to bet, I would bet that we are going up. That bet is based on two hopes—one is that the efforts of the Federal reserve system now being made will be successful. We have got a good chance there. The other, on which I count even more than that, is that Congress will mandate, through the Goldsborough bill, the Federal reserve to continue to do this thing and will pass any other necessary legislation to enable them to complete it. If this mandate is not given we do not know what they will do, because they have always had some difference of opinion with regard to how far they should go in the open market operations. In this morning's paper a representative of one of the big banks in New York seriously advised that they should stop now.

To my mind that would be disastrous. If that is also the opinion of Congress it seems to me it ought to be crystallized into law so that the Federal Reserve Board will have no option in the matter. I do not believe that we ought to leave to the discretion of a dozen men what they shall do or may do. It is stated in the Constitution of the United States that Congress has the right and the duty to regulate the value of money. We have never exercised that right properly.

Before I can answer the objections that have been raised, as I have heard them here to-day and yesterday, I think it might be well very briefly to try to give you my diagnosis of the situation, because everything grows out of that.

I listened yesterday with the greatest interest to what Professor Warren said, and I hope that you who heard him appreciate that he is one of the world's authorities on this subject, very likely the greatest, and he has the greatest arsenal of facts which he has accumulated—he and his associate, Professor Pearson, who is here this afternoon. I do not think there is a syllable that he uttered that I did not thoroughly agree with a hundred per cent.

So what I shall say will be merely rehearsing what he said, putting it perhaps in a somewhat different light.

I would say that we are suffering from two diseases, the debt disease and the dollar disease, and that the dollar disease has grown out of the debt disease, although it was not necessary. You know, when a man gets grippe he is likely to get pneumonia, but it is not necessary to get pneumonia just because he has grippe. We are not now discussing how we might have prevented the debt disease. I think it could have been prevented, and I believe that you can prevent and cure the dollar disease.

Let us see what those two mean and how they start. In the first place, in 1929 we had the largest accumulation of debt in the history of the United States. The best figures are those of Professor Warren and Professor Pearson that were given to you yesterday. The estimate is that the total debt was $203,000,000,000. The debt was so large on account of, first, the war, and, secondly, speculation. Those two are the great reasons. The war, of course, left a great reparation debt; a great intergovernmental debt, most of which the United States is concerned in; international debts due to the investing of the United States in attempting the recovery of Europe; the debts of our farmers who helped in the frenzied production during the war and the speculation in land that was caused by the inflation that went on at that time. And besides those war-engendered debts there were a great many more that came from speculation. That speculation came very largely from the great prosperity that we had during the years 1921 to 1929. That prosperity was very largely due to a great flood of new inventions, so that people found great opportunities, as they thought, to make money out of these new inventions—the automobile, General Motors, airplanes, radio, as well as all sorts of little inventions. Look at the names of the stocks on the New York Stock Exchange, and you will find a large number of them are named after the devices which those companies were organized to vend. Our Patent Office was choked by inventions. There had never before been so many inventions in the history of the United States.

After the war, because of the example of Germany with her technological schools, our industries engaged scientists in a way never before done, so that the American Telephone & Telegraph Co. and other big companies spent millions of dollars and had thousands of scientists engaged solely for the purpose of making inventions.

First, the people invested in those inventions and bought stocks in the companies that were exploiting them, and as they rose in value people began to invest—not for a long time, but for a short time—in other words, to speculate; and when people see their chance to make a big sum in a short time they go in debt for that purpose. So we got the tremendous stock-market debts, the brokers' loans as well as the debts of banks, which were very largely for the same purpose.

Then we had the device of installment buying, which was especially fostered, and which led to a great deal of overindebtedness on the part of the consumer. So, all together, we had over $200,000,000 on the basis of 260 billions estimated valuation of the real wealth of the United States.

When we have a state of overindebtedness like that, something pricks the bubble. In this case it was the Hatry disaster in London, as far as one pin could prick the bubble. You have an inflation, and it becomes progressive——

Senator GORE. What was that disaster, Doctor?

Doctor FISHER. The Hatry disaster. Hatry was a fraudulent promoter; and he tried, by forging securities, to keep on getting people to invest in his companies, and when it was finally discovered it led to a great collapse in the London Stock Exchange, and the Londoners began to unload, to get their cash, on the New York Stock Exchange, and the stock exchange in New York was already overloaded. The result was that people could not carry any more, and selling then went on in a torrential way.

First, under those circumstances, comes the phenomenon called distress selling. It is different from normal selling, in that it is induced, not by high prices, but by low prices. Normally people hold off until the price goes high enough to satisfy them before they sell; but when they are too much in debt it is just the opposite. As soon as anything disturbs this house of cards and it begins to tumble, then they try to preserve their solvency, which is more important than making a profit, and their solvency becomes the only thing to save.

This distress selling in various ways tends to reduce prices, and as prices go down it brings more distress selling, and as you have more distress selling, the prices continue going down, and so on in a vicious spiral; and that has been going on ever since the stock market crash up to the present moment.

The price went down suddenly. That is because the stock-market loans are call loans. Then there was a shift to the banks. When the due dates came around, there was another wave of distress selling and another wave and another; and as it was explained to you yesterday, there is imminent the liquidation of real estate and mortgages. That will take years, because mortgages run a long time. The process of liquidation is not complete. In fact, it has not really started. When prices fall it is the same thing as saying the dollar rises. That is the dollar disease. What has really happened is that the dollar to-day has become $1.50 as of 1929, before the crash, in terms of commodities. The farmer's dollar has become $2, so he has to pay twice as much in his wheat and cotton and other products to liquidate his debt, and he has less with which to pay it.

Senator GORE. Sometimes five times as much.

Doctor FISHER. Yes; in many cases much more than twice as much.

This could have been prevented if sufficient currency had been injected into the circulation to prevent it. It should have been prevented, in my opinion. I think that it was a great pity that it was not seen in time and not prevented in time; but it was natural that it should be overlooked. We did not realize, until it was too late, that this thing was going on in such a fierce way; and now we have this increase of indebtedness by 50 per cent that has vastly more than offset the liquidation. In other words, there has been no real liquidation. The liquidation has been purely nominal. There has been a reduction in the number of dollars owed, but the dollar has increased faster than the number of dollars has decreased, so that the amount of commodities, which are the real things owed in the United States, is now greater. In other words, in spite of the fact, as I said, that in 1929 this country was more in debt than it had ever been before in its history, it is still more in debt now even than then, and is less able to pay than it was in 1929.

Senator THOMAS of Oklahoma. Would it disturb you if I asked you a question, Doctor?

Doctor FISHER. No; not at all.

Senator THOMAS of Oklahoma. You just stated that Doctor Warren's estimate is that we have 203 billions of amassed indebtedness?

Doctor FISHER. That was in 1929.

Senator THOMAS of Oklahoma. And do I understand you to say that we have less than 400 billions of value in the United States?

Doctor FISHER. Yes.

Senator THOMAS of Oklahoma. And I understand you now to say that those debts had increased one-half?

Doctor FISHER. That the dollar has increased by 50 per cent in its value.

Senator THOMAS of Oklahoma. Then would not that mean that those two hundred and three billions of debts, measured by commodity prices, are now more valuable than the assessed or real value of the United States?

Doctor FISHER. That is what I was coming to, Senator. There has been a certain reduction. The number of dollars now owed is apparently about one hundred and eighty billions.

Senator HULL. That includes governmental and public debts?

Doctor FISHER. Yes. There has been a reduction from two hundred and three billions to one hundred and eighty billions, approximately, as a rough estimate.

Senator BLAINE. To what year do you apply the four hundred billions?

Doctor FISHER. 1929. Three hundred and sixty-two billions was the estimate of Professor Warren.

Senator FLETCHER. And it has been reduced how much?

Doctor FISHER. To about one hundred and eighty billions, approximately. But the dollar has been magnified 50 per cent so that in terms of the 1929 dollar the indebtedness is not one hundred and eighty billions but about two hundred and seventy billions, about 50 per cent more.

The estimated valuation of property has shrunk from three hundred and sixty billions to about two hundred billions. So we are probably mortgaged, so to speak, over 100 per cent to-day on our real wealth. The only other asset against this debt is labor power, the personal wealth of the United States, which is not included in the estimate of the real, tangible wealth of the United States. You would not allow any city to get into debt in relation to the real-estate valuation on any such basis as that.

There has been only one of the many groups which has liquidated, and that is the stock market. And that has been more apparent than real, because lots of those debts have been shifted to the banks. There has been a liquidation of the stock market.

With a few very trifling exceptions out of a dozen different categories that I have separated there has been no liquidation, but instead there has been an increase.

Now, apply this real increase of debt to the United States Government. The United States Government to-day is more deeply in debt than ever before. Most people would, on first blush, say that my statement could not be proved, that we were in debt in 1919 twenty-five billions and now we are only in debt eighteen billions, and that there has, therefore, been a reduction of seven billions. But the dollar has been magnified twofold since 1919 so that in terms of 1919 dollars the debt of the United States is about forty billions—50 per cent more than it was then—and we are poorer now than we were then.

One of the curious paradoxes is that if you try to balance the Budget at this time you have a deflationary effect at once. The result is that if the price level should decrease by 8 or by less than 6 per cent it would increase the debt from eighteen billions to nineteen billions, in effect, in the terms of the same dollar; that is, if we attempt to balance the Budget in that way, causing deflation, the effort to keep us from getting into debt will really put us deeper in debt.

You can not get anywhere on that subject unless you translate into real things, and that is the essence of the whole business. When you talk in terms of dollars you are fooling yourself with what I call the money illusion—that a dollar is a dollar, when really it is changing all the time.

Senator THOMAS of Oklahoma. Supposing our national debt is 20 billions. Supposing that instead of raising a billion dollars in taxes, as proposed to-day on the floor of the Senate, we authorized the issuance of a billion dollars in bonds and put those bonds in the Federal reserve and issue money against them and put the money out in payment of our obligations, and supposing that that act would raise commodity prices 50 per cent, would not that $1,000,000,000 of additional indebtedness in effect actually reduce the value of the total indebtedness of the United States?

I do not want to mix other questions here. I did not mean, really, to refer to balancing the Budget. The proper sequence is to reflate first and balance the Budget afterwards; and even if we now pass laws which will balance the Budget next year, between now and then we ought to reflate. Reflation is the lesson of the hour for everything; for balancing the Budget as well as other things.

Senator FLETCHER. The exact figures are not very material, but my recollection is that we had an indebtedness of 26 billions and we paid on that indebtedness 10 billions. That left 16 billions.

Doctor FISHER. It was 25½ billions—a little more, nearly 26—and we cut it down, in number of dollars, to 17 billions, if I remember rightly. But in the last year it has gone up again, so that it is 18 billions now, approximately, speaking in round figures.

The most curious anomaly in the whole business is that this increase of the dollar has the effect of putting us in debt, trying to get out.

If there had been a moratorium in 1929 by which it had been agreed that no one should try to get out of debt, we would have been much better off to-day. The effort to get out of debt has put us deeper into debt, when we translate it into real things.

Of course, it is true that an individual who pays his debt of a thousand dollars, even if he only paid a hundred dollars on it, is out of debt more than he would have been if he had not paid that hundred dollars. But if, while he is paying that hundred dollars, millions of other people are also trying to pay their debts, then his $900 debt has been magnified by their action; so that instead of being nine-tenths of his original debt it may be 50 per cent more. It may be the equivalent in the original dollar of $1,500.

So please do not misunderstand me as saying that any individual would have been better off if he alone had not paid something on his debt. He would have been worse off, perhaps, than he is; but the fact that other people put him deeper in debt by trying to pay their debts at the same time is just like a crowd trying to get out of a burning theater. You can not blame the individual for trying to protect himself and his wife and children by getting out first. If everybody else would stay in their seats while he was doing it, they would probably escape. But if they are all scrambling, he can not afford to be left behind. The fact that they all scramble jams the doors and they do not get out as well as if they went more slowly.

So the effort has been self-defeating. The more the debtors as a whole have paid, the more they owe. There has been no liquidation. There has been only an apparent liquidation, a reduction in the number of dollars, but an increase in the actual amount of wheat and cotton, and so forth, that is actually owed.

That is the fact with which we have got to reckon; and simple honesty and justice, throwing aside all technicalities, require that we should have some restoration of the dollar, to deflate the dollar, or inflate prices, or reflate, so that the present debtor will be able to pay his debts on something like the basis on which those debts were contracted.

The object of the Goldsborough bill is to declare as the policy of the United States that that is the objective, that we should try to undo the injustice of deflation; and, after that is done, not to go on and inflate, the way Germany did—we would be worse off than we are now—but to stop at that point which is just, as between debtors and creditors, and then stay there, and forever after resolve that we shall never have another great inflation or deflation.

I am writing a book on the depression, and while I am not at all well versed on the literature of depressions, I feel, as you heard Doctor Warren say yesterday, that this is the secret of this depression—the fact that overindebtedness has led to distress selling and various other things that I shall not take your time to go into now, but which are fully covered in this pamphlet.

We have magnified instead of reduced the debts by magnifying the dollar, and we have created a great injustice which should be rectified.

It has been objected that this bill is merely a good resolution and that therefore it will do no good. That is not an objection. Granted that it is true, for the sake of argument—and I do not grant it as a matter of fact—but granted, as some of you may believe, that this bill will do absolutely no good, nevertheless I think you ought to report it out and get it passed for the chance that it will do some good and that those of us who believe that it will do a great deal of good may be right after all.

I will turn the argument around and say it can not do any harm, and for that reason, since some believe it can do a good deal of good, it should be passed.

What good will it do? It will do good in two ways. In the first place, it will insure that the Federal Reserve Board will go on and not stop to-morrow, as has been proposed by one writer in this morning's paper, that it knows where it is going and will not be swayed by sometimes one faction and sometimes another faction in the Federal reserve system. There has been a good deal of controversy, particularly between the Bank of New York and the Federal Reserve Board here, differences of opinion between the Chicago bank and the Federal Reserve Board here, in regard to these very things in times past. Sometimes it made very bad blood within the system. All that can be avoided and we can be assured of a uniform policy if this bill is passed. It seems to me that that is something good and very important. It would insure that we can get out of the Federal reserve all that there is to get out of it. We can not do very much until we have got a declaration of policy. I believe that other things should be done. I do not regard this bill as sufficient. It may be true that the Federal reserve will not be able to accomplish this objective, but they can certainly go on their way in that direction, and it will soon appear whether they can accomplish it or not.

It is claimed that they can not accomplish it. The head of the Federal Reserve Bank of New York said, in opposing this bill in the House, that he did not believe they could accomplish it, at least not alone. This bill does not say that they shall accomplish it alone. It says that the responsibility shall be on the Federal reserve system and the Secretary of the Treasury representing the United States. If the Federal reserve find that they can not do it alone, they will immediately come back to you and say, "We need this or that or the other"; and I thoroughly believe that if the stabilization clause had been in the original Federal reserve act, as proposed by Senator Owen, we would not have had this depression to-day, because we would have developed a technique to do the thing if it had been definitely in the act. It was left out of the act. It was not thought of as of any prime importance, and it was stumbled on accidentally in 1922, after the great deflation which the Federal Reserve Board was responsible for, which was a great mistake. Governor Strong, of the Federal Reserve Bank of New York, seeing the situation and seeing that we were in for a big inflation if we did not look out, began to sterilize the gold, as it were, to produce a stabilization, and he gave us the greatest prosperity that the country has ever seen, and which lasted as long as he lived, and would have lasted to-day if he had been willing, as he was, finally, when he was dying, to have it embodied into law. If it had been embodied in the law when the 1922 Goldsborough bill or the 1926 Strong bill was up, I do not believe we would have had this depression, at any rate, in anything like the degree that we have it now.

I regard this bill as of basic importance, not simply a gesture. It is a platform on which you can operate. I would like to see half a dozen other measures erected on this platform, and if you like I will go into those.

Senator BLAINE. Would you mention them briefly?

Doctor FISCHER. First, I am in favor of the Steagall bill as an emergency measure. I know there are arguments against it. I know the experience has been bad, but it is for the same reason that a great many insurance companies fail, because they were not set up right in an actuarial way. In Kansas and Nebraska they let in everybody, whether a good risk or a bad risk. I think it was in Nebraska they attempted to keep out a bank that they know was a bad risk, and the Supreme Court said they could not keep it out, under the law. Of course, that policy will bankrupt any insurance company. But the principle of insuring bank deposits is just as sound as the principle of insuring anything else. I think it would do a great deal to help the affairs of the banks, especially the little banks which are not able to extend the credit and not willing to extend the credit that they ought to extend now.

Senator FLETCHER. It would tend to restore confidence, too, would it not?

Doctor FISHER. Yes.

The second measure would have the same effect, and that is one that is proposed by the Federal Reserve Board. It was in the original Glass bill and was taken out for some reason, I do not know what. I was told it was because it would not be understood and would be hard to pass through Congress. But, to my mind, it was about the best thing in the Glass bill. It was to base reserves on velocity, on rate of turnover, on activity of accounts, instead of having it arbitrary. As you know, we have now three ratios: 7 per cent in the county districts, 10 per cent in moderate-sized cities, and 13 per cent in big cities. We have a 3 per cent rate on time deposits, and a different rate on checking accounts. All those differentiations are based on the idea of activity.

Why not have a sliding scale of activity? The proposal is that a reserve shall be at least 5 per cent and not over 15 per cent, but between those two limits it shall move up or down with the activity, specifically that it shall be 5 per cent plus half of the daily turnover, so that if a bank had deposits of a hundred thousand dollars it would have $5,000 of reserves required, plus half of the daily turnover. If the daily turnover of the last week or month or whatever period was taken was $8,000, half of that would be $4,000, which would be added to the $5,000 as the minimum, making their required reserve at that time $9,000. Next week it might be more or less.

That would mean that when you got a period of speculation, as in 1928 or 1929, and were exceeding the speed limit, automatically the reserve would curb the bank. The bank would find it could not extend loans or increase its deposits beyond a certain point because it was going so fast that the legal requirement would automatically check it.

That would have stopped speculation in 1928 and 1929 to a large extent. When there is a slump, when activity ceases, as at the present time, when it is almost zero, it would enable the banks to reduce their reserves nearly to 5 or 6 per cent and would again strengthen their confidence to go ahead.

Senator FLETCHER. I think it is a sound measure and I think the committee were practically unanimously in favor of it. Most of the banks are coming to see it now. At first they objected, and that is one reason, I suppose, that it did not get through.

Doctor FISHER. I think it is important now.

Third, I think that something along the line of Senator Wagner's idea would help to get the consumer started, and with the efforts of the Federal Reserve Board to buy bonds would put the banks in better shape. Before any real effect on employment is had we have got to have this money go into the banks, or purchasing power or credit, and then the banks have got to hand it on to their customers who want to start up factories and so forth, and then they have got to hire new men. There may be a quicker way of getting men hired, even if the Government has to do it, and I am inclined to think that that can be done.

Then, I think if we are going to have a high price level, as we should, it is absolutely necessary——

Senator SMITH. Excuse me. You say you are in favor of supplementing this by having the Government provide for public building?

Doctor FISHER. I did not mean, specifically. I have not studied the bills enough to say that I am definitely in favor of any particular bill.

Senator SMITH. I mean, that principle that they should go into the construction of public buildings?

Doctor FISHER. Yes; and more particularly projects which will repay their costs, as suggested by Owen D. Young and yesterday by the President. The point is to get purchasing power into the hands of the consumer and help the unemployed. It will all work out ultimately from the open-market purchases, if they are big enough, but it will take a longer time than if we work out both ends at the same time.

Then, I think something might well be done to enlarge the base of precious metals behind our credit structure.

Senator FLETCHER. Do you mean, to increase the purchasing power of silver.

Doctor FISHER. I mean, to have a larger reserve. Of course, there are many ways of doing it, but I have a specific way in mind, but it would take an hour or so to go into it in detail. Then, there is the Glass bill.

And, then, there is another measure which I also will not try to go into at this time, especially as the author of it, the president of a large industrial concern in New York, is taking it up with men in Congress. I believe that it is a measure which would do the same thing as open-market operations are doing, but would speed it up very much faster.

Senator BLAINE. What proposition is that?

Doctor FISHER. As I said, I would rather not go into it, because this man has it in charge, and I know of it confidentially. I believe it is a very important measure.

Senator FLETCHER. Doctor, with reference to the Goldsborough bill, S. 4429 is very much the same, but it has a section 3 in it, providing—

To enable the Federal reserve banks to achieve this end they are hereby given the right to receive, and the Federal reserve agents are directed to deliver, Federal reserve notes at par for United States obligations deposited as security therefor.

Doctor FISHER. Yes. That is the same as the Glass-Steagall bill, perpetuated. The Glass-Steagall bill is an emergency measure for one year, and I think it should be permanent.

Senator FLETCHER. The point is, whether you would regard it as worth while to amend the Goldsborough bill by putting that on, or just leave the whole subject open to the Federal Reserve Board to find a way. They know the way to do these things, I suppose. Of course, this would direct them to accomplish it in this way, partially, anyhow. But whether it is worth while to put that into the bill or not, I do not know.

Doctor FISHER. My advice on a question of that sort would not be worth very much, as you men, being experts in legislative procedure, would know very much better than I. But so far as I have an opinion it would be that as time is of the essence it would be better to leave out anything that would require to revote on this in the House, and I would go right ahead and pass the Goldsborough bill as is, and then I would introduce this and the Federal Reserve Board proposal in regard to velocity of deposits, and some of these other things, in 1, 2, 3, or 4 bills, as seems best, and I think you would be making better speed, since you have momentum, to keep right on.

Senator FLETCHER. I think the House would agree to it if we thought it was advisable to amend at all.

Doctor FISHER. I think Mr. Goldsborough would be glad to insert several things in the bill, but in order to get it through, they had to be left out.

Senator FLETCHER. The question is whether we should leave the whole field wide open for the Federal Reserve Board to do this thing in its own way, or whether we should specify one of the ways of doing it. Senator Blaine said that we have made it their duty to accomplish this thing but we have not told them how to do it.

Senator BLAINE. Senator Fletcher, section 3 of your bill goes beyond the Glass-Steagall bill.

Senator FLETCHER. I thought you had reference to another bill. Yes; this goes beyond that.

Senator BLAINE. This makes Federal bonds the basis for the circulating medium.

Senator FLETCHER. Yes.

Doctor FISHER. I assume that the Federal reserve notes issued would be subject to the 40 per cent gold reserve laws, anyway.

Senator BLAINE. That is probably true.

Senator FLETCHER. This makes permanent the Glass-Steagall bill.

Senator BLAINE. I see, now. It probably makes it permanent.

Doctor FISHER. Senator Gore spoke a short time ago in regard to this as an international problem. It is. The money price level is always an international problem, so long as there are other countries having the same standard as we. If we are on a gold standard, we can not raise our price level materially without at the same time raising the price level of all other gold-standard countries; and that is one of the objections that the Federal Reserve Board will have, that they can not be expected to do this alone. It is true that they will be limited, and that a complete solution will require the cooperation of the central banks of all of the gold-standard countries.

But at the present moment the Federal reserve, in the first place, is the most powerful of all these banks. They could do it for the whole world, to a certain degree, anyway, even before the crash. Now they can do it more easily for two reasons. One is that so many countries are off the gold standard, including England. We can raise the gold-standard prices in this country without the Chinese having to raise their prices in terms of their silver standard, and, by the same token, we do not have to have England raise her prices in terms of their paper standard. All we have to do is to raise the prices in France and Switzerland and Holland. They are the other gold-standard countries. If we did raise the price level, it would cause a flow of gold to those other gold-standard countries at first, and as soon as that caused a rise in the prices abroad, in France and other countries, then the processes of recuperation would apply there as here. France already has more gold than she wishes or needs. Ultimately the effect would be very much more easily achieved than before the depression. In other words, you have a smaller area on the gold basis than you had before. This is to be remembered, also, if you are thinking about the cotton and wheat producer, as I assume Senator Gore was thinking particularly.

Senator GORE. Yes; I am.

Doctor FISHER. A rise of a very small amount in the international market would help very materially the producer back home. That was brought out yesterday very emphatically by Doctor Warren, that an increase of 10 per cent in Paris and New York in the price of any international commodity would mean an increase of 20 per cent in the cotton and wheat producing States.

Then I might add to that that, according to what we just heard, England is probably going to cooperate with us in her price level. It should be independent of ours, but it will probably be made to go up and down with ours.

And finally I would add that once you get this idea of stabilizing the price level and raising the price level started in this country, it is going to go like wildfire, because they need the same thing over there.

You will find in this book [exhibiting a book to the committee] of Sir Arthur Salter, formerly head of the economic work of the League of Nations, the very same doctrine that you have heard here, that in order to solve this question of the depression we must do two things—raise the price level and stabilize it after it is raised. Reflation and stabilization are the program we have got to follow.

That was also proposed in the Lord Macmillan report in England, and I would like to quote from that just a little. It was published about a year ago. [Reading:]

> Thus our objective should be, so far as it lies within the power of this country to influence the international price level, first of all to raise prices a long way above the present level and then to maintain them at the level thus reached with as much stability as can be managed.

That was an extremely important report.

I might say that the stabilization movement has gone very fast in the last few years. There is a Stable Money Association. Paul Warburg was one of the honorary vice presidents. Others who were connected with it were Bernard M. Baruch, R. Fulton Cutting, Pierre S. du Pont, George Eastman, Otto H. Kahn, Thomas Nelson Perkins, John J. Raskob, Alvin T. Simons, who apeared in favor of the Goldsborough bill in the House. I do not know whether those other people would be in favor of it or against it. I am not saying anything about this bill now but about stabilization. Also Alfred P. Sloan, jr., Silas H. Strawn, and Owen D. Young.

Among the honorary vice presidents are Nicholas Murray Butler, John W. Davis, Charles G. Dawes, William Green, Frank O. Lowden, Elihu Root, Sir Josiah Stamp, and Paul Warburg.

Reginald McKenna, who was one of the signers of the Lord Macmillan report, said, away back in 1922 [reading]:

> The truth is of course that both (inflation and deflation) are bad. What is needed is stability, the point from which both alike proceed in opposite directions. When we have stability of prices we have a basis upon which trade can be carried on with confidence.

Then I quote from a letter from the German economist W. A. Schulze-Gaevernitz, formerly a member of the Reichstag, and the first German to be on any committee of the League of Nations before Germany joined the League of Nations. He wrote to me, coming over to this country September 27 last, from the steamer. I had never met him before. He says [reading]:

> It is wonderful, though very painful, how your theory is verified by the facts. I really believe that the world depression was to be avoided if according to your advices the value of the dollar would have been stabilized. But even now it might not be too late. The chief thing in order to give a turn to the cycle seems to be to cut down the value of the dollar and by that make the prices rise again. America with its enormous hordes of gold can do so without leaving the gold standard. I am sure that you and your adherents have worked out the technical side of the matter.

Senator GORE. He did not elaborate that last point, did he, Doctor?

Doctor FISHER. I have only quoted a part of it.

One of the first great steps in the stabilization movement was taken at Genoa at the Genoa Economic Conference in 1922. There are certain resolutions from which I would like to quote. At the economic conference at Genoa in 1922 an epoch was marked by the unanimous adoption, by the representatives of more than 30 nations, of resolutions favoring such stabilization, and indicating some of the methods to be employed. These included cooperative action among the great central banks of the world concerning the use to be made of gold reserves and as to the discount policy to be pursued. These

> The essential requisite for the economic reconstruction of Europe is the achievement, by each country, of stability in the value of its currency.

Then they proceeded to outline the specific steps which should immediately be taken, adding [reading]:

> The purpose of the convention would be to centralize and coordinate the demand for gold, and so to avoid those wide fluctuations in the purchasing power of gold, which might otherwise result from the simultaneous and competitive efforts of a number of countries to secure metallic reserves.

The most momentous step, I believe, has been taken by Sweden which has definitely decided, through its Riksbank, to try to stabilize. That was reported in a Swedish journal from which I quote [reading]:

Such endeavors should aim at maintaining the value of money, as far as possible, constant.

And that is what we are talking about. [Continuing reading:]

This aim, of course, can be attained even with a paper currency. The proposals on these lines submitted by several well-known political economists—e. g., Wicksell and Keynes—the essential feature of which is that the value of money should be regulated according to a price index, are now being tested in practice by the Swedish Riksbank. The latter has made arrangements for the compilation of a price index, covering both wholesale and retail prices, and specially adapted for serving the purpose indicated. It is noteworthy that the riksbank has thus set up a definite goal for its monetary policy in the immediate future. And as the Swedish national bank has previously succeeded in pursuing a predetermined course of monetary policy with a free paper currency, there is reason to expect that its similar endeavors to the
economic experts, at the Genoa conference, recommended [reading]:
same end will meet with success. If similar declarations of policy were made also by other countries with a paper standard, first and foremost by Great Britain, this would greatly conduce to clear up the present monetary situation.

Senator GORE. What is the date of that, Doctor Fisher?

Doctor FISHER. I am sorry, Senator Gore; I have not got the date here. I think it was about six months ago.

Then, in regard to England, it looks very much as though the men in England feel that this would eventuate in a different policy for the English nation. Major Bellerby, in England, who is now a professor in one of the universities there, wrote me as follows [reading]:

I think you may take it that this country has fairly definitely in mind two ends: The first is to secure the expansion of industry through the expansion of currency and credit, and through the recovery of prices; the second is to institute a system of stabilization of the price level when prices have reached a position at which they yield an adequate margin of profit and when unemployment has fallen well below a million. These two aims were accepted by the Macmillan committee as ideal. It is fairly safe to say that they are now the accepted objectives of the government.

That is merely the opinion of an English professor.

Senator FLETCHER. You do not think it is necessary for the United States to wait for some international conference, do you?

Doctor FISHER. Most assuredly not. On the contrary, I think that we should take the lead. Other countries are more dependent on our lead than we are on theirs.

The correlation between trade and demand deposits, shown by various groups, you will find on pages 24 and 25 of my testimony before the House committee. There are some charts showing this very clearly.

Unemployment is definitely related to deflation. That has been proven by various studies, including a very extensive one by the International Labor Office, at Geneva.

I think I have already said too much, and I am willing to answer questions if anyone has any.

Senator FLETCHER. We are certainly indebted to you, Doctor Fisher, for your statement and your views about this matter. The committee will not act just now, but will wait until the hearings are printed; but we hope to act very soon.

So far as I know, that closes the hearings, does it not, Mr. Goldsborough?

Senator GORE. Are you going to have somebody representing the contrary view? As I see it, this is all ex parte; it is all on one side. It has been very fine, so far, but I would like to have the other side presented.

Senator FLETCHER. Do you know of anyone who wants to appear?

Senator GORE. I do not know of anyone. I know one or two who hold contrary views, but I do not know whether they are available or not.

Senator FLETCHER. Everybody has had notice of these hearings. We did not exclude anybody. However, we will not close the hearings at this time.

Senator GORE. I will speak to the chairman about it.

Senator FLETCHER. Yes. I suppose when we adjourn we should adjourn subject to the call of the chairman.

Senator GORE. Doctor Fisher, you have not elaborated your view about increasing the number of grains in the dollar this afternoon, have you?

Doctor FISHER. No. That is not in the Goldsborough bill. But I have gone into that very extensively in writings.

Senator GORE. Yes; I know that. I was called away from the hearing room part of the time when you were making your statement.

Doctor FISHER. No; I said nothing about that. I think that what Mr. David Stern said here yesterday is well worth thinking of—giving and entrusting to the President the authority to put an embargo on gold, or to put back into the bill what was originally in it and was taken out in order that it might pass; or, still better, to make a separate bill of that section. Section 3 originally, I think, in the Goldsborough bill in the House, provided that the Federal Reserve Board, I think it was, would be given authority to change the price of gold; and if I were writing it I would have it so that they could make a separate price for buying and selling price. The prices of gold would be at the discretion of the Federal Reserve Board.

Senator GORE. That is, with a view to stabilizing the price of gold?

Doctor FISHER. Yes. But also, Senator Gore, if it should be necessary for us to safeguard our gold, or seemed to be so, by an embargo, a change in the price would do it.

Senator GORE. I thought, Doctor Fisher, because I think I know your general views in regard to these international restrictions and limitations and prohibitions, that gold embargoes and the arbitrary control of foreign exchange, and tariffs, and all those things, obstruct trade and aggravate our present evil. I do not think we can ever escape these by mere local action. But, of course, I want your views.

Doctor FISHER. My views, I think, on that subject are quite the same as yours.

Senator GORE. But I have not been able to figure out how you could change the values of gold. As I understand, the purpose is to stabilize the purchasing power of gold. Would you make it more universal and apply it to corn, coal, cotton, and everything else as well as gold?

Doctor FISHER. No; I am very much opposed, Senator Gore, to the general idea of price fixing.

Senator GORE. So am I; and I am so fixed in that, Doctor, that I can not quite separate it from this. That may be my confusion.

Doctor FISHER. It is, to my mind, a separate matter. An individual price and a price level are different kinds of things, just as different as velocity is different from momentum. A price level is a scale or ratio, a percentage compared with a previous set of prices. It is not a price itself, at all. It is easier to fix a scale of prices than it is to fix a price. For instance, of you should pass a law that every cent should be called a dollar—which, of course, would be a foolish law—you would multiply prices by a hundred at once by changing the name of the cent to a dollar. It is easy to change a scale of prices; it is too easy. It is subject to abuse. But it is hard to change one price. It is a great deal easier to double the general level of prices in this country than it is to change the price of cotton 10 per cent.

Senator GORE. Yes. I have had this in mind with reference to this matter. This is a rather wild assumption, but suppose Senator Fletcher has a thousand dollars in gold, and I have got a thousand dollars in gold, and you come to me and say, "I want to borrow a thousand dollars in gold," and try to negotiate a loan. I say, "Congress has figured on stabilizing the value of gold money. I believe I will lay off and see what they do." And I keep my gold locked up in a strong box.

You go to Senator Fletcher and talk to him, and he loans you his thousand dollars in gold, payable a year from now. The year rolls around, and let us suppose that Congress in the meantime has cut the number of grains in the gold down one half. You go to Senator Fletcher and count out these little gold dollars, and the Senator says, "That is not the sort of gold I let you have. I am getting back only half as much gold as I loaned you." You say, "Yes; but Congress has changed the law, and these are dollars." You pay him, and he has got half as much gold as he let you have.

I have kept my thousand dollars, and Congress in changing the law has made my gold worth $2,000, and Senator Fletcher's gold is worth only half. I do not know whether in morals or in law you ought to return the equivalent in purchasing power, or whether you ought to return what you got from him.

Doctor FISHER. It is obvious that you ought to do what was implied in the original contract, what was expected by the contract. Presumably, it is purchasing power.

Senator GORE. Now, time rolls on a year longer, and you decide that you want to borrow another thousand dollars, and you go to Senator Fletcher and say you want to borrow it. The Senator might say, "I don't like those little dollars you paid back. If I let you have another thousand dollars you have got to agree to pay me back in gold dollars of the weight and fineness that I let you have." I assume creditors are looking after their own business, and as a rule the position of the creditor is to have a strategic advantage over the debtor. He can dictate his terms and keep his money. The borrower can accede to those terms or refrain from getting the money. I assume that every contract in the United States would stipulate the sort of coin that the debt would be repaid in, and the Supreme Court would hold it was a valid contract. I do not think that you can start out with any idea that these changes are going to be able to make it possible that borrowers will pay only half of what they got.

The CHAIRMAN. Might it not happen that the debtor, being unable to pay, the creditor gets the property and finds he has not got as much as he thought he had?

Senator GORE. I am going to come to that.

Let us suppose that I am living in Buffalo, and I have a thousand dollars in gold of the fineness of 25.8 grains to the dollar. Suppose Congress passes a law making one-half of that much gold constitute a dollar. I say I will not keep my gold in this country, but I will take it across the river into Canada. I do not know of any way that you can stop it, and I think that would be a natural reaction.

Here is another illustration, and I do not think it is far afield, and that is why I asked you if you would limit this effort to stabilizing the purchasing power of gold.

Suppose I hired a team of mules, at the outbreak of the war, worth $250 or $200. The war comes, the price goes up, and I hire them for a year. Fall comes along, and the price of the mules is $400 a span. I go up to your barn with one mule, and you say, " Here, I let you have two mules." I say, but you are getting back as much mule as you let me have. This one mule has as much purchasing power as the two mules you let me have, and I am returning equivalent value."

I do not see the difference in ethics between those two propositions.

Doctor FISHER. If you make a contract in terms of mules, both parties know that you are not talking about purchasing power. But when you make a contract in terms of dollars, that is an implied contract. People are not interested in gold as gold. You talked about my borrowing a thousand dollars in gold of Senator Fletcher or a thousand dollars in gold of you; but I venture to say that neither one of you has a thousand dollars in gold——

Senator GORE. Double check, as far as I am concerned.

Doctor FISHER. You may have a million dollars, but not gold. I do not want to borrow gold. I can not eat it and I can not wear it. People are just using gold because it came down from the times when jewelry was used as a crude way of measuring value. Now we have better ways.

Senator GORE. Our national bonds and State bonds are payable in gold. A great many farm mortgages are payable in gold. Do you think that if you went down to the Riggs Bank and borrowed a thousand dollars, if Congress changed the weight and fineness of the gold, the Riggs Bank would make a note that it shall be paid in gold of standard weight and fineness?

Doctor FISHER. Such contracts, if made specifically that way, should be fulfilled that way, I suppose.

Senator GORE. Yes. I figure they would all be made that way.

Senator FLETCHER. They were a few years ago. That was the general practice.

Doctor FISHER. That is not in this bill.

Senator GORE. Oh, no; it is not in this bill, but I was just getting your reaction to that.

Doctor FISHER. You will find quite a lot in regard to that in my book on stabilizing the dollar.

Senator GORE. I have thought about it a great deal as an ideal. It seems to me it would be desirable. I just have not figured out as a practical thing that it could be done. It seems to me as hopeless as perpetual motion. I agree with all that you have said about the burden of debts. It is the tragedy of the age that they have got to be paid two or three or four times over. If there is any practical way to do it, I am anxious to do it.

Senator FLETCHER. You spoke about the promotion of installment buying. What was really behind that? Was an effort being made by some particular interest?

Doctor FISHER. It is really an old device, but it was particularly cultivated by the automobile manufacturers, and especially by General Motors.

Senator FLETCHER. You could buy anything on the installment plan. I do not know whether it was an effort to make a showing of prosperity, even though it did not exist.

Doctor FISHER. It induced people to buy who could not otherwise buy. It gave them a kind of credit and allowed them to borrow; and it is perfectly sound, but it happened to come when there were so many other debts and it was so overdone itself that it increased this overindebtedness in 1929.

The CHAIRMAN. I was out of the room when you were testifying about that. Do you think that in a great many families it resulted in their buying more than they were able to pay for?

Doctor FISHER. Yes; but I don't think that was the main tragedy. The main tragedy was that after this great burden of debt resulted in tremendous selling and reducing prices and therefore magnifying the dollar, then it made it impossible to pay, far more so than if the price level had been stable.

The CHAIRMAN. But did not these people who were out selling on the installment plan ignore the limited purchasing power of their customers and override them in many cases?

Doctor FISHER. No; I do not think so, very much. There have been very few defaults.

The CHAIRMAN. Yes; but did it not mean that the buyer had to quit a year or two to catch up on his earnings before he could buy any more?

Doctor FISHER. Yes.

The CHAIRMAN. Is not that the same thing?

Senator GORE. He mortgaged future earnings for present enjoyment.

The CHAIRMAN. They thought they could sell a man more than he could pay for, but they found afterwards that he was trading on the future years, and therefore the business sloughed off.

Doctor FISHER. Yes; they undoubtedly oversold in some cases; but my point is this, that if the dollar had been kept the same it would have been two or three times as easy as it has been to pay off.

The CHAIRMAN. Oh, certainly.

Senator GORE. You say there have been very few repossessions. That is true, but people have paid out a half or three-quarters and they have been denying themselves other things in order to hold their equity in the things they had bought?

Doctor FISHER. Yes.

Senator GORE. And that has discouraged the purchasing power of the people?

Doctor FISHER. Absolutely.

The CHAIRMAN. In other words, the strong-arm selling was trading on the future to the extent that it was bound to help to bring on trouble?

Doctor FISHER. Yes.

Senator GORE. I think one trouble about the banks to-day is this. There are two sorts of credit. One is for consumptive purposes and the other is for productive purposes. I think the banks have almost absolutely shut down on loaning for consumptive purposes. On the productive side they have shut down because they can not survey the situation as it exists and see any business concern manufacturing anything with the hope of being able to sell it for what it cost, and for that reason they will not make advances.

Doctor FISHER. I do not think that point is as important as the banks are making it out to be. That is their excuse or alibi, that the business will not be sufficiently productive. But their real trouble is that they are in trouble. They do not want to tell their customers that, that they can not loan because they are broke themselves.

Senator GORE. I think it is a matter of contrast. As far as I am concerned, I do not much blame the banks or individuals for hoarding, in view of this prevailing psychology.

The CHAIRMAN. We are very much obliged to you, Doctor Fisher.

(Witness excused.)

Mr. Edward O'Neal, president of the American Farm Bureau Federation, has requested to have made a part of this record a pamphlet entitled "Honest Money, an Explanation of the Relation of Money, Prices and Prosperity," published by the American Farm Bureau Federation, Chicago, Ill., January 7, 1932.

Without objection, it will be inserted at this point in the record.

(The document referred to and submitted by the chairman is here printed in full as follows:)

HONEST MONEY—AN EXPLANATION OF THE RELATION OF MONEY, PRICES, AND PROSPERITY

FOREWORD

This booklet, prepared by the committee of the American Farm Bureau Federation on stabilization of the unit of value, is intended to give to our members and others a clear, simple explanation of the money question, and the effect of monetary policies on agriculture, business and labor. The policy of the American Farm Bureau Federation on this question is expressed in the resolution adopted at our last annual meeting, and reprinted herewith.

It is our opinion that the money question is of fundamental importance, not only to agriculture, but to all classes of our population. We do not assume that stabilizing the purchasing power of money will automatically solve all our other problems. There will still remain many such questions as taxation, transportation, tariffs, marketing and surplus control, which must be settled before agriculture can live and trade on terms of equality with other industries. The position of the American Farm Bureau Federation on these questions is well known, and we shall continue to demand a fair solution of all of them.

We do believe, however, that the money question is of such fundamental importance that its proper settlement will make a solution of all other problems much easier, and that without such a settlement we shall still be subject to the hardships that hit farmers hardest of all during alternate periods of inflation and deflation, no matter how happily we may settle our other problems.

It is with the hope of assisting American farmers to study this question and put themselves in position to use their influence intelligently to secure action by Congress to solve it that this booklet is being distributed.

EDWARD O'NEAL,
President American Farm Bureau Federation.

The United States of America is a country of almost unlimited natural resources—coal, oil, iron, timber; in fact, almost every raw material needed to make goods to supply human wants.

It is a country of fertile farms and capable farmers. Then can easily produce food and cotton and will in such abundance that everyone can have plenty to eat and wear.

It is a country of factories and power, of mass production, with plenty of skilled labor and competent management.

For centuries the world was hungry because it could not produce enough food. In fact, until recent times the world never had enough of anything, for everything had to be produced by hard hand labor.

The United States has solved the problem of producing food and clothing and manufactured goods. It can easily produce enough of everything so that everyone could live like a king.

Then why are millions of people who are capable and willing to work, hungry and cold and homeless?

Why are factories closed when so many people need goods? Why are people out of work when so many others need the things that they might be producing? Why are so many people hungry when the farms are glutted with surpluses? Why are hard-working, thrifty people being sold out under the hammer, the savings of a liftime lost?

Why all this misery and poverty and despair in a land of plenty?

Millions of people are asking these questions. The future of the Nation depends on finding the right answer.

All through the ages mankind has struggled with two problems:

1. To produce enough.
2. To divide up what is produced.

We have solved the first. We have failed to solve the second. We do not dare to produce too plentifully, for we do not know how to divide up what we produce so that we can all use and enjoy it.

We know that the more we produce the more we all ought to have. But somehow it does not seem to work out that way. We produce until the warehouses are full, and then shut down factories and try to shut down farms, throw men out of work, shiver and grow thin, and wonder what the trouble is.

MONEY MAKES CIVILIZATION POSSIBLE

What is the trouble?

To answer that question we shall have to go back a few thousand years.

In primitive times there was no money. The man with a herd of cows traded with a man with a field of wheat, so that both could have bread and butter. All exchange of goods was on a trade or barter basis. There were no hard times except as the result of some natural calamity or of failure to work.

Barter was a clumsy and inconvenient way of doing business. We could not possibly carry on the complicated business of to-day on a barter basis.

So money was invented—shells or beads or pieces of metal or paper—any article or token that would be generally accepted in exchange for goods because of its own value or promises back of it. We exchange our labor or the products which we produce for money, and exchange that money in turn for the goods or services of others. Money is the oil without which the complicated machinery of modern civilization could not run.

While many different materials might be used for money and have been so used, it was found that two metals were best for that purpose—gold and silver. Both were scarce enough and valuable enough in themselves to be generally accepted, regardless of confidence in governments or banks.

For a time the leading commercial nations used both metals as their basic money, with a definite ratio of value between the two. In this country the ratio was 16 to 1. Gradually the nations dropped silver as part of their basic money, and began to use gold alone. To-day China is the only large nation using the silver standard. All other important nations are at least nominally on the gold standard, or were until recently.

But as business grew in volume and complexity, it soon became apparent that there was not enough gold. For that reason, and for reasons of convenience, governments began to issue paper notes for use as money instead of gold. The value of paper currency is maintained by making it legal tender in payment of debts, customs, and taxes, by confidence in the government, by limiting its quantity, or by government promise to redeem it in gold on demand.

A nation whose paper currency is payable in gold on demand is said to be on the gold standard. Since governments may or may not keep their promises to redeem, it is evident that the value of paper money depends wholly on confidence in the government. Whenever confidence in government wanes, paper money depreciates in value. In a nation with a stable government in which its citizens have confidence, however, the value of paper money depends upon its quantity in relation to the need for it more than upon promises to redeem it in gold.

NOT ENOUGH GOLD

The only way a government can be sure of its ability to redeem its paper money at all times is to keep a dollar's worth of gold in its treasury for each dollar of currency outstanding. No nation does this, for the simple reason that there is not enough gold to finance the business of the world.

The United States has in circulation $927,930,129 in gold certificates, backed by an equal amount of gold in the treasury; $386,701,217 in silver certificates, redeemable in silver dollars and legal tender in payment of all public obligations, such as taxes and customs; $654,868,412 in national bank notes backed by United States bonds; $294,447,138 in United States notes, backed by $156,000,000 in gold; $1,232,250 in Treasury notes of 1890, redeemable in gold; and $2,463,281,989 in Federal reserve notes, redeemable in gold and backed by at least 40 per cent of their value in gold in the vaults of the Federal reserve banks. The actual gold reserve is usually considerably greater than this legal minimum. All these various kinds of paper money circulate at par because of confidence in the Federal Government, and the public hardly knows one kind from another.

But even this amount of paper money is entirely inadequate to finance the business of the country. It is supplemented by "bank money"—checks against bank deposits. Something like 90 per cent of the business of the country is done with checks instead of cash. For all practical purposes bank deposits subject to check are just as much a part of the money supply of the country as currency or gold.

There are about $51,000,000,000 of bank deposits subject to check in the United States. Most of this great volume of bank credit was not created by the deposit of money. The majority of credits are created by borrowing. When William Jones borrows a thousand dollars from his bank, the bank simply gives him credit for $1,000 on its books. The outstanding credits of that bank are $1,000 larger than before, and $1,000 has been added to the money supply (considering bank credit as money) of the country.

When business is transacted by check, little actual cash is used. It is largely a matter of bookkeeping in the bank and between banks. For that reason banks can lend money (create credit) up to something like 10 times their actual reserves. In order to meet the needs of business we have built up a great monetary pyramid (paper money and bank credit) on a small gold base. The required gold reserves provide only $1.60 in gold to meet each $100 in promises to pay gold. Actually the gold reserves are somewhat larger than this.

Our whole monetary structure depends on confidence rather than on gold, however. If there were any concerted attempt to convert currency and bank credit into gold, gold payments would have to be stopped. The gold standard is theoretical rather than actual, and must be so unless vast new supplies of gold are discovered.

WE MEASURE VALUES WITH MONEY

The common notion about money is that it is a medium of exchange. That is a correct but not a complete definition.

Money has another very important function. It is a measure of value. The unit of value in this country is the dollar. We measure all values in terms of dollars.

We ordinarily think of the dollar as being an accurate measure of value, as the yard is an accurate measure of length, and the pound an accurate measure of weight.

That is not true. It is because the dollar is such an uncertain measure of value that the whole economic machine gets into trouble every now and then. The fundamental reason for hard times is not overproduction nor underconsumption nor any of the other reasons so frequently given. The real reason is that the dollar, by which we measure all values, is such an inaccurate measuring stick.

The dollar is a fixed measure of value only in one respect—it will always buy 23.22 grains of gold. But what does that amount to? We can not eat gold nor wear gold, nor will gold keep us warm.

When it comes to measuring the value of the things we do want, the dollar is far from being a fixed unit of measurement.

Wheat is our most important article of food. We eat about 4 bushels apiece every year, and could not very well get along without it. We measure wheat in bushels. A bushel of wheat is always the same amount.

We value wheat in dollars, but a dollar's worth of wheat varies greatly. A dollar would buy less than half a bushel of wheat in 1919, a bushel in 1929, and 3 bushels in the early summer of 1931. Yet each of us needed his 4 bushels of wheat just as badly one year as another. It is plain that the value of wheat as human food does not change from year to year. Even its value in relation to its supply and demand does not vary in any such ratio as the price changes of the past 12 years would indicate.

Certainly wheat in itself is more valuable than gold. Yet the dollar that would buy exactly the same amount of gold in 1931 as in 1919 will buy six times as much wheat. It is plain that as a measure of the value of wheat the dollar falls far short.

A bushel basket that would hold 4 pecks one year and 24 pecks another could not be called an honest bushel. Neither can a dollar whose purchasing power changes in that proportion be called an honest dollar.

In the Middle Ages the yard was the distance around the king's middle. It was then the same kind of a measure as the dollar is now. You can imagine the difficulty of doing business with a yard that would go around Taft in 1913, shrinking to the circumference of Coolidge in 1928.

We have been wise enough to make the yard a standard, unvarying measure of length. Some day we shall be wise enough to make the dollar a standard measure of value.

MEASURING THE DOLLAR'S BUYING POWER

We have a method of measuring changes in the purchasing power of the dollar by what is known as the wholesale commodity price level. This price level is determined each month by the United States Bureau of Labor Statistics by taking the average of the wholesale prices of some 500 commodities, each figured according to its importance.

This wholesale commodity price level is expressed by a percentage figure called an index number. The year 1926 is taken as a base. The price level of that year is expressed by 100. For several years following 1926 the price level was fairly stable. Those were prosperous years for everyone except farmers, and farm prices were steadily coming into better relationship with other prices. In the fall of 1929 the price level was 97, only three points below 1926. During the two years since then it dropped to 68. (November, 1931.)

$1.45 DOLLARS

We say that goods are that much cheaper. But what has really happened is that dollars are worth more. A dollar would buy 45 per cent more goods in November, 1931, on the average, than in 1926. The 1931 dollar, in terms of what it will buy (and that is all that dollars are good for) is worth $1.45. That means that if we borrowed a dollar in 1926, we must pay back (in terms of goods) $1.45 at the price level of November, 1931. Every dollar in taxes, interest, and other fixed expenses has become $1.45.

The farmer is even worse off, for his prices have dropped more than the average. The farm price index has dropped to 58, and the farmer's dollar of debt and taxes has become $1.70.

When we borrow money we expect to pay it back, but we do not expect to pay back $1.45 for each dollar we borrow. Most of us can not do so. The debts of this country and of the world, public and private, can not be paid back in $1.45 dollars.

The effect of the deflation since 1929 has been to increase public and private debts in this country (in terms of commodities) by $80,000,000,000. On the present price level, when we have paid off our debts on the basis of what those debts were worth in terms of commodities in 1926, we shall still have eighty billions more to pay. Even the most avaricious loan shark never dreamed of legalized robbery in such terms as that.

Worst of all, it is the most able and most ambitious part of the population which is in debt. This country has been built up by people who were willing to work and borrow and take a chance. The Nation can not afford to crucify this most virile and valuable portion of its population.

SUPPLY AND DEMAND

The value of every product depends on supply and demand. That is just as true of money as it is of wheat and hogs. When the price of hogs goes down while other prices are stationary, the reason is that there are too many hogs in proportion to the demand for pork.

But when the average level of all prices goes down, as from 97 to 68 in two years, that is not due to the supply and demand of goods. It is hardly possible that there could be such a sudden increase in the production of all goods in two years, or such a sudden lessening of the desire of people for goods.

The cause in such a case is a change in the supply of money and credit. The price of money can not change, for it is fixed by law. So when the supply changes the effect can only be shown by a change in the price of goods. Commodity prices not only must change to compensate for changes in their own supply and demand, but also to conpensate for changes in the supply of money and demand for it.

Suppose we think of all the money and bank credit of the country as being on one end of a pair of balances and all the goods on the other end. Take off part of the goods, and that end of the balance goes up. That is, goods are scarce and prices rise. We are all familiar with that result in the case of individual commodities.

We are not so familiar with the fact that a change in the supply of money on the other end of the scale will have exactly the same effect. If we take off some of the money, the money end will go up and the goods end will go down. That is exactly what has happened during the past two years. The goods end of the scale has gone down—the average wholesale price level has dropped 29 per cent—not because we put too many goods on that end of the scale but because there was not enough money on the other end.

As a matter of fact, the amount of goods on the scale never varies much. The total production of goods in the world is about the same one year with another, excepting only times of world war and severe world depression. Even then the change—remember we are speaking of the total production of all commodities—is not so very great. Over a long term of years the annual production of goods in the world has increased steadily at the rate of a little more than 3 per cent a year, with little change from that amount. The rate of production increase in the United States is about 4 per cent annually.

The changes are chiefly on the other end of the balance. The volume of money and bank credit, and hence its value in terms of goods, varies greatly. That variation in the buying power of money is the cause of most of our business troubles.

BALANCE THE SCALE

It is quite apparent that we should all be better off if the scale were kept in balance—if the average wholesale commodity price level were kept just about the same from month to month and year to year. All business could then plan for the future with much greater confidence, and we could all go ahead producing to somewhere near the full capacity of our farms and factories. That would mean real prosperity. Because we should produce more of everything, everyone could have more.

We can only go on producing when the goods produced are moved steadily into consumption. That means solving the problem of dividing up what we produce. We can only do that when prices are in such relation to one another, that we can trade among ourselves on a fair basis.

While such things as tariffs, wage and price-fixing agreements, etc., sometimes work against a fair price relationship, the tendency is always for prices to adjust themselves in a fair relationship to one another so that commodities can be exchanged freely when the average price level is stable.

But when the average price level changes greatly, all these relationships are thrown out of joint. There are other causes than the supply of money and credit that tend to disturb price relationships. But these causes are of minor importance compared to the monetary factor. That is more important than all the others together—important enough so that, properly handled, it can largely offset the effect of all the others.

We can keep money constant in purchasing power—keep the average commodity price level stable—by maintaining just the right amount of money on the money end of the scale; in other words, by providing business at all times with just the amount of money it needs to keep going in a normal way.

That means fitting the volume of money and credit to the volume of business, instead of having to close down factories and farms and throw men out of work every now and then in order to fit the volume of business to an arbitrary volume of money.

IDLE MONEY DOESN'T COUNT

When we consider keeping the volume of money and credit in proper relation to the need for it, there is another factor that needs to be taken into consideration. That is the amount of work that each dollar does—what economists call the velocity of circulation.

The amount of work done by a crew of men depends on how hard they work. If some of them sit in the shade, and others work only half-heartedly, they will not accomplish as much as if they all worked steadily.

It is the same with money. The dollars that are idle, perhaps hidden away under the mattress or in safety deposit boxes, are not working. Neither is the credit which in times like these bankers are afraid to loan in a normal way.

We have already seen that by far the largest amount of "money" is not money at all but bank deposits created by borrowing. When the future is uncertain because no one knows what further changes may occur in the average price level, both borrowers and bankers are timid.

The rate of turnover of demand deposits in 141 cities in August, 1929, was 5.83 times per month. In August, 1931, the rate of turnover in the same cities was only 2.44 times per month. A given amount of deposits in 1931 would finance only 40 per cent as much business as in 1929. When we talk about "frozen assets" we mean that the velocity of circulation of money is low. In other words, that confidence, on which our whole credit structure is built, is at a low ebb.

So when we are talking about the necessary amount of money and credit, we must consider velocity as well as quantity. We have the right amount of money and credit when business is proceeding normally without any appreciable change in the average price level. When prices are going up and speculation is increasing, we have too much. When prices are going down, factories closing, and men being thrown out of work, there is not enough. Enough money at one time may be too much or not enough at another. The measure is its purchasing power—the average wholesale commodity price level.

The problem, then, is to expand and contract currency and credit, not in accordance with the amount of gold we may happen to have but in accordance with the needs of business.

The monetary system of the United States is largely under the control of the Federal reserve banks and the Federal Reserve Board, together known as the Federal reserve system. The Federal reserve system can expand or contract currency and bank credit at will in normal times, subject only to the limitations of the Federal reserve act relating to gold reserves, member bank reserves, and rediscount eligibility rules. In abnormal times lack of confidence may weaken the effectiveness of measures adopted by the Federal reserve system.

When the Federal reserve act was adopted by the House of Representatives in 1913 it contained a provision directing the Federal reserve system to use its powers to stabilize the purchasing power of money. That provision was eliminated in the Senate. The system has at various times used its influence to maintain stability. At other times it has not. Its ability to maintain stability under normal conditions can hardly be questioned. Additional powers may be needed to enable it to maintain stability under abnormal conditions.

PRICE LEVEL MUST BE RAISED

Two things are necessary at this time.

1. Restore the wholesale commodity price level to a point somewhere near that at the beginning of the present deflation.

2. Stabilize the price level at that point.

The first is necessary in fairness to debtors and in order to prevent further wholesale defaults and bankruptcies. A large part of the outstanding indebtedness, both public and private, can not be paid on the present price level. An increase of 30 to 40 per cent in the price level would restore confidence, put men to work, stimulate business activity, and definitely put an end to the present depression. It would cause farm prices to increase faster and farther than others, just as deflation caused them to fall farther and faster.

To start that process at a time like this is difficult. The chief inflationary powers now possessed by the Federal reserve system are as follows:

1. *Open-market operations.*—When the Federal reserve banks purchase Government securities in the open market, the effect is to turn those securities into cash. And because of the pyramiding of credit, an open-market purchase of $100 in Government securities makes available approximately $1,000 in bank credit.

Early in 1931 the Federal reserve system bought large quantities of Government securities in the open market, until it had accumulated more than $700,000,000 worth of such securities and about the same amount of bankers' acceptances. Such purchases were insufficient to start the price level upward, and the attempt has apparently been abandoned.

2. *Rediscount rate.*—One of the functions of the Federal reserve banks is to make loans to member banks by accepting securities of various kinds from them and issuing Federal reserve notes in exchange. The rate charged on such loans to member banks is known as the rediscount rate. When that rate is low, it is profitable for banks to borrow from the Federal reserve and reloan to customers. Low rediscount rates tend to expand credit. High resiscount rates tend to contract credit.

During the summer of 1931, however, reducing rediscount rates to 1½ per cent failed to have any appreciable inflationary effect because bankers lacked confidence to loan in a normal way. Rediscount rates have since been raised to around 3½ per cent, which is still low compared with normal times.

3. *Rediscount eligibility rules.*—Under the law the Federal reserve banks can rediscount for member banks only certain kinds of securities and commercial paper. By their own rules the Federal reserve banks can still further restrict the kinds of paper eligible to the rediscount privilege. Liberal rediscount rules tend to make money "easy" and to expand credit. Strict rediscount rules tend to restrict credit.

At the close of 1931 the reserve banks were following a "tight-money" policy as far as rediscount eligibility was concerned. They were reluctant to accept anything but Government securities for rediscount.

It is apparent that the Federal reserve system could use its present powers, especially (1) and (3) above, more effectively in an effort to expand credit and start the price level upward. But even if used to the limit, they might not be effective with public confidence at the present low level.

Certain additional powers would help, particularly broadening the rediscount eligibility requirements. A large proportion of property owners, particularly owners of real estate, are now practically without credit. If high-class, sound real-estate securities could be made eligible to rediscount temporarily, a marked expansion of credit would be almost sure to result. Admitting debentures of the intermediate credit banks to rediscount would aid those banks in providing farm credit, which would also aid in credit expansion.

President Hoover has proposed a system of emergency credit agencies, which to the extent it becomes effective will help to expand credit and raise prices.

The National Credit Corporation is already in operation and has had a marked effect in checking the number of bank failures. His others—the home loan discount banks, the Reconstruction Finance Corporation, and a Government subscription to stock in the Federal land banks—will all help to start the necessary inflation.

Once started, inflation, like deflation, will move rapidly of its own momentum. That is why some people are so afraid of any inflationary move, even though they know that it is necessary to get business off dead center. They fear that once started, inflation will go too far before it is stopped. Those fears are unnecessary. The Federal reserve system has ample power to stop inflation, and has learned how to do so. By selling Government securities in the open market, and by making rediscount rates abnormally high, it can contract credit so rapidly as to quickly put a stop to inflation once it has restored price levels to the desired point.

OTHER INFLATIONARY MEASURES

Some of the other inflationary measures that have been suggested are as follows:

1. *Devaluing the dollar.*—If the price of gold were raised from $20.67 to $30 an ounce, which would mean that a dollar would be worth about 15.5 grains of gold instead of 23.22, as at present, the price level would be restored very quickly. The chief disadvantage of this plan is the fact that so many debts, public and private, are payable in gold dollars of the present weight. Devaluing the dollar would not help this class of debtors.

2. *Paper money.*—A large issue (perhaps two or three billion dollars) or greenbacks (paper money not redeemable in gold), to be put directly into the hands of consumers by using them to pay Government salaries and other expenses and for unemployment relief. This is perhaps the most effective remedy that has been proposed, although it is probably politically impossible because of the popular prejudice against irredeemable paper money.

3. *Silver.*—Restoration of free coinage of silver on a definite ratio with gold would be an effective plan of inflation, but would be impractical except by international agreement with the other leading commercial nations.

4. *Symmetalism.*—Under this plan both gold and silver would be basic money. Currency would be redeemable, not in either one alone, but in a definite amount of each. This plan, too, requires international agreement.

5. Granting the national bank-note privilege to the one and one-half billions of Government bonds issued in the spring of 1931. That is, such bonds would be made the basis of a national bank note issue when deposited with the Treasury by national banks. The disadvantage of national bank notes is that they lack the elasticity of Federal reserve notes and can not be retired readily when they are no longer needed.

When a patient is sick the chief consideration is to make him well. Any medicine that will accomplish that purpose is good medicine, and even certain unfavorable aftereffects can be tolerated if the medicine brings about a speedy cure.

The present situation demands a speedy cure. Inflationary measures should be applied promptly and until results are secured.

Deflation has reached the point where capital has been impaired so seriously as to threaten the whole financial structure of the country. Continued deflation may easily bring disaster, the wreckage of which can not be repaired in a generation. The results already have been bad enough. Two years more of falling price levels might easily bring financial, political, and social consequences that would wreck our civilization.

This is not a time to be afraid of radical remedies. No remedy can be as radical as the disease.

STABILIZE BUYING POWER OF MONEY

After inflation has started prices upward and stimulated business activity, the price level should be stabilized at a fair level, preferably near that of the fall of 1929. This stability of the price level and of the purchasing power of money is necessary in order to avoid a recurrence of the speculative boom of 1928 and 1929 and the deflation and hard times of 1930 and 1931.

The principal stabilization measures that have been proposed are as follows:

1. Amend the Federal reserve law directing the Federal reserve system to use all its monetary and credit powers to maintain a stable price level. We have already explained what these powers are. To make its efforts more effective the reserve system should be directed to take the public into its confidence, so that instead of its moves being shrouded in mystery as is often the case now, the public will understand just what it is trying to do and why.

2. Amend the Federal reserve act to grant the following additional powers:

(*a*) To issue Federal reserve notes of its own volition against Government bonds in times of emergency.

(*b*) To broaden the rediscount eligibility rules.

(*c*) To raise or lower the reserve requirements of member banks.

(*d*) To raise or lower the gold reserve requirements of the Federal reserve banks.

(*e*) To raise or lower the price of gold.

3. Amend the Federal reserve act to direct the Federal reserve system to expand credit steadily at the rate of 4 per cent a year in order to keep pace with the expansion of business.

4. Hold an international conference to devise and put into operation plans to maintain world monetary stability.

Of these, the first is the most important. Once we have adopted a definite national policy of stabilizing the purchasing power of money, international action will follow as a matter of course. It will be some time before the stabilizing efforts of the Federal reserve system will be endangered by lack of gold, and before that time we may reasonably hope for international action to conserve gold and use it mainly for the settlement of international balances, or to adopt some practictal substitute for the gold standard. The recent abandonment of the gold standard by England, Japan, and 13 other nations shows how rapidly events are moving to force the world to find a solution of its monetary problems.

It is highly important that the principles of (1) above be enacted into law at the present session of Congress. It would be very desirable if part or all of the recommendations in (2) could also be written into the law.

Humanity has been enslaved long enough by an unstable measure of value, resulting in misery and distress second only to that of war. Once we apply to our monetary system the same intelligence that has solved our production problems, another depression like the present one will have become impossible.

QUESTIONS AND ANSWERS

Q. Why is business always bad when prices are falling?—A. No sane person will buy except for immediate necessities when the price is likely to be lower next week. Merchants and manufacturers buy as little as possible when they face the prospect of having to resell at a loss.

Q. What happens when money and credit expand faster than production?—A. Speculation, increasing prices, complaints about the high cost of living, and a tendency to unbalanced production, with overexpansion of production facilities and temporary overproduction of some commodities.

Q. What happens when the expansion of money and credit fails to keep pace with production?—A. Production slows up, prices fall, men are thrown out of work and business enterprise and relationships are thrown out of balance.

Q. What happens when the volume of money and credit is maintained in proper proportion to production?—A. Producers and merchandisers can plan for the future with confidence. From 1907 to 1915 the volume of credit expanded at almost exactly the same rate as the growth in production. Prices were stable and business was good.

Q. Does not stabilizing the price level mean price fixing, and has not Government price fixing always been a failure?—A. Stabilizing the average wholesale commodity price level does not mean price fixing. The price of each individual commodity would be free to fluctuate up and down in accordance with the supply of that commodity and the demand for it. When the average price level is stable, if the price of any one commodity falls because of oversupply or failing demand, capital and labor will promptly shift to some other field sufficiently to restore the balance. But when prices of all commodities are falling, capital and labor have nowhere to go. So capital goes into hiding and labor goes into the bread line, and a long period of hard times ensues. Such a state of affairs is due to insufficient money and credit, and can be prevented by keeping the supply of money and credit in proper relation to the needs of business.

Q. Is there not more money in circulation now than in 1929?—A. In November, 1931, total money in circulation was $44.46 per capita, as compared with $37.72 per capita the same month in 1929.

Q. Then how can you say that our present troubles are due to a shortage of money?—A. "Money in circulation" is an uncertain phrase. It means money outstanding, but money behind the clock and in safety deposit boxes is not in circulation. The amount of our money held abroad also varies greatly. Bank deposits subject to check are the same as money for all practical purposes, and are about 10 times greater in volume. When we speak of the volume of money we mean the total volume of money and bank deposits subject to check. From 80 to 90 per cent of bank deposits are created by credit extended by banks, which always shrinks when confidence declines.

It is the effective supply of money and credit that counts, and money is effective only in proportion as it works. The actual circulation of money and credit is only 40 per cent as rapid now as two years ago, and it is therefore only 40 per cent as effective in creating purchasing power.

Q. How much monetary gold is there in the world?—A. About $11,625,000,000 worth.

This gold was held as follows June 30, 1931:

	Amount	Per cent of total		Amount	Per cent of total
United States	$4,956,000,000	42.7	Germany	$339,000,000	2.9
France	2,212,000,000	19.0	Russia	262,000,000	2.3
England	793,000,000	6.8	40 other countries	3,063,000,000	26.3

Q. How rapidly is the world's supply of monetary gold increasing?—A. Less than 2 per cent a year. The increase in monetary gold falls more than 50 per cent short of keeping pace with the growth of production. That means that we must do one of the following things:

1. Submit to a steadily declining price level for a long period of years.
2. Build up a still larger credit structure on the gold base.
3. Abandon the gold standard.

Q. Are new gold discoveries probable?—A. Not large ones. The world has been thoroughly explored for gold. Some chemist may at any time discover a practical method of transmuting other elements into gold. Such a discovery would force the world to abandon the gold standard. Once gold could be manufactured, it would become unsuitable for money because there would be no limit to its quantity.

Q. What is meant by the gold standard?—A. A country which is fully on the gold standard buys and sells gold on demand through its treasury or its central bank, it redeems its currency in gold on demand, and sells foreign exchange freely on demand, payable in gold abroad.

Q. What is the gold bullion standard?—A. A country which is on the gold bullion standard does not mint and circulate gold coins. It keeps its gold in bullion form, which it buys and sells freely, and with which it will redeem its currency on demand. It also sells foreign exchange on demand.

Q. What is meant by the gold exchange standard?—A. A country which is on the gold exchange standard does not redeem its currency with gold, nor does it buy and sell gold on demand. It sells foreign exchange, payable in gold abroad, freely in exchange for currency or bank checks.

Q. What is the reason for the gold standard?—A. It is an automatic regulator of finance. It imposes a limit on the quantity of money and credit. When a nation continues to spend more than its revenue, balancing its budget by borrowing, or when it lives beyond its means by importing more than it exports, gold moves from it to other countries. This loss of gold serves both as a warning and as a means of forcing deflation and economy. Without more confidence among nations than at present, gold is the only satisfactory method of settling international trade balances.

Q. What has caused so large a part of the world's gold to move to France and the United States?—A. (1) Lack of confidence in other nations. People and nations feel that their money is safer in France or the United States. (2) "Management" of the gold supply. Since the war no nation has allowed the gold standard to operate freely. It has been managed in all sorts of ways, until some economists contend that we no longer have a gold standard at all, but a "bankers' standard."

At times during the past year the United States has had more gold than the total amount of outstanding currency. If this gold had been permitted to make its influence felt normally, it would have caused such a marked expansion of currency and credit as to have raised prices to twice the present level. Prices would not actually have gone that high, because as soon as they reached a certain point, the greater buying power of gold abroad would have caused us to lose part of our supply.

When gold is allowed to work automatically it seeks its own level, distributing itself among the gold standard nations, and keeping world prices in such adjustment among the nations that world commerce can proceed on a normal basis.

The managed gold standard or the "bankers' standard" interferes with this, causing excessive accumulation of gold in some countries and a serious shortage in others, and seriously disrupting world trade.

Q. Why did England abandon the gold standard?—A. To keep from losing all its gold.

All European countries abandoned the gold standard during the World War. When France went back on the gold standard in 1925, it devalued the franc. The gold value of the franc before the war, in terms of our money, was 19.3 cents. In going back on the gold standard in 1925, France valued its franc at 3.93 cents in gold. The effect of that was to reduce the burden of its war indebtedness, incurred on an inflated price level, by 80 per cent. Relieved of this excessive debt burden, France was able to balance its budget, and by avoiding excessive taxation, its business became prosperous and its foreign trade balances were maintained.

When England went back on the gold standard after the war, it disregarded the advice of its economists to follow the example of France (and all other European nations). Instead of devaluing the pound sterling and thus ridding itself of some of its excessive indebtedness, it placed the pound on the pre-war basis of $4.86 in our money.

The resulting burden of interest, debt payments, and taxes was greater than it could bear. Business was stagnant, unemployment and the dole added to its difficulties, and maintenance of the pound on a $4.86 basis caused a continued drain on its gold supply.

To stop from losing all its gold it had to abandon the gold standard and allow supply and demand to fix the value of the pound. If and when England goes back on the gold standard, it will probably be with a pound that has been devalued to something like $3.50.

Q. What happened to prices in England following the recent abandonment of the gold standard?—A. They advanced. Lard at Liverpool went up from 42 shillings in September to 53 shillings in late December. During the same period lard at Chicago went down from $7.30 to $5.65.

Q. Since no nation can possibly have enough gold to redeem its promises to pay gold, what is the advantage of having any gold backing for its currency?—A. To act as a check against inflation. With no gold cover for its currency, the value of that currency is determined by its quantity. Experience in countries like Germany and Austria, which issued currency after the war in such excessive quantities that it became valueless, has created public fear of currency inflation.

Q. Is there any other method that could be used to help maintain the value of irredeemable paper money?—A. Yes; by making it full legal tender in payment of taxes, customs, and other legal obligations. The best method, however, is to limit its quantity. A rising price level indicates that the quantity is becoming too great.

Q. How much money is outstanding in the United States?—A. At the end of November, 1931, $5,446,142,677, as follows:

Federal reserve notes	$2, 463, 281, 989
United States notes	294, 447, 138
Federal reserve bank notes	2, 851, 951
Treasury notes of 1890	1, 232, 250
National bank notes	654, 868, 412
Gold certificates	927, 930, 129
Silver certificates	386, 701, 217
Gold coin	382, 841, 032
Silver dollars	33, 226, 523
Other silver coins	271, 718, 795
Minor coins	117, 043, 241

Q. Can we not hope to have a more substantial basis for prosperity after prices have been deflated down to the pre-war level or lower?—A. No. We can be just as prosperous on a high level as on a low price level, or vice versa. It is stability of the price level that makes prosperity possible, and changes in the price level that throw business out of adjustment and cause hard times. The only possible reason for lowering the price level is to bring demands for money and credit more nearly in line with a limited supply of gold.

It is unnecessary and a form of economic insanity, however, to endure the suffering that would be necessary to cut down the world's business to fit a limited gold supply. It is much better to solve the problem by rearing a larger credit structure on the gold base, adopting a combination gold and silver standard, or abandoning the gold standard altogether except for settling international balances.

Q. Did not the American people definitely go on record against bimetallism (combination gold and silver standard) in 1896?—A. No. Both major parties favored bimetallism in 1896. The Republicans favored it only as a result of international agreement. The Democrats favored it for the United States regardless of international action. The Republicans won, but England blocked their attempt to secure bimetallism by international agreement. Discovery of vast gold fields in the Klondike and South Africa soon afterward relieved the gold shortage for a generation. We are again facing the results of a gold shortage similar to that of 1896.

Q. What is meant by "symmetallism"? What advantages are claimed for it over bimetallism?—A. Under bimetallism a dollar in currency is redeemable in a given weight of gold or a given weight of silver. Under symmetallism the paper dollar is redeemable in a given weight of gold and a given weight of silver. Under bimetallism there is always danger of one metal driving out the other. That is impossible under symmetallism, for both metals are always used together for redemption, never one separately.

Q. During the period of 1923–1929, was there any abnormal overproduction of goods as a whole, or any abnormal falling off in the demand for goods?—A. No. World production increased at about the normal rate of 3 per cent a year, and there is no evidence to show that demand was other than normal.

Q. Did the supply of gold keep pace with this normal increase in production?—A. No. Increase in gold output during this period was only about two per cent a year.

Q. What was the effect of the adoption of the gold standard by India in 1927?—A. To put a further strain on the world's gold supply. India drew $85,000,000 worth of gold out of the world's gold supply in 1928. It threw a large amount of silver on the market and this, combined with the sale of 50,000,000 ounces of silver by Great Britain as a result of debasing its silver currency, and the adoption of a partial gold standard by the French East Indies, demoralized the silver market, reduced the price from 65 to 30 cents an ounce, and paralyzed the purchasing power of China, the only large country to remain on the silver standard.

Q. If gold production has been insufficient from 1924 on, why did prices not drop sooner?—A. A market credit expansion in the United States, together with large American loans abroad, compensated for this shortage until the latter part of 1929.

Q. Is not lack of confidence a more serious cause of the depression than lack of money and credit?—A. Lack of confidence is a result rather than a cause. There was plenty of confidence in 1929.

Q. Would monetary stability help the mass of people?—A. Yes; monetary stability is necessary to business stability. Stable business, proceeding year after year at a normal rate, permits a wide distribution of national wealth and income, accompanied by a high standard of living for everyone who is able and willing to work. Unstable business and widely fluctuating prices permit strong and unscrupulous individuals to accumulate an undue proportion of the national wealth and income. They take advantage of unstable prices and credit stringency to add to their possessions until we approach the undesirable condition of great wealth for the few and poverty for the many. That is not a sound foundation on which to build the Nation's future.

Q. What is meant by inflation and deflation?—A. Inflation means expansion of money and credit. It is usually used to mean expansion of money and credit beyond the needs of business. The result is a rising price level and encouragement of speculation. Inflation reduces the buying power of money, making money less valuable. Debts, taxes, interest, and other fixed expenses can be paid more easily because commodity prices are higher. People with fixed incomes begin to complain about the high cost of living, because their money will buy less, and there are demands for wage and salary increases. Rising prices stimulate business, increase profits, and there is little unemployment during such a period. Producers, especially producers of raw materials, find a ready market at good prices. Inflation generates confidence which soon may become overconfidence. If inflation continues long enough, speculation reaches the point where people forget production and thrift in their desire for speculative profits.

Ordinarily inflation is bad, though not as bad as deflation. The worst thing that can be said about it is that if carried too far, it is almost sure to lead to deflation. In a time like this, when a moderate degree of inflation would only restore the price level of two years ago, the results would be highly beneficial. Practically all medicine has some undesirable after effects, but that is no reason for letting the patient continue to suffer from the disease. There is no other way except moderate inflation to end the depression except by a wearing out process that will take years and wear out a lot of the best people of the country.

Deflation is the reverse of inflation. The supply of money and credit is reduced or fails to expand to match the growth of business. Prices go down and profits vanish. Business has to be cut down to fit the supply of money and credit, and unemployment results. This reduces purchasing power still more, and causes a further shrinkage of business and more unemployment. Farmers are hit hardest of all, because of the falling demand for their products and because they are least able to restrict production, control marketing, and resist falling prices.

The future value of goods and property of every kind becomes uncertain. Money is more valuable than anything else, because it is increasing in value while everything else is decreasing. Everyone wants to turn property into cash and hoard that cash. Money is a safety deposit box involves no risk, and when its buying power is increasing, because of falling prices, faster than interest would accumulate, there is no incentive to put it to use.

Credit shrinks alarmingly. Bankers seek to collect all or part of their outstanding loans, because the property on which those loans are based is shrinking in value. New loans are made reluctantly. This hoarding of money and shrinkage of credit cause still further deflation. It is a process which, once well started, is hard to stop. It can not be stopped by individual action, but only by action of the Government and the central banking system.

Deflation benefits the creditor, because his interest and payments on loans are made in dollars that have greater buying power. When deflation goes so far as to impair or wipe out the security, however, as in the present instance, many creditors join the class of sufferers from deflation.

The ideal condition is neither inflation nor deflation, but a steady price level and an unchanging purchasing power of money—an honest dollar.

Q. What is meant by liquidity?—A. That is a word often heard in times of deflation. Liquid assets are those which can be turned into cash quickly. They include listed stock and bonds, and grain and other commodities for which there is an open market. Basic property such as homes and farms is not liquid because it can not be turned into cash readily in hard times. While liquid securities may depreciate in value faster than real estate, the banker always knows their cash price, and if the margin of security becomes too small, he can force the borrower to sell them and pay his loan.

When that happens, however, the price is forced down still farther, throwing more loans into distress, forcing more sales, and so on. As a matter of fact, all prices are based on confidence, and only a small part of the property of the country can be turned into money. If lack of confidence should extend to the Government, only gold would be really liquid, and gold payments would stopped as soon as any large number of people began to as for them.

The demand for liquidity is just another name for fear—a selfish fear that causes a person or an institution to grab for what he can get, regardless of the effect on the general welfare.

Q. What is meant by the commodity dollar?—A. That is the term sometimes used to mean a dollar whose purchasing power is always the same in terms of average commodity prices.

Q. What is meant by a compensated dollar?—A. One plan that has been advanced to stabilize the commodity price level is to change the weight of gold in which a dollar is redeemable, as often and to the degree necessary to keep the commodity price level constant in terms of dollars. A dollar redeemable in varying amounts of gold according to the commodity price level is sometimes called a compensated dollar.

Q. What is meant by managed currency?—A. Currency, the quantity of which does not bear any fixed relation to the amount of gold or silver in the country, but the purchasing power of which is kept constant by regulating its amount in accordance with the commodity price level.

Q. What is the Federal reserve system?—A. Twelve independent regional Federal reserve banks and the Federal Reserve Board at Washington. There are eight members of the Federal Reserve Board—the Secretary of the Treasury, the Comptroller of the Currency, and six members appointed by the President of the United States for 10-year terms. One of the six is designated as governor and one as vice governor. The present governor is Eugene Meyer, jr.

Q. Who owns the Federal reserve banks, and how are they controlled?—A. They are owned by the member banks. All national banks must be members, and State banks are permitted to become members. Each regional Federal reserve bank is governed by nine directors. Three of these are chosen by the Federal Reserve Board and six are elected by the member banks.

Each member bank is required to carry its reserve funds against deposits with the Federal Reserve Bank of its district. These reserves are 3 per cent of its time deposits and from 7 to 10 per cent of its demand deposits. The reserve banks must keep a 35 per cent gold reserve against these member bank reserves.

Reserve banks may loan to member banks on notes secured by collateral or on self-liquidating paper and may make such loans in the form of Federal reserve notes—new money. Reserve banks must keep a gold reserve of at least 40 per cent of outstanding Federal reserve notes. Such loans are called rediscounts. Reserve banks may further restrict the paper eligible to rediscount when they desire to do so.

Q. What is self-liquidating paper?—A. Evidence of debt based on a definite commercial or industrial operation which will automatically produce the money to pay the debt.

Q. What is meant by the "banker standard"?—A. That is a term used by Prof. Lionel D. Edie, economist, to designate the money system as "managed" by the Federal reserve system and other central banks.

Professor Edie points out that the supply of gold is relatively constant, increasing at a fairly even rate year by year. "The ultimate outcome of a properly working gold standard is to protect the community from * * * soaring or collapsing price levels."

But he adds that "something has happened to the gold standard which has destroyed its fundamental supply function. The link which unites credit growth to gold has been cut." Central banks "have sanctioned that excessive variability of credit volume which it was the very heart and soul of the gold standard to prevent."

It is this new condition that Professor Edie calls the "banker standard," which term, he says, "emphasizes the responsibility which the central bankers have usurped for themselves. They have arrogated to themselves the right and power to say during boom times that credit shall be allowed to expand two or three times as rapidly as the long-term rate of growth either of gold stocks or of industrial production. And equally they have arrogated to themselves the right and power to say during slump times that the reserve base of member bank credit shall be allowed to shrink as fast as the mob psychology of a frightened community of private bankers dictates.

"This banker standard has given the world the most unstable peace-time monetary structure and price level that the world has had in the past century.

"It is useless to pretend that the gold standard can endure under these circumstances. The banker standard is killing it."

Q. What is meant by the "production standard"?—A. That term is used by Professor Edie to describe a system which he recommends of expanding credit steadily year after year in the same ratio as the increase in production—just about 4 per cent a year. In boom times credit is now expanded much more rapidly than that and in times of depression much less rapidly or is actually contracted. A steady expansion of credit at the rate of 4 per cent a year would do much to prevent booms and depressions, in the opinion of Professor Edie and a number of other leading economists.

In 1920, for instance, Federal reserve rediscounts reached a total of $2,780,000,000, and then shrunk to $396,000,000 during the depression which followed. The peak of rediscounts in 1929 was $1,096,000,000 followed by a shrinkage to $149,000,000. With credit volume as unstable as that, it is no wonder that price levels fluctuate so greatly, with consequent disaster to business.

Q. Would a bill directing the Federal reserve system to use all of its powers to restore prices to the 1926 level result in corn prices going to where they were at that time?—A. No money bill can affect the price of any individual product except insofar as it affects all products. It is conceivable, for instance, that the general price level might be restored to the 1926 level and corn prices remain at 40 cents a bushel in case we have some exceedingly large corn crops. On the other hand, corn prices might be relatively better than they were in 1926. Nothing can be done through the money system to cause agricultural prices to advance relative to other prices. This part of the agricultural program must be tackled through cooperative endeavor, systematic control of acreage, the equalization fee or some other scheme which will effectively control production, storage, and selling.

SOME COMMENTS

Carl statistician, New York Federal Reserve Bank: "It seems a blind fatuity to trust the smooth working of this vast and magnificent engine of modern industry to the chance forces of production or maldistribution either of credit or of gold. Surely we can not permit the fortunes of the nations, their happiness and welfare, to be left to the caprice of finding new gold fields in South Africa or California, or conversely, to their inevitable exhaustion. We may look forward, I hope, to the time when the scientific organization of currency and credit will be deemed as essential as the scientific organization of industry itself.

"Let us hasten the day; for the world-wide disorganization which is now so vividly before us seems evidence enough that, as in the long ages, gold, not science, is still the arbiter of economic destiny."

John R. Commons, University of Wisconsin: "Our own huge war debt has been reduced about one-third; but if we consider the fall in prices since 1920, the burden of the remaining two-thirds on taxpayers is greater than was the whole burden at the prices of 1920."

George F. Warren, Cornell University: "Extended studies of the gold question by the League of Nations show that over a long period of time, when monetary stocks of gold in the world have increased at the rate of 3.1 per cent per year compounded, commodity prices have been stable. For over a century prices have fallen when monetary gold has increased less rapidly than 3.1 per cent, and prices have risen whenever gold stocks have risen more rapidly."

Herbert Hoover (1921): "There is no economic failure so terrible in its import as that of a country possessing a surplus of every necessity of life in which numbers, willing and anxious to work, are deprived of those necessities. It simply can not be if our moral and economic system is to survive. * * *

"What our people wish is the opportunity to earn their daily bread, and surely in a country with its warehouses bursting with surpluses of food, of clothing, and with its mines capable of indefinite production of fuel, with sufficient housing for comfort and health, we possess the intelligence to find the solution. Without it our whole system is open to serious charges of failure."

Daniel Willard, president Baltimore & Ohio Railway: "The mere existence of the (unemployment) problem presents a serious challenge to our economic system." After discussing our natural and human resources, our productive capacity, and our surpluses he added:

"And with all this surplus of wealth and resources, we have millions, so it is said, in dire need of food and clothing—in short, more of everything to eat and wear than we can possibly use, and at the same time millions of human beings hungry and cold. That is another problem, although closely related to the first, and the two problems together—unemployment and the distribution of resources—bring into question the very foundations of our political and economic system."

Sir Josiah Stamp, British economist: "A stable price level is the most bitterly practical of all questions."

Lord D'Abernon, British financier: "The fall in prices which has occurred is nothing more or less than a rise in the price of currency, or means of payment. If the means of payment had been available in adequate quantity with adequate dispersion, the general fall in prices would not have occurred."

T. B. Macaulay, president Sun Life Assurance Co. of Canada: "That the purchasing power of currency depends on the amount of that currency and currency credits which may be outstanding can no longer be denied."

Claude L. Benner, vice president Continental American Life Insurance Co.: "I am of the opinion that as long as basic commodity prices remain where they are at present, there can be no large increase in business activity."

H. G. Wells: "The world requires (that money) must represent absolutely stable purchasing power."

E. W. Kemmerer, economist: "The world sooner or later must either learn how to stabilize the gold standard or devise some other monetary standard to take its place."

Owen D. Young: "The proper handling of price stability is one of the most important matters facing the capitalistic system. In it will be found the roots of those maladjustments which result in unequal and unfair distribution of wealth, in unemployment, and other serious problems."

Sir Charles Addis, director, Bank of England: "It is simply intolerable that we should continue to sit with folded hands while industry and trade throughout the world are becoming the sport of our ineffectual monetary systems. We must be masters in our own house, the rulers, and not the slaves of money."

Lionel D. Edie, economist: "The bankers have frightened everybody, including themselves, away from doing anything."

T. E. Gregory, London School of Economics: "The efforts of the politicians (to end the depression) must be seconded by the central banks—a concerted effort must be made, primarily through the financing of budgetary deficits through central bank credit, to cause a rise in prices."

George N. Peck, Moline, Ill.: "We should have a measure of controlled inflation that debts may be paid with the same size dollar with which they were incurred, as far as that is possible."

Frank O. Lowden: "All classes now agree that unless there is an improvement in the general price level there can be no substantial relief from the unprecedented depression in which we find ourselves. The question therefore is a vital one. We have boasted in the past of our ability to meet new situations as they arose. To say that nothing can be done in this matter is the counsel of despair.

"Why not give heed to the opinions of the long line of eminent economists who believe that, without any disturbance to our gold standard, we have it within our power to erase some of the drastic deflation from which we are now suffering. And that deflation is the greatest in our history and it seems to be gathering momentum all the time. The decline in bank credit has been more rapid in recent months than at any time since deflation set in. Unless some way can be found to check this contraction of credit, thoughtful students fear that we have by no means yet seen the worst."

AMERICAN FARM BUREAU MONETARY RESOLUTION

The present period of depression and the falling price level has increased the burden of taxes, interest, debts, and other fixed costs on all producers to an intolerable degree. It now requires 45 per cent more of all commodities, and 70 per cent more of farm commodities to pay these costs than it did a few years ago. The long continued deflation is crushing farmers, merchants, transportation agencies, and all manufacturers except a few most favorably situated, and has caused a declining price of property to such an extent that it has largely eliminated equities and is affecting basic securities to such an extent as to seriously impair the stability of our banking and insurance institutions, thereby endangering the welfare of the general public. It is causing a lowering of all wages and salaries, and which must of necessity lower the standard of living if continued.

The principal cause of this deflation of values is monetary. When the price of any one commodity falls, many causes may be responsible. When the average price level of all commodities falls with the rapidity of the last few years, the principal cause is a shortage of money and credit in actual use. Commodity prices are expressed in this country in terms of dollars. Every purchase and sale is the exchange of commodities for dollars. When dollars are scarce, it takes a larger amount of commodities to get them. In other words, money is at one end of the balance, commodities at the other. Add to the effective supply of money and prices go up. Reduce the effective supply and prices come down. The above statements are justified and supported by the incontrovertible evidence coming from the experience of all former depressions.

The problem divides itself into two parts: first, the restoration of the price level; the second, the stabilization of the purchasing power of money.

Two alternatives face farmers and other business interests at this time; the first is wholesale bankruptcy for farmers, industrialists, transportation agencies, and mercantile establishments and the further deflation of wages and salaries: the second is a rapid rise in the average wholesale commodity price level to a point near that at the beginning of the present deflation, thereby restoring confidence and making it possible for individuals, corporations, and governments to discharge their obligations and to proceed with their undertakings.

All the powers of the Federal reserve system and the executive officials of the Federal Government should be used to bring about the restoration of the price level near the average level at which the present long-time indebtedness was incurred. The most important of these powers are:

1. Open market purchases of eligible securities.
2. Lowering of rediscount rates.
3. Liberal interpretation of rediscount eligibility rules.

In order to relieve the Federal reserve authorities and other agencies connected therewith from discretionary authority, we recommend and insist that the Federal reserve law be amended so as to make mandatory the exercise of these powers so far as possible and to the extent necessary, to restore the average wholesale commodity price level to the point indicated.

Permanent prosperity in this country demands that the dollar be made an accurate measure of value—that its purchasing power be always constant. This means stability of the average wholesale commodity price level instead of alternate periods of inflation and deflation which are the principal causes of business uncertainty and depression. Fluctuation in the purchasing power of the dollar causes serious losses to debtors in periods of deflation and to creditors in periods of inflation, and benefits only the speculators.

We recommend the following action by Congress to stabilize the purchasing power of money:

1. Direct the Federal reserve system to use all its powers, following restoration of price level, to stabilize the purchasing power of money in so far as possible, using for that purpose all its monetary and credit powers, including currency and credit control, open market operation, and changes in rediscount rates and in rediscount eligibility rules.
2. Empower and direct the Federal Reserve Board to raise or lower reserve requirements of the Federal reserve banks and to raise or lower the price of gold.
3. Broaden the rediscount eligibility provisions of the Federal reserve act.

NATIONAL GRANGE RESOLUTION

The deflation of the past three years has injured farmers more than any other class of producers in the country. While the average of all wholesale prices has fallen 30 per cent, the average price of farm products has fallen 45 per cent. This means that the burden of debts, most of which were contracted more than three years ago, and of which there is estimated to be $11,000,000,000 secured by farm mortgages, has increased 80 per cent in terms of the products which farmers sell.

In view of this serious situation, we urge upon the Federal reserve system and the Federal Government to take all steps possible to secure: (1) Restoration as nearly as may be of the wholesale price average as computed by the United States Bureau of Labor Statistics to the level prevailing in 1926, or the average of 1923–1928, and (2) the stabilization of the price level as nearly as practicable at that point.

Contributing to these ends, the National Grange recommends the following measures:

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 points materially below the present 35 and 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.

BOOKS ON THE MONEY QUESTION

The Banks and Prosperity. By Lionel D. Edie. Published by Harper & Bros., New York.

The Money Illusion. By Irving Fisher. Adelphi, New York.

America Weighs Her Gold. By James Harvey Rogers, Yale University Press.

The MacMillan Report. By British Committee on Finance and Industry. His Majesty's Stationery Office, London.

Money. By Foster and Catchings. Houghton & Mifflin, New York.

The CHAIRMAN. The committee will adjourn, subject to the call of the chair.

(Whereupon, at 5 o'clock p. m., the committee adjourned, subject to the call of the chair.)

RESTORING AND MAINTAINING THE PURCHASING POWER OF THE DOLLAR

WEDNESDAY, MAY 18, 1932

United States Senate,
Committee on Banking and Currency,
Washington, D. C.

The committee met at 10.30 o'clock a. m. in the committee room, Room 301, Senate Office Building, Senator Peter Norbeck presiding.

Present: Senators Norbeck (chairman), Brookhart, Townsend, Walcott, Blaine, Couzens, Fletcher, Barkley, and Costigan.

Present also: Representative T. Allan Goldsborough, of Maryland.

The Chairman. The committee will come to order. The first witness will be Governor Meyer.

STATEMENT OF HON. EUGENE MEYER, GOVERNOR OF THE FEDERAL RESERVE BOARD, WASHINGTON, D. C.

The Chairman. You may proceed.

Mr. Meyer. Mr. Chairman and gentlemen, the bill which you are considering differs in some details but in general resembles the bill that has already been considered by the House of Representatives. I had the privilege of testifying before the subcommittee of the House on the Goldsborough bill, when I voiced my opposition to the bill and gave the reasons for my opposition, which are printed in the hearing of the subcommittee on April 13 and 14, part 2 of the hearings. If it please the committee, I would like to have that testimony incorporated in this hearing, as it will save the time of your committee.

The Chairman. If there is no objection, that will be done.

(The statement of Mr. Meyer before the House of Representatives Subcommittee on Banking and Currency on April 14, 1932, being pages 521 to 562, inclusive, of the printed record, Part 2 of the hearings, is here printed in full as follows:)

STATEMENT OF HON. EUGENE MEYER, GOVERNOR OF THE FEDERAL RESERVE BOARD

The Chairman. Governor Meyer, will you state your connections for the purposes of the record?

Governor Meyer. Governor of the Federal Reserve Board and also chairman of the board of directors of the Reconstruction Finance Corporation.

Mr. Goldsborough. You have read H. R. 10517, have you?

Governor Meyer. Yes, Mr. Chairman

Mr. GOLDSBOROUGH. Now Governor, I think when you appeared before the committee before, you completed your statement and then the subcommittee or any member as the case might be, might ask you such questions as they thought should be asked, and, if you so desire, this hearing will so proceed.

Governor MEYER. That would please me very much, Mr. Chairman.

I had the opportunity, Mr. Chairman, of reading a part of the record of the hearings conducted by the committee which has been put into print.

Mr. GOLDSBOROUGH. That was up to the time Governor Harrison appeared before the committee yesterday?

Governor MEYER. I think so. The subject is such a large one and I have been so occupied with my various administrative duties—and it has been necessary also for me to be present at hearings before other committees—that, if I have not a prepared statement to give you in the beginning, I hope you will understand that it was not that I did not want to take the time to make a careful and formal record of my views, but rather that I have not had the opportunity.

Mr. GOLDSBOROUGH. If at the conclusion of your statement, Governor, you should like to correct the record before it is printed, we shall be very happy to give you the opportunity?

Governor MEYER. I thank you, and possibly to add to it if I may?

Mr. GOLDSBOROUGH. Yes.

Governor MEYER. Anything that occurs to me?

Mr. GOLDSBOROUGH. Yes, sir.

Governor MEYER. The whole question is one that has been so much under discussion in the press at home and abroad that it is hard in any limited period to attempt to do justice to it. I appreciate the fact that the members of the subcommittee are approaching the problem in a serious and earnest way, and are anxious to make a contribution of importance to the public interest. I have every sympathy with your general purpose. If I see difficulties which perhaps you do not quite visualize, it is perhaps due to my somewhat intimate experience with the administrative side of this sort of work and to my contact and experience with other factors which I think affect the practicability of accomplishing your purpose entirely by the means here suggested of control over the volume of credit or currency.

Stability as I see it is affected in an important way by the volume of currency, including both credit and currency in this general concept. I do not feel, however, that it is the only factor, and I have in mind that any instrument such as the volume of credit, if used in accomplishing or attempting to accomplish such a purpose, has to be considered in relation to a great many other important factors in the situation. For example, I do not think anybody can say right now how much currency is actually hoarded. We use estimated figures to indicate that amount, but in view of the large number of banks that have been closed within the last two years, and the consequent greater use of cash in business, in small amounts in each case, perhaps, but in a large aggregate amount, it is impossible to determine or even to estimate how much of the so-called hoarded currency is not really hoarded but is made necessary by bank closings.

Then, too, with the change in the banking situation, there has been in the past year and a half or two years a considerable decline in the number of small accounts that are paid by checks on account of charges imposed by banks, and that may have been a factor affecting the volume of required currency. Of course, offsetting that is the fact that under normal conditions with the diminished volume of business and the lower price level, it takes less money in circulation to transact business. I mention this merely because it brings out some of the difficulties with which anyone charged with responsibility for regulating the volume of currency would have to contend.

I regard the efficiency of the banking structure as an important element in achieving stability in the price level, and in using for that purpose, to the extent it can be used, the regulation of the volume of currency and credit.

I had the privilege of appearing here, not before this subcommittee, but before the whole Committee on Banking and Currency, as far back as in January of 1923, when I said after a study of the banking structure of the country——

Mr. GOLDSBOROUGH. On what bill was that?

Mr. MEYER. It was in connection with a bill on rural credits which resulted, I think, in the establishment of the Federal intermediate credit banks. After analyzing the banking structure in 1923, as a result of a study of the 4,300 banks to which the War Finance Corporation had made loans in the 1921–22 period, I called attention of this committee to the banking structure of the country as a primary element in our economic and financial structure. May I just quote from that hearing for a moment, dating back as it does over nine years ago, because I think it is of interest at this particular time? I said then:

There are necessarily many difficulties involved in our dual system of banking. We have a State banking system, a national banking system, and a Federal reserve system, the latter having a membership derived from both the State and the national systems. The State banking departments supervise the State banks, and the Comptroller of the Currency supervises the national banks, while the Federal reserve system has a supervision of its own for the member banks, and there has been at times some disposition to competition between the State and the national banking systems.

The State banking laws frequently permit practices which national banks can not legally engage in. This is creating competition between the two systems which can not be regarded as wholesome and may lead to the gradual weakening of both. The question of branch banking is one that is causing considerable discussion at the present time.

Some of the States permit branch banking on an unlimited scale. As a result, agitation is now going on for an amendment to the national banking act to put national banks on a par with State banks in that respect. I do not propose to discuss the subject of branch banking here. Branch banking may be good or it may be bad. It may be good if carried on in a limited way and bad if permitted on an extensive scale. But, whether it is good or whether it is bad, branch banking should be considered on its merits and should not be the product of competition in the endeavor to expand either the State or the national banking organizations. The competition that exists at the present time between State and national banks can not fail to remind one of the competition that prevailed a generation ago among the various States seeking to become domiciles for corporations—a competition that was based upon the laxity of the laws governing incorporation. Nothing could be more disastrous than competition between the State and national banking groups based upon competition in laxity.

I am mentioning this question of the banking structure, Mr. Chairman, particularly at this time because you contemplate using the influence of the Federal reserve system on the volume of credit as a means of affecting the volume of business and the price level. It seems to me that the instrument through which the volume of credit functions is a vital factor in the efficiency with which the Federal reserve system can function, and that instrument is the banking system.

In the hearings which we had a few days ago before the Glass committee with regard to amendments to the Federal reserve act, the board, through me, presented its views in favor of a unified national banking system, and I was rather interested that members of the committee did not seem to be opposed to that thought. On the contrary, Senator Glass and others said that if it could be brought about constitutionally they would be in favor of it. The board, in expressing its support of a unified banking system, did so unanimously. I merely call that to your attention at this time because I think that it is a vital factor in what you have in mind in achieving a greater stability for business. I think it can not be denied that an efficiently organized and properly supervised banking structure is vital to the control of inflation and deflation of credit, and efforts to stabilize without fundamental improvement in the banking structure seem to me not to pay sufficient attention to the agency through which sound principles can be put into practice.

In the report which we, as a unanimous board, presented to the Banking and Currency Committee of the Senate there was also incorporated a recommendation for a new method of calculating bank reserves. I quite appreciate that such an important matter as a new method of calculating reserves is one that ought to be given careful study and thorough investigation; but we had in the Federal reserve system a committee working about 18 months studying this question of reserves and they made a report to which I think sufficient attention has not been given by the Congress. It was the result of a very careful study, and while it may possibly have some weaknesses, we have the assurance from the men who have been studying it in a conscientious way that they tested it over a considerable period of past years. I think this proposal would be an important factor in achieving stability and preventing undue speculative expansion of credit and its contraction, from which we are now suffering. This system of reserves would tend to safeguard the banking structure by increasing the reserve requirements in a time of expansion and decreasing them at a time of credit contraction, and would, I believe, assist in the achievement of the more stable conditions which you in this committee are contemplating to a greater extent than this bill which deals only with the control of the volume of currency and credit.

I do not know if this committee is familiar with that report on bank reserves, but, in a word, it abolishes the difference between time and demand deposits so far as their classification for purposes of reserves is concerned, and I think in that respect the recommendation is wise, because the low 3 per cent reserve on time deposits has been an inducement for banks and for depositors to build up to an undue degree time deposits which carry a higher interest rate and a lower reserve. This has induced banks to invest in slower assets in order to get the larger yield necessary to make a profit on the higher rates of interest paid.

Now, the proposed revision of reserve requirements provides for a uniform minimum of 5 per cent on net deposits, both demand and time, and reserves above the 5 per cent minimum are based on the velocity of turnover. In a true savings deposit there would not be any turnover; therefore, on that business there would be a 5 per cent reserve. Under this proposal, when business expands, and more checks are drawn and the turnover of deposits is greater, as is the case in an inflationary period, a greater reserve would be required based upon the velocity of these deposits.

Mr. Goldsborough. That is in the member banks?

Governor Meyer. That is in the member banks. It would also, owing to the fact that larger reserves were required, result in the banks expecting larger average deposits in those accounts that turned over more rapidly, which is proper.

Those are the principal features. The other things are that it allows the banks to count as reserves, up to a certain percentage, their cash in vault. This provision applies to all banks, but country banks are the ones that more frequently need to keep cash in their vaults because they are not so readily accessible to the reserve banks, and to that extent it would benefit the country banks.

There are a few cases where perhaps it would increase the required reserves of individual banks, but as a whole the principle applied would expand the reserves in relation to the expansion of business and particularly would do so in speculative periods, like 1928 and 1929. It would also make call loans made by others than banks result in increased reserve requirements because checks still have to be drawn to make settlements.

Our committee felt that the additional reserves required at the time when loans for account of others reached such large proportions, would have exerted a strong influence to check the inflationary and speculative movement long before the time when it came to a head.

Mr. Goldsborough. That is exceedingly interesting. Will you explain?

Governor Meyer. I think it is an important factor in the whole situation, and I would be very glad to furnish this committee copies of the report which was made by the committee on reserves. We have some copies of it here with us. It is quite comprehensive and I think it is important for this committee that the question of bank reserves should be thoroughly understood.

Mr. Goldsborough. What I had in mind right at that point was just how the expansion of the reserves would restrain loans for account of others?

Governor Meyer. What I intended to say was that even loans for account of others, which, of course, would not be reflected in deposits, therefore not under present law in additional reserves, would still be reflected in the velocity of the turnover which under the proposed splan would require an increase in the reserve. The studies of the committee on the velocity of the turnover in relation to loans for account of others indicate that a very substantial increase in the reserves would have been made necessary, entirely apart from increased deposits, because the requirement would be 5 per cent on the deposit with the balance related to the turnover. That turnover is there whether the loans are made for account of banks or for account of others.

Now, on the broader subject, it is true, of course, that the volume of money and credit in circulation is an important factor in the price level, but some of the other things that seem to me to be vital in connection with a study of the problem are conditions which I believe it is difficult for the Federal Reserve Board, or any other human agency that exists or that could be called into existence, to control.

If we look back at the history of the last 10 or 12 years with the abnormal conditions at home and abroad in production and consumption, at the currency standards in various countries, at the political as well as the financial relations within and between nations, we can see factors which it seems to me, while subject to influence, nevertheless can not be definitely controlled by any one country or by any one group of men or any institution in any one country. I am one of those who agrees that the United States, with its large population, with its great productive and consuming capacity, is the greatest single economic factor in the economic world. There are nevertheless many others, and the changing conditions in many of our relations, both national and international, are striking, whether we analyze them by a chronological process or whether we analyze them in view of the fluctuation of price, or of the volume of business or of international financial movements. Everywhere we have difficulties to meet and adjustments to make, dependent on the behavior of human beings in large groups; and if we go back to the 1921 situation for a moment, where we had what looked at that time like a most acute depression we find that we came out of that depression through a series of constructive developments in world relations, particularly with respect to our own country.

We came out of the war and the temporary postwar inflation, first and foremost, as the one country where the world felt that its capital invested or its money deposited was safer than in any other country. That led to a tremendous movement of liquid capital and investment money toward the United States, which resulted in a tremendous amount of gold being imported into the country, representing foreign bank balances and individual deposits and investments. That happened to combine with rather extraordinarily favorable conditions at home from the point of view of the possibility of money affecting industry, and the particular feature to which I want to call your attention in that connection is expressed in this diagram.

This is a graphic representation of the per capita value of building permits of 50 cities. From 1913 when business was slow there accumulated during the war period of 1917–18 until 1922 a deficiency in the construction of housing and other plants such as office buildings, which left a very large construction program necessary and sound. As soon as the money market began to ease after the 1919–1921 tight-money period, money began to flow into residential building—both apartments and private dwellings—and into business office construction all over the country. I am sure from your study of economics that you know that there is no single activity which produces a greater employment of labor and a greater purchase of material than the building industry. It employs labor at good wages—gives it buying power. It puts traffic on the railroads and expands the employment of labor and material there, and finds its way more thoroughly into the general volume of business activity, I think from my observation over 35 years, than any other one activity.

When this activity began, we began to have an improvement in our general level of prosperity, because like many other good things, it began on a sound basis to fill a legitimate need. Population had increased and housing and business plant had not. Therefore, a need existed. The business began by filling a legitimate need, with the demand large and the profits substantial, but it developed more and more, and cumulatively on a geometric ratio, into a tremendous speculative activity.

In this period a very important financial development occurred which was the means by which the construction activity passed from the legitimate stage into the speculative stage and to some extent, the dangerous stage. That was the development of a new channel to large amounts of capital through the real-estate bond market. Real-estate bonds had been known previously on a small scale, locally. But in this period of rapid development and profitable activity there was found a way to large amounts of the savings of the country, through the real-estate bond market, on a scale which had never existed before.

That led to two things: To some extent, to speculative building where the business was carried on for the profit of the people who were doing it rather than to meet a legitimate need; and to overbuilding in certain localities.

Now, it is generally assumed I think, from the present condition of the real-estate and construction industries that there is no building need to be filled at present. There is, but with the breakdown due to over-speculative building in certain areas in the recent past and the consequent injury to banking, the credit of the construction industry is greatly impaired. So that to-day, when we find that we have the lowest building volume that we have ever seen in peace times we also find, I think, one of the most significant factors in the present depression and deflation of price levels.

These things I mention because I think they are so large in their importance that they balk us in achieving results which, under more normal conditions, might be possible. I had a feeling last year, when an easy money market prevailed for several months, that there might be an opportunity for stimulating a little greater activity in housing development in localities where there was a need for housing. In some places there might be more activity even now, if money were available in the mortgage market on an adequate scale.

As you know, cotton or wheat have a world market, and if there is surplus anywhere there is a surplus everywhere; but housing is different, and even last year there was considerable housing construction done in suburbs of large cities where new highways and automobiles and buses are taking people out of the crowded sections into the suburbs. That is a possibility that I think will be developed in the future, and I think that there is a long time trend in that direction where you will see results when conditions are a little more stabilized. But I also think that the recent overexpansion in building is one of the major factors in the present economic depression.

Abroad last year we saw a major financial crisis in two of the four great economic powers of the world. The German situation first came to a critical climax, following difficulties in the Balkan States and in Austria and Hungary. At the end of a long period of reparations payments and heavy borrowings, the German situation came to a standstill, resulting in the so-called standstill agreement. I know it might be argued that if the price level had been maintained perhaps that would not have happened, but I doubt very much whether the maintenance of any price level could have prevented what happened in Germany where there was borrowing on short-time obligations to pay debts which could not be liquidated in any short period of time.

The English situation followed not long afterwards, and if you analyze that situation you will find that the English had large amounts of foreign deposits payable on demand, and that they had been making large amounts of loans abroad on less liquid and longer terms, so that when the strain was put upon them through withdrawal of their short-time obligations they were unable in the circumstances to continue to meet their payments on a gold basis. There has always been a difference of opinion with regard to the English situation. The pound had been maintained close to the gold basis during the war through artificial methods, largely by borrowing in this country and the sale of investments. In February, 1920, I remember that the pound got down to $3.18 at the low point. That resulted in wage increases in England which could not be sustained, I think, after the English had restabilized at the old gold basis. They were unable to modify the wage scale and they became unable to compete with other countries where labor was cheaper, or where plants were more efficient. The result was that the whole economic basis on which pre-war England had been developed was undermined in an important respect.

Developments during the war also changed the world market situation. I recently looked up what happened in the textile industry in the Far East during the years of the war and immediately afterwards. Spindles in India and Japan and China grew from 10,415,000, in 1915, to 18,161,000, in 1922, and looms in about the same proportion. In other words, in the war period, when England's capacity for export production was interrupted, other countries which previously had depended on England or other European countries for supplies were forced to build up a production which continued to exist after the war. As a result Lancashire has been enormously handicapped by these developments in other countries to meet the demands which formerly had been supplied by England.

England's banking power, which was based on the fact that the pound was the almost universal medium of exchange in trade relations with foreign countries in pre-war days, became less dominant after the war. Less banking went to England and more came to this and other countries. The American interest in foreign trade went up by large amounts. Substantially, in that period when all Europe was engaged in war, America was called upon to take the place of many countries which were put out of the business of supplying industrial markets, and these figures indicate some of the fundamental changes that occurred in world economic relations which can not be ignored when you approach the problem of how to achieve stability. I will give you the figures: From 1913 to 1929, the share of the American market in goods imported into South America grew in Argentina from 15 per cent of the total to 26 per cent. In Brazil, from 16 per cent to 30 per cent; in Chile from 17 per cent to 32 per cent; in Columbia from 27 per cent to 46 per cent; in Peru from 29 to 42 per cent; and in Venezuela, from 39 to 55 per cent.

In Asia, Africa, and the Oceanic Islands, our share in goods imported into British India grew from 3 per cent to 7 per cent; into China, from 6 per cent to 18 per cent; into Japan, from 17 per cent to 30 per cent;

into Australia, from 14 per cent to 25 per cent; into New Zealand from 10 per cent to 19 per cent; into South Africa, from 10 to 19 per cent.

That means that the United States developed the capacity to supply the needs of a market which was temporarily deprived of its normal sources of supplies, and after that productive capacity had been duplicated in the United States it came into competition with the other productive capacities. Certainly maladjustments in business conditions and competitive conditions and price levels must flow from such a major development as that.

Let me just say that, in the light of these major difficulties in the European economic structure, which were inherent in the situation as a result of the war, we have had to struggle in the world with maladjustments proceeding from the passions of war which did not end with the so-called peace; and national animosities as well as international economic and financial instability have been vital factors in our home situation.

I think that it was the large construction needed in the United States, which was in good condition, that enabled us, in spite of the disturbed conditions of the world to develop what appeared to be an independent prosperity which we were able to maintain for a period of years.

Total building contracts rose from $2,756,000,000 in 1921 to $6,381,000,000 in 1926, went down to $3,093,000,000 in 1931, and are on a still lower level at present. With the revival in building and the resultant activity that flowed into all the channels of trade, the purchasing power of the United States developed in a large way. But at the same time, with the tremendous expansion in the volume of industry, American industry, with more highly developed mechanization and larger production units, was able to make goods at low prices and to invade foreign industrial markets with manufactured goods, so that for a while it looked as though something impossible was going on and could go on. It went on longer than seemed possible. What I mean is that we were a large creditor annually in the world's balance of trade through exports of raw materials and manufactured goods, and at the same time we were collecting interest on debts and investments on a large scale.

It is interesting at this point to call to your attention that, in the period from 1922 up to the present moment there has been no great expansion of exports of crude materials, including raw materials and foodstuffs. From $1,447,000,000 in 1922, the export of crude materials reached a peak in 1925 of $1,740,000,000, and then declined. Exports of manufactured goods rose from $2,318,000,000 in 1922 to $3,745,000,000 in 1929. I think that that is a measure of the ability of the American manufacturer to sell in world markets at a competitive price, which is interesting and important; but, at the same time, it seems to me to be extremely difficult for foreign countries to buy raw materials to compete with an industrial country which can expand its market for manufactured goods on a competitive price level notwithstanding high labor costs. That is what the United States achieved for a certain period and to a certain extent for the first time in the world's economic history.

Mr. GOLDSBOROUGH. You are not making a very good Republican high tariff speech this morning.

Governor MEYER. Mr. Chairman, I am not making any tariff speech.

Mr. STRONG. I might interject that the Democrats made a stronger tariff argument when they brought in their bill and did not change the tariff rates.

Governor MEYER. I believe in the tariff for protection of American industry and agriculture. I think it is more important to protect the domestic market than it is to invade foreign markets; but what I want to say is that, during this extraordinary period, we appeared to be able to do both. And it is not possible to do both. I think the future may show that the United States can not continue to operate on the basis of exporting raw materials and manufactured goods at the same time, in the volume that prevailed in that period.

Mr. GOLDSBOROUGH. All political economy teaches that, does it not?

Governor MEYER. Yes. But it went on for so long it appeared to be possible.

Mr. GOLDSBOROUGH. That is the way the world over, is it not?

Governor MEYER. To some extent. Of course, there were so many apparently constructive developments in this period from 1922 to 1929 that the world was lulled into a sense of security. There were periods of acute and critical difficulties like the invasion of the Ruhr in 1923, and the debacle of the mark; there was the degeneration of the franc and its final stabilization; but, in spite of the several critical periods that menaced the last decade, there was a gradual improvement in European international relations due to the stabilization of of currency, which was helped enormously by the loans we made. There appeared to be a prospect of being able to go on and continue with a condition in the field of international finance that now is obviously impossible; there is, for example, no possibility, in my opinion, of Germany paying continuously for a long period of years the great annual sums contemplated in the Young plan in 1930. But the improved tendency and the satisfied feeling at times that we were on a sound basis gave confidence to people everywhere that a condition which was fundamentally unsound in major respects could be continued.

I particularly feel that such matters as this great invasion of the world's industrial markets by our manufacturing industries are important to consider in connection with stabilization, because for such a long period it looked as though something impossible was possible. We all criticize the other fellow, but we were all subject to the same delusions and mistakes in those periods, because they were worldwide. It is well to look backward with a broad point of view.

Speculation in stocks of course was reprehensible. Foreign loans were made on a scale that should never have been made. Real estate was speculative to a degree. There were other speculative activities of great proportions and great unsoundness, and international relations were just as far from sound as many of the other activities of human beings.

I am just mentioning, gentlemen, a few things that seem to me to be important in the picture. If it were possible to take your resolution and put it into effect and accomplish the result you have in mind—I would like to say absolutely this is the thing for you to do and I will do my best to help to carry out every purpose, or if I can not somebody else should be put in my place who can. But this bill contemplates, it seems to me, that a small group of men will understand things in the future that men nowhere understood within the last 10 years.

I felt in 1928 that the indications were that the expansion of credit had gone to a dangerous extent. In talking it over I found that a lot of people did not agree with me. Some of them were very wise, too. But they said business is good and we can't stop good business. In a time like this, of acute depression in prices, there is not a man who has any decency who would not want to see the price level rise if a sound method were available to raise it from the present level.

In times of good business and overexpansion, let me tell you it is very hard to get people to agree that things are overexpanded, and it is often hard for men, even if they feel it, to have the courage to say that it is the time to put on the brakes.

Mr. STRONG. That is the reason we want the law that we are proposing to pass.

Governor MEYER. You can not accomplish it by law because it is a matter of judgment. You can not supply judgment by law.

Mr. STRONG. If you adopt a measure that indicates what should be done?

Governor MEYER. I do not think that there is now or ever has been any failure on the part of the people in positions of responsibility to endeavor to avoid unsound inflation.

I just want to try to give you a little picture of the problem we have. Take the problem of cotton which is one of the world's great commodities. It is more than just a matter of so many million bales of cotton at so much a pound. I have always considered that cotton is one of the great key commodities not only of this country but of the world. In 1921 we had a large surplus of cotton. We had bad international currency conditions. The export trade went down and the price of cotton dropped to 10 cents. In the War Finance Corporation, if you will remember, we negotiated some large loans to cooperatives and exporters and cotton started up quite promptly. But let us take a few individual commodities, because your price level, is, after all, a total of individual commodities. This very last year, the present cotton year, in spite of a reduction of acreage and a substantial reduction in the use of fertilizer, the yield per acre, due to climatic conditions, or Providence if you like, and absence of boll weevil and frost, was almost 200 pounds, compared with 150 pounds the year before, and was the highest yield since 1914, which was before the boll weevil swept over the Cotton Belt. A rise of 50 pounds per acre is a 33 per cent factor in the output of cotton. If the cotton yield last year had been what it was the year before, instead of nearly 200 pounds per acre, you would have had 12,750,000 bales of cotton instead of 17,000,000 bales, and you would have had an entirely different price level for cotton in the absence of 4,250,000 bales. Cotton perhaps would have stayed around the 10-cent level if it had not been for the abnormal yields last year.

If you take a commodity like cotton, it is not only of importance in terms of so many million bales, but it is a vital factor in 13 States.

It affects the buying power of the people of those States, and it is a vital factor to the industries of the North which sell to the South, and I fail to see how it is possible to avoid price level factors of major importance entering into the situation where you have such violent fluctuations in world production.

Now, let us take the 1921 yield per acre of 125 pounds, and the last year's yield of 200 pounds. Let us say it is produced on 40,000,000 acres, using round figures. On the same acreage, the difference between the 1921 yield and the 1931 yield would be 6,000,000 bales.

We have another vital agricultural industry, and that is the beef cattle industry. We had a good deal to do with that in the War Finance Corporation. We loaned about $90,000,000 on cattle and sheep. During the war the sheep population had gone down 25 per cent and the cattle population had gone up 25 per cent. The result was that when we came into a stabilized period of normal conditions the beef cattle industry was reduced through attrition, a long period of droughts and low production, and so forth, till the beef cattle population which in 1921 was 45,000,000 dropped to 35,000,000; it may be a little higher than that at this time.

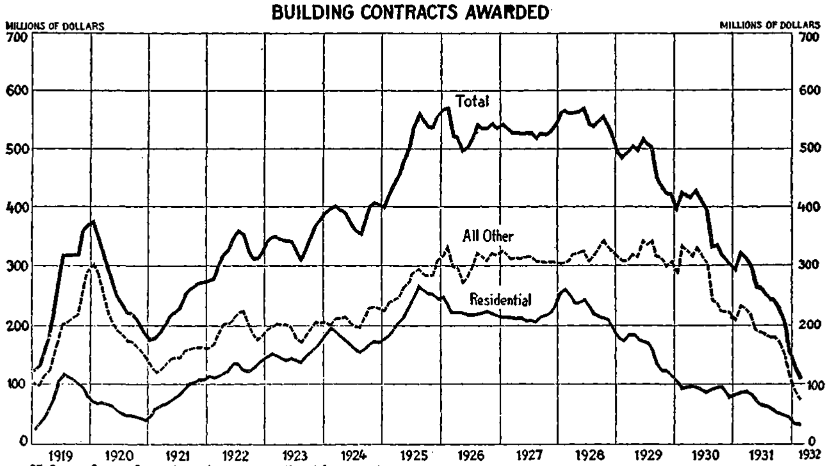
The sheep population which had gone down to about 36,000,000 head in the war period has gone up as high as 54,000,000. But the beef cattle industry, I would say, is in a sound statistical position, and as soon as a turn comes in the general situation I look for an important revival and improvement.

I think it is worth while to note perhaps for the record this chart which shows the awarding of building contracts and how it developed in 1921 and 1922 from small proportions to this large expanded area of large proportions when it was being overdone.

Mr. GOLDSBOROUGH. Without objection, please insert that at this point.

(There was no objection. The chart referred to is as follows:)

BUILDING CONTRACTS AWARDED



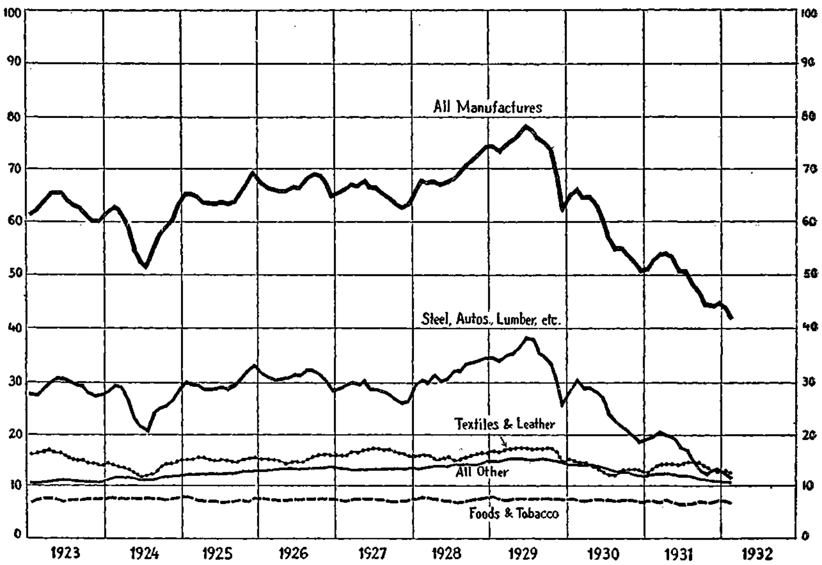
37 Eastern States - 3 month moving average, adjusted for seasonal variation.

The chart on the volume of manufacturing production shows some interesting figures. It shows how closely some of the manufacturing curves follow a normal trend and where the troubles of the inflation and deflation periods manifest themselves in the volume of manufacturing production; and it is in these construction industries and in the industries whose buying power is tied to the construction industry that you see the greatest expansion in good times and the greatest contraction in bad times. In part, to a large extent, contraction in these industries is what causes bad times.

As you know, Mr. Chairman, I have been in the Federal Reserve System only a year and a half. Naturally I was an interested observer from the outside prior to that; but the last year and a half probably has been the most difficult period from a banking point of view certainly in the history of the system and perhaps in the history of the country; although in the past there have been other difficult

VOLUME OF MANUFACTURING PRODUCTION

DAILY AVERAGE AGGREGATES IN F. R. BOARD INDEX, ADJUSTED FOR SEASONAL VARIATION



periods. But again, out of this experience I feel, as I felt after the 1921–22 experience and study, that a sound banking system is an essential precedent to any attempt to moderate these peaks and depressions, whether you pass resolutions or not, or whether the board or the Federal reserve banks be rightminded in their purpose or intelligent in their efforts. The committee here supported me in 1921 when I recommended the revival of the War Finance Corporation as a method of adjustment in our economic machinery, and we made a large number of loans principally to nonmember country banks, although there were some member banks; and I think the corporation was very helpful in easing the situation and in relaxing the forced contraction that was going on—a contraction forced by fear and other things. The work of the corporation, combined with the gold imports which followed about that time, and with the need for construction which had developed, enabled us to achieve a quick come-back.

I came here some weeks ago and asked you to authorize, and you did, a reconstruction finance agency, and amendments to the Federal reserve act, and I want to say at this time that I think the results have been good—not as immediate, perhaps, as might be hoped by some, but you can not just pull a financial lever, whether it be in the Federal reserve system to ease credit or increase the volume of Federal reserve credit, or loans in the Reconstruction Finance Corporation to make loans to country banks, which feel easier with the corporation than they felt with their correspondents, and immediately engender confidence and a more open mind to do business. There is always a lag, and it takes time for money to produce its effects on business. I used to study that particular aspect quite closely many years ago, and I found that when money became easy and available on mortgages it would ordinarily reflect itself in construction activities about six months later. You could see that under normal conditions when money became tight and unavailable in the mortgage market, in the days before the real-estate bond market, it would show up about six months later in business. There is a lag between the entry of money into circulation in the banks and its effectiveness in stimulating business in ways that are obvious to observers of business.

The first thing to do is to exert every effort to arrest adverse tendencies, and if you can hold the line, you can turn it eventually.

There is a time element and there is a lag, and I am hopeful that we are now at the point where we are going to be able to hold the line. That does not mean that banks will not close, because occasionally there will be banks that will close because of events that are in the past, but I think the banks that have reopened—opened within the past six weeks—have had larger aggregate resources than the banks that closed in that period.

Mr. STRONG. That is, it takes a little more time from the time the corn is put into the hopper till the time it begins to come out?

Governor MEYER. I think that is a pretty good way to put it. I was somewhat surprised and pleased over the speed with which we were able to organize the Reconstruction Finance Corporation. We were able to organize it and put it into operation rapidly, so that loans have been made up to date to 1,392 banks.

Mr. GOLDSBOROUGH. Most of them are in small towns, are they not?

Governor MEYER. Ninety-two per cent of the banks to which loans have been authorized are located in towns of less than 100,000 people and 76 per cent in towns of less than 10,000 people. There are some loans all over the country in virtually every State, I think. Every day a considerable number of small banks receive loans and more of them are applying for money to be used not only to pay off indebtedness that presses on them but also to meet their other requirements. I do not like to prophesy and I do not like to promise, but I am hopeful, with all the various things that are being done, and while we are not going to be able to make good the irrecoverable losses that have already occurred, or which may develop from time to time in the future, that with your help we have made a contribution of real importance.

Governor Harrison told you yesterday, as you probably already knew, that the Federal reserve system has been expanding credit in the banks through purchases of United States Government securities. There has been about $250,000,000 of hoarded currency returned as nearly as we can make out up to date, allowing for seasonal adjustments. That has been fairly steady except for one period where there was a little flare during the period around April 1 on account of tax assessments. It looked as though currency was not returning but that apparently was in connection with tax matters; there were some withdrawals all over the country in almost every district. The handling of our volume of currency has got to be considered with respect not only to our domestic conditions but also with respect to international conditions as between our country and our money market, our investment market, our exchange market, and the rest of the world, and in relation to what is going on between other countries. Sometimes it might seem logical to pursue a certain policy, if we could consider it from a purely national point of view, but we might be hampered in achieving success, if such a policy were carried out, by conditions with which we have very little to do and over which we have no control.

Mr. GOLDSBOROUGH. Right at this point, I hope that you and other members of the Federal reserve system will understand that this proposed legislation is not intended as a personal criticism. I think I can add here that when the Reconstruction Finance Corporation bill was being discussed and I was on the floor, I was aksed the direct question whether I believed the act would be administered in the public interest. My answer was that I absolutely believed it would be administered in a patriotic American way and that one of my reasons for saying so was because of your connection with it.

Governor MEYER. I appreciate that.

Mr. GOLDSBOROUGH. That is a matter of record. You understand that is how we feel. Have you finished your statement?

Governor MEYER. I would like to finish by saying that I am in hearty sympathy with the general results that you have in mind, Mr. Chairman and members of the committee and that I find that other members of the Federal Reserve Board and the governors of the Federal reserve banks, with whom we had a meeting this week, are all earnestly disposed to search out how each and every one can contribute to the improvement of the situation.

You must remember that, when you talk of this operation as sufficient to control a price level at any particular point, you are thinking in terms of a price level which was established by the greatest building activity in the history of the country. I may be that it is the right price level, but it was a price level established with a very extraordinary background of building activity. The justice of it or the ability to restore it I am not discussing here because frankly I do not know the future of price levels.

Mr. GOLDSBOROUGH. There is not any specific price level mentioned in the particular bill under discussion?

Governor MEYER. No, not in the bill; but I have seen the 1926 price level mentioned as the ideal, and it may be that it is. It may be the price level to which the world will return, and it may not. I would not profess to know. But if you get the ideal of a fixed price level which you can control by adjusting the volume of money upward or downward as prices move up or down on the average from that price level, you are immediately confronted with the fact we saw so clearly in the war, that to fix a price, whether you do it directly or indirectly, is very difficult unless you control production.

Mr. GOLDSBOROUGH. Well, we can not do that.

Governor MEYER. No; but it is necessary before you can level prices.

Mr. GOLDSBOROUGH. There would be 784 commodities affected?

Governor MEYER. Yes. In times like these we all say we want stability, which means return to normal conditions; and that is the desire of everybody. There is no creditor class and no debtor class that has not got the same interest, because the creditor class has losses which far outrun any possible gain in buying power arising out of conditions of this kind. There is nobody that stands to profit or benefit from this situation; and in my opinion, therefore, the desire for a stabilized condition, by which we mean a return to more normal prices, is the desire of everyone. But to assume from that that it is a permanent, universal animating motive of human beings in the long run I think is dangerous, because what does every manufacturer in this country do to his price? He tries to make lower costs and lower prices. Every farmer is trying to produce his products more cheaply in order to make more money, but actually if enough do it more cheaply it brings the price down. What did the United States do to the European grain producer when we opened up the fertile fields of the Mississippi Valley? Were we for stabilization? We were for producing grain cheaper and selling it cheaper. What happened when the Canadian wheat fields were opened? We were interested then in stabilization and they were interested in invading what had always been our market.

Now, there was Russia which by revolution was taken out of the economic circle of nations. She always had been a large producer of wheat in pre-war days—a large exporter. Canada came in and supplied that demand when Russia was not able to supply it, and one of the things to-day that the world price of wheat is suffering from is the reentry of Russia into the world market.

Mr. GOLDSBOROUGH. You are segregating the items, instead of developing in your own mind the picture of the price level?

Governor MEYER. Well, I have them both in mind, Mr. Chairman, but I am choosing wheat and cotton and all those things, because they are big factors, after all. You can take from the 784 commodities, as provided by the bill, a large number of commodities, and they do not have the weight that a few of them have; and when you take cotton and grain and wheat, you have the biggest factor in world economics to-day.

Mr. GOLDSBOROUGH. Yes; and they are the very heaviest weighted in the index numbers, too.

Now, Mr. Busby, have you any questions?

Mr. BUSBY. I want to ask some rather general questions as to the testimony relating to these specific commodities to which you have addressed yourself.

I would like to ask to what you regard our currency related, or on what value do you base our currency? Is it your view of the philosophy of our exchange system, that our currency should be based on credit, or should it be based on wealth, or should it be based on gold? If none of these things, what is your notion of the tangible value expressed by the currency used for exchange purposes?

Governor MEYER. The law provides the method of issuing currency and——

Mr. BUSBY. I understand that, but that does not answer my question. I am talking about the philosophy back of the situation, disregarding the statute which fixes the standard of the dollar. I might make myself plain by calling your attention to the fact that, in all of your discussions about the things which have had to do with our domestic economical welfare, you have coupled your premise to Europe and foreign conditions.

Governor MEYER. I did not intend to do that. I did not think I was doing that. I am giving it some weight, because it affects our domestic situation.

Mr. BUSBY. To use one of your expressions, that the domestic welfare is tied with the international credit welfare——

Governor MEYER. No; I did not say that.

Mr. BUSBY. You did not say that? I do not mean to say that you said that, but do you regard domestic welfare as being tied and intermingled with international credit and the welfare of other nations, as it relates to their dealing in credit in this country?

Governor MEYER. I do, in some areas and markets. If you take, for instance, cotton, in which your State is largely interested, roughly 50 per cent is for export, and the condition of the purchasing nations—their buying power and currency conditions—are economic factors in the market for cotton.

Mr. BUSBY. I think we had better go back to the first question: What should determine the value of credit as it is available through the banking circles of this country? Should it be the wealth backing up the things that credit represents? Should it be some ephermeal notion that we call "confidence" in a vague sort of way? On what would you base the development of credit that is used for normal purposes, or in bringing it to the use of business and commerce in this country, not in foreign countries?

Governor MEYER. The Federal reserve system is based on the theory of commercial transactions as the basis of credit, of course.

Mr. BUSBY. What value do you regard money as being based on—on gold that is represented by the statutory requirements or on commodities that are represented in possibly 60 per cent of your Federal reserve note issues? And if not on those, on what would we base the value of money?

Governor MEYER. Money has been the standard of value and the medium of exchange, both, of course, as you know as well as I; but when it comes to the exchange of goods and commodities you get back to the fact that really the bank check is the medium of exchange for the greater part of business; and for that reason I go back to what I said in the beginning, that a sound banking system, with the check, which is the real money of business, as currency, is the vital factor in the purposes I think the committee has in mind.

Mr. BUSBY. There are two objects, as I understand it, that we have in mind at the present time: One object is to revive values in commodities, to make them come back somewhat in relation to our outstanding debts, so that we can sell things that we work and produce, and discharge the obligations we have assumed, and which we could at that time reasonably believe were in proper ratio to the commodity values as they stood then. Now, that is the first idea.

You have suggested 1926 as having been mentioned by some one as being the fair level to which we should return. I do not know what you say about it being the fair level.

Governor MEYER. I would not say anything about it, because I do not know.

Mr. BUSBY. Would you mention any other point?

Governor MEYER. No, I would not know how. I would like to bring about an improvement in the present levels.

Mr. BUSBY. How far would you carry that improvement; how far would you continue the work to carry that improvement?

Governor MEYER. I think it would depend a great deal on conditions. That gets down to another thing that is of vital importance, and when you discuss these very fundamental questions, you hear a great deal about the quantity of money, or the quantity of Federal reserve credit. The quantitative theory is, of course, the basis of most of our discussions and the discussions of people who are interested in restoring things by that machinery, whereas I feel that more thought has to be given to the quality of the credit. If the amount of building that had been done in the United States had been done on a sound credit basis, instead of an unsound credit basis, the picture of the financial condition of the building industry and the present depression, I believe, would have an entirely different aspect.

Now, it is not only the quantity that has to be thought of, it is the quality, and it is a warning to the banking authorities when they see obviously dangerous speculative activities in larger areas.

Would not you, for instance, looking backward, feel that the Florida land speculation was, in itself, a warning of something wrong in the credit situation of the country?

Mr. BUSBY. Looking forward and backward both, I feel that it was. It never cost me even a 2-cent postage stamp. I want to tell you why, and give you my idea, and then I can question you.

Governor MEYER. I would be glad to hear it.

Mr. BUSBY. These gentlemen who happen to be in the Treasury—and I am not speaking of you, but of the gentlemen who deal with the financing in a broad sort of way, relate your testimony to credit, almost wholly. Credits are a substantial thing, in my mind, only as related to the true values, and that is one trouble with the Florida boom; and we have no system that is accepted by responsible persons like yourself, and the others whose business it is to deal with this particular thing, of determining the value of these commodities or credits in relation to them; but the system has a drifting attitude, without an objective to be attained, or likely to be reached, or any purpose in maintaining the situation, unless, forsooth, some peculiar notion should get into the majority of the managers that that situation was right.

Now, money and currency and credit can be related properly only to value, is my notion; and we have the Bureau of Labor Statistics which are accepted in this country, and throughout the world, as being wholly and fairly determinative of commodity values. It is my idea that our currency and our credit and the quality of our currency and our credit, since you have used the term, should be related to those true commodity values. Certainly they are determined by the utility and the law of supply and demand, which you have so forcibly pointed out; but those values are something tangible and definite; and currency and credit and faith in business, to my mind, could measure itself, if it knew by what measure it could determine its worth.

I can not see, in the attitude of you bankers who come here, any disposition to direct the ship of finance to any point, any definite point. You may tell us what way you think you ought to go for a time, but we do not know how long you are going to go that way. If we give you the center of gravity of values, which is the wholesale commodity index price, any farmer in the country could calculate his propositions and his contracts in relation to that, and if we tell you to take that center of gravity of prices to a certain point, if it be the 1926 price, your only objection is that we might not be able to do it with the machinery that we have; and if we did it, we might not be able to hold it with the machinery that we have; and every time the subject is mentioned, we are thrown into the interlacing situation with the conditions of other countries, and an examination of our connection with the credits of other countries.

Some of the best authorities that we have, hold that we have, perhaps, at least $28,500,000,000 investment in credit, while foreign countries have invested $7,500,000,000 in this country, leaving us a net outlay, war debts and all, of about $21,500,000,000, and hold that the defaulted bonds and spurious issues of their countries—they got credit and property out of this country amounting to about $4,000,000,000, already defaulted, and that there is $11,000,000,000 of war debts, making a total of about $15,000,000,000 marked off, and that is the argument, as I understand it, of most of those who are in high financial positions, leaving a net amount, possibly, of $6,000,000,000 or $7,000,000,000 of all credits we have extended in all of our experience with foreign countries, that we can hope to collect.

There is always the same picture of the bankers connecting us with the welfare of nations in the other parts of the world.

Governor MEYER. I was discussing that in terms of the buying power for our exports, and I was not discussing it with the view to any interest we would have in the foreign countries, except so far as the conditions in those countries, politically or financially, would affect our export commodities; and you know it is important not only from the point of view of the quantity of exports, but also of the timing.

I have occasionally called the attention of the committee here, in years gone by, to the fact that when conditions are normal, exchange is stabilized on some basis or other and that the cotton crop used to be sold, to the extent of 80 per cent of the annual exports, in the months of September to January. At the present I would say that probably the foreigners buying cotton would buy only about one-twelfth monthly. That leaves a large carrying problem for the producers and the banks that finance the producers. That is why we think that the change in the time element is one of the results of disturbed foreign conditions, and that is why there is a larger visible supply, really greater than it ought to be, because of the disturbed condition of the whole scheme of distribution, and the change in the time element. We think the timing apparatus on an automobile is very important, to get our spark plugs coming in at the right time. If they come in at the wrong time, you have a great deal of trouble. It is just as bad for the cotton market, when its timing gets out of order, because it affects the price and slows up the market.

People do not think very much of the time element.

Mr. BUSBY. That is a fine illustration, but I would not follow it to any extent, not that it is mysterious, but because it does not bear a great deal of logic, in my mind, just to speak to the point on the subject, without criticizing you.

Governor MEYER. I am sure we want to be frank. I welcome criticism and new ideas, and I am anxious to learn.

Mr. BUSBY. Now, what ideas or plans do you have for financing these foreign exports, or getting the pay back to the American exporter? Would you do it with advancing more credit, or would you get more gold from the foreign peoples, or would you exchange it for goods? These are all practical things, as we understand, but that timing business and all——

Governor MEYER. I can not undertake to endeavor to solve the problems of the breadkown in international trade.

Mr. BUSBY. Well, we can not sell commodities abroad unless they can pay for them back home, can we?

Governor MEYER. The change in the time element—that compels us at home to make some readjustment in our financial machinery to carry the commodities for a longer period. If the exports of cotton were to be 6,000,000 bales in the year, it would be a very different thing if 80 per cent, or 5,000,000 bales, were exported in the first four months of the year instead of being spread evenly over the year.

Mr. BUSBY. If they can not pay for it at any time, you can not export it.

Governor MEYER. They would pay gradually; and, of course, if they did not pay for it at any time, they could buy; that is all there is to it.

Mr. BUSBY. That is most of the trouble now, instead of the time element.

Governor MEYER. It is both, because, after all, we are exporting millions of bales of cotton, and we exported in the current cotton year considerably more than we did a year ago, although conditions are worse.

Mr. BUSBY. Is not it a fact that the foreign countries that have somewhat depreciated currencies, as it is rated, currency exchange, in selling commodities here, get their money back home and exchange it for considerably more money in their own money, and thereby undersell the American trader who seeks to go into his own market.

Governor MEYER. Let us take the cotton textile industry, for instance, and let us take the processes——

Mr. BUSBY. I know as much about cotton, of course, as anybody else, but you keep talking about it because you think I don't know anything but cotton.

Governor MEYER. No, but that is one of the most important industries in this country.

Mr. BUSBY. I might add that in 1929 the exports of cotton were $920,000,000, before we passed the last tariff act. I happen to know that, but I also know this: That the buying power is broken down abroad, notwithstanding we have given them some $15,000,000 of American credit.

Governor MEYER. I am not favoring credit to foreigners, Mr. Busby, if that is what you have in mind.

Mr. BUSBY. No; but we have talked about it all of the time.

Governor MEYER. No; we have just discussed the effect of those conditions on our trade. What does the manufacturer in England do? He buys future cotton, to be delivered in three months, or six months, and under normal conditions he transports it and manufactures it and sells it to China, or somewhere else, and gives them six months in which to pay for it. Now, that business is done on a manufacturing basis, or on a fairly competitive basis; but in the last few weeks, the pound has fluctuated from $3.25 up to $3.80, which is about 15 or 20 per cent. Well, where the manufacturers have to overcome fluctuations of that magnitude and have no basis on which to make their calculations, because it is uncertain, it hampers business.

Mr. BUSBY. I tried to get over this idea, that the credit set-up at the present time, being based on practically nothing but what the world has recently been pleased to call confidence, that is as unsubstantial as the fabric of dreams, just as you pointed out, and nobody knows how to make contracts——

Governor MEYER. That is the trouble.

Mr. BUSBY. And if the currency and credit were based on the true values and stabilized values, commodity values, taking the quantity of commodities, like the 784 used by the Bureau of Labor Statistics—if those values remained reasonably constant and unvarying, and if that currency was measured in relation to the values of that currency, we would not have this condition you have pointed out, and we could not have that condition that you have pointed out; but in answer to that part of your statement, I say to you that there is practically no commodity of importance in the world but what has fallen tremendously in value, as measured by the gold currency dollar, and it is not the fault of the commodities, and it is not the fault of the people that millions of them are walking the streets, having been sold out and separated from the last vestige of tangible property, while we talk about theories and the fine-spun notions of what somebody might do that would upset the apple cart; while we find ourselves saying, if you will, the private and public debt and measuring them by the present national wealth, which is in a condition of bankruptcy, and we are still spinning fine theories about credits and the lack of confidence and all of those things. We have the largest part of the gold in the world, and it is the measure of values at the present time, under our standard set up by statute. It has been suggested that no minimum gold requirement should be set up in the statutes of the countries of the world that are on the gold basis, and——

Governor MEYER. No minimum what?

Mr. BUSBY. Requirement.

Governor MEYER. You mean as reserves?

Mr. BUSBY. As reserves. What would you have to say on that?

Governor MEYER. Well, the Federal Reserve Board, under the present law, can suspend the reserve requirement.

Mr. BUSBY. It has not done it, though.

Governor MEYER. There has been no need to do it.

Mr. BUSBY. Do you believe that the United States and France can continue to gather in the monetary gold supply of the world and ever have anything like a uniform gold currency range throughout the world?

Governor MEYER. It is only a few years ago that the French had a minimum amount of gold, and they would not have had it if the people had been able to get it out; and now, by a change of circumstances, the gold has moved to France.

Mr. BUSBY. Most of that change was brought about by stabilizing her franc at 3.9175 cents per franc, instead of 19.3 cents, and she was able to cancel 80 per cent of her debts, and that is the trouble in this country to-day.

If we could cancel 80 per cent of our debts, private and public, we would have no trouble in getting along, but the debts are what is the burden on the people of the country, and the fixed charges.

Governor MEYER. Yes; there is no doubt about that.

Mr. BUSBY. Every country in the world except the United States has so manipulated its currency within the last 15 years as to cancel all the way from a total of its international debts, such as Russia did up to a large portion, such as has been done by England in going off the gold standard recently. Is not that a fact?

Governor MEYER. Germany is struggling to maintain her currency at the present time.

Mr. BUSBY. She has already, at one time, canceled her domestic and internal debts.

Governor MEYER. Yes; but they are making, as the result of that experience, which you regard as a happy experience——

Mr. BUSBY. No; I do not. I beg your pardon.

Governor MEYER. Which their people regarded as the most wretched experience in the history of the world—they are making a tremendous struggle now to maintain their currency, and avoid another experience of a kind which they abhor.

Mr. BUSBY. I do not regard that as a happy experience, and I have spoken in the House many times and have never intimated any such thing.

Governor MEYER. I misunderstood, then.

Mr. BUSBY. I have not come to that conclusion, nor have I suggested anything of the kind; but I am speaking now dealing with the subject of a fair deal to the American debtor in the scheme of things under which we try to carry on business and to live and get a livelihood, and not be forced out into the cold, homeless, and without the hope of obtaining employment under our system.

That is why I allude to those things.

Governor MEYER. I think we are all symphathetic to that point of view. I have just answered that Germany abhorred the thought of the degeneration of her currency.

Mr. BUSBY. I should say so. They were all wiped out.

Mr. GOLDSBOROUGH. Governor Meyer, as far as I know, the feeling of the subcommittee is that, as nearly as they have been able to ascertain up to this time, the 1926 level represents a fair situation as to debtor and creditor. There has certainly been no disposition on the part of any member of the subcommittee, or Mr. Busby, to create a situation that would be unfair to the creditor.

Now, if 1926 is not right, we would like to have all the assistance we can get to fix the point which is fair and would allow people to get from under their burdens, and to resume their normal positions as economic units. That is our position.

Governor MEYER. That is a fair enough position, Mr. Chairman.

Mr. GOLDSBOROUGH. Governor Meyer, we would like to adjourn until 2 o'clock, and we would like to hear you again, as there are a few questions we would like to ask you.

Governor MEYER. I will be very glad to come back.

(Thereupon a recess was taken in the hearing until 2 o'clock p. m. of the same day.)

AFTERNOON SESSION

Mr. GOLDSBOROUGH. Gentlemen, the subcommittee will come to order. Mr. Busby, you may proceed.

Mr. BUSBY. Governor Meyer, as you very well know, the object of our activity is to try to discover some remedy for the present very unsatisfactory financial condition in which the people of our country find themselves, and also, if possible, to discover some fundamental method or set-up whereby we can prevent a recurrence of this very unsatisfactory condition.

I am sure you are as familiar as almost anyone else with the suffering and distress that is in existence from one end of our land to the other. To my mind it is very clear that there is a breakdown, because of the nature of the set-up of the currency and credit system of the country; and I might add that, if we remain on the present currency and credit set-up, I see no way of preventing the thing from recurring at shorter intervals in the future as in the past to a like deplorable financial condition. It is not necessary, under our set-up, to recur to similar periods of depression as this, and I wish you would give us any light that you may have regarding the subject of securing stabilization that will prevent it.

Governor MEYER. I am not, Mr. Congressman, a believer in the idea that you really want to achieve a static position, in all respects, economically speaking. No matter how much a steady condition appeals to anyone as an ideal, I think when you get down to it, any business man will try to go ahead, and want to go ahead in the world. You want your boy to go ahead. We have internal competition and instability of economic factors between each part of the country, in a way, as well as international competition and the instability of economic factors: For instance, take Texas and Oklahoma, which are big cotton-producing States. If you will go back 30 or 40 years you will find that the proportion of cotton grown in the West has increased enormously and has taken away the market for a lot of the cotton grown in the Carolinas and Georgia.

That does not alter the fact that relative stability is desirable, and limits to the area of fluctuation are desirable. Therefore, I do not think that you and I differ, and I only make the distinction because I do not believe the human race wants a static position, and I do not think that any human being——

Mr. BUSBY. Do you think it wants a recurring condition like the one we are now unhappily passing through?

Governor MEYER. I certainly do not.

Mr. BUSBY. Well, now, what does your very far-reaching knowledge of the handling of domestic and international credit to-day, and banking problems, point out to you as a way to prevent us from recurring to this condition. I think it is worthy of us making almost any sacrifice in throwing away some fetish, such as the ancient idea of banking that we are still playing to, in order to prevent this condition recurring. This is a real problem with me, and I do not believe in theories. If we can lay aside theories, we can get to something substantial.

Governor MEYER. I am entirely sympathetic to your point of view. Now, if you ask me what I consider the most important factor in achieving relative stability, which is what you and I both think is possible——

Mr. BUSBY. Surely.

Governor MEYER. We do not think absolute stability is possible, but relative stability with the elimination of the inflation and speculation that we have discussed. I regard the reorganization of the banking situation as most important, in view of the concentration of reserve bank activities and——

Mr. BUSBY. You mentioned the reorganization of the banking system of the country as being fundamental in your idea.

Governor MEYER. I think it is one of the most important factors.

Mr. BUSBY. Are you of the opinion that the comptroller's notions of branch banking within trade areas is the proper set-up?

Governor MEYER. Would you mind letting me tell you what I think?

Mr. BUSBY. Yes; but I do not want to take up too much time with that phase of it.

Governor MEYER. I do not believe that you will get the kind of banking that shows stability, relative stability, except through a unified banking system; that is, if you put increased supervision and control on national banks, organized under national charters, you may have them withdrawing from the national banking system, as they frequently do, or as it is frequently threatened that they will do when legislation is passed to insure the proper banking safeguards is under consideration. You are being asked here, year after year, to modify the national banking laws, because some State legislation has been passed which enlarges the function of strictly commercial banks, and all other kinds of banks. You can not make real progress in banking uniformity under such conditions.

You can have a national banking system that is truly national in effect, as well as in name.

The national banking system now comprises only a small part of the total banking resources, and is really not entitled to the name "national banking system," because it is not national.

Mr. BUSBY. Well, now, I do not care to pursue that issue any further.

Governor MEYER. You asked me what I think is the important thing, but when it comes to what kind of banking system you ought to have, I think you can very much better determine what the system should be—whether it should be a State-wide branch banking system, or a system without any branch banks, or with regional banks, or other kinds of banks—when you have a system that permits a proper definition of the functions of commercial banks, in the first place, and adequate laws, regulations, and supervision in the second place.

Mr. BUSBY. Whatever the banking system may be, its primary function is to sell banking credits to people who want those credits——

Governor MEYER. It ought to be.

Mr. BUSBY. In order to transact business.

Governor MEYER. It ought to be.

Mr. BUSBY. Those credits ought, primarily, to be related to values, ought they not, in order to have proper security for them?

Governor MEYER. Yes. Of course, as related to that——

Mr. BUSBY. Now, I do not know what your observation has been, but I have never seen any section of the country where banks have failed very extensively but what in that particular section values fell prior to the time the banks started failing. Take that whole section of the Northwest from 1921 to 1929, and even Georgia, Florida, and South Carolina territory, after the boom, and so on.

Now, I might add to that the entire country, the entire United States, where we have had in the last 10 or 11 years losses of more than 6,000 banks and where the national wealth undoubtedly has depreciated $100,000,000,000 to $150,000,000,000; and whereas in measuring values by the scheme or set-up of currency we used, the annual actual income that the people have been accustomed to receiving has dried up at the rate of more than $3,000,000,000 a month, or $750,000,000 a week, compared with 1928 and 1929, do you not think there is something wrong besides the bank credits?

Governor MEYER. Well, you asked me what steps I would suggest that seemed important to my mind as a way of improving the situation, and I was frank to tell you; that is all.

I think if you place commercial banking under national charter and national supervision and have the functions of banking defined and restricted within proper limits, you will begin to avoid a great many of the maladjustments and difficulties due to the excessive use of credit and the subsequent reactions of disastrous character, such as those from which we are suffering. I do not mean to say the present situation is exclusively the result of any one thing, but bad banking is certainly a factor that has contributed to the situation and rendered much more acute a situation which probably would have reacted in a milder degree.

Mr. BUSBY. I notice that Mr. Whitney is reported to have stated before a Senate committee investigating the New York stock market, that the securities listed on the New York Stock Exchange lost more than $6,000,000,000 in value in the last two weeks.

Governor MEYER. You mean in price?

Mr. BUSBY. I mean in price, yes; I do not say in value, because I want to use that in another way in a moment. Would you attribute that to a lack of proper financing through banking credit, or through a fundamental weakness in the currency set-up, which holds and prevents an ability to contract through our banking credit and currency set-up, in order to use it?

Governor MEYER. I do not know whether I would attribute it to any specific thing. I think there are probably things that were not mentioned at the hearing that might have had something to do with it.

Mr. BUSBY. Now, it is my opinion that the currency and banking set-up with which we have been afflicted throughout our national systems—that they will not stand great use in peace or war time, without getting out of joint and being followed by a financial crisis, such as we are now experiencing.

What is your suggestion along that line?

Is it your suggestion that the system is working all right if there is no special use of it out of the ordinary, but if it is used in peace or war time to any great extent, then it shows its efficiency following any extraordinary use?

Governor MEYER. I am in sympathy with some of the criticism of the existing banking system. I do not think you could tell how the system would work, though, until you have a truly national banking system, with its functions restricted to commercial banking and activities of a character that properly can be added to the function of receiving deposits and making loans, for the most part for commercial purposes and business purposes, and avoid the undue use of the volume of credit for speculative purposes. Speculation goes on in business at times as much as it does in securities, or otherwise.

It is very hard to draw a line of demarcation between one part of business and call it legitimate, and another part and call it speculative; because in speculative times, there is a stimulation of legitimate business into speculative activity. You can not entirely separate legitimate business and speculative business during an inflation.

Mr. Busby. Well, in 1838 there began a very serious money and credit panic, and there was no war on at that time, and had not been, except the political wars such as we experience always in America. In 1860 the banking and credit structure, with the national bank set-up being tried out for the first time, caused a period of great use of banking and credit systems. Following that, we had a time similar to this. Within the 1890's we had another period of depression, and nothing was said about any war. Then, in 1921, those who had no better excuse to offer said it was the result of the war, and I hear many people in this present time, 1932, saying that we are just now adjusting ourselves after the war, as the result of the destruction of property by the war. What would you have to suggest with regard to those effects, and what caused them? What I am trying to do is to get at the fundamentals that are involved in our set-up, and the manifest necessity to change from it so as to secure such light as we can in looking forward to a proper move in making that change.

Governor Meyer. There are certain periods of great activity in the growth of a youthful nation. When this country was expanding to the west, new lands were being brought into cultivation, railroads were being built, construction activities were being stimulated, and with the successful results and profitable rewards for people engaging in these enterprises, there was, of course, a tendency for speculation to develop.

Mr. Busby. What do you regard——

Excuse me. Go ahead.

Governor Meyer. An economically youthful country, with a rapidly growing population, is likely to have periods of extreme activity and of speculation at the end of it, and reactions and depressions after that.

I think that now we are more matured and our population is more settled and will increase less rapidly, with the restrictions on immigration, and the reduced birth rate, I think that is one of the important fundamental factors in the situation.

Mr. Busby. Will that stabilize our commodities, though?

Governor Meyer. No, it will not; but I will say this, that those violent movements, which are the characteristics of rapid growth, and the interruption in that growth, on account of overdoing the rate of growth, economically, in proportion to the fundamental stability of the country, ought to be now more susceptible of control in the direction of relative stability.

But I think that what we have talked about as normal, in the United States in the past has been a rate of growth of population and of industrial and agricultural production—a rate of about 3 per cent per annum, compounded. Now, that is what we have called in the past normalcy in the United States.

I doubt very much if that is going to be the normal measure of progress in the future, because the population is not increasing as rapidly as it did before.

Mr. BUSBY. I have examined, for 100 years, the question of the normalcy of 3 per cent increase in business, in the growth of population, and in the gold production, and I find that each one of them is about as variable as you could imagine, and that you must take a period of 30 to 40 years in order to get anything like a substantial rule on your 3 per cent increase in commercial development.

Governor MEYER. Well, I think it is more general than you refer to. You can see an increase of about 3 per cent in the cotton production of the United States up to 1914.

Mr. BUSBY. Why do you regard it as being necessary for the United States to relate its money to the value of gold?

Governor MEYER. Why do I regard it as necessary?

Mr. BUSBY. Yes.

Governor MEYER. The law states it.

Mr. BUSBY. I am not talking about the law. We are figuring on changing the law.

Governor MEYER. I see.

Mr. BUSBY. Because the law, or something, has caused too much suffering and privation and inequality in the money, when we are supposed to have an equal chance in the game of commerce, to obtain a livelihood, and the other things necessary for us to have, if we are going to live here.

Governor MEYER. You want to ask me why the gold standard is the standard for the country? You know that, I am sure, fully as well as I do.

Mr. BUSBY. I asked you this:

Why do you regard it as being necessary to relate the money of our country to the value of gold, independent of the statute to which you have recurred—the commodity value of gold?

Governor MEYER. I suppose the justification for making gold the basis of the standard of value is the fact that it is one commodity which has been accepted by more people in the world as the basis or standard of value than anything else. Gold can be used anywhere in the world for the purpose of exchange. It is a standard of value more than any other commodity.

Mr. BUSBY. But it happens that only about four countries in the world to-day can claim to be on the gold standard, and you have got 45 countries in the world which, through their exchange rates, have their currency related to gold, when they have not got the gold.

Governor MEYER. But you can go with an ounce of gold into any one of those 45 countries, and you can get a corresponding amount of whatever money they have in exchange for the gold; but you can not take what they have as money and come into a gold standard country and in every case get gold for it. In other words, gold, as far as I can see, is the standard of value for the greater part of the world, even in countries where they have not the gold standard, and the reason for that is that it is apparently more suitable for the purpose of a standard of value and a medium of exchange than any other product which has been heretofore used in human experience for those purposes.

I do not think that the value of gold has been made by its use as a medium of exchange.

Mr. Busby. You do not?

Governor Meyer. No; I think it is the standard of value and the medium of exchange because it is universally accepted as such, even in countries where they do not have the gold standard.

Mr. Busby. The universality of it——

Governor Meyer. I think you can go to a native in the heart of Africa and, if you have gold in the form of gold dust, can get what you want.

Mr. Busby. That might be true with the existing statute but——

Governor Meyer. They do not know anything about the statute in the jungles of Africa.

Mr. Busby. It is my information that about $1 out of every $14 mined is used commercially, and the other $13 are taken care of by the statute, which declares that the forty-five, plus, grains of fine gold shall be the unit of value here; and because the United States and and France have maintained that kind of statute, gold is acceptable in these other places that you mentioned.

Governor Meyer. I can not quite agree with that. Gold has always had a purchasing value——

Mr. Busby. That is what I am talking about.

Governor Meyer. Going back to Biblical days, you will find it was good then. If you were to go back to prehistoric days, and you could find out what happened then, you would probably find that it was always acceptable as having a value in a small, compressed form, and I do not——

Mr. Busby. I concede all of that; and the world has been in trouble with gold as the measure of value ever since the days you mentioned. Do you not think that 784 commodities, associated together like the strands of a rope, when some go up and some down, and some in and some out, and yet all of them go along in a reasonably straight line, dependable year in and year out, because humanity has to acquire these commodities in utility, in order to exist, when taken together and their composite value determined in a scientific way, such as by the Bureau of Labor Statistics, would be a better value to which we should relate the currency, than one commodity, gold, simply because gold, out of habit, has been accepted throughout the world?

Governor Meyer. Mr. Busby, I have this feeling about that: I think it is easy to see the evils we know, but it is difficult to see the difficulties of a different standard that we might adopt.

Of course, we all know that the gold standard has weaknesses, and I believe that any standard would have weakness, because——

Mr. Busby. Do you not think that gold and the gold standard can be manipulated so as to cause an apparent scarcity of gold and thereby a raise in the gold dollar, much easier than the prices of all commodities could be manipulated and thereby swing our currency out of relation, such as we find it now, to the true values?

Governor Meyer. I do not really think that the gold supply of the world is subject to manipulation. I think there is a fair amount of gold scattered around over the world.

Mr. Busby. The Federal Reserve Board, of which you are governor, makes a calculation in its March number, where it discloses that our country has sufficient gold to issue $3,500,000,000 of additional Federal reserve notes, and yet retain the 40 per cent basis for the currency; and I think it is common knowledge that France needs $1,100,000,000 of gold, and has practically $3,000,000,000.

Now, if the currencies of the world are going to be based on gold, does not it seem to you that the United States and France have gotten things a little bit out of balance by acquiring this gold that each one does not need and will not use?

Governor MEYER. How did the gold go to the United States and France?

Mr. BUSBY. I know how it got here, because we were a creditor nation, and they owed us, and we continued to get it here.

Governor MEYER. We became the recipient of the bank balances of the central banks and private banks of foreign countries. The gold which came over here in periods when we had an inordinately large supply of the world's gold was largely gold deposited here for foreign account. While it was called our gold, it was not our gold, because there was a demand liability against it. If we had used that gold as if it were our gold——

Mr. BUSBY. I am not talking about that.

Governor MEYER. If we had used this gold as if it were our gold, and absorbed it into our credit structure, we would have been in a very difficult position when the gold was demanded.

Mr. BUSBY. I admit that, but I am talking about something else.

Governor MEYER. This inordinate amount of gold over here was not our gold.

Mr. BUSBY. I am talking about the inordinate amount that is here now, when we roughly need about $2,500,000,000 less than that with which to stabilize our currency, and we have got roughly $4,350,000,000, in rough figures. We have got more than $1,300,000,000, according to your bulletin——

Governor MEYER. Surplus reserves.

Mr. BUSBY. Yes; surplus reserves.

Governor MEYER. Yes; and the required reserves——

Mr. GOLDSBOROUGH. You still maintain a 40 per cent reserve?

Governor MEYER. Yes.

Mr. BUSBY. Well, what I am getting at is this:

Gold has gotten into the hands of two nations, with 162,000,000 people, to the extent of practically 70 per cent of all of the gold in the world, and the other 45 nations are having to use makeshifts and get along without this gold, this very desirable gold standard of monetary set-up.

Do you regard that as being a desirable situation?

Governor MEYER. I do not think you can consider it from the point of view of desirability, because it was not a desire on our part that brought it about. Other people's desires brought it about more than ours.

Mr. BUSBY. That is what I am getting at, the weakness of the set-up, because we can not control our own situation.

Governor MEYER. I think we could have a little more than we did.

Mr. BUSBY. With the international working of credit, so much so that those foreign credits controlled our domestic supply of bank credits and finances, and threw us entirely out of line——

Governor MEYER. I am not quite in accord with that opinion. I think we could have controlled it more than we did, and I think that was one of the mistakes in the banking administration. The gold exchange standard, which seemed to be a practicable and feasible thing, was built up in this period through which we have just passed, in the 1920's, and then suddenly came along Germany and France and their needs, and there was built up the idea that deposits in foreign countries, invested in bills or securities or anything else, was the equivalent of gold in the vaults of the central banks.

Mr. BUSBY. That was for the small countries.

Governor MEYER. Well, the big ones, too. There were huge deposits built up here one way or another, and they were counted as equivalent to gold reserves by the foreign central banks, until they were waked up by the German and English incidents, and found that maybe they were and maybe they were not.

Mr. BUSBY. Well, now, there have been built up credits in the nations using the gold-reserve basis, or a supposedly additional amount of $2,000,000,000 of gold, which was really an exchange against the countries that had sufficient reserves of gold in the central banks? That was the practical effect at that time, was it not? When they woke up to this, and that gold prop was taken out from under the inflation of gold itself, then there was a shrinkage not only of the $2,000,000,000, or 19 per cent of the world's gold supply, and that acted naturally to bring about this catastrophe, but the shrinkage of credit also, that was based on that fixation—was not that a part of the world catastrophe?

Governor MEYER. Yes; I think that is true.

I think it was unfortunate that the gold exchange standard permitted pyramiding of reserves and caused a good deal of inflation during the 1920 period—I mean 1920 to 1930. That is what you are indicating?

Mr. BUSBY. Yes.

Governor MEYER. I quite agree with you, but I think that should have been avoided. I do not say that we want to establish control over foreign bank deposits in the United States down to a fine point, but I do think that it is a matter in which the public interest and public policy should determine the hospitality which our banking structure should afford to foreign banks desiring to deposit.

Mr. BUSBY. That seems to be agreeable to everybody.

Governor MEYER. The attitude generally seemed to be one of welcoming indefinitely the deposits that foreign banks and bankers built up here.

Mr. BUSBY. What I am coming to as my last question is, that if we should base our currency and use gold as we have used it, as the yardstick to make our international exchanges, and in some way to limit the amount of our currency by that yardstick measure, and applying the true values, and those true values determined by commodities as we now determine them through the Bureau of Labor Statistics—would not that be a safer plan than one working alone on gold, on the assumption that gold exists, which we have just discussed?

Governor MEYER. Well, I say this to you, Mr. Congressman: I am not prepared to answer that, because I do not feel as though I have any definite views as to whether or not the commodity base for money is workable and practicable, and I have not been able to figure it out to its ultimate conclusion. I can see the weaknesses of one system. I can see the weaknesses of the maladjustment in our economic structure, many of which are attributable to other things than the gold standard; and I can also say that I can not see where some weakness would develop under a new system, and I do not believe you or anybody else can, but a whole lot of these maladjustments come from neither one standard nor another, but from the conduct and behavior of people; and sometimes a large number of people, en masse, get optimistic together, and overdo things; then they get pessimistic and overdo things on the other side.

I think that all you can safely do is to try to restrain and limit the extremities of the expansion and contraction of credit by the mechanism of the banking systems, both in the commercial banks and in the Federal reserve system, and I come back to the thought that no better thing can be done for better behavior of our economic mechanism than establishing a sound banking system, which I say can only be arrived at by a national or unified banking system.

Mr. BUSBY. In all of your statements, I gather that your view is that credits should be the basis of our activities, and that those credits are based largely on—I do not want to say manipulations, but actions in banking circles, and pressures of different types, like discounts and interest, and buying Government securities, and so on, which system is as dependable as any we can get; but my idea is, if you turn around and relate the flow of those two values, which are commodities that are usable, and the price is determined according to the supply and demand for those commodities, you would have a more substantial thing than the ephemeral things you speak of as credit, which depend on the humor or disposition or attitude of somebody, independent of the things themselves.

Governor MEYER. I accept your statement on behalf of yourself, but I must protest against your interpretation of my views, because what I want to say is that the banking and credit structure should serve in the accommodation of business.

Mr. GOLDSBOROUGH. Mr. Prall, you were engaged this morning, and have not had the benefit of Governor Meyer's extremely interesting statement, but you may have some questions that you would like to ask.

Mr. PRALL. I would like to ask Mr. Meyer one question: Assuming that 784 commodities make the standard of value, could the producers of those commodities, by any form of combination, raise the prices to any extent that they might produce fictitious values?

Governor MEYER. Mr. Congressman, I do not want to appear unwilling to answer that, but I can not say that I consider myself an expert on the commodity index basis for currency or the medium or standard of exchange. I would like to have more time to study it. In fact, I have been terribly busy with a lot of administrative questions, and I had to ask the indulgence of the committee in postponing my appearance, and I do not feel that I can properly answer your question with the background of study and thought that I think you are entitled to have, if I make any answer to you at all.

Mr. PRALL. Well, the question was brought up here as to the control of gold, how it might be manipulated, and I wondered if there would be any change in that situation if the producers of these commodities could, by any combination, bring about a similar situation.

Governor MEYER. You mean by——

Mr. PRALL. By rigging the values.

Governor MEYER. I should not think anybody could rig 780 commodities, or 680, or any such number of commodities. I would not think so. I do not see how it would be possible to do it. Of course, if you are speaking of the value of commodities in terms of some other value, you mean some other measure of value, or some standard of value.

Mr. PRALL. That is all.

Mr. GOLDSBOROUGH. Mr. Strong?

Mr. STRONG. Governor Meyer, I noticed you used the language of the statute, "accommodation of business." That is what the language of the statute is in regard to the use of the rediscount privilege, that it shall be used for the accommodation of business and commerce. In the original act, instead of that language was the word that it should be used for the stabilization of the price level. That language went out in conference and the language "for the accommodation of business and commerce" inserted instead. In my original bill, five or six years ago, I used the words of the original language of the bill, stating that the powers of the Federal reserve system should be used for the stabilization of the price level, and ever since then I have been using the words "for the stabilization of the purchasing power of the dollar," which, of course, you know, means the same thing, but I used this language in order to get rid of the charge of price fixing, which I do not think can be done or should be done in this country. My idea is that the law of supply and demand is a very safe law, upon which we can base most of our activities in commerce and business. If that is true, the regulation of the supply and demand of money largely tends to fix its price, and its price is what it is worth in commodities in general. Therefore, it seems to me with the powers we have given the Federal Reserve Board, to regulate the volume of money and largely the price of money through the rediscount privileges, the Federal Reserve Board could regulate the volume or supply and demand of money; and it is on that basis that I have, for the past five or six years, advocated that the Federal Reserve Board should use its powers to stabilize the purchasing power of money, regulating its powers through the amount of speculation.

Now, Governor Strong of the Federal Reserve Board intimated to me and this committee that he had used those powers in open-market operations to buy and sell bonds on the rediscount rate quite successfully for the past two or three years, or up until the time of his death, and he had several others with him, among whom was Governor Harrison, who was here yesterday, who frankly admitted that he believed in and was sympathetic with this theory, and he thought the Federal reserve ought to operate along this line, but he objected to us directing the Federal Reserve Board to do so.

I would like to ask you what objection you see in Congress asking the Federal Reserve Board to use its powers for such stabilization? Why should not the Congress, having given these powers to the Federal reserve system, direct the use of them?

Governor MEYER. Well, I think the authorization of powers which Congress obviously intends to be used to accomplish the purpose within the limits of possibility should be used; but when you give directions to a body to accomplish a result, and give them the means, and make it more or less mandatory that they shall accomplish the result, which depends on a good many conditions, then you are raising a difficult question. I think probably Governor Harrison intended to convey the idea that you were charging the system with the responsibility for the results as well as for the discharge of a function.

I think the Federal reserve system has always endeavored to do just exactly what we are talking about, or what you are talking about, within the limits of possibility; but, for instance, let us say that in 1921 and 1922 there were operations conducted with the view of increasing the outstanding supply of credit and stimulating its use, and you come into such a situation as I showed you prevailed at that time, with the boom in the building of houses and partments and office buildings, plants, and everything else, that money would be immediately effective in stimulating industry in an extraordinary way. The same amount of money put out in the market to-day under present greatly changed conditions would have different effects, in my opinion.

Mr. STRONG. Well, I grant you that.

Governor MEYER. I think that is what Governor Harrison had in mind.

Mr. STRONG. And I realize that perhaps you said the market operations and rediscount privileges would not, under our conditions, bring about stabilization. I can realize that.

Governor MEYER. Especially if the overuse and overexpansion in the period has led to expensive speculative actions, which cause reactions of a deplorable character.

Mr. STRONG. Of course, my answer to that would be that we did not sell bonds and reduce the amount of money in circulation and put up the discount rate enough to stop that expensive speculation.

Governor MEYER. That gets down to a very fine point; and of course you know it is not only a question of the quantity of bank credit that is available, but also of the velocity of the turnover of that same volume, and the use that is made of it. In other words, you get down to the factor of human judgment. Credit policy does not operate instantaneously, and the effect of an increase in volume of credit to-day does not appear to-day or to-morrow, but after a period of time. A considerable time must elapse before any kind of financial work has its effect.

Now, then, there comes in the element of human judgment, in deciding how much to do, and how far to go, and how fast to keep it up, when to stop, and when to reverse.

Mr. STRONG. But you gentlemen have a pretty good idea now, after these years of operations, of about where to stop, and about when to stop, to reach a certain conclusion, a certain objective point.

Governor MEYER. I would like to feel that you are right on that. But I would hesitate to agree with you that any of us has infallible judgment.

Mr. STRONG. You know I have a great deal of confidence in your judgment, and I have always felt that way, ever since our experience in the War Finance Corporation; but I do think, in the operation and use of these powers of the Federal reserve system, which we have used now for these years, that we could give—that in giving any direction, we should give them a measure to follow. For instance, I think, if we should direct them to use their powers toward stabilization of the purchasing power of money, which was the language worked out by Governor Strong, and then say to them to accept as the measure of value of the purchasing power of the dollar the index numbers set up by the Bureau of Labor Statistics, with the large number of commodities that are used in arriving at the index number, that would be a pretty good measure to direct the Reserve Board or system to follow.

Now, as to how long they should proceed, and when they should stop, will be a matter of judgment, which I am willing to trust you on; but it does seem to me that there ought to be some measure of value that they should be directed to follow.

Now, I want to ask you this question: The Reconstruction Finance Corporation and the Glass-Steagall bill have for their purposes the enlargement of the credit structure, so as to bring more credit into use, and in a manner an inflation, or what probably you might term a reflation of the deflation; is not that as practical a thing as if we directed you to use the powers to stabilize the purchasing power of money?

If money was unstable, credit was unstable and the country was paralyzed; because of such condition we come to the Congress, and as the result of an Executive proposal, we passed the Reconstruction Finance bill and the Glass-Steagall bill, and that was done for the purpose of trying to improve the price level, was it not?

Governor MEYER. As I said this morning, there is the time element, which it is very difficult to regulate. I think those measures have certainly tended to improve the situation, yes; and I think it would have been worse than it is, if they had not been passed. There has not been any definite upward trend, but I think it has slowed up the decline, and I do not think——

Mr. STRONG. Governor Harrison told us yesterday that for the first time in a number of months the decline of bank credits had been brought to a halt.

Governor MEYER. Yes; I think that is significant.

Mr. STRONG. And bringing them to a halt is probably pretty good evidence that they are liable to turn upward.

Governor MEYER. They have to stop going down before they begin going up.

Mr. STRONG. Now, he also told us that they were buying $25,000,000 of bonds each week.

Governor MEYER. Yes; that is published weekly.

Mr. STRONG. That is continuing now, and has stopped the lowering of credit, bank credit. If that condition keeps up, and you keep on buying $25,000,000 a week, a turn will probably come, will it not?

Governor MEYER. You are getting me in the position of prophesying. I hope you are right. I personally am in favor of a little stronger policy than you are.

Mr. STRONG. Well, fine. I hope your desire prevails.

Governor MEYER. But you see there are several things that enter into the situation in making a program—what it a suitable amount, whether it is better to keep purchasing moderate amounts over a long period, or to do it all in a short time in larger amounts, in addition to which you have to take into account——

Mr. STRONG. The use of it?

Governor MEYER. Yes, the use of it. And furthermore, we have been getting a return flow of currency from hoards since the beginning of February, amounting to about $250,000,000, and aside from a little interruption on April 1 on account of tax assessments, and the flow has continued now for a good many weeks. If the expansion of the program of Government bond purchases, which was referred to by Governor Harrison here yesterday, is continued and the hoarded currency continues to come in, I think we can look forward to improved conditions. But we still have lots of problems; the period is difficult in many, many directions, and I wish as much as you do that I knew a simple formula of turning a simple trick that would change economic conditions all over the world.

Mr. STRONG. If you continue to play your cards as you are doing right now the change will come.

Governor MEYER. Well, sir, I am hopeful that the change will come at home and abroad.

Mr. STRONG. Along that line, Governor, you might not want to answer this question, but in a speech last night Governor Smith made a proposal that for every hundred million dollars in trade between foreign countries and the United States we remit or credit that country with $25,000,000 on account of their debt to us. Do you think that is a good proposition? Do you think that would stimulate trade?

Governor MEYER. The people who can pay debts are paying them. The people who can buy goods are buying them. I do not know exactly whose debts should be cancelled for this purpose and whose goods should be sold. Would you want to be chairman of a committee when somebody's debts are canceled to saywhose goods should be sold for that purpose?

Mr. STRONG. No, I do not think I would.

Governor MEYER. It is one thing to generalize and another thing to get down to business.

Mr. STRONG. And when you have given this bonus or this money that was loaned to Europe and that is exhausted, then what would you do? Lend them some more money so as to give them some more opportunity to have the amount remitted to them?

Governor MEYER. I did not hear the governor's speech. He may have some good ideas.

Mr. STRONG. I would like to ask you what, if you know, caused the recession in bank credits during January? Why did they go down?

Governor MEYER. They were going down before that, and it was a continuation of a movement that was in progress and had not been checked. Bank closings in January aggregated 342 in number, and that was not only an intrinsic factor but an important psychological factor. Beginning in February bank closings which were heavy in the beginning of the month slowed up and at the end of the month they were very much smaller. I think in the month of March the resources of banks that opened were as great as those of banks that were closed. I do not mean to say that there will not be more bank failures; but any way they have been less, and January was a bad month from that point of view.

Mr. STRONG. Then if we had commenced along in October and November and bought Government securities, would not we have been apt to have checked those failures that happened in January and prevented the recession in bank credits?

Governor MEYER. There were so many other complications, Mr. Strong; beginning with the suspension of gold payments in England, you have had a series of events which were very complicated. Within a few weeks after September 21, $750,000,000 was withdrawn by foreign countries from their balances here and taken in the form of gold. No country in the history of the world has ever been able to stand that kind of drain of gold. It is true that during that period we also imported some gold but in view of the large drafts on this country by foreigners, chiefly due to repatriation of foreign central bank reserves and, I believe, even some remittances by Americans out of the country from fright, purchase of securities by the reserve banks at that time were impracticable. We could not undertake anything of that character in October without increasing the loss of gold. That is my opinion. You will remember at that time we had to raise the discount rate from 1½ to 2½ and 3½ per cent. Purchases at that time would not have had a stabilizing effect. They would have tended to neutralize the effect of the advances in the discount rate, which was an important intrinsic and also an important psychological factor at that time.

Mr. STRONG. If Congress should see fit to pass a bill of this kind directing the Federal Reserve Board to use the powers we have given it toward the end that we should have as near as possible the stabilization as to purchasing power of money, what harm could you see coming from it?

Governor MEYER. It is a fact that we understand that it is our duty to prevent inflation to the extent that it is feasible, and to stop the deflationary forces as far as possible through our machinery.

Mr. STRONG. You would go along as you are doing now, would you?

Governor MEYER. I do not think we can do anything more than we are doing, if you mean that.

Mr. STRONG. That is what I mean.

Governor MEYER. On the other hand, I do not think you would like to be ordered to run a race of 100 yards in 10 seconds.

Mr. STRONG. Well, I never ran that far within that time.

Governor MEYER. I know you do not expect impossibilities to be achieved; but I think in setting certain standards you ought to set standards that are practicable, and what you have in mind is that we should be charged with doing what we are doing now to the extent that it is possible. I do not like either by definite or implied authorization or direction to lead people to believe that a thing can be done if it can not be done under any and all circumstances, even though it may be within our power to work in that direction.

Mr. STRONG. I would like to ask another thing. Congress is being asked to pay off in advance the certificates we issued to service men of this country due in 1945. It is being urged that we can do that by issuing paper money based upon what gold is now in the Treasury. I wish you could give us your opinion about that. It is a matter that is very perplexing to Members of Congress who would like to pay the certificates if they could.

Governor MEYER. I suppose there is a committee studying that, Mr. Congressman.

Mr. STRONG. I know, but you know about the gold in the Treasury and what it could do, and I think your opinion would be very valuable if you care to give it to us.

Governor MEYER. As an offhand opinion, I feel that the balancing of the Budget is becoming a fundamentally important factor in rebuilding confidence in business. I should be reluctant to see a very heavy expenditure which could not be paid for out of taxation at this time. But I really have not been giving that particular question special thought, although I have seen it mentioned in the papers. I think the balancing of the Budget has become one of the most important things for this country.

Mr. STRONG. That is to protect our credit at home and abroad?

Governor MEYER. Yes. And I think inflationary devices which might be assumed to be beneficial are dangerous, because they might have a very different effect from what is expected.

Mr. STRONG. Can you tell us how much gold there is in the Treasury which would be free to be used in guaranteeing such currency?

Governor MEYER. I am told that it is $20,000,000.

Mr. GOLDENWEISER. That is not including the reserves of the reserve banks.

Mr. STRONG. Well then, with that situation would you care to say what perhaps would happen if we should issue $2,500,000,000 worth of paper money?

Governor MEYER. I think that it would be most unfortunate from the point of view of the masses of the people of this country.

Mr. STRONG. Would it be liable to hurt our credit in foreign countries?

Governor MEYER. Not only in foreign countries but at home.

Mr. STRONG. You really think it would be an unwise thing to do then?

Governor MEYER. I do.

Mr. GOLDSBOROUGH. Governor Meyer, in various discussions of this proposed legislation it has been spoken of as an inflationary measure?

Governor MEYER. This bill?

Mr. GOLDSBOROUGH. Yes; I have seen it spoken of as an inflationary measure.

Governor MEYER. Well, you know that is a word that is pulled on everybody. If it is pulled on us, Mr. Chairman, why——

Mr. GOLDSBOROUGH. It is intended as a reflection on the propriety of the proposed legislation. Section 31, which is the first section of the bill—I think you have it right there, have you not, in front of you?

Governor MEYER. No; this is not that.

Mr. GOLDSBOROUGH. The first section of the bill directs the Federal Reserve Board and the Federal reserve banks to take all available steps to raise the present wholesale commodity level of prices as speedily as possible to the level existing before the present deflation and afterwards to use all available means to maintain such wholesale commodity price level. If you will turn to section 2, which reads:

> If, in carrying out the purposes of the preceding section, the Federal Reserve Board and/or the Federal reserve banks, in selling securities, should exhaust the supply, the Federal Reserve Board is authorized and directed to issue new debentures.

The obvious purpose of section 2 is to assist the Federal reserve system if it should run out of bonds through the process of feeding them back into the market, and provides for an issue of debentures in order to prevent the price level from going above the pre-deflation price level. I direct your attention to that because I think it is important for the Congress and the country to know that this is not intended to be an inflationary measure. It is intended to be a stabilizing measure, and that the measure has no more interest in raising the price level than it has to keep the price level from going beyond a proper and legitimate point. Now, if I may for just a moment, I want to read from a speech that I made just 10 years ago, on May

23, 1922, in the House of Representatives, on a bill providing for stabilization:

I firmly believe that the purchasing power of money can be stabilized. I believe that the solution when we have it will be found to be simple, and I trust that that solution will soon be embodied in legislation. I never want to see agricultural and industrial enterprises struggling in the agony of a long period of falling prices or to see the young, active, bright business man, naturally uninformed as to political science, feel that he is rising to prosperity on the tide of rising prices only to find his business bankrupt and his hopes blasted in the inevitable crisis just beyond the peak.

I read this to accentuate the fact that this committee and I personally are not interested in inflation but simply in an endavor to create a fair and proper relation—reestablish a fair and proper relationship between debtor and creditor, and after that relationship is reestablished to make it impossible, because of these stabilizing influences, for business to expand in an unhealthy manner. Now, that is the purpose of the proposed legislation. This morning in a very full and interesting statement you called the committee's attention to the fact that other influences other than quantity of money and credit and its velocity operated on price levels, and you undertook and did very clearly state what some of those influences were. Now, the reason I am making this statement is because I want you to comment upon it. This subcommittee, I think, fully realizes the validity of influences which you mentioned. They realize fully that under uncertain conditions it would take more activity on the part of the Federal reserve system in the matter, for instance, of purchasing securities, than it would at another time in order to achieve the same result. But I believe that the subcommittee feels that under anything like ordinary conditions, with the enormous credit facilities of the Federal reserve system that by applying its powers courageously enough and strongly enough the result can be achieved. A man may be steering his ship and because of conditions of wind and tide it may be more difficult for him to reach a given point than it would be under other conditions, but if he puts enough pressure on the rudder he can reach his port in safety.

This subcommittee does not think that if the Congress directs the Federal reserve system to stabilize at a given point that the Federal reserve system could keep always the level at that point; but it believes it could measureably do that; and it also believes that if the price level could be measureably stabilized that business would be accommodated, and that a great many of these evils and difficulties which you speak of would be obviated. We feel that if stabilization were made the North Star of the Federal reserve system that you would then have the power to prevent these periods of inflation as well as periods of deflation from going beyond and getting out of hand, and that is the theory I am sure upon which the subcommittee is considering this bill.

Governor MEYER. You understand, Mr. Congressman, that the open market committee which deals with open market operations is composed of the governors of the 12 banks.

Mr. GOLDSBOROUGH. If they will not act, you have the power to change to another committee?

Governor MEYER. The Federal Reserve Board can only approve or disapprove the open market policies and operations proposed by the banks.

Mr. GOLDSBOROUGH. The Federal reserve banks are authorized to do the same thing?

Governor MEYER. Yes; but in talking of the board I want you to understand that it is not a central bank.

Mr. GOLDSBOROUGH. If you have any suggestion to make and could put in this bill in order to give you power——

Governor MEYER (interposing). You would find that that would be opening a very interesting subject, which was discussed when the bill was passed, and you would not think it advisable for a member of the board to come up here and urge that the powers which now reside in the banks should be transferred to the board, would you?

Mr. GOLDSBOROUGH. I do not know. As a matter of fact, if we pass legislation we use this language: "Federal Reserve Board and Federal reserve banks." We have the idea that there would be a spirit of cooperation and that would accomplish the purpose.

Governor MEYER. When we get to talking about these things we sometimes forget that the organization of the system was determined after the most careful study by committees of Congress. There are some powers reserved to the board and some to the banks, and some lodged in the banks with the approval of the board.

Mr. GOLDSBOROUGH. It was suggested to the committee yesterday by Governor Harrison that this legislation was unnecessary because the system was now doing exactly the thing which was contemplated by the legislation.

Governor MEYER. When was this?

Mr. GOLDSBOROUGH. This was yesterday.

Governor MEYER. Oh, yes. Well, I think that is the purpose.

Mr. GOLDSBOROUGH. And we asked Governor Harrison when it began, and he said it began yesterday.

Governor MEYER. I think he was misunderstood if that is what he appeared to say. I think it has always been the object since I have been on the board to work in the direction you are talking about; but it has been a struggle against conditions at home and abroad and, as far as the particular present movement, buying Government securities, is concerned, it was started some weeks ago—seven weeks ago.

Mr. GOLDSBOROUGH. But he said the policy had changed in the last day or so.

Governor MEYER. As a result of a conference called a week or 10 days ago. Naturally, the governors have to come from all over the United States—some of them are several days' distant—and it takes them quite a little while to gather for a meeting. It was a question at the time—seven weeks ago—as to what should be the rate at which Government securities should be purchased.

Mr. GOLDSBOROUGH. Do you object to saying what the rate is now?

Governor MEYER. There is not any fixed rate, Mr. Congressman; it is movable and changeable. I do not have charge of the open market operations, as you know.

Mr. GOLDSBOROUGH. Now Governor Meyer, in this time of absolute economic destitution, do you not believe it would be a tremendously helpful thing if the Federal reserve system could declare a policy, if they could undertake to say that they were going to pursue a definite policy in the purchase of Government securities till a certain goal is reached? I talk to the bankers in my district and they say, "Oh, yes; we know they have been buying $25,000,000 of Government securities a week for the last few weeks, but they may start selling them next week; and, therefore, we do not know what to do."

Governor MEYER. I do not think they believe that. To reverse a policy and start to doing it the other way next week has never been done.

Mr. GOLDSBOROUGH. But the system does reverse its policies?

Governor MEYER. Yes; with change of conditions, but not with just a whimsical this-week or next-week attitude. That is out of the question; at least, as far as I know.

Mr. GOLDSBOROUGH. Now then suppose this bill were passed, this section 1 and section 2. I will leave out of consideration section 3 for the time being, and the responsible officials of the Federal reserve system should say to the press, "We have been directed by Congress to raise the price level to a certain point, and we are going into the open market and buy Government securities at the rate of, we will say, $25,000,000 a day, every business day, till that point is reached." Do you not believe that that would have almost a magical effect in restoring confidence and would cause hoarded money to be withdrawn and the money put in circulation and cause the retailer to buy from the wholesaler and the wholesaler from the manufacturer and the manufacturer from the raw producer and put people to work?

Governor MEYER. I am doubtful of the advantage and expediency of talk in connection with those matters, because the matters speak for themselves.

Mr. GOLDSBOROUGH. No; you do not understand me. I mean it to say and do it, both.

Governor MEYER. A great many things happen to interrupt and make changes necessary. I think you asked that question of Governor Harrison. I read it in the paper. I do not think I would express it differently from his view. I think you would tie their hands. It takes flexibility out of the program. I think flexibility is vital and you know just as well as I do that conditions change from time to time, and if you announce a program like that you deprive yourself of flexibility which you ought to retain. I would not consider that a good or helpful thing to do.

Mr. GOLDSBOROUGH. You do not think it would restore confidence almost immediately?

Governor MEYER. No; I would not think so. I would not consider it advisable.

Mr. GOLDSBOROUGH. Here is a question, Mr. Strong suggested, and I think it is a good one. I do not know whether you care to answer it or not. The question is whether you feel that the Federal Reserve Board should have charge of the open market operations?

Governor MEYER. I do not, to tell you the truth. But you know better than I that the functions of the board and the banks have been defined after very careful consideration and investigation at the time of the passage of the act, and at various sessions of the Congress since then. I do not think it would be sound to transfer those powers. On the other hand, you have to realize that with the advantage of decentralization of powers you get some slowness in the working of the machinery. The whole banking system is based on the idea of decentralization of power. It has been the historic policy of the people of the United States not to allow too great centralization of power, particularly in banking. I agree with that policy; but you can not expect the same quick action and the same prompt decisions from a decentralized power that you would from a central bank, as conducted in European financial centers, where the board of directors of one bank directs the operations. In the interest of efficiency and wise administration there is, of course, a constant drift toward centralization of power. In the wise checks placed upon centralized power which are fundamental in our Constitution, we do do not permit the centralization of power—and I do not think as a whole we are wrong in that, though sometimes it costs time and inefficiency as well as delay. We have to stick to good principles, even though we have to pay for them at times.

Mr. GOLDSBOROUGH. I gather from what you have stated to-day several times that you feel we should have a central banking system, unified banking system?

Governor MEYER. I am not talking about a central banking system; I am saying that banks of deposit all over the United States should be federally chartered; now part are so chartered and part are chartered by the State. You could make it any kind of system you want. You could make it unit banking or state-wide banking. If the Federal Government were supervising and organizing the banking of the country, so far as commercial banking was concerned, it could determine what kind of banking system you should have. As it is now, it is determined by the Federal Government and 48 States, each determining for itself what it wants to have.

Mr. GOLDSBOROUGH. Governor Meyer, this bill probably amended in certain ways, is going to be considered in executive session by the subcommittee and acted upon, and also acted upon by the full committee. It makes no difference what our report is the full committee will take its action on that report.

Now, we are extremely anxious in writing the mechanics of the bill if we decide to report it, to make it as effective as possible, and we would like to have the benefit of any suggestions you can give us?

Governor MEYER. If I can think of any suggestions by way of modification or amendment or otherwise I will communicate with you, Mr. Congressman, I do not like to offer off-hand suggestions for legislation.

Mr. GOLDSBOROUGH. Yes. The other day—I do not know who it was—showed me a typewritten statement about that long [indicating] which involved a change in the reserves of member banks, which changes depended upon the change in the deposits' condition and the rapidity of circulation?

Governor MEYER. That is the report I gave you this morning.

Mr. GOLDSBOROUGH. And it might be in carrying out the purpose of this legislation a section of that kind would be very helpful.

Governor MEYER. I told you this morning, Mr. Chairman, that I thought serious consideration of that report would be worth while as one of the things to help achieve what you have in mind, stability; because if it should work as it is expected and intended, it would have the value of checking undue expansion and undue contraction automatically in so far as it can be done through monetary means. An automatic device working in the right direction will be helpful in not having to depend entirely on the exercise of human judgment.

Mr. GOLDSBOROUGH. That is what we think—to give some direction to the Federal Reserve Board which we feel would be helpful. Have you any plan which you would prefer to this, assuming that

Congress is going to adopt or attempt to adopt a stabilization plan? Have you anything in mind which you prefer to this?

Governor MEYER. Well, only the things about which I spoke this morning, Mr. Congressman—a better banking structure, an improved method of reserves and better banking supervision, examinations, which could be accomplished with a unified system and better men in public service.

Mr. BUSBY. You are introducing more uncertainty to our already uncertain status.

Mr. GOLDSBOROUGH. In closing, I would like to say this: That we do not have in mind that any human institution can act perfectly, and we realize fully that you will have the difficulties that you have spoken of and possibly difficulties that you have not thought of and can not vixualize at this time. There are spiritual difficulties always to confront, because human selfishness is operating all the time and we are confronted with that. But this is one thing we hope may assist in restraining human selfishness and promote justice as between different classes of society. That is the purpose of it, and we believe also that any legislation that is passed will be sympathetically administered by those in charge of it. There is just one question that has been suggested to me. Has it been necessary to invoke the more liberal rediscount powers of the Glass-Steagall bill yet?

Governor MEYER. You mean section 10a and 10b. There have been a few applications under 10-b. In most cases banks that would have borrowed under 10-b are using the Reconstruction Finance Corporation. There have been a few cases where loans have been obtained under 10-b, but not many.

I thank you very much for your courtesy to me here.

Mr. GOLDSBOROUGH. We appreciate very much your kindness in this discussion, which has been very interesting, and I think it will be of help to us.

Governor MEYER. I am afraid I have not been able to contribute as much as I would like to contribute.

Mr. MEYER. I may say that after the hearing was printed, which was subsequent to the time the House considered the measure, the Federal Reserve Board passed a resolution approving and indorsing the position which I took in my statement before the committee. So the position which was expressed in the hearing in opposition to the measure has the indorsement and approval of the full membership of the Federal Reserve Board.

Senator FLETCHER. Would you mind inserting in the record that resolution, Mr. Meyer?

Mr. MEYER. What resolution?

Senator FLETCHER. The resolution of the board. You said they passed a resolution. I supposed you had it there with you.

Mr. MEYER. There was a motion made that the board approve and indorse the position taken by the governor in his statement before the committee, and that motion was carried.

The proposed bill assumes that the Federal Reserve Board has the power to carry out the policy enunciated in the bill and instructs the Federal Reserve Board, the reserve banks, and the Secretary of the Treasury to make the policy effective. The attitude which I expressed in the hearing was that the board did not have this power and that the assumption therefore is not justified.

Of course, before I became a member and since, the board has been endeavoring to do what it could to stem the tide of contraction in business and deflation in prices. No one country, however, can determine the world level of commodity prices. We have, it is true, an unusually important position in world economic and financial affairs. Nevertheless, although we have a most important position among the world's nations, we do not and can not, in my opinion, alone control the price level.

The importance of our position I do not underestimate. We have 85 per cent of the world's total of automobile production, 40 per cent of the world's coal, 68 per cent of the world's petroleum, 44 per cent of the world's pig iron, 47 per cent of the steel ingots, 49 per cent of the copper production, 36 per cent of the lead, 39 per cent of the zinc, 10 per cent of the wool, 57 per cent of the cotton, 59 per cent of the corn, 19 per cent of the wheat, and 36 per cent of the world's developed water power.

I introduce these figures, which came from the Department of Commerce, to show that I understand and fully appreciate the important power that the United States wields in world affairs. Nevertheless, it does not control the world price level, and in my opinion can not.

The conditions which we confront at the present time are the most difficult, the most serious, that any of us in our lifetime have seen. The forces which have produced these conditions are world forces. The Federal reserve system, with your assistance in amending the Federal reserve act this spring, is at present engaged in operating to combat these forces in the field of credit with greater facility and greater elasticity than was previously possible under existing law. You passed the reconstruction act, which was a measure of courage and progressiveness on your part, in my opinion, and I feel that a great deal of good has been done by the operations under that authority.

However, it takes time for financial measures to be reflected in business. Money or credit made available to banks and to industry does not immediately enter into activity, and there is always a considerable lag in time between credit conditions and business conditions. It is true that when times are good and operations are being carried too far on a speculative basis—I mean not only in the security market but in real estate and in other lines of activity, such, for instance, as in the construction industries, which are so important in our economic situation—the availability of funds for that activity may diminish while the activity seems to go on for a certain length of time unimpaired; in the end, however, the unavailability of funds makes itself felt.

So on the other side, when funds are again made available to banking institutions, it takes time for those potential resources to enter into active circulation, producing an increased volume of business and an increased employment of labor and consumption of materials, which is what we call business improvement.

Senator COUZENS. Would you mind an interruption there, Governor?

Mr. MEYER. Not at all, Senator.

Senator COUZENS. As I understand, you are opposed to both the Goldsborough bill and Senator Fletcher's bill?

Mr. MEYER. Yes.

Senator COUZENS. During one of the hearings there was a Mr. H. A. Wallace, publisher of Des Moines, Iowa, who appeared before the committee, and he made a suggestion which did not instruct the Federal Reserve Board to raise prices to any specific level. He made this suggestion, and I would like to ask you what you thought of it. He says that "the Congress of the United States hereby directs the Federal reserve system to raise the price level by the following means":

First, restore the reserve balances of the member banks to the 1927–28 level. To bring this to pass the Federal reserve system shall within three months of the passage of this act purchase whatever volume of Government bonds are necessary to accomplish this end.

And second, thereafter reserve balances of the member banks shall be held at the 1927–28 level as a minimum.

Third, furthermore, these reserve balances shall be increased at the same percentage rate of growth as the long-term rate of growth in production of physical goods.

Now, perhaps it is pretty difficult to ask you to answer that offhand, but it seemed to me that there was a germ in there of a legislative enactment that might be of some value.

Mr. MEYER. There are in both the bills before you, Senator, as well as in that suggestion, the germs of some good ideas. But from the point of view of our power and ability to carry out a mandate expressed in those terms, I should say that it is inadvisable to enact such legislation, that it might be impossible to carry it out, owing to conditions which now exist or which might develop. Conditions change too much for it to be advisable, in my opinion, for Congress to commit itself to any specific mandate, such as is contained in either of these bills or in the suggestion of Mr. Wallace.

Mr. Wallace rightly puts emphasis on the question of the reserves, and we have that in mind. But it is never possible to say in advance whether or not in administration it is going to be possible to carry out as fixed and rigid a program as is contemplated by the Goldsborough bill and the Fletcher bill or by a proposal of the character which Mr. Wallace suggests. I think the results are far too uncertain to make them the subject of legislative enactment.

And furthermore, the board and the system are proceeding in that direction, and while they are dealing with the situation not entirely in accordance with the letter of the proposed mandate, they are pursuing a general policy of encouraging credit expansion. That was one of the things the system had in mind when you were asked to pass the Glass-Steagall Act. Obviously, it was with operations of that kind in mind, as well as other things, that the recommendation was made and your action was taken.

(Thereafter the witness submitted a letter to the chairman of the committee amplifying his views concerning the proposal of Mr. H. A. Wallace, as follows:)

FEDERAL RESERVE BOARD,
Washington, May 23, 1932.

Hon. PETER NORBECK,
The United States Senate, Washington, D. C.

DEAR SENATOR NORBECK: You may remember that Senator Couzens asked me to comment in more detail about a proposal made by Mr. H. A. Wallace, editor of Wallace's Farmer. This proposal, according to the transcript, reads as follows:

"The Congress of the United States hereby directs the Federal reserve system to raise the price level by the following means:

"First, restore the reserve balances of the member banks to the 1927–28 level.

"To bring this to pass the Federal reserve system shall within three months of the passage of this act purchase whatever volume of Government bonds are necessary to accomplish this end.

"And second, thereafter reserve balances of the member banks shall be held at the 1927–28 level as a minimum.

"Third, furthermore, these reserve balances shall be increased at the same percentage rate of growth as the long-term rate of growth in production of physical goods."

As I stated in my testimony, I am opposed to all proposals that would impose rigid regulations on the methods to be followed by the Federal reserve system. Our credit machinery is entirely too delicate and responsive to too many influences to make it desirable to have any one indicator, whether it be the price index or the level of member bank reserves, be the sole guide in determining credit policy. At the present time Mr. Wallace's proposal would mean that the Federal reserve system's purchases of United States securities should be discontinued within a few days, because member bank reserve balances are approaching the 1927–28 level, that he would prescribe as a base.

There are, however, other reasons why Mr. Wallace's proposal would not be practicable. It is based on the assumption that the volume of member bank credit should always change at approximately the same rate and that changes in member bank reserve balances accurately reflect changes in the volume of the Nation's business. Neither of these assumptions is in conformity with experience.

To take up the question of member bank reserves first. Experience demonstrates that there have been a number of periods, such as 1925 and 1926, for example, when member bank credit was expanding rapidly while member bank reserve balances remained unchanged. This is true also of 1929 until after the break in the stock market. On the other hand, in 1930 and in the first half of 1931 member bank reserve balances showed little change, while the volume of bank credit was declining. In all such cases it would be directly opposite to the credit policy indicated by conditions to follow the reserve balances as a guide.

One reason that the movement of reserve balances does not correspond to the general movement of business is that under existing reserve requirements there is a tendency at times of depression for bank balances to accumulate in central reserve cities—an accumulation which results in duplication of deposits as well as in concentration of deposits in cities where a 13 per cent reserve is required. At times of business activity, on the other hand, when funds are required throughout the country, there is a movement of balances from the central reserve cities with a consequent decrease in reserve requirements. This particular defect in member bank reserve balances as an indicator of credit policy would be overcome to a considerable extent by the adoption of the Federal reserve committee's recommendations on member bank reserves. These recommendations were indorsed by the Federal Reserve Board and submitted to your committee as a part of its recommendations on the Glass bill. Adoption of this method of determining member bank reserve balances would make their changes considerably more responsive to business conditions.

But even if member bank reserve balances responded accurately to changes in business conditions, it would still be undesirable to direct the Federal reserve system to maintain the growth of these reserves at a rate corresponding to the long-time rate of growth in physical production of goods. Economic progress is not a steady gradual growth. Some years the growth is more rapid and other years it is much slower. A long-time average, or normal, has no real significance, particularly in a country that is young like ours and has been progressing at an extraordinarily rapid rate. This rate is likely to become slower as the country develops further, and it would be distinctly undesirable to write into a law a requirement that the annual growth of member bank reserve balances conform to a computed normal average increase for past years.

In terms of navigation, this proposal would be similar to an order to a captain of a ship to steer his course in accordance with a definite number of degrees of deviation from the compass, the deviation being determined by the influence of known currents. A ship that was steered that way would never reach its destination and would be likely to go on the rocks. This is for the reason that in the ocean there are many currents that have not been accurately measured and that, in addition, the direction and strength of winds that may arise can not be determined in advance. For similar reasons a legislative mandate that the credit machinery of the country be steered with reference to any one fixed indicator would be certain ultimately to lead to unforeseeable and unfortunate results.

I shall appreciate it if you will have this letter incorporated at the proper place in the record of the hearings.

Very truly yours,

EUGENE MEYER, *Governor.*

Senator COUZENS. But what I had in mind, Governor, was, is there any aversion to the policy of Congress establishing a policy and a principle as well as the Federal Reserve Board?

Mr. MEYER. It goes beyond that in the bills and also in the suggestion, because it is not only a policy but it is also a practice that has to be considered, and conditions often make it necessary to modify a policy. The proposals prescribe objectives for Federal reserve policy, which, from the administrative point of view, are so rigid as to be highly undesirable.

Senator COUZENS. I want to say that in all enactments of Congress they have to be administered by some one. Even in the criminal courts, judgment is left to the judges to determine to the extent that they will go within certain limits. What I am trying to bring out is whether or not it is advisable for Congress to put on the statute books a policy which of course makes its flexible, but which would be a mandate from the Congress to the Federal Reserve Board as to what Congress thought they ought to do.

In other words, I disagree with the Goldsborough bill to the extent of fixing prices on any specific level, but I do not find the same objection to establishing a policy which fixes reserves as I do to fixing prices, and I just wondered whether you thought there was any more likelihood that good would result by fixing reserves than by fixing prices.

Mr. MEYER. I think fixing either is inadvisable. We are contending with unprecedented conditions at home and abroad. This country has had enormous foreign deposits of money here attracted by confidence in American currency. A great deal of that is being called back in the course of events, because with the breakdown in what is called the gold-exchange standard, these foreign countries now want to keep gold in their own vaults.

Senator COUZENS. What happens if they do that?

Mr. MEYER. They are doing it.

Senator COUZENS. What happens when they do it?

Mr. MEYER. Nothing happens, particularly.

Senator COUZENS. Then why do we find fault about it?

Mr. MEYER. We don't.

Senator COUZENS. We are finding fault about it right along, because somebody is removing gold to their vaults.

Mr. MEYER. I have not found fault with it. But in addition to that, there is the question of confidence at home and abroad, which is important to the United States, as it is to every country. When gold is exported on account of a state of fear it is a bad thing, no matter whose money it is and what the other conditions are. Certainly, the United States has not sought to establish any brakes or interferences with the free movement of gold or the withdrawal of deposits by foreign central banks or bankers or individuals if they chose to recall their deposits.

However, it is a different thing when a state of fear arises all over the world about the currency of any country. That has nothing to do with the United States particularly, or any other country, but applies to all alike.

Senator COUZENS. Let me make a concrete case, then. Just what would be the bad effect from restoring reserve balances to the 1927–28 level? Now that is a specific accomplishment. What would happen from that?

Mr. MEYER. You have already said that you would not ask me to give an offhand answer to a rather elaborate statement which I have not considered. I do not have in mind, as a matter of fact, Senator, what the 1927–28 bank reserves were.

Senator COUZENS. Would you look it up and advise us as to what effect that would have in your opinion if that were enacted into legislation?

Mr. MEYER. I will be glad to do that, or have it done. I was expecting to be absent for two or three days and I may not be able to do it immediately.

But what seems to me to be inadvisable is to commit the board or the Federal Reserve System to a policy on an assumption that the policy as expressed in the bill is a feasible policy. And I furthermore feel that, in general, legislation should not define administrative procedure beyond the necessity of laying down principles, in its proper capacity as the legislative body; it should not undertake to determine the details of the administration.

Senator COUZENS. As a matter of fact, of course every administrative officer does not like to have his powers prescribed. That is a perfectly human attitude of mind, is it not?

Mr. MEYER. No; I think, Senator, I quite respect a proper restriction of power, and I feel that if we had the power that it is assumed we have I should not want to be entrusted with it. I do not think that any small group of men ought to be in possession of the power to control the price level.

Senator COUZENS. I am not talking about that; I am abandoning the idea of the price level.

Mr. MEYER. Well, of course, I am addressing myself to this bill.

Senator COUZENS. I was addressing myself to the suggestion made by Mr. Wallace.

Mr. MEYER. Which I would like to consider at greater length before I testify on it.

Senator COSTIGAN. Governor Meyer, may I ask you what the object of the Federal Reserve Board has been in purchasing Government bonds?

Mr. MEYER. The object is to increase the reserves at the Federal reserve banks to the credit of the member banks, in the hope and expectation that they will be used. This has been successful up to a certain extent, and it has had, in part, the effect of reducing member bank borrowings. The Reconstruction Finance Corporation also has been helping by making additional funds available to banks for use in financing agriculture and business.

But naturally, after an experience such as the country—the bankers along with other people—has had in the last two years, with continuous declines in deposits and prices and the volume of business, confidence has fallen correspondingly, and now we have the problem of restoring confidence as well as making funds available.

Senator COUZENS. Is there any lack of capital in the country?

Mr. MEYER. There is probably lack of capital for some people or some enterprises in some places, and there may be surplus capital in other places. But, of course, what we are seeking to do is to get funds distributed so that they may be made more available throughout.

Senator COUZENS. I did not ask if there was capital nor did I make any limited statement as to distribution of capital. But I asked you, in the country as a whole, is there adequate capital to run the country?

Mr. MEYER. There is, in my opinion.

Senator COSTIGAN. Has any appreciable effect on prices from the bond-purchasing policy been observed?

Mr. MEYER. You mean in the commodity price level?

Senator COSTIGAN. In this country.

Mr. MEYER. I think there has, but you can not see it in a rise. You see it in an arrest in the decline.

I will say at this point that we were in conference with the governors of the Federal reserve banks only yesterday, and some of the things we considered were the commodity price level and how the funds which are being made available by the Federal reserve system to the banks can be made available by the banks to business men, to agricultural interests, to commercial interests, and to construction interests throughout the country; and I think the governors on their return to their respective districts will seek to study ways and means more aggressively to effect such a result.

You must not forget, gentlemen, in talking about the commodity price level, a subject I discussed at some length in the House hearings which will be reprinted here, that in conditions such as the present there are serious dislocations in business; there is a dislocation of the time element and a dislocation of the operation of the machinery for production and distribution of wealth. The foreign exchange demoralization—for instance, the fact that England has an unstable exchange—interferes materially with the marketing of our agricultural products, because in a period of fluctuating exchanges in countries off the gold standard they naturally hesitate to make long-time contracts and carry large stocks of commodities.

That is reflected at the present time in the figures on cotton, where the present stocks outside of the United States, in England and on the Continent, are down as compared with a year ago, I think, by about six hundred and fifty thousand bales, in spite of the fact that total American exports for the current crop year (including exports to the Orient as well as to Europe) have gone up 1,500,000 bales. That means that the United States and other producing countries are carrying the stocks which ordinarily, in normal times, when currencies were stable, were being distributed all along the line of orderly marketing, in storage, conversion, and finishing.

Now that creates a new situation in the producing country, and we are giving thought and study to new adjustments and new operations, with the view of making the carrying of our stocks financially more easy. It even gets down sometimes to a warehousing problem. I remember certain times when we have had to carry cotton in inordinate amounts and we had a warehousing as well as a financial problem.

The change of the time element is a vital factor. With your experience, Senator, you know perfectly well that the time element in the flow of commodities through a factory, the timing of the movement of the goods, is just as important as any factor in the whole operation.

Senator COUZENS. So your conclusion is that until the bankers get a proper mental attitude there is not anything that Congress or the Federal reserve system can do to expedite the flow of money into industry?

Mr. MEYER. I think the Federal reserve system is doing and can do——

Senator COUZENS (interposing). I did not say that.

Mr. MEYER. I thought you said the Federal reserve system.

Senator COUZENS. I said, no matter what the Federal reserve system can do or the Government, there is no way of forcing the banks to loan money until they get into the proper mental attitude?

Mr. MEYER. Of course, there are a great many bankers, and I would not say that any one attitude was characteristic of the attitude of every individual banker.

Senator COUZENS. Oh, I was speaking generally, of course.

Mr. MEYER. It is true, of course, that they have been through a trying period, and they along with the rest of the world lack optimism. It is characteristic of human nature for bankers and others, when a trend sets in, to believe that the trend is going to continue forever. When it is an optimistic trend, why, they see the sky as the limit. When it is a pessimistic and a downward trend, there is never any bottom until it occurs.

Senator COUZENS. You did not answer my question. I said, is there nothing that Congress or the Federal reserve system can do to spread out the loaning of money until the banks get willing to do so?

Mr. MEYER. I think that what the Federal reserve system is doing tends to accelerate a change in the attitude of mind of bankers, and, we hope, not only of bankers but of business men.

Senator FLETCHER. When did the Federal reserve system begin that procedure, Mr. Meyer?

Mr. MEYER. The Federal reserve system—you mean the purchase of Government securities?

Senator FLETCHER. Yes.

Mr. MEYER. There were purchases of Government securities before I became a member of the board in 1930. There were some in 1929 and in 1930.

Senator COSTIGAN. You have recently started a new definite program, have you not, Governor?

Mr. MEYER. I beg your pardon?

Senator COSTIGAN. You have recently started a program, of a definite sort?

Mr. MEYER. Yes; subsequent to the passage of the Glass-Steagall Act the system embarked on a program which was pursued at a moderate rate, beginning with the latter part of February and at an accelerated rate in April.

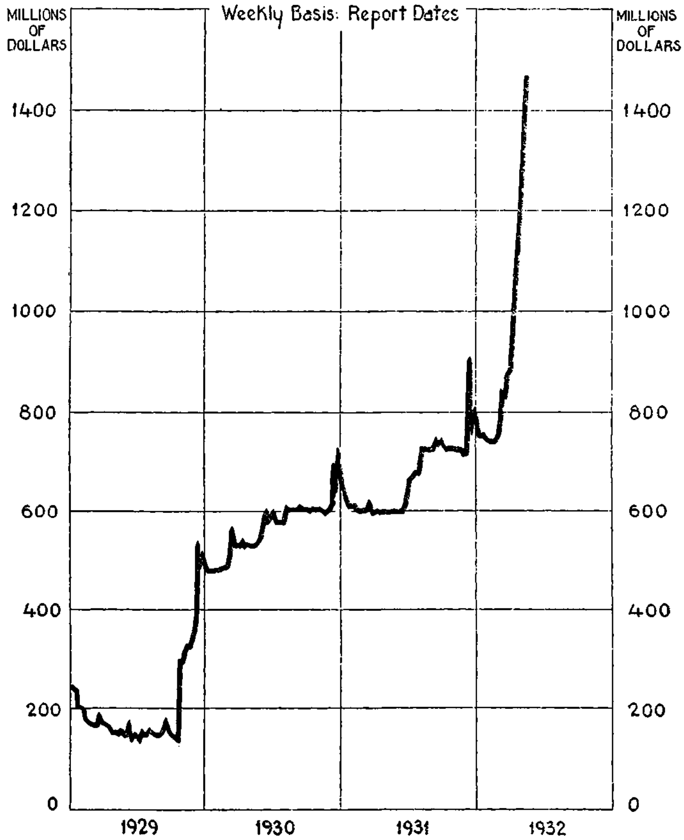
Senator COSTIGAN. May I ask how fast and how far the program has proceeded since the passage of the Glass-Steagall bill?

Mr. MEYER. I should say the purchases of Government securities since the passage of the Glass-Steagall Act total about $645,000,000 or $650,000,000.

Senator COSTIGAN. Has it proceeded at the rate of about a hundred million a week?

Mr. MEYER. It did for five weeks. Doctor Goldenweiser has the chart here of Government security purchases.

U.S. SECURITIES HELD BY FEDERAL RESERVE BANKS



Senator COUZENS. Have you dropped off in the purchases now or are you slowing down?

Mr. MEYER. I don't know what the total will be this week.

Senator COUZENS. No; I am not asking what the total will be this week.

Mr. MEYER. Up to this week, the total was at a rate averaging about a hundred million a week.

Senator COUZENS. What is your program for the next few weeks?

Mr. MEYER. It is to continue at a rate to be determined as conditions, which have to be judged from time to time, justify.

Senator COSTIGAN. May I suggest for the purpose of the record, Governor, that you indicate from your chart how rapidly those purchases have recently been made.

Senator COUZENS. In other words, it is a secret?

Mr. MEYER. No; it is not a secret at all. It is an undetermined fact which has to be judged from time to time as conditions justify.

Senator COUZENS. When you say "from time to time"—how long from time to time?

Mr. MEYER. Oh, from day to day, and week to week.

Senator COUZENS. You have to settle this every day?

Mr. MEYER. No; I don't settle it at all. The open market committee conducts the operation. But there is not any fixed schedule, and there ought not to be, because it is a question of fine judgment as to what the best policy is.

Senator FLETCHER. You have not fixed any time when you are to discontinue this operation?

Mr. MEYER. No. The question is a matter of judgment and experience as to whether a more rapid rate or a slower rate or a larger or smaller amount is best suited to conditions, and that gets back to this, that you have to bear in mind, Senator, that the results of the forces set in motion by the open market operations are seen only somewhat later. So it is a matter calling for very good and fine judgment and discretion as to whether or not a more rapid rate or a variation in amount is desirable from time to time.

Senator COUZENS. Could you call out the names now of the members of the open market operation committee?

Mr. MEYER. The governors of the Federal reserve banks—the 12 governors.

Senator COUZENS. And are any of the members of the Federal Reserve Board on this open market committee?

Mr. MEYER. No.

Senator COUZENS. All 12 governors?

Mr. MEYER. The 12 governors of the Federal reserve banks constitute the open market committee.

Senator COUZENS. And how often do they meet?

Mr. MEYER. As an open market conference?

Senator COUZENS. Yes.

Mr. MEYER. They do not meet at stated intervals. They meet whenever they call a conference or the board calls them into a conference, and they have an executive committee that acts under the instructions of the full open market committee in the meantime.

Senator COUZENS. So the executive committee is called in by the Federal Reserve Board?

Mr. MEYER. It may be, but the full committee is called in, too.

Senator COUZENS. When did you call in the executive committee of the open market committee last?

Mr. MEYER. I do not think we have recently called in the executive committee. We had a conference with the open market committee yesterday. We had one on April 12 also.

Senator COUZENS. Who was at the conference yesterday?

Mr. MEYER. All the governors of the banks except one whose wife was ill and his deputy came.

Senator COUZENS. In other words, it was not the executive committee then; it was just the——

Mr. MEYER (interposing). The open market committee.

The CHAIRMAN. Who are the executive committee? Will you give their names?

Mr. MEYER. The governors of five of the reserve banks, those in Cleveland, Chicago, Atlanta, Boston, and New York.

The CHAIRMAN. They have power to act for the committee?

Mr. MEYER. On authority from the full committee only.

Senator BROOKHART. What are the elements they consider and act on when they decide this policy? What is it that determines their judgment?

Mr. MEYER. They are acting under the authorization, whatever it may be, of the full open market committee.

Senator BROOKHART. I understand that, but I mean what economic facts or conditions now determines their judgment as to whether they will buy these bonds or not?

Mr. MEYER. It depends on the circumstances at the time. That varies with conditions.

Senator BROOKHART. I am trying to get a specific name for some of these circumstances. That does not mean anything just to say "circumstances."

Mr. MEYER. Well, circumstances change at various times.

Senator BROOKHART. What are the circumstances that change now, that they have talked about, that they consider?

Mr. MEYER. The money market, credit conditions, business conditions, and so forth.

Senator BROOKHART. Price level?

Mr. MEYER. Price level, international exchange—everything that enters into the financial and economic picture, I should think.

Senator BROOKHART. Well now, they will all concede, and you do, that the present price level is abnormally low?

Mr. MEYER. Yes.

Senator BROOKHART. Do you concede that the Federal reserve administration has had anything to do with lowering that price level?

Mr. MEYER. In what period?

Senator BROOKHART. Well, take any period.

Mr. MEYER. No; I think not. I think the Federal reserve system has been trying to exercise a supporting influence and a sustaining influence in arresting the deflation and contraction and decline.

Senator BROOKHART. But it has been unsuccessful?

Mr. MEYER. It has been—I would not say that it has been entirely unsuccessful, because conditions would probably have been worse if the system had not made the efforts that it did make.

Senator BROOKHART. Well, of course, we can always say it might have been worse.

Mr. MEYER. We can sometimes say it truthfully.

Senator BROOKHART. But has the Federal reserve used all its powers to stay this abnormal decline of prices?

Mr. MEYER. If you want me to say that it has been perfect, I would not say it was more perfect than you or I or the rest of us.

Senator BROOKHART. Have they been substantially using them? I do not mean any theoretical perfection.

Mr. MEYER. I would hesitate to say that they could have done very much better in the light of conditions with which I am familiar in the last year and a half.

Senator BROOKHART. Then does not the law need to be amended some way so as to give them more power so they can meet the situation better?

Mr. MEYER. You have amended it.

Senator BROOKHART. Are those amendments sufficient?

Senator COUZENS. Does the board keep any minutes of its meetings and its decisions?

Mr. MEYER. The Federal Reserve Board?

Senator COUZENS. Yes; and the open market committee.

Mr. MEYER. I suppose the open market committee has some record of its meetings, certainly.

Senator COUZENS. Is there any record of the discussion that goes on to determine the factors that compel them or urge them to reach conclusions?

Mr. MEYER. Of course, they have meetings which last all day long, and they can not make a complete record of the discussions that go on for six or eight hours. There are no stenographic minutes of them.

Senator COUZENS. We were in session 8 or 10 hours yesterday and there was a record of what went on in the Senate.

Mr. MEYER. I know the Senate is always meticulously careful to take a record of everything that is said.

Senator COUZENS. That would be interesting, to know what was said on the Federal Reserve Board and also on the open market committee, I think, at times.

Mr. MEYER. I have no doubt it is. Sometimes the discussions are very interesting and cover a wide range of subjects—general conditions, banking conditions, and so forth. At the same time it never has been the custom, so far as I know, to take stenographic minutes.

Senator COUZENS. When you decide to jump your purchases, say, from twenty-five to a hundred million a week—I mean the open market committee—is a resolution introduced?

Mr. MEYER. Yes; they pass a motion which is approved or disapproved by the Federal Reserve Board. That is, a short resolution.

Senator COUZENS. And there are minutes of all these meetings?

Mr. MEYER. Records of the resolutions; yes.

Senator COUZENS. That is, the person who moves it and the person who seconds it, and there is a record roll call of the vote?

Mr. MEYER. I think so. I don't know about that. I am not sure.

Senator COUZENS. When the open market committee passes a resolution to increase its purchases from twenty-five to a hundred million a week, the resolution is passed by the open market committee, and then sent to the Federal Reserve Board for its approval or disapproval?

Mr. MEYER. Yes.

Senator COUZENS. What if the board disapproves of that resolution of the open market committee—what happens?

Mr. MEYER. They can not act.

Senator COUZENS. They can not act. Has any action of the open market committee ever been disagreed to by the Federal Reserve Board?

Mr. MEYER. Not since I have been a member of the board.

Senator COUZENS. Do not you think it would be in the public interest if we knew just what the arguments were, just what the motives were, that inspired the variation in activities of the open market committee and the Federal Reserve Board?

Mr. MEYER. I think they are generally understood, Senator. There is no great mystery about it. Their discussions are not published, but I do not think there is any misunderstanding about them. There are great numbers of financial writers and economic observers constantly commenting on these matters, commenting with a good deal of knowledge and experience, in some cases very good knowledge and experience.

Senator COUZENS. Yes; but they are not present at the meetings, though, are they?

Mr. MEYER. No; but the operations speak for themselves. There is no mystery about the reasons.

Senator COUZENS. I wish I could agree with that, because I am not quite sure that there are not discussions go on in these open-market committee meetings that are not of public interest and might not have a very salutary effect on the public welfare.

Mr. MEYER. They might and they might not. Publicity of discussions sometimes interferes with an entirely frank expression of opinion. You have executive sessions in the Senate occasionally where you do not invite the public and where you do not publish the proceedings, and I think probably you have good reasons for it.

Senator FLETCHER. Mr. Meyer, let us get back to this bill. You have powers, do you not, now, that are conferred by the Goldsborough bill?

Mr. MEYER. We think we have not; I think we have no power to determine a price level or to restore any given price level.

Senator FLETCHER. It is not a question of determining a price level so much, it seems to me; it is fixing the purchasing power of a dollar on the basis of a commodity price level. Now, you are exercising this power now?

Mr. MEYER. No. We are exercising a power which is designed to make funds available to the member banks more freely and thereby help to improve business conditions, which would have some effect on the price level, we hope.

Senator FLETCHER. That is what I am saying. You are doing what is provided in section 3 in my bill now. You have the discretion to do these things. Now, the question is whether it should not be made your duty to do it. You have the discretion to do it. If Congress comes along and says, "We not only want you to exercise this discretion, but we want to have the law provided that it shall be your duty to do this thing continuously, not terminate next week, not terminate week after next, but keep it up as a public policy, permanent policy"—isn't that what we are driving at here?

Mr. MEYER. I have no doubt that you and the other gentlemen who propose these bills have entirely worthy purposes in mind. I am not attacking the purposes or the intent.

Senator FLETCHER. I understand that perfectly well.

Mr. MEYER. I am opposing this as a measure because, although the proponents of it say, "Well, in any event, it can not do any harm and it may do some good," I feel quite the opposite; I think it can not do any good and may do harm. In fact, the passage of the bill through the House was very disturbing. I did not want to say at the hearing there that I felt it would be, because——

Senator BROOKHART. What did it disturb?

Mr. MEYER. It disturbed people all over the world, there were many excited articles in the newspapers and individual inquiries were numerous. I don't say that the disturbance was justified, but it did have a disturbing influence. It disturbed the foreign exchanges.

Senator BROOKHART. If it were all right you would not do it just because it disturbed somebody?

Mr. MEYER. If it were all right I would favor it, even though it were temporarily disturbing, relying on the ability to educate people to the fact that a disturbance was not justified. But as it is not capable of doing good and is capable of disturbing, I oppose it without qualification.

Senator FLETCHER. Your idea is that in your judgment these financial institutions, investors, and the money power generally would rather have this thing go along in an uncertain sort of way and for an indefinite sort of time, rather than have it fixed so that they will know what to depend on? In other words, you think that they would rather have the discretion left entirely with the Federal Reserve Board to do this thing or not to do it as they see fit from time to time, than to have it fixed by law that they must do those things?

Mr. MEYER. You assume that, if you pass a bill ordering the Federal reserve system to do this thing, it can be done in accordance with the the terms of the resolution; I do not agree with that.

Furthermore, there are many factors that enter into these situations, so that you may be fully able to carry out a policy under certain circumstances at a given time and not at all at another time under other conditions. But, gentlemen, I think you have entered here into a field of highly technical financial operations.

Senator BLAINE. Governor Meyer, before leaving this question of power of the Federal Reserve Board, I assume that the Federal Reserve Board has the power now under existing law to effectuate the purposes of section 3 of Senator Fletcher's bill. I assume that because the open market committee is now doing that sort of thing.

Mr. MEYER. The Glass-Steagall Act authorizes what I think is intended to be authorized by section 3. Of course, in the Glass Steagall Act the time is limited to one year. I recommended two years at the time the bill was up for consideration.

Senator BLAINE. So that section 3 is compatible with existing law under the Glass-Steagall bill and extends the life indefinitely of the power conferred by the Glass-Steagall bill?

Mr. MEYER. Yes.

Senator BLAINE. Now that being admitted and established, if that power is exercised it may affect the price level?

Mr. MEYER. The exercise of that power does not affect the price level except indirectly, if at all.

Senator BLAINE. Indirectly. But your attempt now is to affect the price level indirectly?

Mr. MEYER. You mean by the operations now being conducted?

Senator BLAINE. Yes.

Mr. MEYER. It is intended to furnish funds which can, and we hope will be, used to stimulate business and the production and consumption of material goods.

Senator COUZENS. And prices?

Mr. MEYER. And thereby affect prices favorably. Although some of these prices are affected by conditions that are entirely unrelated, as you understand.

Senator BLAINE. I am not getting at that. I am just getting at your specific purpose.

Mr. MEYER. Just take cotton for a minute. Let me give you an illustration. Nearly all these commodities have had very low prices within the last 12 years, and very high prices. In 1921, cotton which had sold above 40 cents in 1920, dropped to 10 cents, and we had an enormous surplus as we have now. People were talking just as pessimistically about that surplus as they talk now. In four months in the autumn cotton rose to 20 cents. A year later it was 25 cents, or 23 to 25 cents, and the third year thereafter it was 36 cents. Lambs sold in 1921 under 9 cents, and a few years later they were 15 cents a pound. We saw cattle decline in 1921, 1922, and 1923, to very low levels, and fat steers were selling in Chicago in 1927 at 18 cents a pound. There is hardly a commodity which is demoralized now that has not within the last ten years sold at both a very high and a very low price.

Senator BROOKHART. There was no such variation in the protected industry commodities?

Mr. MEYER. I have not made a study of them. I have not been investigating them, Senator.

Senator COUZENS. I think that is largely due because of the more or less control of supply and demand in those protected industries, which there is not in the agriculture industry.

Mr. MEYER. Yes; of course, if you want to fix a price level or fix prices you have got to control production.

Senator COUZENS. Why, certainly.

Mr. MEYER. And that is a very difficult thing to do. But just a moment, Senator—let me——

Senator BROOKHART (interposing). Ninety per cent of agricultural production is now consumed in the United States.

Senator BLAINE. I did not want to get away from this power that the Federal Reserve Board has. That is what I was pursuing specially.

Mr. MEYER. All right, Senator.

Senator BLAINE. I appreciate what you said. Now, it being admitted that the board has a power now to do that which section 3 prescribes, that means the expansion of credit if the power is exercised to the extent of the policy defined in the first paragraph of the bill. I am not saying that it is going to do what the first paragraph proposes shall be done, but it will expand the currency.

Mr. MEYER. It expands member-bank reserves in the Federal reserve bank in the first instance. There is not an expansion of credit or currency until those reserves are translated into use.

Senator BLAINE. I said credit first. I want to modify it. It is not expansion of currency: it is expansion of credit.

Mr. MEYER. It may become so.

Senator BLAINE. It may become expansion of credit, and the more that credit is expanded the greater becomes the inflationary tendency; isn't that correct?

Mr. MEYER. I do not like to use that word "inflationary." It is so misunderstood.

Senator BLAINE. Well, I like to use it because it is the reality.

Mr. MEYER. I think there is an expanding force, let me say. I would rather use that term, because you can have a rise of a very extensive character in commodity prices from this level without getting into the area that could properly be characterized as an inflation area.

Senator BLAINE. That is a realistic proposition.

Senator FLETCHER. I would call it "reflation."

Mr. MEYER. Yes; that is a good word.

Senator BLAINE. With deflation you just can not see them. But on the inflation proposition you can see; you can feel it; you can appreciate it. Now if this power were carried out to a much larger extent would that have the tendency to bring about a discharge or possibility of discharge of public and private debts?

Mr. MEYER. I don't know. That would depend on circumstances. I think this is a power which if wisely used and intelligently used and not over used can be very helpful. If it is carried on too far and abused, it might become very dangerous. As I have occasionally said before, credit is like some drugs. If handled by people who are experienced and competent in its use, it may have a very helpful and healing effect. But if used by people who do not understand it, it may become very dangerous and perhaps disastrous.

Senator BLAINE. But your board would be the board that would administer. Now, you do not want to characterize your board as dangerous and incompetent?

Mr. MEYER. You asked me a question as to whether or not an indefinite expansion and an indefinite quantity of operations of a certain character could produce a certain result; I say I don't know, because it is a question which——

Senator BLAINE (interposing). Of administration?

Mr. MEYER. Yes.

Senator BLAINE. And that is with the Federal Reserve Board.

Mr. MEYER. And I think it is a matter of very fine judgment and experience, and I do not think a resolution of Congress can contemplate all the circumstances under which that judgment must be exercised, and therefore any definite policy laid down by a congressional enactment, in my opinion, is inappropriate and unwise.

Senator BLAINE. Now, following that proposition, you emphasized our relationship to the world production and the world prices. You have not mentioned our domestic indebtedness, public and private, which amounts, according to the economic department of the Agricultural College of New York, to $203,000,000,000. What program or what policy do you propose will permit of the discharge of that enormous debt by the time the evidence of the debt matures?

Mr. MEYER. A large part of such debts are renewed and extended. Some of them are paid off and some are not.

Mr. Chairman, I am glad to come up here and testify on this resolution. I did not prepare myself to discuss the entire debt problem of the country.

Senator BLAINE. Is not the debt problem involved in this very question?

Mr. MEYER. Almost everything is involved.

Senator BLAINE. How are we going to recover from the present situation with an indebtedness that probably is equal to the assets of the country, public and private?

Mr. MEYER. When prices are depressed and business is contracted indebtedness, of course, is tremendously burdensome. We did not hear anything about the impossibility of carrying these debts two years and a half ago. All we heard was, everybody ought to borrow more money.

Senator BLAINE. I am not speaking of that; I am speaking of the reality. Now, just one more question. Is there any——

The CHAIRMAN (interposing). May I state here just a minute——

Senator BLAINE (interposing). Mr. Chairman, I have not been interrupting this morning.

The CHAIRMAN. I am not trying to interrupt you in your question at all. I just want to make a statement here.

Senator BLAINE. I want to carry out my statement.

The CHAIRMAN. You will be given a chance. When Governor Meyer came on this morning he told me that he wanted to leave on the 12 o'clock train and he asked me whether I thought he could complete his statement by that time and I told him that I was sure he could get away. I just want to make that statement now in order to determine whether he should complete it now or come back some other time. That is all.

Senator BROOKHART. I am willing to let him go, but I would like to have him come back.

Mr. MEYER. Mr. Miller is here, a member of the board.

The CHAIRMAN. Yes; another member of the Federal Reserve Board is here.

Mr. MEYER. He has not testified before the House committee and will give you some illuminating and helpful remarks. Mr. Miller has been a member of the Federal Reserve Board from the first day of its existence and is well qualified to discuss the resolution and other matters. I just wanted to say in connection with commodity prices, if I may——

Senator BLAINE (interposing). Mr. Chairman, I would like to pursue my inquiry. I have not taken any undue time.

The CHAIRMAN. Certainly, you may ask your questions. I just wanted to make a statement. Certainly you may ask a question, Senator Blaine.

Senator BLAINE. Yes. Now, in view of this debt situation, this $200,000,000,000 are the prospects somewhat immediate for going off the gold standard by force of circumstances, regardless of action of Congress or the Federal Reserve Board or any other public agency?

Mr. MEYER. Decidedly not.

Senator BLAINE. How are you going to stay on the gold standard?

Mr. MEYER. You might just as well ask a man how he is going to play a piece on the piano. The fact is, there are various methods and measures. The law of the United States prescribes the gold standard in the first place. It is set by law, by act of Congress, of which you are a Member. There is not the slightest doubt in the mind of any responsible official about either the ability or the intention of the United States to stay on the gold standard. No country has gotten off the gold standard except because it had to. No country has gotten off the gold standard willingly. Every country that has gotten off the gold standard wants to get back to a stable currency at the earliest possible moment. Neville Chamberlain, Chancellor of the Exchequer in England, stated the other day that "we must get back to a metallic currency basis."

Senator BLAINE. I am not speaking of that.

Mr. MEYER. There is no country that ever experienced the vicissitudes and hardships of fluctuating currencies that wants it again. Germany, which has had more difficulties than any other country in the world, is making a desperate struggle to maintain the mark on a stable basis because it knows what unstable and demoralized currencies mean to the people of the country.

Senator BROOKHART. Are we not unstable and demoralized? Isn't that what knocked our prices down?

Senator BLAINE. I am not controverting that, Mr. Meyer.

Mr. MEYER. You asked me a question and I gave you the answer.

Senator BLAINE. Well, thank you. I am not controverting it. Now, with $200,000,000,000 of indebtedness, how do you propose to pay that indebtedness, by repudiation or by actual retirement of the debt?

Mr. MEYER. Mr. Chairman, I do not think the question is pertinent to the discussion of the resolution. I like to answer all questions with great——

The CHAIRMAN. The governor will be allowed plenty of time to answer questions that come up in this way.

Mr. MEYER. But, may I ask——

Senator BLAINE (interposing). I think it is embarrassing, Mr. Chairman. If the governor does not want to answer, I shall not pursue the inquiry further.

The CHAIRMAN. He may be willing to answer at some other time in the future.

Senator BLAINE. I, observing his unwillingness to answer demonstrated now, am not pressing for an answer.

Senator BROOKHART. I want to ask one question.

The CHAIRMAN. This matter should be determined whether he is going to let him get away on this train or have him come back.

Senator BROOKHART. I want to let him go and have him come back. I can not finish in this time. But there is one question, he has mentioned the instability of money and the fluctuations. I want to ask if we have not had in our so-called gold standard just as big instability and fluctuation as many of the other countries?

Mr. MEYER. No. I should say that while we have had instability through fluctuations of the price level, we have not had as great an instability as countries which have currency instability in addition to commodity-price instability to contend with.

Senator BROOKHART. France stabilized her franc at about one-fifth its value and that dispensed with the gold standard that existed prior to that.

Mr. MEYER. It restored it on another basis. That simply was a repudiation of debts to the extent of 80 per cent which they could not pay.

Senator BROOKHART. Haven't we been off the gold standard substantially since the Federal reserve system was established and been on a managed standard instead of gold?

Mr. MEYER. Decidedly not.

Senator BROOKHART. And there has been pretty bad management a good deal of the time?

Mr. MEYER. I think the management of affairs in this country is subject to some criticism. I think there is not anybody who has been in a responsible position either in business or industry, and I would even include some agricultural leaders, who has not been mistaken; bankers and Government officials, and even Congressmen, have made mistakes.

Senator BROOKHART. But the governor of the Federal Reserve Board never made one?

Mr. MEYER. I deny that. I disagree with you. I recall to your mind, though, the Senate of the United States passing a resolution in May, 1920, calling on the Federal Reserve Board to do something about reducing prices, just about the time when we were ready to go into a tailspin.

Senator BROOKHART. Yes, and I remember that the passers of that resolution were defeated at the very next primary.

Mr. MEYER. Not on that account.

Senator FLETCHER. Mr. Meyer, you mention the fact that under the Glass-Steagall bill you have the powers referred to in section 3.

Mr. MEYER. For a limited period.

Senator FLETCHER. Yes, I know: I am getting to that if you will just allow me. You called attention to the fact that that extends for one year. You advocated two years.

Mr. MEYER. At the time.

Senator FLETCHER. Is it not a fact that the Secretary of the Treasury wanted to make that permanent? Didn't he so state to the committee in the House?

Mr. MEYER. I don't remember. I did not happen to be there when he testified. I could not say what he did say.

Senator FLETCHER. That is the record.

Mr. MEYER. I understand that that is the fact.

Senator FLETCHER. Yes; that is what we are trying to do here.

Mr. MEYER. Mr. Miller is here, Mr. Chairman.

The CHAIRMAN. And Mr. Miller can speak for the Federal Reserve Board policies, can he not?

Mr. MEYER. He can, on any matter on which the board has a policy.

The CHAIRMAN. All right. Thank you. When will you be able to come back, Mr. Meyer?

Mr. MEYER. I will be able to appear again perhaps on Monday morning.

The CHAIRMAN. Now, we have one man here who wants to make a brief statement first. It will take only a few minutes. He represents Mr. Green, President of the American Federation of Labor, and I think it will take him less than five mintues, and then Mr. Miller can go on as the next witness.

STATEMENT OF WILLIAM C. HUSHING, LEGISLATIVE REPRESENTATIVE OF THE AMERICAN FEDERATION OF LABOR, WASHINGTON, D. C.

The CHAIRMAN. Take the seat and give your full name and address and your employment to the secretary.

Mr. HUSHING. My name is W. C. Hushing, legislative representative of the American Federation of Labor.

Mr. Chairman, for the past 10 or 12 years, bills containing proposals of this character have been before the different congressional committees, and invariably we have appeared in behalf of those proposals. We have done so realizing that any increase in commodity prices would result in increased expenditures to our members, who, of course, are in the metropolitan areas principally. We want to again indorse the principle contained in the proposal as now before you. Thank you for the courtesy.

Senator WALCOTT. That is the Goldsborough bill that you are speaking of?

Mr. HUSHING. The principles involved; yes, sir.

Senator BLAINE. I understand the witness was not limiting it to any bill, but the principle involved.

Senator WALCOTT. He said the bill. There are two bills here.

Mr. HUSHING. Yes; I understand that. The same principle is in both bills, as I understand.

Senator BLAINE. I wanted to be sure of it.

STATEMENT OF A. C. MILLER, MEMBER OF THE FEDERAL RESERVE BOARD, WASHINGTON, D. C.

The CHAIRMAN. You may go ahead, Mr. Miller. Just give your name and official connection.

Mr. MILLER. A. C. Miller, member of the Federal Reserve Board.

The CHAIRMAN. And your home address would be what?

Mr. MILLER. Washington. Or do you mean my residence outside Washington?

The CHAIRMAN. Outside.

Mr. MILLER. California.

Senator COUZENS. How long have you been a member of the Federal Reserve Board, Mr. Miller?

Mr. MILLER. Since its organization in 1914.

Senator COUZENS. When does your term expire?

Mr. MILLER. My present term expires in 1934.

Senator COUZENS. 1934?

Mr. MILLER. 1934.

Senator COUZENS. So you have a pretty complete mental picture of all the operations of the Federal Reserve Board since the system was established?

Mr. MILLER. Well, my memory is pretty long. Some things have escaped it, doubtless, but for the most part I think the important events have registered.

Senator COUZENS. If this question is embarrassing you do not need to answer it: Would we have gotten along if we had just had the 12 reserve banks without the Federal Reserve Board just as well?

Mr. MILLER. We would be in a better position if we had had a better reserve board.

Senator COUZENS. But you do believe the board is necessary outside of the 12 banks?

Mr. MILLER. A competent board is indispensable. Without it the system can not operate. There must be coordinated action for the attainment of objectives that are national in their scope.

Senator COUZENS. I understand, but——

Mr. MILLER (interposing). And without a board to help inaugurate and support policies that are national in scope, the system would be similar to an army in time of war where the individual division commanders are without any chief of staff or any general plan of strategy for the unification of operations.

Senator COUZENS. As a matter of fact, the governors of the 12 Federal reserve banks meet and determine most of the policies of their banks, obviously. Do you believe that it is necessary to have a supreme court such as the Federal Reserve Board pass upon the decisions of the governors of those 12 Federal reserve banks?

Mr. MILLER. Yes; I do. There is no question about it. The theory underlying the administrative organization of the Federal reserve system is that judgment has got to be composite in character, and that has to come about through the process of deliberation and the exchange of opinion. Many a man comes to a meeting as governor or as a member of the board, and after a day's discussion, or two days, or sometimes three days, modifies his opinion. Very frequently the action finally agreed upon represents the composite thought of the group, or at any rate of the most active and influential men in the group. These meetings are attended by scientific technicians and judgment is arrived at after a presentation of conditions in different parts of the country, and perhaps even beyond the country, when they are pertinent to the problem of policy that at that time confronts the Federal reserve system.

Senator COUZENS. Do you keep a minute book of all of your activities?

Mr. MILLER. We keep, of course, a minute book of our meetings.

Senator COUZENS. How often do you meet?

Mr. MILLER. Not regularly. Sometimes two or three times a day, sometimes at night; sometimes perhaps not more than two or three times a week. We meet as occasion requires action. When things are going along in a rather humdrum way there may be periods of two or three months with little except more or less routine problems to come before the board. In times of stress and tension, such as we have had during the past four years, speaking rather moderately, we meet very, very frequently and on very sudden call.

Senator COUZENS. Were you going to make a statement to the committee or were you to be asked questions?

Mr. MILLER. I had no prepared statement, gentlemen. Perhaps I can be most useful to you by answering such questions as occur. I want to say, however, without specific reference to the particular form in which a policy for the stabilization of prices through credit control is advocated, as for example it is advocated in the Fletcher bill and in the Goldsborough bill, that I have been in full sympathy with the position the Board has taken on previous occasions against the advisability of any instruction to the Federal reserve banks or to the Federal Reserve Board or to the Federal reserve system as a unity which is based upon the assumption that any such guide to credit control is going to result in a better situation than we can have without it. It has been my belief that such instructions will result in a very much worse situation and will eventually produce a disaster, a breakdown.

Senator COUZENS. Do you believe it could be worse than it is?

Mr. MILLER. At the present?

Senator COUZENS. Yes.

Mr. MILLER. I think it might have been worse, though, if we had had a price stabilization provision in the Federal reserve act. In fact——

Senator COUZENS (interposing). You do not believe that anything could have happened that could be worse than it is to-day, do you?

Mr. MILLER. No, but I do not think for one minute, Senator—of course, it could be worse, but it is bad enough.

Senator COUZENS. I understood you to say it could not be worse.

Mr. MILLER. Well, I was talking in a rather relative and practical sense.

Senator COUZENS. Of course. I am trying to get the opinion of a very powerful factor of the Federal Government.

Mr. MILLER. Yes. I will be frank; I think my position has been developed at previous hearings, both in this room and elsewhere, that if the Federal reserve system had been, we will say, 100 per cent in its competency, the situation to-day might be materially better than it is. I will say also that it is my opinion that if the Federal reserve system had had such an instruction to experiment with credit as is proposed in this bill, back in 1926, 1927, and 1928, the situation might have been and probably would have been materially worse to-day than it is.

Senator COUZENS. I asked Governor Meyer what he thought of the suggestion made by Mr. Wallace. You were sitting by and I assume you heard it. Have you any opinion?

Mr. MILLER. Let me see; the suggestion of Mr. Wallace was to increase the reserve balances of the member banks back to the 1927 level?

Senator COUZENS. 1927–28 level.

Mr. MILLER. I think it is meaningless.

Senator COUZENS. You think it is meaningless?

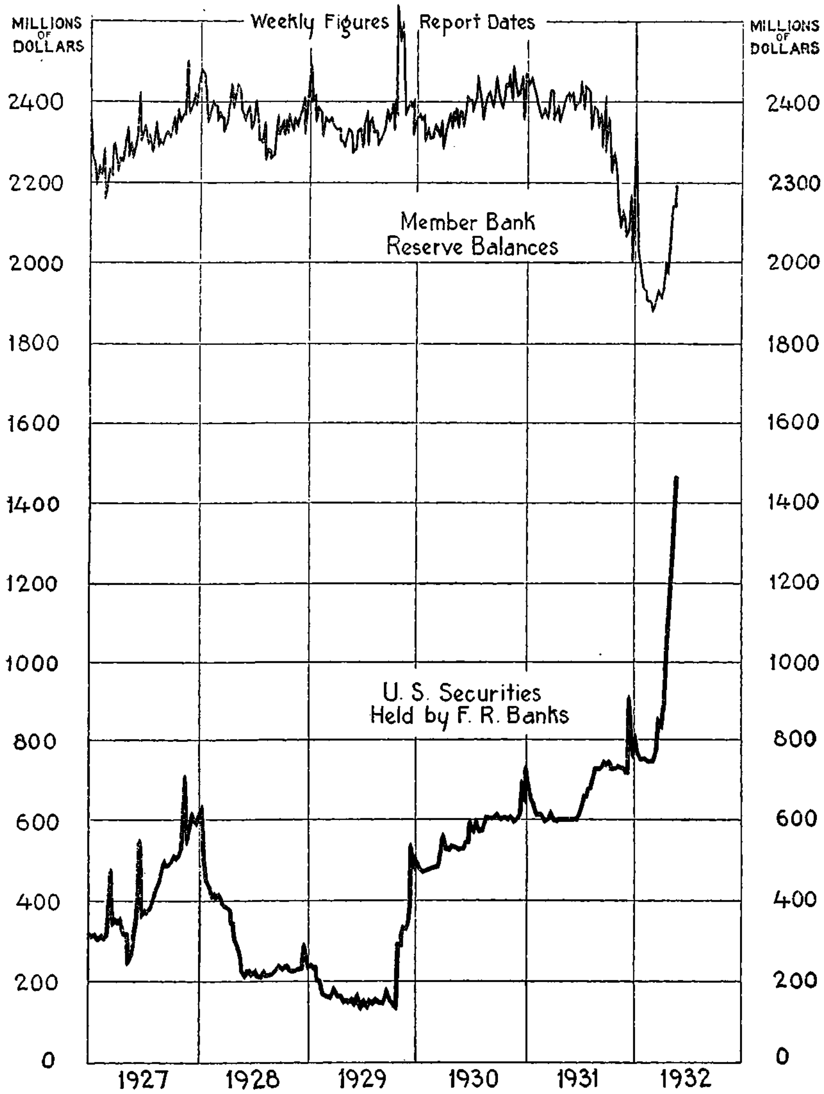
Mr. MILLER. Yes; there is nothing to it.

Senator COUZENS. Assuming that it was, but——

Mr. MILLER (interposing). The reserve balances will be up there again within a month and you will see how meaningless the suggestion is. The Federal reserve banks are now buying securities at a rapid rate. When they pay for these securities the proceeds find their way into the member banks and increase their reserve balances unless they are offset by retirements of bills and discounts at the reserve banks or by withdrawals of currency or gold. I will have a chart inserted in the record showing the extent to which recent purchases of United States securities have increased the reserve balances of member banks, which will soon be back to the 1927–28 level.

Senator COUZENS. You say they will?
Mr. MILLER. Yes.
Senator COUZENS. Will they be maintained there?
Mr. MILLER. I am afraid they will.
Senator COUZENS. You are afraid?

MEMBER BANK RESERVE BALANCES COMPARED WITH
U. S. SECURITIES HELD BY FEDERAL RESERVE BANKS



Mr. MILLER. I am afraid that they will; yes. That is, I am afraid they will not be used.

Senator COUZENS. Why won't they be used, because there is no demand for them?

Mr. MILLER. Well, ask the country. Ask the world what is the trouble. We have had a breakdown in the economic organization of the world that is the most colossal and stupendous in at least 100 years. The world has probably never been in such economic disorganization as it is to-day.

Senator COUZENS. What can we do to repair it, anybody do to repair it?

Mr. MILLER. I would say exercise a little patience, a little forbearance. Have a little more faith in our recovery from this through normal processes, and where we can, expedite those processes through some sort of intervention.

Senator COUZENS. Of course, that is a perfectly lovely theory for those of us who are all well fed and housed and clothed. That is a very comfortable feeling. But how about the rest that are not so well off?

Mr. MILLER. They must be fed and clothed and even cheered by those of us who still have a surplus. And they will be.

Senator COUZENS. Who can.

Mr. MILLER. And those of us who still have that have got to evidence a little more faith in the recovery of the country and also a determination that when we once have recovered we will on the whole behave somewhat better than we have in the not very remote past. This is a bill to enforce a certain type of behavior on the American economic system. If the system behaves we do not need it. My belief is that this bill will not secure wise behavior. I think there may be other methods by which we can secure a result approximating what I think lies back of the desire for this price stability formula.

Senator COUZENS. You said the behavior was bad. What can we do in a legislative way to make the behavior good?

Mr. MILLER. I say for the time being keep hands off of the sick patient and stay out of the sick room except to feed, and bathe and keep the patient warm.

Senator BROOKHART. Let him die?

Mr. MILLER. He will not die.

Senator BLAINE. Who is the doctor that you will leave in charge of the sick patient?

Mr. MILLER. Nature is doing her work. She must be our main reliance. Let us not underestimate our recuperative powers. You can interfere and meddle, but in my judgment with very little good result. We are simply repeating our own history over again. We have never had a breakdown that has not surprised us, and our resort inevitably is to what I call baby psychology. We take resort particularly to cheap money devices in the hope and even in the belief that they will somehow or other wipe out mistakes, forgive debts, and set us all in good shape for a forward movement.

Senator BLAINE. But, Mr. Miller, where are you going to find the human power and the human energy and the labor to discharge $203,000,000,000 of public and private debts?

Mr. MILLER. You will get the power to some extent when you get recovery in this country, and you will get recovery in this country the moment we begin to stop worrying about conditions and feeding our imaginations and our minds with fear, anxiety, doubt, and despair. That is the trouble to-day. I wish the debts were less, but I know that our best chance of paying those debts is by resuming activity in this country rather than by assuming a defeatist attitude, saying that we can not pay them off and that therefore we have got to set the printing presses to work in order to pay these debts off through the manufacture of dishonest dollars. That is no solution.

Senator BLAINE. And doesn't your solution mean the slow process of an agonizing bankruptcy over a long number of years?

Mr. MILLER. I think not, Senator. I may be the last optimist that is left in the United States to-day. I was the first pessimist in 1925, 1926, 1927, 1928, and 1929.

Senator BROOKHART. How about 1920 and 1921?

Mr. MILLER. 1920 and 1921, Senator, is to my mind an episode that does not particularly explain anything.

Senator BROOKHART. That followed the deflation policy, did it not?

Mr. MILLER. No; it did not. I say that, even though I myself in a conference that I think you have frequently alluded to, spoke of the aburdity of using the word "deflation" or talking about deflation in that situation.

Senator BROOKHART. The Federal Reserve Board in its meeting on May 18 certainly talked about it. It did not talk about anything else.

Mr. MILLER. The error that the Federal Reserve Board made at that time, Senator, was in not keeping out of the situation and letting nature take its course.

Senator BROOKHART. You talk about the dishonest dollar. I want to ask you a little about that. Is it not true that the man who contracted a debt four or five years ago, if he would come to pay it now he would have to use two or three times as much of most any commodity to pay his debt as he would when it was contracted?

Mr. MILLER. He might.

Senator BROOKHART. Isn't that a fact?

Mr. MILLER. Yes, sir.

Senator BROOKHART. Well, isn't the dollar that measures his contract when he makes it different from the dollar that measures it when he comes to pay it, and is that a dishonest dollar?

Mr. MILLER. If it is a dishonest dollar it has become so with no bad intention on anybody's part. When I use the word "dishonest" I mean that there is an intention. When the dollar depreciates as a result of a great concert of conditions, some of which are controllable perhaps, but most of which are noncontrollable, is not in my judgment dishonest. It may be a very injurious dollar. It may be one that has very fatal repercussions in the economic system.

Senator COUZENS. The effect is the same, is it not, though?

Mr. MILLER. No; I think not.

Senator COUZENS. Well, the effect is the same——

Mr. MILLER (interposing). No.

Senator COUZENS. But there may be variations of the same effect?

Mr. MILLER. No, no. I should say there is no more reason for calling the effect the same than there is for saying it is the same thing for a man to be killed by a stroke of lightning or to be murdered by the gun of some dishonest person.

Senator COUZENS. The effect on him would be practically the same?

Mr. MILLER. So far as he is concerned the injury is the same. So far as society is concerned there is a great difference.

Senator COUZENS. Yes; but he is dead just the same. So is the debtor just as dead, whether he has a dishonest dollar——

Mr. MILLER. Yes, yes.

Senator COUZENS. Or some unseen power——

Mr. MILLER. Yes.

Senator COUZENS. Takes his ability away?

Mr. MILLER. Yes.

Senator FLETCHER. Where is there anything of bad faith or injustice or improper conduct when the farmer, for instance, contracted his debt with 1 bushel of wheat at a dollar, and now when he comes to pay it he has to take 4 bushels of wheat? Is there any reason why the dollar should not be stabilized somewhere near where the dollar was when he made his contract?

Mr. MILLER. The only way I know of improving prices is through a restoration of markets, of consumption. That would indicate a more useful and healthy situation in the world at large. This device can not improve conditions.

Senator FLETCHER. Why not take the average of commodity prices?

Mr. MILLER. It does not mean anything.

Senator FLETCHER. From 1922 to 1932?

Mr. MILLER. The average of commodity prices does not mean anything. It is merely a metaphysical concept, something that has been invented by economists. It has no counterpart in actuality—it can not be traded in, bought, or sold. It is purely a figment of the mind.

Senator BROOKHART. Do you think it is imaginary altogether and not real?

Mr. MILLER. The price level concept is wholly metaphysical. It is a statistical summation of the movements of an infinite variety of commodities in a vast number of markets scattered over the face of the world.

Senator BROOKHART. Isn't that what gives it its soundness and its value, the fact that it averages up everything?

Mr. MILLER. Not as a method of insuring that the price of cotton or the price of wheat or of hogs or of ingots or copper will be satisfactory to the producers of those commodities or help them pay their debts.

Senator BROOKHART. Supposing under this third section of Senator Fletcher's bill that a billion dollars of Treasury notes were issued to the Farm Board, the Farm Board required to bid the cost of production price for those, to where you would say it would give it \$1.35 a bushel value for wheat and 18 cents a pound for cotton. Would that price rise to that level?

Mr. MILLER. Why, obviously.

Senator BROOKHART. Yes.

Mr. MILLER. Obviously, if somebody goes and buys.

Senator BROOKHART. And wouldn't the issue of a billion dollars of Treasury notes to buy them help to keep the price up?

Mr. MILLER. I doubt whether it would.

Senator BROOKHART. If we would issue enough more to pay the soldiers' bonus and relieve unemployed labor, it would raise these prices, would it not?

Mr. MILLER. Senator, did it ever occur to you that it takes two to issue currency? The Federal Reserve alone can not increase the currency of the country.

Senator BROOKHART. I am talking about giving authority.

Mr. MILLER. Then who is going to take the currency when it is issued?

Senator BROOKHART. The soldiers would take it if we pay the bonus.

Mr. MILLER. Ah, yes. If you want to give it away, then well and good.

Senator BROOKHART. Of course, we by law have already declared we owe it to them.

Mr. MILLER. All right; if that is what this proposition means then it is a different measure from what I have assumed. It has not been my understanding that this measure authorizes a free distribution of currency or that the Federal reserve system is to be turned into a town pump.

Senator BROOKHART. Now, the national income, as a witness said before this committee, I believe, was $60,000,000,000 last year in the United States.

Mr. MILLER. I did not get that.

Senator BROOKHART. The national income was $60,000,000,000. That would be $2,500 for each average family, about that. It was $71,000,000,000 in 1930, and it ran $85,000,000,000 or more in the prosperous years. Isn't that enough national income now to end this depression if we had it distributed out to all the people?

Mr. MILLER. Well, I think most people who have not got very much income would feel so, yes.

Senator BROOKHART. That is most of the people of the United States?

Mr. MILLER. Yes.

Senator BLAINE. Mr. Miller, wherein is there dishonesty or villainy in paying a debt with a dollar of the same purchasing value as the dollar received when the debt was incurred? Is there any dishonesty or villainy in that?

Mr. MILLER. I do not say there is villainy in it, no.

Senator BLAINE. No; certainly not.

Mr. MILLER. No; but I say that it is mischievous in its probable effects.

Senator BLAINE. That implies villainy and dishonesty.

Mr. MILLER. Well, I say frankly that in the discussion of questions of this character I am much concerned with the quality of the motive. I think one of the primary mistakes that is made in most economic thinking of a practical character is that too much attention is paid to the equity aspects of our problem and too little to the general economic consequences, possible injuries or benefits which may result from policies we adopt. A resumption of economic activity that would increase our national production income by an amount equal to $10,000,000,000 or $15,000,000,000, as it easily might, would change the whole aspect of the balance sheets of thousands of distressed business concerns and debtors. The way to pay debts is to resume business and production.

Senator BLAINE. Well, then, Mr. Miller, you ought not to characterize the dollar I have described as a dishonest dollar.

Mr. MILLER. What dollar did I describe as dishonest?

Senator BROOKHART. The one proposed in this bill, I understood.

Senator BLAINE. Yes; you said that it would be a dishonest dollar.

Mr. MILLER. Well, I would like to see the record to know in what connection I used it. If you think it embarasses the inquiry, I withdraw the description.

Senator BLAINE. Do you think that the Goldsborough or Fletcher bill involves dishonest dollars or the creation of them?

Mr. MILLER. No; I do not.

Senator BROOKHART. Now, one other question, Doctor: Don't you think a country like the United States, that has a national income of $60,000,000,000 to $90,000,000,000, owes a job to every may who wants to work at a living wage?

Mr. MILLER. You are going beyond this bill. If you want to ask me that in my private——

Senator BROOKHART (interposing). No; I am not going into your conception of the question.

Mr. MILLER. In my capacity as a private citizen, I would say, no. But I do think that a social system that fails to provide such apportunity under most conditions requires some attention and improvement.

Senator BROOKHART. But it is really not under any obligation to these men?

Mr. MILLER. I do not feel that, because we are in difficulties and have a large volume of unemployed in this country, it is necessary to turn to socialism or paternalism. I say there are other far more effective solutions.

Senator BROOKHART. We have something what you would call very socialistic elements in our Government anyway, haven't we? Take the public school system: Would you not call that a socialistic institution?

Mr. MILLER. No; I would not.

Senator BROOKHART. It is run by the Government altogether, government of the States mainly?

Mr. MILLER. Yes.

Senator BROOKHART. Take the post-office system.

Mr. MILLER. Yes.

Senator BROOKHART. That is socialistic completely, isn't it?

Mr. MILLER. Yes.

Senator BROOKHART. And the public road system?

Mr. MILLER. Yes.

Senator BROOKHART. It is entirely socialistic?

Mr. MILLER. Yes.

Senator BROOKHART. So calling a thing socialistic does not disgrace it in the United States?

Mr. MILLER. It does not disturb me to have a thing called or miscalled by any name. I think the important thing is that our American system of free enterprises has on the whole——

Senator BROOKHART (interposing). You said if this money were issued and it were distributed out to the people, why, then it would restore these price levels.

Mr. MILLER. No; I have not said that. No; I have not said it would restore price levels.

Senator BROOKHART. Well, you said it would restore prosperity or something.

Mr. MILLER. No.

Senator BROOKHART. What was it you said?

Mr. MILLER. I think I said the only proper way to get money out was to put it out to somebody who will set it to work. It takes two to issue currency from the Federal reserve. The Federal reserve alone can not do it.

Senator BROOKHART. But here are 7,000,000 men unemployed in the United States, and I feel we owe them a job. Now you don't quite go that far, but yet almost that far, too. Is it not a matter of getting them out to use this money to provide public work so they can have employment?

Mr. MILLER. Well, that is beside the point of this bill and of this inquiry, I think.

Senator BROOKHART. Would that not put this money in circulation in a way that would make this bill effective?

Mr. MILLER. I think on the whole it would be a procedure that would be prejudicial in the course of six months or a year to the best interests of the classes which are intended to be the beneficiaries of the measure.

Senator BROOKHART. Supposing we keep it up year after year and make it a permanent policy?

Mr. MILLER. You will get to where Germany was in 1923.

Senator BROOKHART. You do not think, then, that $60,000,000,000 of national income would sustain these people?

Mr. MILLER. Yes; I do. I do, Senator. I do. I do.

Senator BROOKHART. Then how could we get to where Germany was when she had almost no income at all?

Mr. MILLER. She also had her productive resources, her industrious people, and her plant facilities.

Senator BROOKHART. Very slight compared to our 60 billion.

Mr. MILLER. Her needs were much slighter, her standard of living much lower. It is a dangerous thing to tamper with an economic and business system that is a going concern and that on the whole has the sanction of experience and history. When you begin to tinker with one aspect of it you set up repercussions that you may not discover until you have gone some considerable distance.

Senator BROOKHART. Well, now, look at this system that you say it would be dangerous to fool with. Didn't we have inflation under this system in 1928 and 1929 that was beyond all human reason, and didn't we have then the panic that was the greatest in the history of the world?

Mr. MILLER. Yes. We did.

Senator BROOKHART. And haven't we had eight major depressions in the United States in the last 50 years?

Mr. MILLER. Yes; I think so.

Senator BROOKHART. And according to Colonel Ayers's chart we have not spent 30 minutes in a normal line in the whole 50 years?

Mr. MILLER. There is no normal. That is one of the concepts I complain of. It is a fiction.

Senator Brookhart. I agree that there is none and there ought to be one.

Mr. MILLER. The idea of normal is a mere assumption of what ought to be.

Senator BLAINE. Mr. Miller, getting back to this bill: The purpose of this bill is to restore the purchasing power of the American people to what is assumed to be—I am not going to use the word " normal "—but average. Now, the American people and the American Government contracted debts upon that average basis.

Mr. MILLER. Yes.

Senator BLAINE. Mr. Meyer described our country's relationship to the world respecting our production and respecting world markets. I appreciate that description. But this question of debts is not a question of world debt with us. Comparatively speaking, the debt owing America is small in relation to the 203 billion, as I suggested, that is the debt obligation of the governments and of the people of America. Now, that is something domestic. That has no relation except in a very small degree to world affairs. How do you propose to have this $203,000,000,000 obligation discharged?

Mr. MILLER. I told you by a restoration of the good functioning of our economic system where people, outside of certain very hard-hit areas of industry, notably certain raw material and agricultural areas in 1924, 1925, 1926, and 1927 functioned effectively.

Senator BLAINE. Your rural properties were affected the same; your urban properties were affected the same.

Mr. MILLER. Yes; all right.

Senator BLAINE. I am not speaking of agriculture alone.

Mr. MILLER. Let me interrupt, Senator. To my mind, if we were really going to go into a methodical inquiry here——

Senator BLAINE. Exactly.

Mr. MILLER. The primary question I would ask is: Why are prices down? Why are they down? Why were they up? Why were they higher four or five years ago than they are to-day? Has there been anything to account for the changes in Federal reserve policy? Have they been due to a lack of Federal reserve credit? What are the causes? I expect to see these prices eventually find their levels. Mr. Goldenweiser, I would like to show that large chart of wholesale prices. I don't know now what that future level will be. I don't know what it will be. It may be the 1926 level. It may be below; it may be above.

Senator BLAINE. But, Mr. Miller, pardon the interruption, but the price level ought to be restored to that price level that existed when these debts were contracted, so that the debtor class could pay the creditor class in identically the same character of dollar as to purchasing value?

Mr. MILLER. Of course——

Senator BLAINE. That is the price level we should approach, is it not?

Mr. MILLER. Well, of course, at that point——

Senator BLAINE (interposing). Theoretically that is the level?

Mr. MILLER. No; I do not——

Senator BLAINE (interposing). And in practice we ought to attain it if possible?

Mr. MILLER. No; I would take fundamental issue with you there. And let me say at this point, parenthetically for the record that I reject the whole theory of money and prices upon which these particular measures for central or reserve bank operation are based. I think the quantity theory of money proceeds from a faulty, unduly simplified reading of known economic history in relation to the known functioning of credit, of economic conditions and of the relation of credit to prices, of business activity to prices, and of prices to business activity.

Senator BLAINE. That might all be true if we did not have this enormous debt, but this debt has to be discharged. It can be discharged in one of two ways, by restoring the purchasing power of the people to that which it was at the time, or substantially the time, when the debt was incurred. That would involve what you characterize as an honest dollar, I assume. That is one method by which we can discharge these debts. The other method would be by a slow, agonizing process of gradual bankruptcy.

Mr. MILLER. You are a defeatist.

Senator BLAINE. No.

Mr. MILLER. You are a defeatist, Senator.

Senator BLAINE. Now, is there any other method?

Mr. MILLER. Why, I maintain that no one on God's earth can tell at this time. Until we get back into a condition of more usual activities or at least get sufficiently far out of the present muck and mire that we are wallowing in, no one can say what price level we may expect.

Senator BLAINE. You are making me a pessimist. I have been an optimist.

Mr. MILLER. Yes.

Senator BLAINE. But isn't there human ingenuity, isn't there sufficient brains in the public of the United States, to work out the solution of how we are going to pay these debts?

Mr. MILLER. Well, I should say that if these debts are going to be paid—and I think most of them not only can be paid but will be paid—it will be through the gradual restoration of a more normal, healthy, active condition of production and distribution, of sales, of consumption, and of purchases in this country.

Senator BLAINE. And that involves the restoration of the purchasing power, doesn't it?

Mr. MILLER. No, sir.

Senator BLAINE. In order to be equivalent to the purchasing power of the dollar——

Mr. MILLER. No.

Senator BLAINE. When the debt was incurred or approximately there?

Mr. MILLER. Whether the 1926 price level will be restored or not, or how far it will be restored, I do not know. Nature will have more to say about that than the Congress of the United States or the Federal Reserve Board. In the long run the play of economic forces acting in this country and over the face of the whole world determines these things.

Senator BLAINE. That would be the equitable thing to do if possible, would it not?

Mr. MILLER. I am not concerned about equities. I feel it is a foolish waste of time to be talking about them.

Senator BLAINE. Well, I have heard——

Mr. MILLER (interposing). I have had losses, Senator, in the last two or three years, investments that were wiped out. I am not dreaming and repining and paralyzing myself through thinking of those losses. Rather I am looking forward to conditions under which the country will function again and where we will individually know, each and all of us, where we are at.

Senator BLAINE. Mr. Miller, I did not mean to use a personal illustration, but you having used it—you are not in hunger?

Mr. MILLER. No.

Senator BLAINE. You are not without clothes?

Mr. MILLER. No.

Senator BLAINE. You are not without shelter?

Mr. MILLER. No.

Senator BLAINE. You are not burdened with an obligation that is so tremendous that you can never discharge it?

Mr. MILLER. No; but I happen——

Senator BLAINE (interposing). Then your illustration is not a very apt one.

Mr. MILLER. I happen, Senator, to be in the very unpleasant position of being a holder of obligations of farmers that are long since overdue. So far as I am concerned, if, when we come out of this situation, it is pretty clearly evident that these farmers can not pay their debts, I do not expect to collect them, or collect more than can reasonably be paid. That form of readjustment of debts is going on now.

Senator BROOKHART. That is bankruptcy.

Senator BLAINE. Who is going to operate those forms when they can not pay?

Mr. MILLER. They will be operated by the very same men that are on them, that is, if they are worth operating. If they are not worth operating, there is no reason why they should be operated.

Senator BLAINE. They will be operated by the tenants?

Mr. MILLER. Perhaps so.

Senator BLAINE. Yes. The owners will be the tenants. Now that is the patriotic thing and that is the main thing that we ought to avoid in this country if possible, and we ought to relieve this tremendous distress of hunger and lack of shelter and food for the millions of people.

Mr. MILLER. I think you overlook the fact that in the majority of cases no one particularly likes to be a creditor, particularly a personal creditor of an embarrassed producer, the farmer particularly.

Senator BLAINE. Oh, if it is an industrial institution it is the same situation.

Mr. MILLER. All right.

Senator BLAINE. The railroads are identically the same.

Mr. MILLER. All right.

Senator BLAINE. The railroads if they were sold to-day and if there were a purchaser willing, able and anxious to buy, would not bring the amount of bonded indebtedness against them.

Mr. MILLER. That is true.

Senator BLAINE. Isn't that true?

Mr. MILLER. That is true in cases.

Senator BLAINE. That is true of agriculture, as a whole I am speaking of.

Mr. MILLER. Yes. But you take the conditions to-day as representative of what is to be expected of America. I do not.

Senator BROOKHART. It is what we got as a result of all this.

Mr. MILLER. It is what we got, but I say again that that is a defeatist attitude.

Senator BROOKHART. Defeatist—that is the attitude of the administration of the Federal reserve system and the Federal banking system.

Mr. MILLER. I beg your pardon.

Senator BROOKHART. That is what we got out of the whole thing.

Mr. MILLER. I can't speak as to the Federal reserve system, but as to the rest I do not——

Senator BROOKHART (interposing). In 1920 the Federal reserve system, and 1919, put on an inflation policy. I have seen many letters from the Federal reserve banks all the way from Cleveland to California encouraging the bankers to come in and rediscount paper and borrow more money, and then in the fall of 1919 and May 18, 1920, they turned around and were going to contract those loans and did. Out in Iowa I heard the representative of the Federal reserve bank in Chicago call up for $55,000,000.

Mr. MILLER. Let us assume that that is all true, Senator——

Senator BROOKHART. And following that we had the biggest panic of farm prices we have had in all the history of agriculture.

Mr. MILLER. Yes——

Senator BROOKHART. And I think the Federal reserve administration had more to do with it than all other causes combined, and agriculture has never as a whole revived or anything like it since 1920.

Mr. MILLER. Well, of course, I differ from you there in toto. Let us assume that all that you say about the Federal reserve banks and board is true except your concluding statement that the Federal reserve system had more to do with the break in prices than any other one thing. I would say it had less to do with it than any one other thing.

Senator BROOKHART. There is one Iowa Congressman whose bank called him in, and he was feeding ten or twelve hundred head of cattle, most prosperous man in his county, and said to him, "The Federal reserve is demanding a reduction in your lines"—and they demanded it. I heard them make it at Ottumwa, Iowa, myself. And he said, "My stuff is not ready to go." "Well," they said, "you have 16,000 of Liberty bonds." "Well," he said, "I did not buy those to sell. I bought them for my family." "Well, but," they said, "the Federal reserve is demanding this reduction." And he was forced to sell those Liberty bonds at 87 cents on the dollar.

Now, a lot of farmers did not have bonds to meet that demand, and they forced them to dump their livestock and their grain and everything into the market.

Mr. MILLER. Into what kind of a market did they dump them?

Senator BROOKHART. Into the worst kind of a market that we ever had.

Mr. MILLER. Exactly; there was no market.

Senator BROOKHART. The fall of the year, when the market is always oversold, all this killing occurred.

Mr. MILLER. Yes.

Senator BROOKHART. And it would produce a panic this year or any year if it were done; the same action of the Federal reserve system would produce a panic any year in the farmers.

Mr. MILLER. I am afraid not. I am afraid that 1920 is a peculiarly bad illustration. The world was broken. It could not consume. It could not buy.

Senator BROOKHART. The United States had at the beginning of the war paid over $5,000,000,000 of debts that it owed to foreign countries. It collected enough other war profits to lend $11,000,-000,000 of Government money, and private parties had collected enough war profits to lend about five or six billions more, and the national debt cut no figure in taxes before of war profits. Colonel Ayers himself figures out the United States a heavy profiteer out of the war, and therefore there was no occasion for the United States being in this world depression, and with $60,000,000,000 to $90,000,-000,000 national income there is no occasion for it now but bad management.

Mr. MILLER. I think so, too. I agree with you on the fact that we have had bad management and abuse of the economic system.

Senator BLAINE. But specifically, what is the objective of the Federal Reserve Board in going into the open market and purchasing the Government securities? I do not mean the board does it. I mean the system. What is the objective, specifically?

Mr. MILLER. Well, of course, Senator, probably every member of the board and every governor of the reserve banks would answer that question a little bit differently.

Senator BLAINE. I would like to have your specific answer.

Mr. MILLER. I would say from my point of view the objective is to see whether, through providing an ampler cushion of surplus reserves in the hands of member banks, we may not contribute to altering the attitude of these banks toward customers or whether we may not produce a change in psychology and possibly lead business men to take a more expectant attitude toward the future, so that where there is good credit they will borrow and begin to increase their production schedule and reemploy their labor. Now I go further in that statement than probably some of my colleagues would, possibly not further than they might in thought, but further than they would think it was prudent to say. You see, I am not afraid to——

Senator BLAINE (interposing). Yes. Now you have elaborated, Mr. Miller, I would assume that specifically the objective is to provide for an expanded credit and thus——

Mr. MILLER (interposing). Provide a basis for it.

Senator BLAINE. Yes; and thus an expanded currency. I do not mean in national bank notes, but substituted currency such as checks, bills of acceptance, and all those substituted forms of credit.

Mr. MILLER. Yes.

Senator BLAINE. That are used in industrial and commercial transactions.

Mr. MILLER. Yes. When I used the term "credit"——

Senator BLAINE (interposing). The objective is, then, more expansion. I will not say "inflation," because you object to that, or Mr. Meyer did.

Mr. MILLER. No; I do not object to it.

Senator BLAINE. Well, I am glad to hear that.

Mr. MILLER. Let me interrupt there, Senator. The trouble is you can not get any inflation at the present time. It takes two to inflate.

You might as well talk of heating up a room by putting a scuttle of coal into a coal stove. It does nothing. You have got to ignite it. The fire has got to burn. You have a perfectly frozen attitude of mind on the part of the people of this country to-day. They will not adventure. They are holding back. They are pulling into their holes.

Senator FLETCHER. Suppose you put that money to use by going on with this construction work that has been offered them by Congress? Wouldn't that help?

Mr. MILLER. If any committee of Congress wants to hear me on that subject any time I will be very glad to come, Senator, but if that is the purpose of this bill it has not been disclosed.

Senator FLETCHER. No; but here you say that this does not go far enough; provides for currency, but you can not have any speculation unless you use that currency. Now, suppose we provide a method for using it. We are considering that; putting it to use.

Mr. MILLER. Yes.

Senator FLETCHER. By going on with this construction that has been authorized.

Mr. MILLER. Yes. Well, the Federal reserve is considering an alternative method, and it bases its position upon this: There is pretty fair evidence in our previous experience that sooner or later the accumulation of surplus money in the hands of banks makes them less resistant to the forces of anxiety and fear than they are when they are sailing pretty close to the reef with reserves at or very close to a minimum. In brief, that sooner or later the reduction of open-market interest rates will lead bankers to look around and say, Well, here; maybe this bond is not so bad after all. You see? That it will provide a——

Senator BLAINE (interposing). A new industry possibly or an expanded industry?

Mr. MILLER. Well, yes. We are not short, Senator, of capital in this country. God bless us, we have got too much. That is one of our troubles. We have got capital equipment, plant and distributing facilities here for a country of one hundred and fifty or one hundred and sixty million consumers without the consumers. You may find that, after these reserve-bank operations, municipalities will be able to borrow on better terms. There has been some indication of that already. And, while I have no desire to divert attention to what might be called the incidental aspects of this bill, it is true that if Congress should pass the Goldsborough bill you would at once begin to hear. "Well, what of it?" What is the American dollar going to do? What are the things that might possibly happen under a piece of legislation of this kind? Ordinarily the investor is pretty cautious, except in times of piping inflation, when he ought to be prudent. He tries to be cautious at any rate. In a time like this he is in the grip of complete despair, complete.

Senator BLAINE. Well, then your specific objective is to ignite this scuttle full of coal in the furnace through a process of——

Mr. MILLER (interposing). If we throw some fuel and kindling in the furnace we may find in time, as the country returns to a more normal condition of mind, that it will be easier for the banks to ignite the fire and set it going.

Senator BLAINE. What are the factors that you take into consideration in determining the amount of fuel and kindling that is required?

Mr. MILLER. We are guided by effects. We do not want to overfeed. This is in the nature of a process of—you can describe it as you want. I happen to use the figure of a coal stove.

Senator BLAINE. Yes.

Mr. MILLER. You do not want to overload your firebox with coal. Others describe it as a process of forced feeding. You don't want to feed until your patient begins to spit up his food. You don't want, in other words, what is sometimes technically described as "sloppy" money conditions. That in itself is disturbing. Our position is like that of the doctor who is alimenting a patient who, he feels, may not be far removed from the point of convalescence. He will give him so many grains of this, that, or the other tonic to-day and watch its effect; perhaps to-morrow he will hold off for two or three days. I think it is a well established principle in therapeutics that in all forms of artificial feeding, whether it is accomplished through chemical injection into the veinous system or otherwise, it is necessary to lay off from time to time. Even wise practitioners in administering cod-liver oil through the stomach will lay off at the end of the month.

Senator FLETCHER. Is there any objection to making this power that you are exercising permanent?

Mr. MILLER. Well, it is permanent. We have got it.

Senator FLETCHER. You have got it for one year under the Glass-Steagall bill.

Mr. MILLER. Oh, that is what you refer to. Well, I would say that that consideration is premature, Senator. A year is sometimes a very short period, sometimes a very long one. I do not know what the situation will be at the end of this year, but I feel reasonably certain that if we still have a condition that needs, let us say, the infusion of Federal reserve credit by continuing the enlarged facilities of section 3 of the Glass-Stegall Act, the provision will be extended.

Senator FLETCHER. Instead of leaving the power entirely in the discretion of the Federal Reserve Board why not put it in the law and make it permanent?

Mr. MILLER. My answer to that is that "Those who dance must pay the fiddler." That is what we are doing in the United States in a measure to-day—in a measure. Usually the surest way to insure that there will be periods of crises, liquidation, and what we nowadays call deflation, is to provide a large basis for an antecedent inflation.

Senator BROOKHART. You think up and down gamble is inevitable?

Mr. MILLER. No; I do not. No; I do not, Senator. If I did, I would vacate my seat on the Federal Reserve Board to-morrow. I would have done it long ago. If I thought it was inevitable, I should certainly not want to fiddle away my time.

Senator BROOKHART. It has been worse since we have had Federal reserve banking system than it ever was before.

Mr. MILLER. Well, you have had the Federal reserve banking system established since 1914.

Senator BROOKHART. And had two panics.

Mr. MILLER. In the midst of what I think the historian of the future, and the not distant future, will properly describe as one of the epochal crises of the world. I do not think we know in this country as yet what has happened. I certainly know that Europe does not know what has happened to it, and what is more, what is going to happen to it.

Senator BROOKHART. We know the war happened to Europe, but we were profiteers out of the war and it did not happen to us in the same way.

Mr. MILLER. Yes; I know. Before long we will begin to see that the war itself, the very outbreak of the war, was symptomatic of a breakdown of an unstable economic and political equilibrium, and that Germany was the first one that thought she could fight her way out of an impossible situation. Europe for a generation has been in a very delicately pivoted position. America has been crowding her more and more and more. It would take a wise and far-sighted man to project the horoscope of Europe for the next 10 years. My own belief is that one could hardly overpaint the drab picture, the drab realities, that Europe will be confronted with before it becomes possible to work out some sort of a situation under which, with their overcrowded lands, they can support their increasing population with at least a modicum of decency and comfort.

Senator BROOKHART. With $60,000,000,000 of national income we ought to be in comfortable condition regardless of what happened to them.

Mr. MILLER. No doubt we could if that was our resolution.

The CHAIRMAN. There are just a couple of matters I would like to have you clear up here. I am not so sure that I get the line you draw between nature taking its course and Government agencies stepping in.

For instance, a good deal has been said about the bad market condition, and that it is inevitable and that neither the cause nor the remedy is Government, as I deduct it from your statement. But I have in mind especially when the War Finance Corporation was reestablished for the purpose of extending credit, we had a very bad market situation, and I conferred with Mr. Meyer at that time and our Governor of the Federal Reserve Board. He told me that he felt that our market was especially bad owing to the crowding of collections by the banks, and he assured us if we could extend some credit through that section that it would immediately be reflected in the markets, and Congress proceeded on that theory. Certain credits were extended and the market reflected it. So since that, it has been increasingly difficult for me to determine where nature takes its course and where some one interferes with the law of nature.

Mr. MILLER. It can not be predetermined, Senator. When you can intervene so as to assist nature where she is working in your direction, the wise man will intervene. Sometimes he has got to intervene on a chance. The Federal reserve is not acting now on a certainty. If it were acting on a certainty, the action would not be needed. The results we desire would come about of themselves. For the most part credit makes itself. For the most part prices make themselves. Business makes credit far more than credit makes business. All of these elements are constantly interacting upon one another and thus govern the activity of business, the volume of credit, and the movement of prices. But when you have disorganized conditions such as you have at present, where nature is not fully functioning, credit and prices do not necessarily make themselves. After all, the nature with which we deal in economics is human nature, and a part of human nature is the emotional background, sometimes overstimulated by the hope and expectation of gain; and at other times frightened and paralyzed to the point of despair by fear of loss and ruin.

Senator BROOKHART. Well, I take it that you are not putting so much emphasis on that nature will remedy this system unaided as I thought you did from your remarks.

Mr. MILLER. I still maintain, Senator, that, in what we economists call the "long run," nature is the most powerful factor.

The CHAIRMAN. The most powerful, yes.

Mr. MILLER. Just as she is in human nature.

The CHAIRMAN. But a generation may go by before the full force and effect of it is felt.

Mr. MILLER. I do not think we have had that experience. A generation is pretty long, even from the point of view of nature.

The CHAIRMAN. When you spoke about nature taking its course——

Mr. MILLER (interposing). Oh, no.

The CHAIRMAN. I was really wondering why you were borrowing this $100,000,000 a week.

Mr. MILLER. No, no.

The CHAIRMAN. Whether you were letting nature take its course or where you were interfering with nature.

Mr. MILLER. On the contrary. I hope you do not misunderstand my position there. We are trying to assist nature but I do not think that this assistance alone will accomplish results any more than I think it is possible to make the weather change by manipulating the barometer.

The CHAIRMAN. Then you would feel that what you are doing is entirely futile?

Mr. MILLER. No; I do not.

The CHAIRMAN. You would feel that manipulating the barometer would not have any effect on the weather, would you not?

Mr. MILLER. It might lead to certain impressions on somebody who looks at the barometer.

The CHAIRMAN. In other words, you think prosperity can be restored by fooling them, by making them think that the barometer is something other than what it is?

Mr. MILLER. No. I think our present operations are based on more substantial grounds than that. I do think, however, that perhaps you are attempting to do something like that in your bill when you try to make prices register something other than real conditions. This bill assumes a fool's paradise. Conditions are not as subject to simple manipulation as this bill assumes.

The CHAIRMAN. You mean by that the bill before this committee?

Mr. MILLER. Yes. I am speaking of that bill and other proposals framed in the same general philosophy.

The CHAIRMAN. I have not made any deep study of this matter, Mr. Miller. We are trying to get information here.

Mr. MILLER. Yes.

The CHAIRMAN. And get the views of experts on the bill. Senators have asked questions, and Congressman Goldsborough is here, a member of the Banking Committee of the House of Representatives, and I desire to ask him whether he desires to ask any questions.

Representative GOLDSBOROUGH. There are two or three inquiries I would like to make, Mr. Chairman.

The CHAIRMAN. If there are no objections, you may proceed.

Representative GOLDSBOROUGH. Mr. Miller, you agree that under this bill the powers of the Federal reserve system would be curtailed rather than expanded, do you not?

Mr. MILLER. No. You are talking of which bill?

Representative GOLDSBOROUGH. They are both the same so far as the present inquiry is concerned.

Mr. MILLER. Then I assume you are speaking without regard to section 3, which I think is included in Senator Fletcher's bill.

Representative GOLDSBOROUGH. Section 3 is in the Glass-Steagall bill for one year, and of course if section 3 is not adopted at present the Glass-Steagall bill will have to be extended, but the purpose of the two bills and the language of the two bills in so far as their declaration is concerned and imposition of duty, are identical.

Mr. MILLER. Yes.

Representative GOLDSBOROUGH. Now, you would have under these bills your activities directed toward a certain focal point, would you not?

Mr. MILLER. Yes.

Representative GOLDSBOROUGH. And now they are directed only in accordance with the judgment and discretion of the Federal Reserve Board. Therefore, these bills would act as a limitation of power rather than as an extension of power?

Mr. MILLER. I would say a limitation of discretion. When I use the term "power" I mean the term "legal power."

Representative GOLDSBOROUGH. Well, both Governor Meyer and yourself have testified this morning that the purchases of Government securities would depend altogether on varying conditions from time to time.

Mr. MILLER. Much.

Representative GOLDSBOROUGH. Much—and that, therefore, the banks, the commercial banks and the public, could have no advance information under the present law as to where you were going before you stopped?

Mr. MILLER. Before we knew where we were going to stop.

Representative GOLDSBOROUGH. Correct.

Mr. MILLER. In other words——

Representative GOLDSBOROUGH (interposing). Now I want to call your attention to this, that I have not received word from any commercial banker in the United States who is not also engaged in the purchase and sale of securities who was not in favor of this legislation.

Mr. MILLER. I think that is true. I think that is unfortunately too true.

Representative GOLDSBOROUGH. Now they say their reason is this, that at present the Federal reserve system may buy a hundred million this week, but they do not know what the Federal reserve system is going to do the next week or the week after; but if this legislation is passed all they would have to do would be to watch the index number of the Bureau of Labor Statistics and they would know that the Federal reserve system had to pursue this policy until a certain definite point is reached and that that would steadily and completely reassure them that they would resume business immediately. That is what they say.

Mr. MILLER. All I can say is that there is something pathetic about that attitude, and I don't wonder that you get that response from traders of the kind we have produced in great numbers in this country in recent years. That is just about, I should say, a fair measure of their intelligence and public interest. They want everything nailed down and certain except themselves.

Representative GOLDSBOROUGH. Now, Mr. Miller, in the hearings before the Banking and Currency Committee of the House in 1928 you pleaded very definitely, as I remember it, that you had not always been in accord with the policy of the Federal Reserve Board, a majority of the Federal Reserve Board, and you also said that one difficulty the board had was the fact that the Secretary of the Treasury had an undue influence in your judgment upon its actions. Do you remember that statement?

Mr. MILLER. Yes; I think I do. I think that was in reply to a question from Mr. Steagall.

Representative GOLDSBOROUGH. Are you still of the same opinion?

Mr. MILLER. I think the Glass bill contains what I shall say is a wise provision with respect to that situation. I say that, let me say, because people are very sensitive about the relation of the Treasury to the Federal reserve system.

Representative GOLDSBOROUGH. I do not want to embarrass you with any questions.

Mr. MILLER. I just want to say that in making that statement I have not in mind even in the slightest degree the present Secretary of the Treasury. I would add that his relation with the Federal Reserve Board has been exemplary, and if we counted upon his future as judged by the past, there would be little or nothing to criticize.

Representative GOLDSBOROUGH. Of course, the present Secretary of the Treasury was not Secretary at the time that this depression started.

Now, I have listened with a great deal of interest to what you said this morning, and I have here a speech made by the Secretary of the Treasury on April 25, 1932, delivered before the Associated Press at the Waldorf-Astoria Hotel in New York. He is speaking in defense of the board's policy of buying a hundred million dollars a week of Government securities, and he says this [reading]:

I believe that there is more to be said in favor of such a policy. With the collapse of our banking system definitely halted, and with our commercial and industrial organizations still in a state of extreme strain, what would appear to be required now is the stimulus of credit expansion supported by a liberal policy of the Federal reserve system such as it is pursuing at present and regulated in its development by the system. With a gradual restoration of confidence at home, with greater stability abroad, with a new banking law increasing the amount of disposable gold—

That is the Glass-Steagall bill—

the situation is auspicious for carrying through an easy-money policy as long as it remains controlled and does not develop into uncontrolled inflation. The means of control lie in our official banking organization, and the machinery of that organization provides the methods of solving such difficulties and dangers as may arise. Controlled credit expansion is only possible through the operation of that system.

Do you agree with Secretary Mills that you can control the credit of the country?

Mr. MILLER. I think that is perhaps a more extreme statement than I myself would make.

Representatives GOLDSBOROUGH. Yes.

Mr. MILLER. But I would say that I think future conditions as far as I can foresee them are more likely to be amenable to control, if it is really a wisely and farsightedly exercised control, than they have been during the past 10 years. Those years contained a great many uncontrollable adventitious factors. I think a body of ultrawise men undertaking to exercise the influence and powers of the Federal reserve system toward control, whatever the objects or tests of control might be, may have on the whole a far simpler condition to deal with in the next 10 years than the past 10. That is merely a guess.

Representative GOLDSBOROUGH. Did not the operations of the open market committee in the years 1922 to 1928 assist the Federal Reserve Board very greatly in reducing the other problems that confronted it? Did not the stabilization of the price level through that period, due to the operations of the open market committee, greatly reduce the other problems which confronted the system?

Mr. MILLER. Well, I should say that, in part, at least, those operations unintentially contributed to the problem that we have been confronted with during the last three years.

Representative GOLDSBOROUGH. You do not approve of that policy?

Mr. MILLER. I think that the policy was of very dubious permanent value.

Representative GOLDSBOROUGH. I see.

Mr. MILLER. If I were speaking or writing as an economist I would state that our present condition is one of the things that might be expected to follow from such attempts at stabilization. In other words, stabilization may be—not in anybody's intention—but it may work out to be a formula for inflation.

Senator FLETCHER. May I ask you right there. Do you not believe that it is worth while to achieve the stability of the price level?

Mr. MILLER. I do not, Senator. I think it is a futile aim. Now, in saying that, I do not want to be misunderstood. I have the greatest respect for stable economic conditions, and I would take as one of the tests of the good functioning of any central banking system, of the Federal reserve system, I would say as one of the tests of a good governmental attitude on matters of economic concern and policy, that it always had foremost in its mind the preservation of the forces that make for economic stability.

Representative GOLDSBOROUGH. And when you have economic stability, don't you have a stable general commodity price level?

Mr. MILLER. No: not necessarily.

Representative GOLDSBOROUGH. I do not mean cotton.

Mr. MILLER. No.

Representative GOLDSBOROUGH. I want to call your attention to the fact that Governor Meyer, both in his testimony before the subcommittee of the House and before this committee, has accented nothing but cotton. He apparently has not visualized the fact that the purpose of this bill is to stabilize the general commodity price level and not to fix the price of any one commodity.

Mr. MILLER. I do not want to let you go by there.

Representative GOLDSBOROUGH. All right, sir.

Mr. MILLER. When you have a condition of economic stability, it means that the industrial organization is in fair balance. It means that the economic balance of the world is on the whole a pretty stable balance. You may have that on a price level that is gradually rising. We have had it over considerable periods of time on a price level that was gradually declining. The important thing from the point of view of the good functioning of the economic system either of this country or of the world is that there shall be stability in the price structure, in the relationships of prices to one another. Whether the average of prices goes up or goes down is of little consequence to the good functioning of an economic structure and the maintenance of economic stability. That is something that concerns long-term creditor and debtor.

Representative GOLDSBOROUGH. Just one or two more questions, Mr. Chairman, with your permission. I think you spoke a while ago of allowing nature to sort of take its course.

Mr. MILLER. I have got to intervene there.

Representative GOLDSBOROUGH. All right, then; if you did not say that I do not want to question you on that.

Mr. MILLER. Well, question me if you want to, but if you think I am a pessimist——

Representative GOLDSBOROUGH (interposing). From 1873 until 1896 we had a constantly declining commodity price level in the United States which all other economists, as far as I know, say was was due to a scarcity of gold.

Mr. MILLER. Yes.

Representative GOLDSBOROUGH. Is that your conception?

Mr. MILLER. No, sir.

Representative GOLDSBOROUGH. That is not your conception?

Mr. MILLER. No, sir.

Representative GOLDSBOROUGH. All right; I want to ask you another question and then you can answer them both, because they both come together.

Mr. MILLER. Yes.

Representative GOLDSBOROUGH. From 1896 or thereabouts gold was discovered in the Klondike and in South Africa and then we had an accumulation of gold, and from there to the war we had a rise in the price level. All economists, so far as I know, say that that rise in price level was due to the purely artificial factor that we had more gold mined and brought into circulation. Do you agree or disagree?

Mr. MILLER. I think that gold was a factor in it—a factor.

Representative GOLDSBOROUGH. Well, that is not what you call letting nature take its course, is it? Do you think digging gold out of the ground is what you may say is allowing psychology factors to take their course?

Mr. MILLER. No. Where were we at in these years that you speak of?

Representative GOLDSBOROUGH. Sir?

Mr. MILLER. Where were we at in the economic cycle in these years when the flow of gold came in?

Representative GOLDSBOROUGH. We had a constantly rising commodity price level, but do you think the gold alone did that?

Mr. MILLER. What were the years?

Representative GOLDSBOROUGH. The gold began to operate about 1899 and continued to act in a normal way until the war started.

Mr. MILLER. Yes. When did prices begin to rise?

Mr. GOLDENWEISER. 1896.

Mr. MILLER. 1896 or 1897.

Representative GOLDSBOROUGH. It may have acted that quickly.

Mr. MILLER. No; it was not the gold. I beg your pardon. That is just where I want to say that good monetary factors may be of great influence in certain situations where the situation is favorable for the response. The stage was set for resumption after the campaign of 1896 and the depression of 1893 to 1897. We are going to have it set for resumption again.

Representative GOLDSBOROUGH. It lasted for 18 years. It lasted until the war started.

Mr. MILLER. Oh, no.

Representative GOLDSBOROUGH. Oh, yes.

Mr. MILLER. I beg your pardon.

Representative GOLDSBOROUGH. Oh, yes.

Mr. MILLER. I beg your pardon.

Representative GOLDSBOROUGH. The commodity price level and the price of land rose constantly until 1914.

Mr. MILLER. What was the production of gold during that period?

Mr. GOLDENWEISER. I haven't the figures.

Mr. MILLER. You had an enormous growth of credit, one of the most rapid growths of credit in history, until we get down to our period.

Representative GOLDSBOROUGH. All right; credit acts just like gold, I admit that.

Mr. MILLER. But it apparently did not.

Representative GOLDSBOROUGH. That is not one of the natural things that you are speaking about; that is an artificial thing. That is a thing we have created.

Mr. MILLER. Yes.

Mr. GOLDSBOROUGH. Credit circulation?

Mr. MILLER. That is it, exactly. That is what I mean by saying that credit creates itself, and prices make themselves, far more than they are made through intervention.

Senator BROOKHART. And protective tariff might make the prices?

Mr. MILLER. The protective tariff we have with us, like the poor and the rascals.

Senator BROOKHART. But it does not make prices and it is not natural.

Mr. MILLER. Well, I hope we will not get into a discussion of tariff policy.

Now, I want to say just a word about the period following 1873 until, I think you said, 1897.

Representative GOLDSBOROUGH. 1896.

Mr. MILLER. You are aware that in those years there were some periods of distinctly good times, to use the conventional business expression.

Representative GOLDSBOROUGH. Not long periods, though.

Mr. MILLER. Well, they were there. The country was generally prosperous from 1879 to 1882 and again from 1886 to 1892. We also know that, barring this recent period and one apparently about 1910, and barring the industrial revolution of the late eighteenth century, there never had been a period of technological expansion like that which followed the Civil War. In other words, productive efficiency was being stepped up, stepped up, stepped up. It is hard to find parallels to it. It had the inevitable result that goods were kept crowding into the market more rapidly than markets could absorb the goods. Many of the writers of that day, among them men of foremost standing, considered this the most important factor of the period. David A. Wells, for instance, in Recent Economic Changes, written, I think about 1889 or 1890, devoted his book to showing that the main influence that brought down prices and caused the price fluctuations and disturbances that characterized this period was the rapidity of improvement in the technique of production and distribution. He traced the expansion of this country, the extension of railroads, the crowding of goods onto the markets of the world, and gave us the one definition of overproduction that has any meaning, the one definition of overproduction that is worth while using—production in excess of what can be marketed at a remunerative price.

Representative GOLDSBOROUGH. Of course, we all realize that there are correlated factors, but are not the monetary factors and the credit factors the prime factors?

Mr. MILLER. No, sir. There is where I take issue.

Representative GOLDSBOROUGH. Now, Mr. Miller, I have here a speech made by Prof. Gustof Cassell last Saturday. He was before the Banking and Currency Committee of the House in 1928 at the same hearing at which you appeared. At that time he disagreed with me that the activities of the Federal reserve system should be controlled. He took the position that then they were able to handle the situation without any direction, and this is what he says in his recent speech, and then I want to base a question on it [reading]:

The task of maintaining a certain gold standard was for other countries practically reduced to the task of keeping the currency's dollar exchange at a fixed parity. Thus, the world's monetary system had arrived at the rather peculiar situation that it was built on a common unit of value, the dollar, which within wide limits was determined arbitrarily by the American monetary authorities. This situation was rendered only the more peculiar by the fact that the United States itself there was no unanimity on what ought to be the aim of American monetary policy, and that the Federal reserve system denied the very possibility of a conscious regulation of the value of the dollar and refused any possibility for the development of that value.

Now, then, I want to just follow that on with another quotation.

The CHAIRMAN. I want to suggest that in view of the fact that you are reading from a newspaper clipping you give what the economist said or give the full authority for the statement.

Representative GOLDSBOROUGH. This is from the New York Times of May 15, 1932, special correspondent for the New York Times, dated London, May 7.

Mr. MILLER. One of his Rhodes lectures.

Representative GOLDSBOROUGH. Now, then, he goes on to discuss what he said before our committee in 1928 [reading]:

I formulated a program thus: The first purpose of the Federal reserve system is to keep up the gold standard; that is to say, to keep the dollar on a purchasing parity with gold.

That is the purpose of this legislation.

Then the system should use the influence they have upon the value of gold in cooperation with other central banks to prevent unnecessary fluctuations in that value.

This simple and perfectly clear recommendation, which in fact embraces everything that is to be said about the objective of monetary policies, never led to any result. The United States went to meet the disastrous development of the following years without any definite idea whatever of what should be the aim of its monetary policy.

You do not agree with Professor Cassell?

Mr. MILLER. No; I do not. Professor Cassell is a leading economist, but he is not familiar with American conditions and psychology. I also disagree with Professor Cassell's view of the causal relation of credit to prices.

The CHAIRMAN. We will have to close soon. It is after 1 o'clock.

Senator FLETCHER. Here is a statement of Governor Meyer on page 522 of Part II of the hearings, to this effect [reading]:

I regard the efficiency of the banking structure as an important element in achieving stability in the price level, and in using for that purpose, to the extent it can be used, the regulation of the volume of currency and credit.

Do you think that is sound?

Mr. MILLER. Well, I think probably in the sense in which he uses it it is. It would not be exactly my form of expression. I will say frankly that I think part of the trouble we have been in is that most of us have never had occasion to test our thinking about our fundamental economic position upon matters of economic theory. The quantity theory of prices upon which this bill is based has always enjoyed great currency. It has a certain charm and beauty of balance and simplicity about it. It suggests as one of its corollaries that since changes in general prices are "caused" by changes in the volume of credit, therefore it is possible to issue a mandate to your agency of central credit control and command it to use its power over credit to cause stability of prices by restoring them always to a constant level. When prices get down below that level it suggests that all that is necessary is to order that they be brought back.

Unfortunately, credit and prices do not work that way. I hope you will hear from some of the modern theorists who are far more realistic. It took me a long time to purge my mind of the cobwebs and the metaphysics and the beautiful lyric presented by the quantity theory of money. It has taken some hard knocks and experience. My views—and I want this included in the record—are those that were stated by the Federal Reserve Board as a board in its report for 1923. Mr. Goldenweiser, will you please see to it that that part of the 1923 report goes into the record? I do not want to bother you with reading it, but I regard that statement as bearing directly to the point of this bill.

The CHAIRMAN. That is a statement in there, not a very long one?

Mr. MILLER. Not a very long one.

The CHAIRMAN. If there is no objection, it will be entered in the record.

Mr. MILLER. Yes; a few pages, not very long. It reads as follows [reading]:

The anomalous situation thus confronting central banking administration in all countries has led to much discussion in the United States and elsewhere as to workable substitutes for reserve ratios as guides to credit and currency administration. Particular prominence has been given in discussions of new proposals to the suggestion frequently made that the credit issuing from the Federal reserve banks should be regulated with immediate reference to the price level, particularly in such manner as to avoid fluctuations of general prices. Entirely apart from the difficult administrative problems that would arise in connection with the adoption of the price index as a guide and entirely apart from the serious political difficulties which would attend a system of credit administration based on prices, there is no reason for believing that the results attained would be as satisfactory as can be reached by other means economically valid and administratively practicable. In saying this the board is not unmindful of the abundant evidence recent years have given of the economic and business disturbance occasioned by violent fluctuations of prices. But it must not be overlooked that price fluctuations proceed from a great variety of causes, most of which lie outside the range of influence of the credit system. No credit system could undertake to perform the function of regulating credit by reference to prices without failing in the endeavor.

The price situation and the credit situation are no doubt frequently involved in one another, but the interrelationship of prices and credit is too complex to admit of any simple statement, still less of a formula of invariable application. An oversimplified statement of complex problems contributes nothing toward the development of an effective administrative procedure. It is the view of the Federal Reserve Board that the price situation and the credit situation, while sometimes closely related, are nevertheless not related to one another as simple cause and effect; they are rather both to be regarded as the outcome of common causes that work in the economic and business situation. The asme conditions which predispose to a rise of prices also predisposes to an increased demand for credit. The demand for credit is conditioned upon the business outlook. Credit is created in increasing volume only as the community wishes to use more credit—when the opportunity for the employment of credit appears more profitable. Sometimes borrowers want to borrow more and sometimes they are content with less. Sometimes lenders are ready to lend more and at other times less. Why this should be so depends on all those multifarious conditions and circumstances that affect the temper of the business community. For the most part these conditions lie beyond the radius of action of the Federal reserve banks. When the business outlook is inviting business men are apt to adventure and new business commitments are made in increasing volume. But only later will these commitments be reflected in the possible rise of prices and an increase in the volume of credit provided by the commercial banks of the country. The Federal reserve banks will not to any considerable extent feel the impact of the increased demand for credit until the whole train of antecedent circumstances which has occasioned it is well advanced on its course; that is, until a forward movement of business, no matter from what impulse it is proceeding, has gained momentum.

Credit administration must be cognizant of what is under way or in process in the movement of business before it is registered in the price index. The price index records an accomplished fact. Good credit administration in times of active business expansion should not encourage or assist the excessive accumulation of forward commitments in business and banking which only later on will definitely reflect the rate at which they have been taking place in resulting changes of credit volume and changes in price levels; and in times of business reaction should discourage enforced liquidation of past commitments which also will only later or reflect the rate at which it has been taking place in altered credit volume and price levels. The problem of efficient credit administration is, therefore, largely a question of timeliness of action.

No statistical mechanism alone, however carefully contrived, can furnish an adequate guide to credit administration. Credit is an intensely human institution and as such reflects the moods and impulses of the community—its hopes, its fears, its expectations. The business and credit situation at any particular time is weighted and charged with these invisible factors. They are elusive and can not be fitted into any mechanical formula, but the fact that they are refractory to methods of the statistical laboratory makes them neither nonexistent nor nonimportant. They are factors which must always patiently and skillfully be evaluated as best they may and dealt with in any banking administration that is animated by a desire to secure to the community the results of an efficient credit system. In its ultimate analysis credit administration is not a matter of mechanical rules, but is and must be a matter of judgment—of judgment concerning each specific credit situation at the particular moment of time when it has arisen or is developing.

There are among these factors a sufficient number which are determinable in their character, and also measurable, to relieve the problem of credit administration of much of its indefiniteness, and therefore give to it a substantial foundation of ascertainable fact. In large part these factors are recognized in the Federal reserve act. The act, therefore, itself goes far toward indicating standards by which the adequacy or inadequacy of the amount of credit provided by the Federal reserve banks may be tested.

The Federal reserve act has laid down as the broad principle for the guidance of the Federal reserve banks and of the Federal Reserve Board in the discharge of their functions with respect to the administration of the credit facilities of the Federal reserve banks the principle of "accommodating commerce and business." (Sec. 14 of the Federal reserve act, par. (d).) The act goes further. It gives a further indication of the meaning of the broad principle of accommodating commerce and business. These further guides are to be found in section 13 of the Federal reserve act, where the purposes for which Federal reserve credit may be provided are described as "agricultural, industrial, or commercial purposes." It is clear that the accommodation of commerce and business contemplated as providing the proper occasion for the use of the credit facilities of the Federal reserve banks means the accommodation of agriculture, industry, and trade. The extension of credit for purposes "covering merely investments or issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States," is not permitted by the Federal reserve act. The Federal reserve system is a system of productive credit. It is not a system of credit for either investment or speculative purposes. Credit in the service of agriculture, industry, and trade may be described comprehensively as credit for productive use. The exclusion of the use of Federal reserve credit for speculative and investment purposes and its limitation to agricultural, industrial, or commercial purposes thus clearly indicates the nature of the tests which are appropriate as guides in the extension of Federal reserve credit. They clearly describe the nature or character of the purposes for which such credit and currency may be extended. The qualitative tests appropriate in Federal reserve bank credit administration laid down by the act are, therefore, definite and ample.

But the problem of credit and currency administration implies the use not only of qualitative tests but also of quantitative tests. By what means may it be known whether the volume of credit provided by the Federal reserve banks is in any given set of circumstances adequate, excessive, or deficient? The problem in good administration under the Federal reserve system is not only that of limiting the field of uses of Federal reserve credit to productive purposes, but also of limiting the volume of credit within the field of its appropriate uses to such amount as may be economically justified—that is, justified by a commensurate increase in the Nation's aggregate productivity. The board is fully aware of the fact that the problem of credit extension involves the question of amount or volume as well as the question of kind or character; otherwise stated, involves a quantitative as well as a qualitative determination. But it is the view of the board that it is not necessary to go outside of the Federal reserve act to find suitable methods of estimating the adjustment of the volume of credit provided by the Federal reserve banks to the volume of credit needs. The Federal reserve act itself suggests the nature of the tests, guides, or indicators—whatever they may be called—to be used in gaging the need for and the adequacy of Federal reserve credit. The provisions of the act already quoted indicate that the needs for credit which are recognized by the act as appropriate are those derived from agriculture, industry, and trade. It is the belief of the board that there will be little danger that the credit created and contributed by the Federal reserve banks will be in excessive volume if restricted to productive uses.

A characteristic of good functioning of the economic system is to be found in the smooth unobstructed movement of goods from the producer through the channels of distribution to their several ultimate uses. The characteristic of the good functioning of the credit system is to be found in the promptness and in the degree with which the flow of credit adapts itself to the orderly flow of goods in industry and trade. So long as this flow is not interrupted by speculative interference there is little likelihood of the abuse of credit supplied by the Federal reserve banks and consequently little danger of the undue creation of new credit. The volume of credit will seldom be at variance with the volume of credit needs as they are reflected in the demands of productive industry as long as (1) the volume of trade, production, and employment, and (2) the volume of consumption are in equilibrium. Credit for short-term operations in agriculture, industry, and trade, when these opera-tion into consumption, is a productive use of credit. But when the effect of tions are genuinely productive and nonspeculative in character, that is to say, credit provided for the purpose of financing the movement of goods through any one of the successive stages of production and distribu-credit used is to impede or delay the forward movement of goods from producer to consumer, unless such delay is made necessary by some unavoidable cause, e. g., the interruption of transportation facilities, credit is not productively used. The withholding of goods from sale when there is a market or the accumulation of goods for an anticipated rise of price is not a productive use. It is the nonproductive use of credit that breeds unwarranted increase in the volume of credit; it also gives rise to unnecessary maladjustment between the volume of production and the volume of consumption, and is followed by price and other economic disturbances. Administratively, therefore, the solution of the economic problem of keeping the volume of credit issuing from the Federal reserve banks from becoming either excessive or deficient is found in maintaining it in due relation to the volume of credit needs as these needs are derived from the operating requirements of agriculture, industry, and trade, and the prevention of the uses of Federal reserve credit for purposes not warranted by the terms or spirit of the Federal reserve act.

There are no automatic devices or detectors for determining, when credit is granted by a Federal reserve bank in response to a rediscount demand, whether the occasion of the rediscount was an extension of credit by the member bank for nonproductive use. Paper offered by a member bank when it rediscounts with a Federal reserve bank may disclose the purpose for which the loan evidenced by that paper was made, but it does not disclose what use is to be made of the proceeds of the rediscount. A farmer's note may be offered for rediscount by a member bank when in fact the need for rediscounting has arisen because of extensions of credit by the member bank for speculative use. Similarly, the note of a member bank collateraled by United States Government securities may be offered for discount to a Federal reserve bank when in fact the proceeds are to be used in supporting the extension of credit for "agricultural, industrial, or commercial purposes." Protection of their credit against speculative uses requires that the Federal reserve banks should be acquainted with the loan policies and credit extensions of their member banks—such acquaintance as can be obtained by examination of their member banks or by other forms of contact with them. In brief, the technical administrative problem presented to each reserve bank is that of finding the ways and means best suited to the circumstances in which it operates of informing itself of when and to what extent the extension of credit for speculative uses is the real occasion of member bank rediscounting.

Senator FLETCHER. I want to say that if that statement of Governor Meyer anywhere approximates a sound proposition this bill would not be a "fool's paradise." That is all.

Mr. MILLER. Well, I do not want to speak for Governor Meyer any more than I would wish to have him speak for me. Men very frequently use the same words with difference in the thought back of them.

Senator FLETCHER. I understand that. I did not mean to argue it with you.

Mr. MILLER. Just what he may have had in mind I do not know. But there are at times conditions where it is possible for the Federal reserve system to intervene with a great deal of effect, either to accelerate a forward movement or to retard it by putting on brakes. But to talk of restoration and maintenance of a predetermined price level in all circumstances, to talk of creating motion in the body economic when it is in a perfectly inert condition, is—well, it is talk out of Alice in Wonderland.

Congressman Goldsborough has been good enough to remember that I appeared before House committees on two or three previous occasions when these bills were under discussion. You remember the grave concern that I expressed both in 1926 and 1928 as to the credit situation of the country at those times?

Representative GOLDSBOROUGH. As I remember it, Mr. Miller, if you mean that for a question to me, I think at that time your position was that you were out of harmony with what the Federal reserve system was doing.

Mr. MILLER. I was, because I felt we were headed toward disaster. That is why.

Representative GOLDSBOROUGH. As I understand it this morning, you have been defending the Federal reserve system.

Mr. MILLER. The speculative outbreak of 1929 did not quite catch me mentally unaware. It was on the slate of the gods that there should be that outbreak from 1927 onward, and it would have taken a remarkably courageous and remarkably farsighted board to have operated the brakes with the vigor that would have been required in order to have neutralized the perfectly terrific impact of that force. I am not surprised at the depression.

Senator FLETCHER. They did not try to do it.

Mr. MILLER. How?

Senator FLETCHER. The board did not try to stop it.

Mr. MILLER. Not in time, and I think in part because some of the powerful shaping influences in the same reserve system were so thoroughly infected at that time with the idea of a stable commodity price level. They believed that as long as prices of commodities were behaving all right things must be all right. As a matter of fact, the commodity price level, with the stability that it showed during those years, was a cover for one of the most vicious and costly, disastrous and destructive inflations that this country or any country in a state of solvency has ever experienced. In general, I would say, Senator, that the thing to be expected in this country if we operated under a stabilization philosophy would be inflations. Just now you gentlemen are thinking of restoring a price level. I think the actual and more serious results of such a policy would show up later.

Senator BROOKHART. If it came back to normal it would not be a danger?

Mr. MILLER. Oh, yes. A stable price level in a progressive society may frequently result in a profit inflation. Progress in technical organization, more efficient production methods, and so forth, such as we usually have, all mean that costs of production keep going down.

Senator BROOKHART. In this 1928–29 inflation that was not farm products or commodities generally; that was stock speculation, paper manipulation, and credit inflation.

Mr. MILLER. There was also inflated production, overexpansion of productive capacity and of instruments for the creation of productive capacity.

Senator BROOKHART. The production was not much different from any other years.

Mr. MILLER. Yes; it was.

Senator BROOKHART. Except in printing of stocks and bonds.

Mr. MILLER. Oh, yes; it was.

Senator FLETCHER. Commodity prices were considerably higher.

Mr. MILLER. Our per capita productivity attained extraordinary heights. But just vision this thing. Let me try to illustrate by drawing a crude diagram. Here is your stable price level. How do production costs ordinarily run in a progressive society? They run down, do they not? That is what we mean by progress—technological improvement; more efficient production. Unless wage payments increase enough to absorb all of the savings made possible by more efficient methods, the proceeds of the sale of goods of stable prices are going to go somewhere else. Where do they go? Into profits. And what do profits do? When conditions favor a profit inflation, the stage is set for a speculative boom. And most of the stabilizationists in this country, I believe—I am not referring to you gentlemen here—but I think that most of the stabilizationists on the outside, the investment bankers and so on, most of them, are really unconscious inflationists. What they want is rising profits insured by a stable price level. I would say that in the long run a piece of legislation of this kind might be expected to insure that the country from time to time will have profit inflation, speculative booms and speculative collapses.

Senator FLETCHER. You have the power to fluctuate as well as to expand.

Mr. MILLER. But under this you are giving an instruction that your expansion and your contraction is to be first toward the maintenance of a price level.

Senator FLETCHER. Precisely.

Mr. MILLER. Arbitrarily chosen.

Senator FLETCHER. Not arbitrarily chosen; fixed by the index.

Mr. MILLER. Fixed by the index.

Senator FLETCHER. Of 790 commodities.

Mr. MILLER. Let us take up this chart here and just look at this proposition against the background of history. Here is a chart of the price index prepared by the Bureau of Labor covering the past century and more [exhibiting chart]. Look at these enormous secular swings, great secular trends. This decline followed the War of 1812 [indicating on chart]. This followed the Civil War. This followed the World War. Who at this time can say what is a proper level? What do we know about the forces that have disrupted the economic structure of the world, the price structure, and how far they are going to go before the faults that have occurred in the world economic system will again result in a new position of economic equilibrium? I speak of faults because I come from an earthquake country, and we build with the knowledge and expectation that there will be shocks in California. Just as there are geological faults, there are economic faults. I think there is an enormous economic fault right now that runs from the Bosphorus straight through this country to the Orient, and that a global readjustment is going on. Countries that are going to be dominant in the future are now finding their positions in a new world.

The CHAIRMAN. I think you are the worst pessimist of all.

Mr. MILLER. No; I am not.

Senator BROOKHART. Do you think we are at the bottom of the depression yet?

Mr. MILLER. I don't know.

Senator BROOKHART. How long will it take us to get out?

Mr. MILLER. Nobody knows. If we did we would know what to do. Nobody knows.

The CHAIRMAN. Would you like to have this printed in the hearings, Mr. Miller?

Mr. MILLER. I think it would be an interesting chart.

The CHAIRMAN. We are going to leave here inside of two or three minutes.

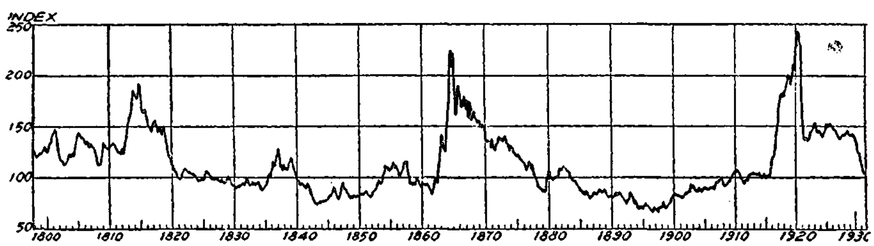
Mr. MILLER. This chart shows a period of a couple of years——

The CHAIRMAN (interposing). Explain for the record what the chart is.

Mr. MILLER. Doctor Goldenweiser will fix that up in the record.

The CHAIRMAN. All right.

(The chart presented by Mr. Miller is here printed in the record in full, as follows:)



Mr. MILLER. There occurred in this period from 1921 to 1929 an interval of a few years, when the price level, the average wholesale commodity price level, showed a gratifying degree of stability as compared with what went before and what has come after. And so it is assumed apparently that that is the level toward which to work.

Now, I say this, Senator, that whatever may be the scientific background of that idea, it is one that I describe as having "blinders." It is necessary to put on blinders so as to shut out of view all earlier periods. It is assumed that the period from 1921 to 1929 constituted a typical and normal period. In other words it is assumed that those years were representative of conditions that ought to have prevailed and might have prevailed during the whole of our history if the Federal reserve system had had an instruction to establish them. I regard this period from 1921 to 1929 as a highly abnormal period, in the sense in which I use that word.

The CHAIRMAN. But that chart covers 130 years.

Mr. MILLER. Yes.

The CHAIRMAN. What do you consider the normal period?

Mr. MILLER. Well, of course, I dislike the word "normal," and I am only using it because it has been used here. I believe that normal could be applied more suitably to these intervening periods between the three great peaks of price changes that accompanied and followed our wars. I believe that it might eventually be found that a "normal" level would run nearer to the 1914 level than to the 1926 level. I would say that the latter level is probably in a superzone, according to this chart, and that the 1896 level was probably in a subzone [indicating on chart]. How far this present price change will go, and whether if it goes down below the present point it will stay down long, frankly I have no idea. But it is only through a process of trial and error that we are going to find the price level at which we can carry on effectively during the coming years.

The CHAIRMAN. The remarkable thing to me is that the period of 1926 corresponds almost exactly to the period of 130 years before.

Mr. MILLER. Yes; it happens that it does.

The CHAIRMAN. Yes. The committee will be in recess until 3 o'clock and reconvene in the room of the Interstate Commerce Committee, Senator Couzens's room in the Capitol off the gallery floor, and the first witness will be Professor Mills of Columbia University.

(Accordingly, at 1.15 o'clock p. m., the committee was in recess until 3 o'clock p. m. of the same day.)

AFTER RECESS

The committee resumed at 3 o'clock p. m. on the expiration of the recess.

The CHAIRMAN. The committee will resume its hearing. The first witness will be Mr. Mills. Please state your full name, address, whom you represent, if anyone, and your experience.

STATEMENT OF FREDERICK C. MILLS, PROFESSOR OF ECONOMICS AND STATISTICS, COLUMBIA UNIVERSITY, NEW YORK CITY

The CHAIRMAN. You may proceed in your own way until some one asks you some questions.

Mr. MILLS. I should say first that I am addressing myself primarily to the price aspects of this bill.

The CHAIRMAN. You are speaking now of the Goldsborough bill or of Senator Fletcher's bill?

Mr. MILLS. I am speaking of the Goldsborough bill. I refer only incidentally to the banking aspects. I should say furthermore that I am not speaking against a policy of inflation; I am speaking in regard to the particular proposal to restore and maintain the price level of 1921–1929.

The CHAIRMAN. Do you make any particular distinction between expansion and inflation? Or do the terms generally mean the same thing?

Mr. MILLS. Yes; I would use them interchangeably.

The CHAIRMAN. Go ahead with your statement.

Mr. MILLS. One can not but be sympathetic with the objectives of this bill, having witnessed the price deflation during the last three years. I am sympathetic with the objectives, but I feel that the bill is based upon an oversimplified view of the problems involved and upon a faulty conception of what is and what is not within the powers of the banking authorities.

It is based upon an oversimplified conception of the problem because it deals with the general level of wholesale prices. What affects business is not the movement of the general price level. If all prices went upward or downward by the same amount we would all be just as well off in regard to our current transactions.

The CHAIRMAN (interposing). There is plenty of room up at this end of the table. gentlemen of the committee. Come right up here. Now, go ahead, Mr. Mills.

Mr. MILLS. It is not a change in the general price level which disturbs business, but inequalities of price movements during periods of rising or declining prices.

Now, gentlemen of the committee, I have brought with me some charts which bear upon that proposition. I have ten copies of this chart if they will serve your purpose.

The CHAIRMAN. Will you please explain them?

Mr. MILLS. Yes.

The CHAIRMAN. You have made reference to a chart. Would you like to have this printed in our hearings?

Mr. MILLS. I think it might be desirable although not absolutely necessary.

The CHAIRMAN. We will try to get that done. Will you please explain this chart for the record, and any other charts that you may subsequently present?

(The chart bearing the title "Inequalities of Movements among Prices and Related Elements During the Current Recession" is here inserted in the stenographic transcript, and will, if authority is forthcoming, be printed in the record.)

Mr. MILLS. This chart shows the inequalities of movements among prices and related elements during the current recession, or from July of 1929 to March or April of 1932. There are 10 entries here. Prices received by farmers are shown to have declined approximately 58 per cent between July of 1929 and April of 1932. Wholesale commodity prices have declined approximately 35 per cent during the same period. The chart shows the average for each of the entries. These include, besides the two I have mentioned: Food prices, retail; earnings of factory workers per capita; prices paid by farmers; cost of living; building material prices; average hourly earnings of factory workers; construction costs; coal prices at retail. It is obvious that the movements are widely different. Here at the bottom are the prices received by farmers.

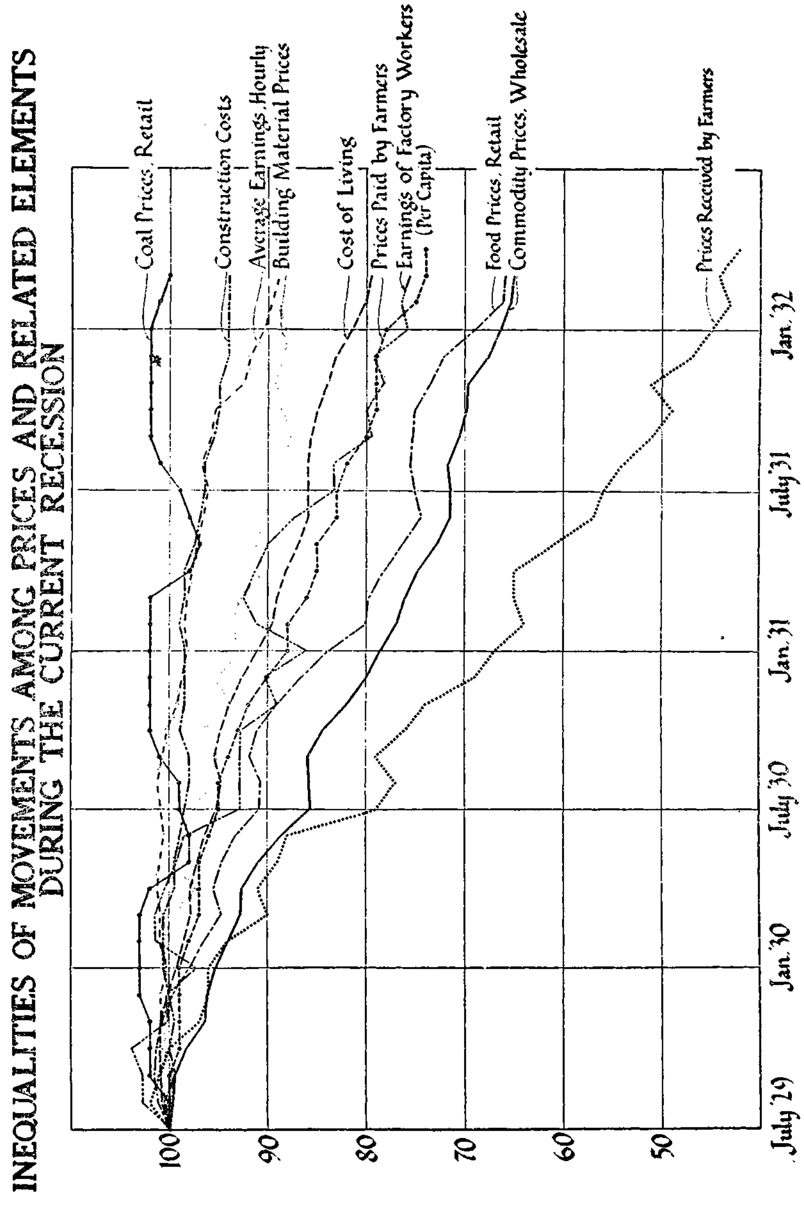
The CHAIRMAN. May I ask you a question right there?

Mr. MILLS. Certainly.

The CHAIRMAN. You start out by assuming that they were on the same level in July of 1929.

Mr. MILLS. I took that as a reference point because that was the high point of prices immediately preceding the recession.

The CHAIRMAN. And I am finding no fault with you on that, but that is not equivalent to stating that the prices of farm products were on a parity with other prices at that time.



Mr. MILLS. No, sir.

The CHAIRMAN. In other words, the 58 per cent decline you mentioned represented the addition to the previous decline, did it not?

Mr. MILLS. Yes.

The CHAIRMAN. Go ahead.

Mr. MILLS. These entries, then (indicating on chart), represent various elements of the price structure.

Senator BLAINE. For what year?

Mr. MILLS. From July of 1929, to March or April of 1932.

Senator BLAINE. Oh, I beg your pardon. I see it is so stated on the chart.

Mr. MILLS. It is the period of the present price recession that is covered by this exhibit, which shows the inequalities that have developed in the price structure in general. The same sort of inequalities, but less marked, developed within the system of wholesale prices. Here are certain other exhibits, of which I have 10 copies, showing the inequalities of movements among wholesale prices during the current recession.

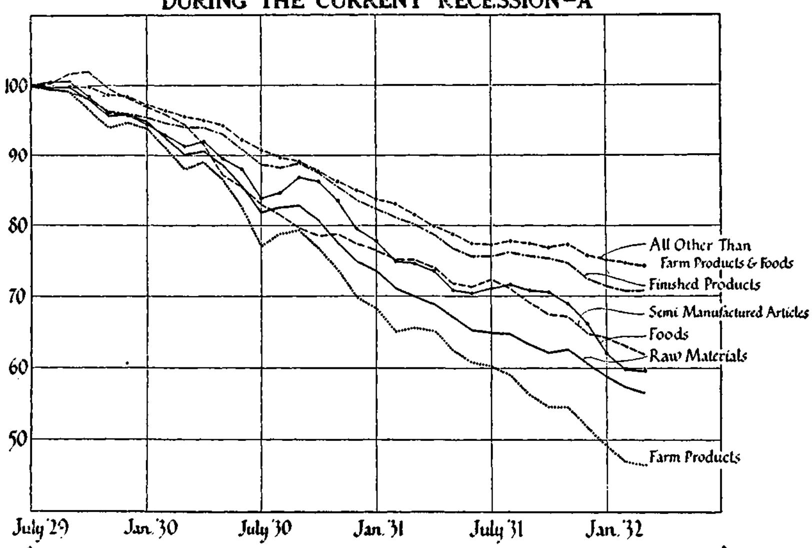
The CHAIRMAN. And you would like to have them printed in the record.

Mr. MILLS. Yes, sir.

The CHAIRMAN. All right. It is so ordered unless there is objection.

(The chart headed "Inequalities of Movements Among Wholesale Prices During the Current Recession—A" is here made a part of the stenographic transcript, and will, if hereafter authorized, be included as a part of the printed record:)

INEQUALITIES OF MOVEMENTS AMONG WHOLESALE PRICES DURING THE CURRENT RECESSION-A



(Index numbers of the United States Bureau of Labor Statistics.)

Senator BROOKHART. What do you mean by wholesale prices of farm products?

Mr. MILLS. I mean prices of farm products in the wholesale markets, as those quotations are compiled by the Bureau of Labor Statistics. They are not prices received by farmers.

Senator BROOKHART. And what markets are they?

Mr. MILLS. Various markets. Wheat is quoted at Chicago and Minneapolis. In general, the central marketing cities. They are not at the farm or the retail store.

Senator BROOKHART. They are at the most important marketing points?

Mr. MILLS. Yes, sir. This chart shows the movements over the same period. It covers farm products, foods, and all commodities other than farm products and foods at wholesale; finished products, semimanufactured articles, and raw materials.

Senator BROOKHART (interposing). Farm products include foods, do they not?

Mr. MILLS. Yes, sir. But this is the classification of the Bureau of Labor Statistics. Foods are in general at a later stage. For instance, flour would be put with foods, whereas wheat would go with farm products. But it is the classification of that bureau which I follow.

I merely refer now to the fact that inequalities have developed during this period within the field of wholesale prices, just as they did in the broader field covered by the first exhibit.

And here are certain additional measurements relating to other classifications of wholesale prices.

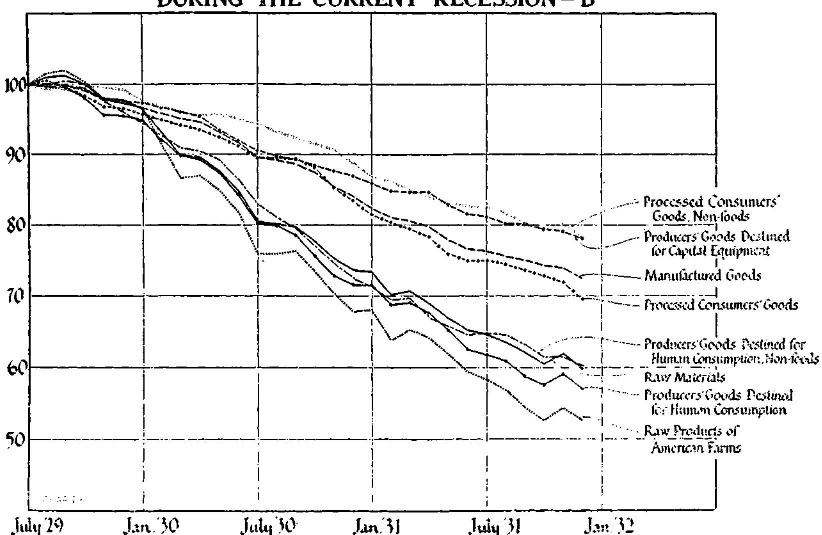
The CHAIRMAN. And you wish that made a part of the record?

Mr. MILLS. I think it might be well.

The CHAIRMAN. All right, unless there is objection it will be so ordered.

(The chart headed "Inequalities of Movements Among Wholesale Prices During the Current Recession–B" is here made a part of the stenographic transcript and will, when authority therefor is given, be made a part of the printed record.)

INEQUALITIES OF MOVEMENTS AMONG WHOLESALE PRICES DURING THE CURRENT RECESSION – B



(Index numbers of the National Bureau of Economic Research.)

Senator BROOKHART. Taking up your last chart, supposing we had inflated money enough to raise all other than farm products and foods up to that point of 100, wouldn't that have carried farm products up relatively with them?

Mr. MILLS. That is a point to which I should like to return later, if I may.

Senator BROOKHART. Very well.

Mr. MILLS. I shall touch on that point later. This chart shows another classification of commodities at wholesale. The single point I would make now is: Here again we have the same inequalities that we observed on the other charts. Now, it is the effect of those inequalities on economic processes which is important. For instance, the prices of the things that the farmer buys, as shown on the first exhibit I handed around, declined far less than did the prices received by farmers. That means of course that the aggregate amount received by farmers will buy far less, and the physical volume of goods that can be sold to farmers is reduced correspondingly.

To cite one or two figures here: Between 1929 and 1931 the gross income of farmers declined approximately 42 per cent. That is an estimated figure, an estimate made by the Bureau of Agricultural Economics——

The CHAIRMAN (interposing). That is the average for the United States?

Mr. MILLS. Yes; for the year.

The CHAIRMAN. And was it worse in some sections than in others?

Mr. MILLS. Without any question. The prices of goods bought by farmers declined from 1929 to 1931 by 17 per cent. That discrepancy, of course, represents depleted purchasing power on the part of the farmer. It means that the aggregate purchasing power of farmers in 1931 would be 30 per cent less than in 1929 because of the fact that the prices of goods they sell declined far more than did the prices of the things they buy.

Similarly may I cite what happened in regard to factory payrolls and cost of living. Between September of 1929 and March of 1932 the aggregate disbursements to wage earners as measured by factory payrolls declined 53 per cent. That is shown here on this chart I now exhibit: I have only one copy of it. The lower line represents the decline in factory payrolls. Over the same period the cost of living for industrial wage earners declined 21 per cent——

Senator BROOKHART (interposing). That decline in payrolls was due to unemployment?

Mr. MILLS. To unemployment, part-time employment, and reduction in wages. The cost of living declined over the same period by 21 per cent.

The CHAIRMAN. That chart may be made a part of the record.

(The chart headed "Income and Purchasing Power of Farmers and Manufacturing Employees, 1929–1931" is here made a part of the stenographic transcript and will when properly authorized be made a part of the printed record.)

Mr. MILLS. I will say that there is a slight discrepancy in the figures on that chart, which I should like the opportunity to correct if it is to be made a part of the record.

The CHAIRMAN. You may do that when you look over the transcript of your statement.

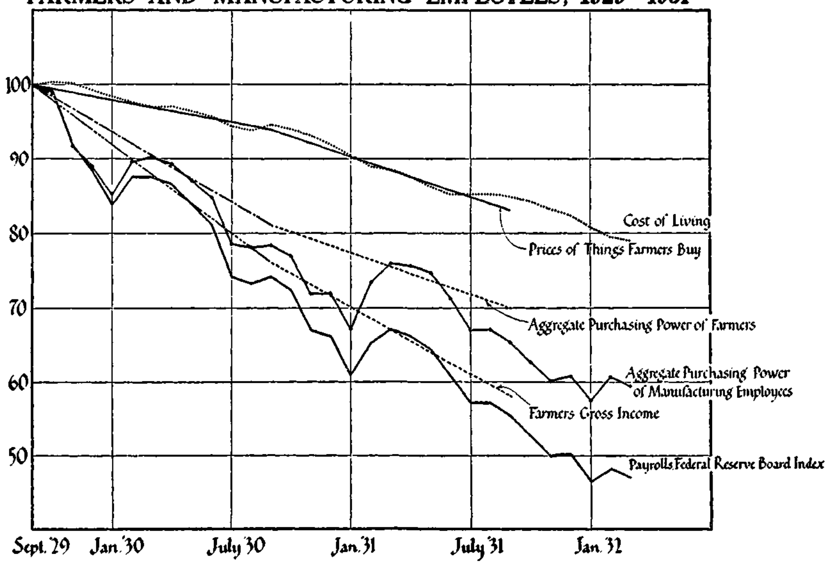
Mr. MILLS. I thank you.

Senator BROOKHART. Have you any chart to show the wages paid to those that are employed?

Mr. MILLS. That first exhibit that I gave you showed two figures which bear on that point: One is the average hourly earnings, the third from the top. That declined approximately 11 per cent over this period. Lower down you will find per capita earnings, which declined much more. Now, the effect of the disparity between factory pay rolls and cost of living is to reduce substantially the aggregate purchasing power of factory workers. In March of 1932 that purchasing power was 40 per cent lower than it was in September of 1929.

The CHAIRMAN. Was that due mainly to unemployment or to wage reductions?

INCOME AND PURCHASING POWER OF
FARMERS AND MANUFACTURING EMPLOYEES, 1929-1931



Mr. MILLS. It was due to the three in combination, unemployment, partial employment, and reduction in wages.

The CHAIRMAN. And which was the major factor?

Mr. MILLS. Unemployment was the major factor. That means that the discrepancy between those two movements has reduced the volume of goods that can be sold to wage earners by 40 per cent, while the corresponding discrepancy has reduced the volume of goods that can be sold to farmers by 30 per cent. That 30 per cent figure relates to the year 1931; a later entry would show a greater decline.

The CHAIRMAN. And much greater.

Mr. MILLS. Well, I have not the figures because no gross income figures for farmers are available except by years.

The CHAIRMAN. But the prices of their commodities show that it is greater.

Mr. MILLS. Yes; they have declined substantially since then. I will say that it is these figures which constitute, I think, the heart of the problem. Our difficulties are not due to the fact that the price level has declined, but to the fact that the declines have been uneven.

The CHAIRMAN. Well, isn't it both?

Mr. MILLS. A declining process as such would not affect our current purchasing power if everything declined by the same amount at the same time.

The CHAIRMAN. But it would affect our ability to pay interest on our indebtedness.

Mr. MILLS. Yes; it would affect debts, but the debt question is not covered by what I am saying here. At the same time you are quite right about that. I am dealing with current purchasing power; that has diminished because of the discrepancies in prices.

Senator BROOKHART. The important thing in the matter of debts is, that if commodity prices are raised then everybody growing commodities can pay their debts easier.

Mr. MILLS. I expect to touch on the question of debts, but if I may I should like to do it later on.

Senator BROOKHART. All right.

Mr. MILLS. The major problem that we now face is this: Is it to be expected that if the price level were raised to that of 1921–1929, as proposed by the Goldsborough bill, those inequalities would be ironed out so that purchasing power would be restored to what it was before the break? That is the central problem. Would it correct those inequalities or not?

Now, on the face of the figures that is to be doubted. That price structure of 1929 has been completely shattered. All relations that then prevailed have been broken down. It is doubtful on the face of the figures that a general rise would carry them precisely up to the 1929 level or that many of them would ever go up exactly to that point. It is practically certain that it would not restore the relations that then prevailed.

We have some evidence on this point. In November of 1931 wholesale prices stood approximately where they stood in 1913. The wholesale price level was back to the 1913 base. But all other elements were not back to the 1913 base. Some were below and some were above that average. I may cite figures bearing on this point. When wholesale prices were at the 1913 level, in November of 1931, living costs were 46 per cent above that level, and farm prices were 29 per cent below that level. Average hourly earnings in factories were 119 per cent above the 1913 level. Although the price level was back to where it was in 1913 yet the various elements in the 1913 price structure had not been restored.

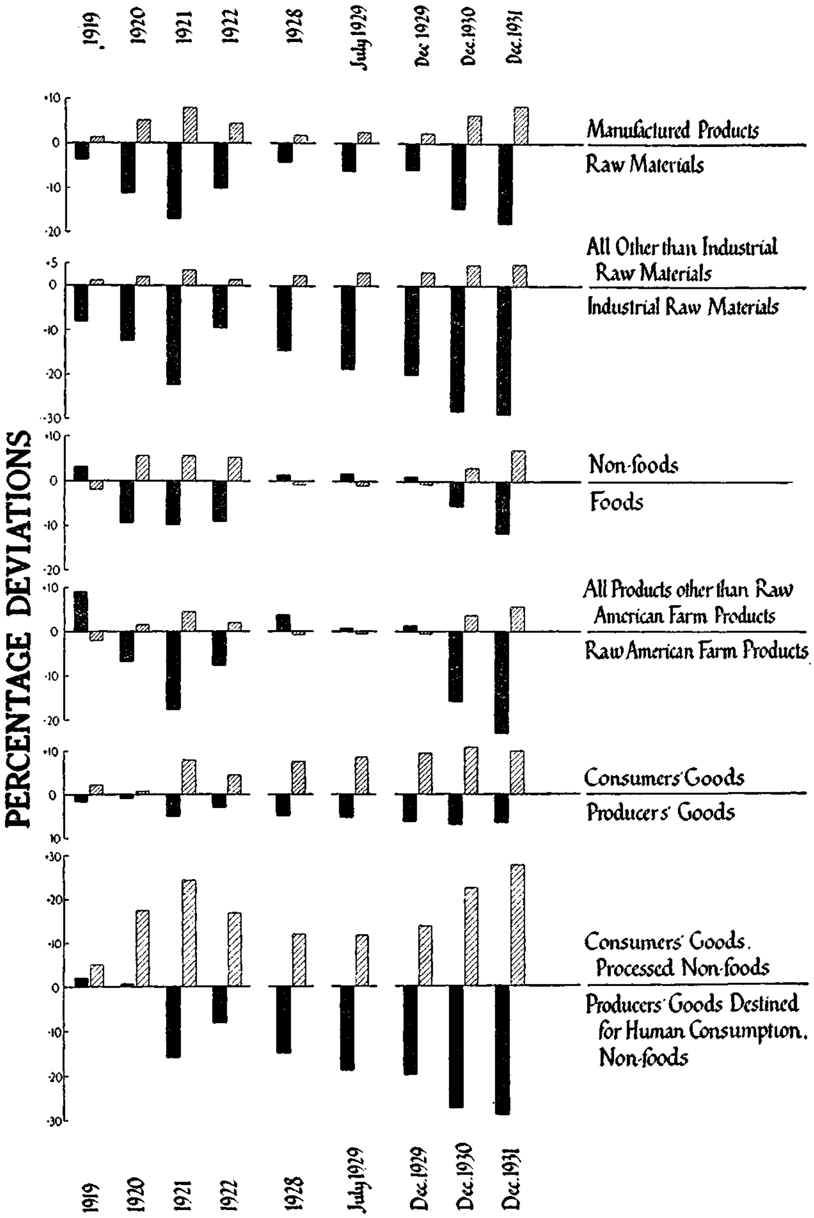
I have here another set of figures that I will pass around to the members of the committee. These have a bearing on that same point.

The CHAIRMAN. That may be made a part of the record.

(A chart headed " Changes in the Real Value, Per Unit, of Commodities in Selected Groups, 1913–1931 " is made a part of the stenographic transcript, and will, when properly authorized, be printed in the record of the hearing.)

CHANGES IN THE REAL VALUE, PER UNIT, OF COMMODITIES IN SELECTED GROUPS, 1913 – 1931

(1913=100)



(Based on index numbers of the National Bureau of Economic Research.)

Mr. MILLS. This shows for the various elements of the price structure the degree of departure from the level of general prices at these various dates; these are percentage deviations from the general level of prices. There are two points I would make: One is that after the decline from 1920 to 1921, the decline that carried wholesale prices back toward the 1913 level, the inequalities were more pronounced than in 1920.

Senator BROOKHART. Where is 1913?

Mr. MILLS. The relations of 1913 are represented by the zero line.

Senator BROOKHART. When it gets below that on the chart it is below the price level?

Mr. MILLS. Yes, sir; and those shown above are above the level of general prices.

The CHAIRMAN. You may proceed with your statement.

Mr. MILLS. Recurring again to this barred chart, which shows the changes in the values of commodities in selected groups, I should like to discuss that with reference to this exhibit. (Showing a chart of an index of wholesale prices from 1913 to 1932.) Perhaps this need not be entered upon the record. It is simply a chart of the movement of wholesale prices from 1913 to 1932.

I should now like to repeat the point I was making just before your recess; that is, that in 1920 there was a sharp movement back toward the 1913 level. Had there then been a law in effect requiring prices to be restored to the 1913 level, conscious action might presumably have brought about just such a decline as occurred. But would it have corrected these inequalities we have talked about and which constitute the crux of the situation? This chart shows that it does not. The inequalities in 1921, after the break, after the movement back to the 1913 level, were greater than the inequalities in 1920, at the peak; that is, a forced return to the 1913 level at that time would not have restored the 1913 relations between farm prices and other prices, between raw materials and manufactured goods.

The CHAIRMAN. Do I understand it to be your opinion that there are so many other things entering into the price level that it is difficult to control it with the currency?

Mr. MILLS. It is impossible to control the movements of all elements of the price structure; on all these elements and their interrelations depends the working of our economic system.

Senator BROOKHART. When the currency is very greatly inflated, then, all prices rise?

Mr. MILLS. But some rise very much more than others.

Senator BROOKHART. Yes; but they all rise.

Mr. MILLS. Well, during this period——

The CHAIRMAN (interposing). Do you hold to the theory that it is true of all commodities, as suggested by the question propounded by Senator Brookhart?

Mr. MILLS. No; they do not all rise.

The CHAIRMAN. But does the average level rise?

Mr. MILLS. The average level rises; yes.

Senator BROOKHART. Is there any commodity sold in America generally that failed to rise?

Mr. MILLS. May I in answer to that question point to retail coal during the last three years as quoted by the Bureau of Labor Statistics? It has not declined, while these other prices have been declining anywhere from 10 to 50 per cent.

Senator BROOKHART. Coal is the one single exception to prove the rule, isn't it?

Mr. MILLS. Most commodities would rise or fall with the general level of prices, but they would not all rise or fall to the same degree.

To come again to this barred chart: When in 1931 we returned finally to the 1913 level the inequalities were still further accentuated. That is, raw materials and manufactured products stood, in December of 1931, further apart with reference to their 1913 ratio than at any earlier time. The conclusion from that argument is this, that if we should now take action to restore the general level of wholesale prices to the 1921–1929 price, there is absolutely no assurance that we would thereby correct the inequalities which have been illustrated on the charts I have presented.

Senator BROOKHART. What is the 1913 comparison on this chart?

Mr. MILLS. This is derived by dividing——

The CHAIRMAN (interposing). You are now speaking of what chart?

Senator BROOKHART. Take the straight line of 1913 there.

Mr. MILLS. This is the last chart presented to the committee.

The CHAIRMAN. I understand. But in speaking of it, in order that the record may be clear, just give us the title of the chart.

Mr. MILLS. This chart shows "Changes in the Real Values of Commodities in Selected Groups."

Senator BROOKHART. And the straight line through the middle represents 1913.

Mr. MILLS. Yes. Now, to repeat my statement that there is no assurance that a return to the general level of 1921–29 prices would correct those inequalities; in fact one may say with confidence that the 1929 structure of prices would not be restored. An upward movement of prices at this time might diminish some of these inequalities, and I take it that would be the objective of the proposed monetary policies.

The CHAIRMAN. Might I ask, you are speaking about the general price level now?

Mr. MILLS. Yes, sir; the general level of wholesale prices.

The CHAIRMAN. Oh. You refer to the wholesale-price level.

Mr. MILLS. Yes. I say that an upward movement of the general level of wholesale prices brought about by conscious inflationary action, or otherwise, might correct many of these inequalities that are so grievous to-day.

Senator BROOKHART. Is there any law or rule to govern that?

Mr. MILLS. I do not think so.

Senator BROOHART. It depends upon the individual circumstances.

Mr. MILLS. In general it is to be expected that commodities that have fallen farthest would rise most promptly. That is in general to be expected. But it may well be that after a rise of 25 per cent the effect of further inflation might be to intensify the inequalities. That is, we would have to have a rise of approximately 50 per cent of the present price level to get it back to the 1929 level; it may be that after a 25 per cent upward movement further inflation would be vicious, in the sense of creating new inequalities, rather than helpful.

My objection to this present bill is that it is quite wrong to set any arbitrary standard. If we could inflate, and could control the inflation, it ought to be intelligently controlled at every stage. If you set an arbitrary standard and say: This must be attained at all costs, you might create a situation that would cause more difficulties than helpful corrections.

Senator BROOKHART. How could the bill be amended to meet your ideas?

Mr. MILLS. Assuming the possibility of conscious inflation, the power ought to be vested in the monetary authorities to begin and end this conscious inflation on their own responsibility. A definite mandate, one which requires them to reach a certain standard and stay there, ought not to be written into the law.

The CHAIRMAN. I think the trouble is that they have lacked the courage to deal with the situation.

Mr. MILLS. I am not speaking on that point. I am saying merely that inflation ought not to be defined in terms of any arbitrary standard. It might turn out in the last analysis to be vicious and destructive, rather than helpful.

Senator BROOKHART. But you must have some definition. You can not turn a body of men loose to do as they please.

Mr. MILLS. I am going to show at a later point in my testimony, if I have the time, that the banking authorities can not say what the given effect of an inflationary movement may be. But let me develop that point when I reach it.

Senator FLETCHER. The idea is that if the Federal Reserve Board were given some discretion in the matter it would not be expected to plunge in or out to accomplish any drastic changes, but that they would gradually work up to it.

Mr. MILLS. I understand that, if this bill were to become a law, it would be mandatory upon them to restore the 1921–29 level of prices.

Senator FLETCHER. Not immediately. Possibly within a month or two or six months. But that would be the point they would work up to.

Mr. MILLS. Well, I should say that persons whose products had not risen with the others, which perhaps had lagged behind for specific reasons, would call upon them under the law to inflate further, and that that might create difficulties, rather than corrective influences. But perhaps I have not read the bill properly.

Senator BROOKHART. Take the case of the French. When they inflated the franc about one-fifth, didn't it increase all levels of values?

Mr. MILLS. Not by the same amount. Of course, they accepted an existing situation when they stabilized the franc. That had already been brought about. That did not require a drastic movement upward or downward thereafter. They stabilized it at a level that had already been attained.

Senator BROOKHART. The franc had reached that level and they made it correspond to the facts.

Mr. MILLS. Yes, sir.

The CHAIRMAN. But it had this effect, of scaling down their debts 80 per cent, didn't it?

Mr. MILLS. Yes, sir.

The CHAIRMAN. And it had the effect of putting them on a low production cost level so far as goods are concerned.

Mr. MILLS. Yes, sir.

The CHAIRMAN. Being reflected in part by the wage scale as measured by the new unit.

Mr. MILLS. Yes, sir.

The CHAIRMAN. And whereas the French working man got as many francs as before, he got much less in the way of wages.

Mr. MILLS. Yes, sir.

The CHAIRMAN. But his standard of living and house rent and everything else had taken a corresponding cut, so he was not conscious of any great change so far as his purchasing power was concerned, is that it?

Mr. MILLS. That is true.

The CHAIRMAN. And the French nation was not affected very much except in its ability to buy gold with its products?

Mr. MILLS. Well, of course, the lessening of the domestic debt burden was tremendous.

The CHAIRMAN. And the only handicap was in dealing with foreign countries that were on a different standard, is that it?

Mr. MILLS. Yes, sir.

Senator BROOKHART. There was one pont of that explanation that I did not quite get. If a man got the same number of francs but he would get less in value, that would be because commodity prices had gone up, wouldn't it?

Mr. MILLS. If he got the same number of francs after the change as before, do you mean?

Senator BROOKHART. Yes. If they did not change the number of francs it would be less, wouldn't it?

Mr. MILLS. They changed the gold content of the franc; that was all.

Senator BROOKHART. Yes.

Mr. MILLS. If wages and cost of living were not readjusted to the same degree the worker would get less in value, as you suggest.

Senator BROOKHART. Weren't they adjusted to just the opposite?

Mr. MILLS. Necessarily; if not he would gain or lose depending upon the direction in which the balance lay.

I have been talking of the current situation, the purchasing power of different economic groups, as affected by these inequalities of price movements, and I have said that the restoration of the 1921–1929 level would not necessarily correct the inequalities that prevail.

I do not wish to embark upon an extended discussion of the debt burden, but I think something should be said on that point in connection with the present proposal. The purchasing power of the dollar at wholesale has gone up approximately 50 per cent in the last 33 months. That does not mean, I take it, that the burden of debt has gone up 50 per cent. The burden of debt can not be measured in terms of the purchasing power of the dollar at wholesale. The change in the burden of debt to an individual is measured by the change that takes place between the time the debt was contracted and the later time, in the cost of the commodities or the services he has to sell. The burden of debt to the farmer has more than doubled, because the prices of the commodities he has to sell have been cut in half. The burden of debt to the salaried man whose salary has not been cut at all has not increased at all, even though the level of prices has fallen from 33 to 35 per cent. The burden of debt to a wage earner fully employed, whose hourly wage has been cut 10 per cent, has not been doubled. It has been increased by approximately 11 per cent.

We speak of inflating prices, and carrying them back to the 1921–1929 level, in order to wipe out the additional debt burden which the recent fall in prices has caused, but the additional debt burden must not be measured in terms of wholesale prices.

An elevation of wholesale prices designed to correct for that additional debt burden, would not necessarily achieve that end.

Senator BROOKHART. Each man that owes a debt will measure the debt in terms of the commodity he must sell to pay that debt.

Mr. MILLS. That is right.

Senator BROOKHART. You will concede that most of these commodities are way down below——

Mr. MILLS. Not most; farm products; yes. The farmer's debt has more than doubled.

Senator BROOKHART. Has not everything else pretty well doubled?

Mr. MILLS. No. Some articles have fallen much less in price than others. You have a very widely scattered field.

I make that sole reference to the debt burden, merely for the sake of the record, because I think it is important to see the debt burden in terms of the actual prices and costs in terms of which debt should be measured, and not in terms of wholesale prices.

Another point: I think that the price level of 1921–1929 is a very questionable standard of reference. This bill sets that up as a standard which is to be restored and maintained. That price level was not a stable price level, I think. For one thing, it was supported by a number of important nonrecurring elements in our total purchasing power—that is, the buying of this period by consumers and by corporations was not all based upon current income, which tends to recur. Some of it was based upon a new volume of installment credit, or consumer credit. Much of it was based upon speculative profits realized, or upon the sense of greater wealth, due to the fact that the price of securities or of real estate was going up. Profits derived from such sources were nonrecurring in character. In part, the purchasing power of that period was based, too, upon a heavy export of our capital, the making of heavy loans abroad.

These three important elements of purchasing power tended to maintain prices, during that period. They were elements which, in their nature, were nonrecurring. That price level was not kept up by elements which would be expected to recur constantly.

Secondly, there was a steady decline of world prices after 1925. I have figures for some 29 countries here. All but one show an appreciable, and in some cases a considerable, decline in prices before the current depression set in. That is, the world drift of prices was definitely downward.

The CHAIRMAN. You speak of the depression setting in. What period do you refer to?

Mr. MILLS. I mean the depression that would date from 1929.

Finally, I would say that the general price structure of the period 1921 to 1929 was a weak price structure. It was based in part upon these nonrecurring elements, and on other rather fortuitous conditions which could not be assumed to be permanent. The situation of the farmer during that period, we hope, was ont one which was permanent. That standard of reference is a faulty one for these reasons.

Senator BROOKHART. It was not permanent, because it got worse

Mr. MILLS. Yes.

Senator FLETCHER. Commodity prices began to decline in 1920. They reached their peak in 1920.

Mr. MILLS. Yes.

Senator FLETCHER. Then, in 1921, they went pretty low, and they kept about the same as 1921, up to——

Mr. MILLS. They rose to 1925, and then even during the boom from 1925 to 1929 (with the interruption of 1927) prices declined. It was almost the first time in our experience that a business boom was not accompanied by rising prices. There was a general decline during that period of greatest activity. That chart shows it.

So. I say, there is nothing particularly sacred about the price level of that period. It did not have the elements of permanence that a standard which we are going to accept from this time forward should have.

Senator BROOKHART. A noticeable thing in this history, from my chart of stocks here, is that in 1928 and 1929, when stocks went up, commodities were going down.

Senator FLETCHER. Commodities began to rise in 1916 and continued to rise through 1920. Then in 1921 they began to drop, and continued dropping pretty well ever since.

Mr. MILLS. Yes; with some slight recovery up to 1925.

Another point which I think is important, is this: If we are going to place a mandate upon our banking authorities to restore and maintain a certain level of prices, we should recognize that our banking authorities are unable to tell what the precise effect of a given expansion of credit is going to be. The effect of a given expansion of credit depends upon two things. It depends, in the first place, upon the channel of dissemination of that credit, or the point at which that new credit is injected into the price system. Secondly, it depends on the character and the direction of consumer demand.

The banking authorities have very little latitude as to the point at which they might inject new credit into the price structure. They can increase the reserves of member banks somewhat. They can strengthen the bond market. They can not go directly to the commodity markets. They can not strengthen the buying power of consumers directly. Their ability to interject credit for the purpose of securing higher prices is severely restricted. There are only one or two channels through which they can work.

The second point is quite beyond their control. Whether new credit is going to be used to buy stocks, or to buy automobiles, or to buy radios, or to finance long-term capital investments (for which it should not ordinarily be used) depends upon what the consumers want, what the people want—the speculators or consumers or business men into whose hands that new purchasing power is placed.

Between 1925 and 1929, the volume of bank credit increased 20 per cent. That is the total loans and investments of all banks in the United States increased by 20 per cent between 1925 and 1929.

What happened to wholesale prices during that period? They declined 7 per cent. Where did this new credit break out? Commodity stocks increased 112 per cent in price. The new credit was there, but where was it used? It was used in the securities market. Suppose there had been a law requiring the Federal Reserve Board, or the banking authorities, to maintain the level of 1925 prices. During the four following years that level sagged 7 per cent. They injected 20 per cent of new credit, or at least 20 per cent of new credit was created. Suppose they had injected more. It was not being used to hold up wholesale prices. It was being used to inflate security prices. A law which made it mandatory upon them to extend further credit at such a time as that, in order to support wholesale prices, would have rendered a bad situation intolerable. It would have forced stock prices, presumably, up to still higher levels.

Senator BROOKHART. That is, assuming a standard that nobody considers normal, is it not?

Mr. MILLS. You are taking that standard. The 1925 level is only slightly different from the 1921–1929 level which the law proposes. I say, if such a law had then been on the books, and our Federal Reserve Board had to push new credit into use, it would have been terribly destructive.

Senator CAREY. Do you think we would have had more speculation than we had?

Mr. MILLS. Indeed you would have.

Senator CAREY. Is there anything in this law that would get this money to the people, or to the borrower? Would it not be a fact that if this extra credit were provided, it would be of no use unless the banks would let the people have it under this act? The money would go to the banks.

Mr. MILLS. It would go to the banks. There was a demand then. Who wanted it? The speculators.

Senator CAREY. But now we have provided credit for the banks, and they are not lending money.

Mr. MILLS. Yes.

Senator CAREY. If this law went into effect, would there be any likelihood of their lending money?

Mr. MILLS. You can not make people use credit. The banking authorities can not interject credit where it might be the most useful. That is one of the limitations of the board. If we had the power of selective inflation, if we had a system so well organized and so well understood that we could have selective inflation, that would be perfect.

Senator BROOKHART. Suppose we take care of these stock speculators in some other way, and make them move over to Canada, as they threaten to do, and get rid of them. Then we would not be bother with them.

Mr. MILLS. It does not follow that credit would have an outlet solely in wholesale markets.

The CHAIRMAN. Do you think we could pass some legislation similar to this that should make an exception, or some reference that would go more into detail than this bill does—as, for instance, ignoring, to a greater or lesser degree, the rise in the security markets?

Mr. MILLS. I do not know. If you define your standard in terms of wholesale prices, you would have to write a great many exceptions into the law in detail. If you start, in general, to keep wholesale prices at a certain level, and provide that if certain prices rise too much the banking authorities need not obey the law, and if certain other prices rise too much they need not obey the law, you would have to write an infinite number of exceptions into the law. But I ask, with reference to the period 1925 to 1929, what would have been the result if it had been mandatory upon the board to maintain wholesale prices? I do not know.

The CHAIRMAN. Is the general-price level a more reliable guide, in your opinion, than the wholesale-price level?

Mr. MILLS. When I spoke of the general-price level, I meant the wholesale-price level.

The CHAIRMAN. You do not consider the general-price level any more reliable?

Mr. MILLS. Doctor Miller said this morning that the wholesale-price level was a metaphysical concept. To a certain degree, it is. If that term applies to the wholesale-price level, it applies even more accurately to the concept of the general-price level, which includes such diverse things as wages, security prices, rents, and wholesale prices. You are combining incommensurables when you lump them into an index of the general-price level. I do not think you could stabilize in terms of any such general index.

There is one other point I would like to make in regard to the direction in which new credit may be exerted. From 1901 to 1913, the volume of credit was increasing more rapidly than the volume of production. The result was higher prices, or at least, a concurrent development was rising prices.

The CHAIRMAN. I noticed you modified that after you said it.

Mr. MILLS. Yes. I do not want to assume necessarily that one was the result of the other, at this point. I say the two were concurrent changes.

The CHAIRMAN. But, if they are frequently concurrent, it might be a case of cause and effect.

Mr. MILLS. I am reasonably sure that there is some connection, but it was not necessary to make the point.

Between 1922 and 1929 the same conditions prevailed. That is, the volume of credit increased more rapidly than the volume of production, but wholesale prices declined. The new credit was not getting into wholesale markets. It was being used in other directions.

The CHAIRMAN. If I understand you correctly—and perhaps I do now—your idea is this. The new credit is a necessary thing, and what the Federal Reserve Board is doing now is a wise thing, hopeful of good results, and, after all, the undecided question is, should it be discretionary with somebody or should it be fixed by law? That is the question.

Mr. MILLS. Yes. My answer would be that it ought to be discretionary, not subject to such a definite standard as this.

The CHAIRMAN. But if you proceed along, giving somebody discretionary powers and they are never exercised, then what can you do—simply argue that it should be discretionary?

Mr. MILLS. That question, I think, I shall not answer, Senator.

Senator FLETCHER. Do you believe in the idea of stability of commodity prices at all?

Mr. MILLS. Yes; I think it is a desirable thing. I do not believe that it can be attained in just the way this bill proposes.

Senator FLETCHER. How would you suggest attaining that end? How would you go about achieving that? Do you think it is a desirable thing? That is one point. How would you go to work to achieve it?

Mr. MILLS. I can not answer that question now. In a typically academic way, I would have to write a treatise with a good many reservations and qualifications. I do not think we want stability, in the sense of no change at all. I have suggested that if we were able to effect selective inflation and selective deflation, if we had the wit and the power and the knowledge to do that, that might be preferable; but I do not think you can attack the thing on the broad level basis this bill proposes.

The point I have just been making, in summary, is that the banking authorities can not control the direction in which new credit is expended, so that the extension of new credit under certain conditions, in order to maintain a level of wholesale prices, might have a bad effect on other elements of the price structure.

Senator BROOKHART. You think a bank can not inquire for what purpose money will be used, and deny the loan?

Mr. MILLS. I am not sure that that would do it. Credit, I suppose, is free to flow from market to market in our present economic system.

Senator BROOKHART. Do they not always inquire what the purpose is when they make loans?

Mr. MILLS. It might be possible, Senator. As I say, I am not appearing here as an expert on the banking side of this, and I would rather not try to answer that particular question.

Senator FLETCHER. We plan to prohibit the use of the Federal reserve system for the purpose of speculation, going into the stock market. So, if these people have funds, and they are not allowed to use them in the securities market, would not that be likely to have a favorable effect?

Mr. MILLS. If that could be done, and if that rule could be enforced, it would, I would say, facilitate the problem of stabilization.

Another point regarding the international aspects of this problem: We have a world economic structure to-day. During the nineteenth and early twentieth centuries we developed a method of securing international coordination of economic processes. We did it through the gold standard. We have developed no substitute for that standard. It may be that in time we shall, but we have not any now. It is one of the cardinal principles of the gold standard that new gold going into a country should be allowed to exert its full effect on prices, and that an outflow of gold should be allowed to exert its full effect on prices. If that principle be not observed we simply do not have a functioning international economic system.

The CHAIRMAN. If I understand correctly, then, a large importation of gold will materially increase the prices of our commodities in a comparatively short time?

Mr. MILLS. If it is allowed to express itself, to exert its effect.

The CHAIRMAN. Would that be true also of those commodities that are in world commerce, such as cotton?

Mr. MILLS. Yes; but to a lesser degree, perhaps, since the forces bearing upon them are wider in their scope; but it would have that effect. It would tend to raise the general level of all prices, to a greater or less degree, to a higher point.

The CHAIRMAN. Does it necessarily follow, then, that if we had increased our production of gold very materially in the last 10 years, we would not be on this present level?

Mr. MILLS. Yes. I say, then, that a law such as this, which would require a certain constant level to be maintained, would mean that new gold coming in, if that new gold tended to raise the level of prices above the mandatory level, would have to be sterilized. If that were done——

Senator BROOKHART. How much gold is there behind the Treasury notes we have now? Is there any gold reserve?

Mr. MILLS. Gold behind the Treasury notes?

Senator BROOKHART. Yes; $346,000,000?

Mr. MILLS. I assume so.

Senator BROOKHART. There is nothing earmarked as reserve for the Treasury notes?

Mr. MILLS. I take it that all our currency now may be exchanged for gold. We are on a gold basis.

Senator BROOKHART. It is redeemable in gold, but is there any reserve, such as there is for Federal reserve notes?

Mr. MILLS. I could not tell you that offhand.

There is one final point I would make, and that concerns the problem of equity in the creation of new purchasing power. When new purchasing power is put into the market, its effect is to raise certain prices first. It does not raise all prices together.

Senator BROOKHART. It would raise agricultural products most.

Mr. MILLS. I am not sure that that follows.

Senator BROOKHART. Because they are the lowest.

Mr. MILLS. I say, in general, that is likely to be the case, that those that are the most depressed feel it first, but it does not necessarily follow. The expansion, or the rise, from 1921 to 1923, did not raise agricultural prices as much as it raised many other prices. It does not necessarily follow.

The point I am now making is that when new credit is created, or pushed into use, it does not affect all prices at once. Its effect is felt in certain quarters first. Those economic agents whose prices first rise gain in purchasing power. The other persons, who are making commodities which do not rise, which lag behind in the advance, lose.

Senator BROOKHART. It can be made to affect them pretty much at once.

Mr. MILLS. I do not think it can.

Senator BROOKHART. I bought 57,000 marks for a dollar in Berlin the first day I was there, and I bought 80,000 three or four days later.

Mr. MILLS. If you had been buying commodities all over Germany at the same time, I do not think you would find that they all rose to the same extent.

Senator BROOKHART. I bought commodities, but they did not cost much in American money. They cost a lot in German money. In Russia, when I came to settle my hotel bill, when they finally figured it up and translated it into rubles, I paid 4,500,000 rubles for five days.

Senator CAREY. You do not want that kind of currency here.

Senator BROOKHART. I know you can raise the prices of things by inflating the currency.

Mr. MILLS. My final point, Mr. Chairman, is this, that you are placing in the hands of your banking authorities a tremendous responsibility. You are giving them the power to inject——

The CHAIRMAN. They do not object to the responsibility. They want to exercise it on their own motion.

Mr. MILLS. The injection of new purchasing power means that some persons gain and others lose. Those gain whose prices rise first, and those lose whose prices lag behind. Correspondingly, when credit is withdrawn, those lose whose prices fall first, and those gain whose prices lag behind on the decline. That ethical problem has not, I think, been considered. It seems to me to be among the most important. If we are going to raise prices by 50 per cent now, where is the new credit going to be injected into the system? The point at which it goes in will affect the fortunes of a great many people.

Senator BROOKHART. We could pay the soldiers' bonus. That would be one way.

Mr. MILLS. That would be one way, and presumably the sellers of consumer goods——

Senator BROOKHART. You could give the Farm Board $1,000,000,000 to handle the exportable surplus of agriculture and correct this discrimination.

Mr. MILLS. Let us say we did it in the form of a soldiers' bonus. Consumers' goods would presumably feel the effect of the new buying power first. They would rise first. It happens that consumer goods are now one of the favored classes of commodities. Their prices are relatively high, as compared with other classes. If the argument be correct, you would be enriching persons who are already advantageously situated. It is merely an example of the point I make, of the ethical problem involved in allocating purchasing power.

The CHAIRMAN. Is it not a fact, doctor, that the failure to respond to the ordinary rules in certain prices, is due to the fact that the market is controlled, and that in the cases of certain lines of goods, the prices are fixed before the goods are made, and maintained from year to year?

Mr. MILLS. Quite right, sir.

The CHAIRMAN. Would you care to express an opinion as to what per cent of consumer goods are under price-fixing influences at the present time?

Mr. MILLS. Any opinion would be a very wild guess. I think it is considerable.

The CHAIRMAN. Half?

Mr. MILLS. I doubt if it would be half.

The CHAIRMAN. But it would be a very substantial amount?

Mr. MILLS. It would be a very substantial amount, and possibly an amount that has been increased.

The CHAIRMAN. And it is on the increase all the time.

Mr. MILLS. I am inclined to think that has been true.

The CHAIRMAN. And is interfering with the law of supply and demand.

Mr. MILLS. There is no question about that.

The CHAIRMAN. And it does not respond to the ordinary rules.

Mr. MILLS. That is one of the reasons, I think, for our present difficulties—so many rigid elements now exist within the price system which do not respond promptly to changes.

The CHAIRMAN. When we talk about changing the price level, we are compelled to admit that there is a very large element in there that is not influenced by the ordinary measures taken.

Mr. MILLS. They might be resistant on the downward movement of prices.

The CHAIRMAN. But they might be willing to go along on the upward movement.

Mr. MILLS. That is one reason a general rise in prices might create great inequalities. Those who resisted the downward pull, would acquiesce and go along with the upward movements.

Senator BROOKHART. A general rise would correct the inequality in paying debts to some extent.

The CHAIRMAN. As to the average.

Mr. MILLS. It probably would; but, as I said some time ago, you can not measure that debt burden in terms of wholesale prices, and I am not sure that if you restore the wholesale price level to the 1921–1929 average——

Senator BROOKHART. If we have $203,000,000,000 in the United States of debts, that is the biggest item, and the most important thing in our country, is it not?

Mr. MILLS. A very important item.

Senator BROOKHART. More than half of the wealth value of the country.

Mr. MILLS. Yes.

The CHAIRMAN. We have a greater surplus of that than of any other commodity.

Mr. MILLS. And the problem of handling that debt structure during the period of deflation and of falling prices is a very acute one, indeed.

Senator CAREY. Just a minute before you proceed, Doctor. We talk about relieving those people who have debts by raising prices. Take the case of the farmer, and the case of agricultural products. The farmer has been suffering more than anyone else. Would it not be possible, with this inflation, to raise the prices of other commodities, or things that the farmer buys, so that he would be worse off in paying his debts than he is now?

Mr. MILLS. It is possible, indeed, that these prices [indicating on chart the prices of things farmers buy] would go up, while these [indicating prices received by farmers] would not.

Senator CAREY. And it might be harder for him to pay his debts.

Mr. MILLS. If that happened, he would be in a worse situation than he is in now.

Senator Brookhart. I understood you to say that prices were more likely to rise in proportion.

Mr. Mills. I say this is possible: In general, in the cyclical swings of prices, those that fall furthest in the depression are likely to pick up and rise more rapidly during the rebound, but it is not an ironclad rule, and certainly it does not always lead to correction. The farmer's prices suffered far more in the drop of 1920–21 than they had gained in the preceding rise.

Senator Brookhart. We know why that was. We know what the Federal Reserve Board did to us.

Senator Carey. Would there be any tendency for prices to rise where there was a surplus of a product?

Mr. Mills. If there was a real surplus, that would constitute a barrier to recovery.

Senator Carey. Take the situation we have had with wheat and cotton in the past few years.

Mr. Mills. A general inflation would perhaps lighten the burden of such surplus, but, as compared with the prices of other commodities, those commodities of which there existed a surplus would be weak, and would remain weak after inflation, as well as before.

My general conclusion would be this, Mr. Chairman, that one of the really important things we must learn is how to control and prevent extreme fluctuations in the purchasing power of the dollar. I agree that there is not any more important problem before you. I think it is something which must be learned through trial and error, and through experience. I think we should have banking authorities who are willing to try, and to learn through experience. However, I do not think we can benefit ourselves by setting up an arbitrary standard and requiring that standard to be maintained.

The Chairman. We are faced now with this situation, that unless there can be a restoration of prices, then the debts can not be paid.

Mr. Mills. I think that is probably so; yes, sir.

The Chairman. And we have to have either the one remedy, or the other.

Mr. Mills. Here is a chart which bears on the point you are making, sir. This contrasts the recession of prices during three periods of recession and depression: 1907–08; 1920–21; and the present. The fact that bears upon your present point is this, that the deflation of 1920–21, shown by these sharply falling prices, was quickly accomplished. That is, the major part of the price decline took place over a period of 11 months, when prices declined at the rate of over 5 per cent a month. We have already declined 33 months, and the average rate of decline per month has been slightly over 1 per cent.

The Chairman. In the present recession?

Mr. Mills. Yes. There have been resistances to liquidation. We have been fighting a rear-guard battle all the time against scaling down our prices and our debts. I see three choices before us—perhaps this is not relevant to the Goldsborough bill, but it bears on the point you have in mind. One is to continue this rear-guard action against deflation, to fight it off and resist it, and maintain all the prices that can be maintained. That means a long drawn-out process, extending over perhaps a decade, before we finally and reluctantly scale down to a low price level.

The second choice is a recognition of the fact that we have to scale down all along, do it promptly and vigorously, take the full loss of scaled-down debts and scaled-down prices, and from then on seek to reestablish a working concern at the lower level.

Senator BROOKHART. We have no constitutional power to scale down debts.

Mr. MILLS. That would be difficult. At least it would get us through the agony sooner.

The third choice is real inflation, not necessarily aiming at this level, but aiming to raise these lower prices. How to secure that third result, I do not attempt to say.

Senator BROOKHART. You said a moment ago that we would have to have experience. We have had 18 years' experience at this, and this is the mess we are in now. How long is it going to take by that method to get out?

Mr. MILLS. Eighteen years is a long time in our lifetime. It is a short time in the history of our economic system.

Senator BROOKHART. Your idea is that we want to correct it for the ages to come?

Mr. MILLS. No. I would like to correct it to-morrow, just as much as you would. I do not think you would accomplish the correction by making this bill a law, particularly as regards that arbitrary standard.

Senator BROOKHART. I do not think it will accomplish all of it myself, but I do think that it will raise the general price level, and then I think we are going to have to have some special treatment for labor and for agriculture. I think that will level it up.

Mr. MILLS. It might conceivably intensify our difficulty to have a mandatory raising to a certain level. It is possible, as you suggested, Senator Carey, that the effect would be to raise the prices of things the farmers buy. Would you then, Senator Brookhart, if you were on the Federal Reserve Board, continue to inflate, if you were making the farmer's position progressively worse with every new million put out?

Senator BROOKHART. If I were on the Farm Board I know what I would do with farm products. I would soon find a way to get the cost of production, the same as Ford does for his jitneys.

Mr. MILLS. It is the mandatory feature which I think is unwise, because we do not know what the effect of a credit expansion would be or just where it would express itself in our price system.

Senator CAREY. The Federal Reserve Board can do this thing without law, can it not? It is doing it to-day, is it not?

Mr. MILLS. They are attempting to do it.

Senator CAREY. Is there any other method by which they could do it than the method they are pursuing now?

Mr. MILLS. I suppose none that the Federal Reserve Board could employ.

The CHAIRMAN. Is it not conceivable that the Federal Reserve Board might get enthusiastic and go altogether too far in this matter, so that it is a matter for Congress to tell them where to stop?

Senator CAREY. There is no other way they can do it that I can see.

Mr. MILLS. None with the Federal Reserve Board.

Senator CAREY. Unless they print money.

Mr. MILLS. That, I take it, is not within their power to-day.

Senator CAREY. It is not under the present law.

Senator FLETCHER. They think the situation has been benefited by proceeding as they have.

Mr. MILLS. Commodity prices have fallen more swiftly in the last two weeks than they have in the last two months.

Senator BROOKHART. I think that is true of agriculture.

The CHAIRMAN. Does that conclude your statement, Doctor?

Mr. MILLS. That concludes my statement.

STATEMENT OF ROBERT G. ELBERT, NEW YORK CITY

The CHAIRMAN. Give the reporter your name, address, and occupation.

Mr. ELBERT. Robert G. Elbert; 599 Madison Avenue, New York. I shall make my statement brief.

Our major problem to-day is debts. This applies not only to governments, municipalities, and corporations, but to every individual. To my mind, there is no difference between the farmer in Texas or South Dakota, who is unable to pay his mortgage, and England who can not pay us what she owes. Neither can pay their debts (at existing commodity prices) with the 1932 dollar.

There is but one solution—the 1926 dollar must be restored by raising commodity prices, or defaults, with wholesale bankruptcies, will continue to a greater degree, just as surely as night follows day. I have for the past year and a half been urging the Federal reserve officials to expand the credit base, to remedy this condition.

If the Goldsborough bill becomes a law, and is properly operated, it will be the greatest distributor of wealth our country has ever seen.

As I understand the bill, it refers primarily to wholesale commodity price levels; but I believe that if put through it should refer to general prices.

I have a chart showing, from 1896 to 1931, inclusive, (*a*) bank credit outstanding; (*b*) the general price level; and (*c*) wholesale commodity prices.

The CHAIRMAN. I think it is a very significant chart that he has.

Senator CAREY. That is your chart, is it not, Senator Brookhart?

Senator BROOKHART. Mine was a chart of stocks.

(The chart referred to faces this page.)

Mr. ELBERT. This chart embodies "A," Index of Bank Credit Outstanding (total loans and investments of banks); "B," Index of the General Price Level; the different factors comprising it have been weighted as follows:

	Per cent
Industrial commodity prices at wholesale	10
Farm prices at the farm	10
Retail food prices	10
Rents	5
Other cost of living items	10
Transportation cost	5
Realty values	10
Security prices	10
Equipment and machinery prices	10
Hardware prices	3
Automobile prices	2
Composite wages	15

This index was compiled by Carl Snyder, who published the details of compilation in the Harvard Economic Review of February, 1928; " C," Index of Wholesale Commodity Prices (B. L. S., Department of Labor).

The chart runs from 1896 to 1932, and if you will study it you will see it shows that the normal annual growth of this country was about 3 to 4 per cent.

Senator CAREY. What do you mean by " normal growth "—business growth—financial growth?

Mr. ELBERT. Production of farm produce, commercial and industrial output, wealth and all therein embodied—all these increased on a basis of about 3 or 4 per cent. This growth is very easily seen by the figures of the census.

Senator CAREY. They ran pretty evenly, did they not?

Mr. ELBERT. You will note they ran evenly from 1896 to 1914, just before we entered the World War; then credit expansion began and the general price level followed up, whereas wholesale commodity prices lagged behind for a couple of months. Of course, it is possible and probable that the shooting up of wholesale commodity prices in the manner in which they did, was the result of the war. There is really no doubt about it, for such has been the case throughout every war. But when they broke apart here [indicating] and credit was restricted in 1919 and 1920, you can see that the general price level stayed along with that line more than with the other, and the wholesale commodity prices went off.

If this bill could be based on a general price level, which includes more factors than just wholesale commodity prices, the buying power of the dollar could probably be better controlled.

Senator BROOKHART. While that is true, the general price level here has stayed much higher than the index of wholesale commodities, yet the relative position is not much different. Supposing we should change this law and say that we go back to the 1926 level of general prices. You would only go from the point where that price level is, up to 1926, and there would not be as much of a rise as there would be if you took the wholesale prices of commodities.

Mr. ELBERT. Senator, would you not infer from this chart that it is a question of open-market operations and credit expansion by the Federal Reserve Board that would affect this one way or the other? This is running along with the credit outstanding, the credit put out by the Federal Reserve Board.

Senator BROOKHART. They are going to do it, of course, by credit control; but, we are directing them how much to raise this price level; and if we put it on the general price level, it would not start down here [indicating]. It would start up with the general price terminal there [indicating], and all it would rise would be from that point up to 1926, or whatever we want to. On the other hand, we start lower, and I think we raise it more, but by the same means.

Mr. ELBERT. I agree with your theory on that, Senator. The thought I want to convey is this: The curse of our situation to-day is the changing purchasing value of the dollar. Regardless, in my opinion, of where we start to-day, or how we start, if we permit any man to manipulate the dollar, he can constantly change its value and determine how much it will buy. That man can own the world in time, because he can loan out his money on a certain valuation, then change the value of the dollar and pauperize the people.

The thing I should like to see done more than anything else is this—stabilize the buying power of the dollar in some way. How this can be done is the question. It seems to me that this would be a first step from which we could work, keeping pace with the normal growth of the country, allowing an expansion of, say, 3 per cent per annum. In that way we would advance and not go backward, one or the other of which we must do—there is no standing still.

Senator CAREY. According to your chart, the best way would be to abolish the Federal Reserve Board, because everything ran pretty smoothly until then.

Mr. ELBERT. The Federal Reserve Board has power to expand it.

Senator CAREY. You never had this condition until you had the Federal reserve bank.

Mr. ELBERT. You had panics.

Senator CAREY. You never had the great spread between the various lines of your charts.

Mr. ELBERT. No; and this chart also shows what managing the gold does to the country, when we are on a gold standard.

Senator CAREY. It shows how well they have done.

Mr. ELBERT. It shows what we could do.

Senator CAREY. It shows what they have done.

Mr. ELBERT. Yes; it shows what they have done. Before we had a Federal Reserve board, the gol'd that came into the country went to commercial banks, and they could expand their credit in proportion to the amount of gold they had. Now, when you have Federal reserve banks, with all the gold, then can—through open market operations—expand the credit base, which in turn expands the credit structure.

The Federal reserve banks have been claiming that they have been buying $25,000,000 worth of bonds a week, since back in February, and that is true; it is confirmed by the Federal reserve reports; but what they really have been doing is this: While they were doing that they—until five weeks ago—were also letting bills run out, which more than offset the good that buying bonds was doing. They did not explain it to anyone; they just kept quiet and let the people interpret these things. The newspapers interpreted it that way, and the public thought they were inflating. The result was that they were restricting credit, while the public believed that credit was being expanded.

Senator CAREY. You mean they have not been inflating the currency?

Mr. ELBERT. They have not been inflating; and you may look at the statements of the Federal reserve banks, until five weeks ago, when they began buying. I think the first time it was $93,000,000, and then they jumped it up. We have had it for five weeks now. Nearly everyone will agree that it takes anywhere from three to nine months for open-market operations of the Federal reserve banks to become effective in business. Mr. Meyer said as much this morning. "There is a lag there."

We have only begun to inflate here in the last five weeks. It has been done at a very fast rate. The result is that a great many member banks are getting out of debt to the Federal reserve banks; and as they accumulate surpluses and increase their reserves, it is naturally to be presumed that in time they will begin to buy good bonds and stocks, and so forth; then this new credit gets into business and new bond issues can be brought out, and that will create employment. That is the way credit expansion is supposed to work.

Senator CAREY. There is no tendency that way yet.

Mr. ELBERT. There is some tendency; there is some firming up in things, and they are going ahead. Sugar, for instance, is showing the effect of it, and wheat is showing a tendency that way.

Senator CAREY. Does the short crop predicted for wheat have an effect?

Mr. ELBERT. It has a big effect; there is no doubt about that. Possible war between Japan and Russia might have something to do with that.

One of the worst things the member banks are doing, as I see it, is reducing security and commercial loans. As long as anyone having funds to invest sees that the member banks are still forcing a reduction in collateral loans, he knows that means real selling; and while that continues, no one, in my opinion, is going to buy stocks and bonds. When it stops, I think we shall see security prices begin to go up, and people will begin to buy them; and that will change the whole aspect of the economic situation.

Senator BROOKHART. The other chart here shows——

Mr. ELBERT. I know; there are so many charts.

Senator BROOKHART. This is commodity prices. Look where they were in 1929. Your stocks were way out here somewhere [indicating on chart].

Mr. ELBERT. Yes.

Senator BROOKHART. They do not run together with commodity values at all.

Mr. ELBERT. That is one of the dangers. I do not know whether this bill is going to be more harmful——

Senator BROOKHART. Those stock values are still above the 1914 level.

Mr. ELBERT. Some of them are.

Senator BROOKHART. I have a chart showing that the average of the whole outfit——

The CHAIRMAN. I think the chart is dated back a good while, and there have been a good many changes.

Senator BROOKHART. It is dated March 15. There has been some drop, but they are still above the 1914 level. The 1914 level was 33 per cent above 1904, which comes nearer the general level.

Mr. ELBERT. I hope I have made myself clear, because I believe this is a good bill; but you should realize that when it is passed and executed there will still remain the discrepancy between different prices.

I want to stabilize the dollar, but I realize—and this is the point I have tried to make clear—that even after you get a stabilized dollar there may still remain differences between farm products and farm implements or security prices.

For example, the prices of farm products have fallen approximately 53 per cent since July, 1929, but the prices of farm implements have fallen only 13½ per cent. The abundance of Federal reserve credit from 1926 to 1929 did not put up wholesale commodity prices, but it did put up security prices. It follows then that the responsibility for the discrepancy in prices caused by the use of this credit is up to the commercial bankers. For example, this credit was used from 1925 to 1929 through loans abroad by these bankers, therefore accentuating the problem that will confront the Federal reserve bank officials of controlling this credit after they have manufactured it, and I doubt if they can do it.

Don't let us overlook the importance of this bill, because, to my mind, it ranks only second with the passing of the Constitution of the United States, for it mandates the Federal reserve banks, not only to increase credit, but how it is to be used; and it may create an invisible government or power equal to our constitutional government.

Therefore, in submitting this chart, I believe the simplest means to accomplish a stabilized purchasing power or honest dollar would be to take a much broader base which we could call a general price level; and also, inasmuch as our country is a growing one, we should add an amendment that, after stabilizing the dollar around the 1926 general price level for, say, two years, we should allow for the normal growth of the country and let this credit expand at a rate of between 2 and 3 per cent per annum.

Finally, let us not forget that, even though we have such a competent man now as Mr. Meyer at the head of the Federal Reserve Board, there are the other members of the board with their opinions and decisions. There are also the 12 regional Federal reserve banks; and, finally, Mr. Meyer has to persuade the member banks to act. There are a great many commercial banks who are not members of the Federal reserve system. Therefore, don't expect too much from Mr. Meyer; he has his difficulties. He " leads the band," but remember there is always a French horn-player who might ruin the harmony.

Is there anything else?

The CHAIRMAN. No; thank you very much.

Senator FLETCHER. I was going to suggest, inasmuch as we have finished with these witnesses now, that Professor Fisher has been here all morning. He has heard the statements of Governor Meyer, Mr. Miller, Doctor Mills, and these parties who raise objections as to the practicability of this system, saying that it is impossible to carry it out, and all that. I know Professor Fisher has some views on that subject, and I would like to have him express them to the committee for a few minutes. It will not take long.

The CHAIRMAN. No one objects to that. Doctor Fisher, we will be glad to hear from you again.

FURTHER STATEMENT OF DR. IRVING FISHER, ECONOMIST, NEW HAVEN, CONN.

Mr. FISHER. I have listened with a great deal of interest to Governor Meyer and Mr. Miller this morning and Professor Mills this afternoon. Professor Mills is an expert in his line—the price structure—and he has told you, on the basis of his specialty, some of the points and difficulties as he sees them.

I suppose he intended that his testimony should be, on the whole, against this bill, although he said he was in sympathy with the purposes of it. It seemed to me that his testimony was very strongly in favor of the bill.

He said that if all prices rose in the same relation or fell in the same relation, there would be no harm from this inflation or deflation. That would be true, if you include debts in your prices. Afterwards, he said he did not mean to include debts, and therefore that invalidated his statement.

The CHAIRMAN. Let me ask a question. Would you not also have to go one step further and include all fixed charges, such as taxes?

Mr. FISHER. Yes; you would have to include them as prices.

The CHAIRMAN. You would have to include those commodities that are fixed by trust agreements or otherwise.

Mr. FISHER. Yes. You would include bonds, which, of course, are debts, and wages, and customary fees, taxes, postage stamps, and so forth. It is perfectly true that if we could get a perfect adjustment and make everything go up or go down in proportion, including debts, no harm would be done. In other words, one price level is just as good as another, and a changing price level is just as good as a stable one if you can make the changes all around.

The harm comes primarily from the fact that debts do not change, while other things do; and additional harm comes when you disrupt the price structure in other ways, as Professor Mills showed in detail.

But the divergencies that he showed in his charts, which are extremely interesting, are largely due to the deflation itself.

I have made studies along the same line. You will find, in my book on index numbers, that I took, as the period for studying the widest divergencies of prices, a period of great inflation. If you have a period of great inflation or a period of great deflation, you have these divergencies at their maximum; and it is, as Mr. Mills said, one of the terrible consequences.

To my mind, we want stability in order to avoid a destruction of the price structure, as he calls it; and if you have a stable price level, or if you have the wholesale commodity index there stabilized, the divergencies or dispersion of prices that he has exhibited would not exist to anything like the degree to which they exist now. This dispersion is a by-product of the deflation or the inflation, and one of the worst. In a general sense, it is the only injury—the fact that debts and everything do get out of line.

Senator CAREY. Why should there be a greater shrinkage in one kind of product than in another? For instance, why should farm products fall so much more rapidly than others, when you have a period of deflation?

Mr. FISHER. Each price has a kind of coefficient of adaptability. When you had this enormous rise in prices, the 5-cent fare in New York City remained a 5-cent fare. In Boston it jumped to 10 cents. It did not go through the various stages, from 5 to 5½, 6, 6½, and so forth, as on the stock exchange, because there is little adaptability in that sort of price. Everything is adjusted to have it constant; and so the 5 cents you drop in the telephone box is not going to change overnight with inflation or deflation. It is more or less fixed. So with your postage stamp, and so with all contractual prices or legalized prices or customary prices, including salaries and wages, and certain retail commodities such as typewriters. They will stay, year after year, at the same figure.

Senator CAREY. Because they fix the price.

Mr. FISHER. Even when there is competition, certain prices stay by custom. It is largely because competitors do not like to break the prices, but it is not necessarily because of any price agreement.

If you have, in other words, a stable price level, the evils to which Mr. Mills referred are reduced to a minimum.

He said that if you tried to get back to a normal level from where you are now, on the general level of prices, these divergencies would not be made up. They would not entirely. Why should they? In a dynamic world, everything is constantly changing. It would be entirely wrong if you could all get back to the price relationships of 1913, or 1926, or an average of 1921 and 1929. All you can expect is an average. Nor can you help debtors so that ideal justice is done, by any such act as this. Some will be helped more than they deserve, and some less. People who have gone broke and gone through the bankruptcy courts can not be helped at all. Men who have committed suicide can not be resurrected. There are lots of things that you can not correct, but that is no argument against stabilization, which, in an average way, will accomplish so much.

Senator FLETCHER. His objection, as I understand, and the point of the others this morning, was to the effect that we can not fix any standard or guide or specify any requirement as to what they must do or must not do. It may work to our advantage, and it may work to our disadvantage, to have any standard fixed. They do not seem to object to stabilization, but they do not want any control or any power to expand or contract. What have you to say about that?

Mr. FISHER. I think, myself, it would be quite possible to make the requirement a little less rigid. You could say, "so far as possible." They object that they are compelled to do a certain thing absolutely, or be regarded as defaulting. You certainly do not want to be unreasonable and require them to do something that they can not do. It would seem to me perfectly reasonable to say "so far as they can," or something of that sort, so that they would not have any excuse.

Senator BROOKHART. Doctor Miller said this morning that a price-level index was an imaginary thing, that it had no reality.

Mr. FISHER. He spoke of it as a metaphysical existence. I was, I confess, very much surprised to hear that statement. I had supposed that he was very familiar with index numbers. That statement used to be made when I began my studies of economics, and it was a very common opinion; but to-day practically nobody holds that view, because our actual practical studies in index numbers have shown that they have a tremendous meaning, and a tremendous degree of accuracy.

I am sorry I have not brought my book on index numbers with me, but I have there assembled a great many costly calculations, which show that you get substantially the some result whether you use one method or another, provided it is a reasonable method, with one group of commodities or another. If you take 20 commodities, 200 commodities, or 2,000 commodities, and do not "stack the cards"; if you take them at random, or in any fair way, or try to be fair about it, you will get remarkably close results between your different methods.

Senator BROOKHART. Then, you feel that, if we use this wholesale commodity index, we will get about the same result as if we used the index of general prices?

Mr. FISHER. No. I am glad you asked that question. I would like to modify my answer to make it clearer. What I meant to say was in reference to wholesale commodity prices reckoned in one way or another. You get very much the same result. But if you take wholesale commodity prices and stock prices, you will not get the same results. If you take wholesale commodity prices and retail prices, you will not get the same results. If you take wholesale commodity prices and wages, you will not get the same results. If you take Carl Snyder's index of general prices, including all these things—a very interesting index which has a great deal of value, but which I do not think has yet been developed so that you can put it into law—you will get a still different result, but the divergencies between these different indexes, wholesale, retail, stock prices, wages, debts, and a general inclusive index of all the divergencies between those indexes will be very much less if you have any one of them stabilized. The divergencies, as we find them, are great in a period of inflation or deflation, but are not so great if you have any one of the indexes stabilized. In other words, stabilization of any one means a certain stabilization of all.

Senator BROOKHART. This bill, or this chart, uses line C.

The CHAIRMAN. You are referring to the chart Mr. Elbert introduced?

Senator BROOKHART. The relationship between bank credit and prices.

Mr. FISHER. Yes.

Senator BROOKHART. Supposing, instead of C, the index of wholesale commodity prices, we struck that out of the bill, and substituted B. Would the operations of the Federal Reserve Board be much different to get the result prescribed by the law?

Mr. FISHER. Sometimes they would. The period that was mentioned, between 1920 and 1930, would be a case in point. Ordinarily they would not differ so very much.

Senator BROOKHART. They would start to raise these prices, we will say, at this point on B, over to the letter B. It is not so much different from C going over to the letter C.

Mr. FISHER. Not very much.

Senator BROOKHART. That is the way to figure it?

Mr. FISHER. Yes. There has been a great deal of discussion as to what is the ideal index number for stabilization, and the question has never been ideally solved. There is much to be said in favor of Carl Snyder's index, but in passing a law, you want to have something that is understood by the people, and to use methods that have been well tried. With all due respect to Carl Snyder—and there is no one who admires his work more than I; I think it is of the very first order—I think his index is something that is still in the process of being perfected, whereas the index numbers of the United States Bureau of Labor Statistics have been tried out for many decades, and they are also more easily understood by the people.

The CHAIRMAN. He includes a great deal more.

Mr. FISHER. Stocks, rent, wages, and everything under the sun. Personaly, I do not think it is ridiculous. Personaly, I would just as soon have it as this. In fact, I would a little rather, academically speaking; but when you come to practical legislation, you men have to face a practical question, and if you were to try to explain such an index as that, they would say, "What is a dollar, then?" Now, you can say, "A dollar is a composite of commodities in certain proportions, as shown to this committee, or the committee in the House, by Ethelbert Stewart, Commissioner of Labor Statistics." It shows you definitely what a dollar will be under this law.

Senator BROOKHART. Carl Snyder uses stock values.

Mr. FISHER. Yes.

Senator BROOKHART. I would object quite seriously to that, myself, because I think there is more fiction in them than in anything else.

Mr. FISHER. You would find a great deal of objection to it from a practical point of view. From the practical standpoint, I think it would be better to stick to what you have in the bill.

The CHAIRMAN. Is there anything further you want to touch on, Doctor?

Mr. FISHER. I think it should be pointed out that this bill does not confer any powers that do not already exist. It seemed to be implied by some of the testimony that it was a dangerous power that you were giving; but if it is a dangerous power, it already exists, and you are taking away from the danger by limiting the exercise of it. I quite agree that it is extremely dangerous—and that is one thing I did most emphatically agree with Governor Meyer about this morning—to leave to the discretion of any group the determination of what your dollar or mine is. It seems to me that it ought to be clearly pointed out that that dangerous power already exists, and you are trying to make sure that it is not abused.

Senator FLETCHER. They have been exercising that power to some extent since February. They did not do it before, and now they are beginning. They claim to have it granted under the Glass-Steagall bill. I think they always did have that power under the Federal reserve act, but they did not begin to do this thing until last February, and now they are pursuing this course, apparently with satisfactory results, although I was going to ask whether you observed any effect of this extension of credit and expansion idea on commodity prices, and if not, whether you think time enough has elapsed so as to indicate that.

Mr. FISHER. I do not think time enough has elapsed. I know that Governor Strong always said that several months lag existed between the open market operations and the effect on price levels. The first effect is to telescope the debts. As you put the money in circulation, whether you call it money or credit—new purchasing power in the hands of the banks—it goes right out again in paying debts to the Federal reserve. It is destroyed almost as fast as it is created, until they are entirely out of debt and "unhooked," as he expressed it, from the Federal reserve system. Then the more credit it dumped into the member banks, the more it embarrasses them to know what to do with it, and finally they have to extend credit and pass it on to the customer, and it raises prices. It all takes time.

Senator CAREY. That is exactly what they are trying to do now.

Mr. FISHER. Yes. Governor Strong used that with great success. He was the first one to see how this could be utilized, and he formed an informal open market committee himself. It had no official standing, but it meant cooperation between the banks, and for several years it worked extremely well.

Senator FLETCHER. Mr. Miller seemed to think that was of doubtful benefit.

Mr. FISHER. There was a great difference of opinion between him and Governor Strong. It reached an acute stage sometimes. That is one reason why it seems to me you should have a mandate. There have always been disagreements and bickerings in the Federal reserve system over the open market operations. They did not know themselves which way they were going, whether they were going to raise or lower prices, or stabilize prices; whether the price level was the primary consideration, or, as they said, in a vague way, the general credit situation, or what it was. In that way, you never get any real stabilization, and you get a different policy according to successive attendance at the different meetings. Sometimes a dominant man will be present, and he will guide the policy of that meeting. The next time he will be absent, and somebody else will be present, and you will get a vascillation there.

Senator FLETCHER. I suppose the actual experience that resulted from Governor Strong's course there showed that it was a wise course, and it demonstrated itself.

Mr. FISHER. It seems to me it did; the trouble has come since he died.

Senator BROOKHART. What is the added advantage of section 3 of Senator Fletcher's bill, over the Goldsborough bill?

Mr. FISHER. That, as I understand it, makes permanent the Glass-Steagall bill. I think it would be good. I should like to see it done.

Something was said, I think by Mr. Miller, in regard to prices fixing themselves, and the price levels fixing themselves. As I have already said before this committee, according to my understanding, a price level and a price are two distinct things, just as distinct as velocity and momentum. There is a factor in one not in the other. If you try to express a price level you will find yourself using entirely different words from those used in expressing a price. The price of wheat is how much? So many cents a bushel. But the price level is not so many cents a bushel. It is not so many cents a pound. It is 110 per cent, or 68 per cent. It is a percentage. It is a ratio. You get a price level, not by averaging prices, but by averaging "price relatives." You take the price of wheat, at so many cents a bushel this year, and the price of wheat in 1926, at so many cents a bushel, and divide one by the other, and you get a ratio, say, of 56 per cent, or whatever it may be. You do the same thing for some other commodity, and instead of 56 per cent, you get 62 per cent, or whatever it may be, and then you average those price relatives. The process is entirely different from averaging the prices.

Anyone who has studied index numbers knows that you get a very foolish result when you try to average the prices of things that are entirely unlike. You must first reduce them to percentages, which are homogeneous. Price level and price are two entirely distinct things, and the laws for determining price and the laws for determining price level are entirely distinct.

I am not one of those who believes in interfering with supply and demand very much. It is with great reluctance that I can consent to any price-fixing bill, or anything that interferes with the natural play of supply and demand. But what do supply and demand do? They fix the price of one commodity relatively to money, which means relatively to other commodities.

Senator BROOKHART. The tariff laws upset the law of supply and demand, and act as price-fixing agencies, do they not?

Mr. FISHER. Yes; but the fixing of a price level is an entirely different thing. As I have often said, it is easier to fix the general level of prices than it is to fix any individual price, because it is an entirely different thing. You can raise the general level of prices by inflation, to make it a thousand times what it is now.

Senator BROOKHART. It is easier to figure the average cost of production than any particular cost.

Mr. FISHER. You could not fix the price of sugar 50 per cent higher than it is now—that is, out of line with other commodities.

Senator BROOKHART. Because of the world supply?

Mr. FISHER. No; because it is an entirely different problem to fix the price of sugar, than to fix the general price level.

Take a somewhat different simile—not a very accurate one. It is the difference between fixing the level of a lake, and fixing the height of a wave. If you should try to fix the height of a wave in a lake, or in the ocean, you simply could not do it. The forces are so tremendous that it stays there only a second, and then it will elude you; but fixing the general level of the lake is merely a matter of pouring in or draining out the right amount of water.

Senator CAREY. You speak of fixing the price of sugar. If we inflated our currency enough, could we not bring a lot of sugar into this country?

Mr. FISHER. If you inflate the currency, you can raise the prices of everything, including sugar, but it would not be fixing the price of sugar relative to wheat, for example.

This is perhaps a little different from your bill, but since the question was raised, I mention the fact that I believe it is possible to control the direction of credit to a certain extent by means of a device which was never used, but which was suggested by Luther Blake, the head of the Standard Statistics Co. He told me in conversation not very long ago of this idea, and it appeals to me.

The banks could have a different reserve requirement for each class of loans. Brokers' loans would have a higher reserve than some other kind of loans. In that way, you would have selective control. However, that is not in your bill here, but I believe after this bill is passed, which I think is fundamental, there will be a lot of legislation that can then be built on it to help carry it out. I think the Federal reserve people will help then, rather than hinder.

The CHAIRMAN. You suggest, Doctor, that it be modified and be less rigid than in the present form, still serving the same purpose?

Mr. FISHER. I said that I would not object, if it would help the feelings of the Federal reserve system.

The CHAIRMAN. So long as it would serve the same purpose.

Mr. FISHER. To put in "so far as possible" or something like that.

Senator BROOKHART. If you put the word "substantially" in there, would not that serve the same purpose?

Mr. FISHER. Something of that sort.

The CHAIRMAN. You mean so that it would serve the same purpose, and be less objectionable?

Mr. FISHER. Yes. On the other hand, I wanted the third section, not in the Senate bill, but in the original Goldsborough bill, for changing the price of gold. If you had that, giving the power to change, either raising or lowering the price of gold, either for selling or buying, it would give the power, among other things, if we ever did need it, 10 years from now, or in any time of emergency, for any reason to get off the gold standard, to do so without having a long debate in the Senate or House, which would, in the meantime, embarrass us by withdrawals of gold. I really wish that could be put in, if not in this bill, then in a separate bill.

There are several things I would like if I were drawing this bill, that are different from its present provisions, and I have gone on record in the House hearings with regard to those points. If any of you are interested in going into them, they are fully covered in the House hearings.

The CHAIRMAN. Would you care to make brief reference to the changes you suggested in the bill?

Mr. FISHER. That was one of the things that I would like. That was in the bill, but it was taken out.

Senator FLETCHER. That is the thing we ought to keep in mind. Mr. Goldsborough left that out, because he apprehended difficulty in getting his bill through.

Mr. FISHER. Yes.

Senator FLETCHER. If we make a lot of amendments here, we may block the whole thing.

Mr. FISHER. Exactly. I was going to say that, Senator. I was just saying that you can not get a bill that will satisfy everybody. This bill is not exactly as I would draw it. It is not exactly as Mr. Goldsborough would draw it, but it has passed, now, and if you try to perfect it so as to suit Mr. Miller, Mr. Meyer, or myself, or any of you people here, I am afraid you are going to have a long time getting it through, and it is such an emergency measure that my suggestion would be to put it in such shape as will insure its passage. You men know more about that than I do. You know, in the give and take around the table here, what is necessary to get it out of the committee. You may know what is necessary to get it through the White House. My advice would be, if you can get it as it is, to get it through. If you have to modify it to get it through, some other way, modify it and get it through, and then I believe there will be a lot of legislation that will come out of it and stand on it, which will be necessary to perfect it, and that will take years. It will take a long time, anyway, before this bill will attain its objective.

Senator FLETCHER. The main objection seems to be that they can not do this thing that they are told to do; that it is not practicable, and probably not possible. But if they find they can not, then they can come back and ask for a change of the law.

Mr. FISHER. Yes.

Senator FLETCHER. We think they can make headway, at any rate, and that they can really do what we tell them. I have not any doubt in my own mind that they can do it, but they seem to think they might not be able to. If they do not go all the way they can go part way and make some progress.

Senator CAREY. They are trying to do that very thing right now.

Senator FLETCHER. Absolutely.

Mr. FISHER. Much has been said about it being impossible to do it because of other countries; that you have to raise the price level in all countries. But I went into that when I spoke before. It is true that all countries having the same standard, the gold standard, have to have their prices go up and down together, so far as international commodities are concerned. That will more or less take care of itself.

The CHAIRMAN. Therefore, you feel that the inflationary effect of this bill would apply only to those commodities that are marketed domestically?

Mr. FISHER. No. I think all other gold-standard countries would be affected by our own action, but I also think you want to get international cooperation. One of the things that should be done as soon as this bill is passed is to have an international conference to try to bring about cooperation, and ultimately this money problem is never going to be solved until it is internationally solved; but if you wait to get that first you are not going to help.

The CHAIRMAN. Is there gold enough in the world with which to stabilize the situation?

Mr. FISHER. I think there probably is in the countries that have it. There are only two important countries that have gold to-day.

The CHAIRMAN. But the others have their markets. If we are trying to stabilize it all, I am wondering whether it can be done with the quantity of gold available.

Mr. FISHER. The nongold-standard countries would be quite out of it. China is out of it.

The CHAIRMAN. Or would an international agreement have to be on a bimetallic basis?

Mr. FISHER. I think one of the things that can and should be done later would be to have a broader metallic base—not through bimetallism, because that is a very unstable method, but by some other plans that I might mention if I had time.

The CHAIRMAN. I may be mistaken, but I think there would be two ways to get a broader base. One would be to produce more gold. The other would be to use some other metal, or some additional metal.

Mr. FISHER. If there were time, I would go into that in some detail. I think there is a very specific method. The best method for that purpose was worked out by Mr. Rand, who is here. It would take some little time to explain it, and it does not really belong to this bill.

When you have this bill passed, as I say, it is merely a declaration of purpose, that it is the policy of the United States to reflate and stabilize. It does not matter so much where the level is that you are going to. It will take a long time to get there, anyway. But you are going to do those two things. After that is done, you can have modification in the means of doing it worked out separately.

The CHAIRMAN. Briefly, what are the causes of the present situation? Is the cause largely monetary?

Mr. FISHER. I think the cause is nine-tenths monetary.

The CHAIRMAN. If you were to go further and try to point out the causes, what would they be?

Mr. FISHER. The thing started with too much debt; partly speculation in the stock market; partly the debt of the farmer; and partly the intergovernmental debts, and the reparations debts; partly the installment buying debts, and a great many others.

As you have been told, there was an estimate of $203,000,000,000 of debt in 1929. As I have gone over that I find it is really considerably more than that.

Senator CAREY. Do not all deflation periods start from overexpansion of credit?

Mr. FISHER. I think that is the chief cause. I would not say it was invariably the cause, but it is usually, in the big deflations, the chief cause.

The CHAIRMAN. In the agricultural States we had 9 or 10 years of deflation before this collapse in 1929.

Mr. FISHER. Yes.

Senator CAREY. We had over expansion of credit before, during, and after the war.

The CHAIRMAN. But we were on a lower level, both of earnings and prices, for many years while the rest of the country enjoyed what we called national prosperity.

Mr. FISHER. If we had kept the price level at any stage, we would not have had the trouble. The debts merely started it off. The trouble is not debts so much as it is deflation, and the deflation has aggravated the debt burden. It is deflation, and you want reflation to correct that.

Senator BROOKHART. What do you think of the theory of a fraction of the national wealth as the dollar standard?

Mr. FISHER. I think that is on a par with Carl Snyder's idea. It is good—extremely good—but we have not the statistics as well worked out.

Senator BROOKHART. It would take further study to get at that.

Mr. FISHER. Yes.

Senator BROOKHART. One trouble about it is the fact that these prices are not stabilized, so as to be available as a money standard; is not that true? If we got a general stabilization, it would become pretty easy then, would it not?

Mr. FISHER. Yes; exactly so.

If I may, Mr. Chairman, I would like to read some extracts from Sir Arthur Salter's book, because it will show how the views that have been expressed here by me and by Professor Warren, and by other witnesses, are held by other economists across the sea.

The CHAIRMAN. How many pages would that be?

Mr. FISHER. It will take only a few minutes.

The CHAIRMAN. You would like to read them into the record?

Mr. FISHER. Yes.

The CHAIRMAN. Proceed.

Mr. FISHER. Sir Arthur Salter, as many of you doubtless know, was for years the head of the economics section of the Secretariat of the League of Nations. He has been very close to the economists of the world and the statesmen of the world, the banks of the world—the Bank of England, and all the rest—and is very highly respected as one of the great authorities in the world on this subject. His book, which has only come out in the last few weeks, is called Recovery, the Second Effort, and it has had a great deal of attention already.

He proposes exactly what this bill proposes as a remedy—reflation and stabilization. I have marked a few pages here that I would just like to quote.

On page 86, he says [reading]:

What the world needs now is an increase in the general world level of gold prices, preferably till it reaches the level of 1929. What it needs afterward is reasonable stability of the world price level.

You could not have a better statement of what the Goldsborough bill states than that.

On page 87, he says, in reference to individual countries [reading]:

Those countries, however, which have a gold surplus—

Meaning, of course, America—

could create new money so as to increase first their own and then the world gold prices, and at the same time set in operation forces which would correct the present economic and financial disequilibria.

Showing that one country can do something by itself.

Then, on page 100, he again says [reading]:

The world needs, in order to escape from the present depression, and then to have a basis for orderly progress thereafter, first, an increase in gold prices, and then stability.

Then, on page 336—this, perhaps, is not quite as pertinent as I thought it was. I had it quoted for something else, but so long as I have mentioned it, I might as well read it. [Reading:]

A managed world currency, without the support, or the cost, of gold, should doubtless be the ultimate ideal. But such a currency needs a degree of international trust which does not now exist and would best be controlled through an institution which had acquired confidence and a reputation in many years of humbler work.

Senator BROOKHART. Suppose we do that for the United States alone. Would not that work all right, except in matters of international exchange?

Mr. FISHER. If it were scientifically done. [Continuing reading:]

A concerted world monetary policy, with an international bank as an instrument to help in applying it, would be of inestimable value to world trade.

You will find the same things in the writings of a great many other economists, so this is not simply the idea of a few people who have appeared on behalf of the Goldsborough bill. It is almost the universal opinion of economists.

The only difference between Doctor Mills and myself is that he has emphasized the shortcomings. I might do the same thing. I refer you to my testimony to find criticisms of this, made in the House. But in order to get something done quickly it seems to me that we can not do better than go right on with what you are doing and then make corrections later.

Senator FLETCHER. The committee has before it the Goldsborough bill and the King resolution calling for this international conference. We have that resolution before us now.

Mr. FISHER. I hope you will pass it. It seems to me this Goldsborough and Fletcher proposal is the most fundamental thing you have. Simply as it is, it is the basis for everything else.

The CHAIRMAN. That concludes the hearings on this bill.

(Whereupon, at 5.20 o'clock p. m., the committee adjourned.)

(Thereafter, at the request of Senator Fletcher, a letter from Srinivas Ram Wagel and a statement by George Shibley, were made a part of the record, as follows:)

NEW YORK, *May 13, 1932.*

Hon. DUNCAN U. FLETCHER,
United States Senate, Washington, D. C.

MY DEAR SENATOR: I thank you very much for your letter, and appreciate your having read my concluding article with interest.

It is, indeed, very kind of you to ask for my views on the House bill of Mr. Goldsborough now before the Senate Banking and Currency Committee, and which enjoins upon the Federal Reserve Board, the Federal reserve banks, and the Secretary of the Treasury to make effective the policy "that the average purchasing power of the dollar as ascertained by the Department of Labor in the wholesale commodity markets for the period covering the years 1921 to 1929, inclusive, shall be restored and maintained by the control of the volume of credit and currency."

The Federal Reserve Board is doing it now in a fairly large way, i. e., trying to control the volume of credit and currency, with a view to raising prices. In fact, they have started inflation, under the provisions of the Glass-Steagall bill. But, prices are still going down. Whether similar operations on a larger scale will be productive of results is a matter for inquiry.

Under present conditions the Goldsborough bill or something else like your own proposal is the only possible avenue of escape from depression. I still believe that devaluation of the dollar will be more effective and productive of more permanent results than inflation. But, the idea of devaluation is sort of terrifying; there is little chance of such a proposal being accepted. The situation is urgent, and something has to be done very soon.

Under the provisions of the Goldsborough bill the needed currency, whether four billions or nine billions, can be issued easily. There is little doubt also that such currency will be added to the deposit of the banks. There is still no plan by which the new money can reach the avenues, where it will do the most good. If Congress supplements the Goldsborough bill with legislation which will effect this, it will then be a worth while accomplishment.

Permit me to explain the situation briefly, as I understand it. In theory the banks, whose deposits will bulge with the new money, will be forced to make loans freely, or buy securities, particularly industrial bonds; in either case, the money should reach the people, who are supposedly inactive because of the lack of credit. The truth is that the banks can do neither under prevailing conditions. The reasons are as follows:

1. There is very little demand for credit, from responsible individuals or institutions. The large corporations have a large volume of current assets, including cash; if there is demand for goods, they can work full blast, almost immediately. Their inactivity is an indication that demand for goods is not enough to justify the granting of credit to the small industrialist and retailer—who lacks funds to keep operating. These latter have little collateral to offer—in view of the heavy depreciation of securities and real estate.

2. The banks themselves are none too good a position. The bulk of them have taken full advantage of the instructions of the Comptroller of Currency to show values of their security holdings—either as investments or collateral for loans—at values, as of June 30, 1931. At date, security values have declined 50 per cent for stocks, and 22 per cent for bonds, between June, 1931, and May, 1932. Other collateral, like real estate and commodities, like copper on which the banks have made loans, have depreciated immeasurably. So the banks can no longer take the normal chances which they otherwise would.

3. The banks themselves hold approximately 50 per cent more securities than in 1929 in collateral and investments—in addition to their holdings of Government bonds. In fact, they are saturated with them. The bulk of their deposits are demand deposits; they have to liquidate to meet deposit withdrawals, which are heavy at this time, when those that can have to live on their savings and resources. The insurance companies have to meet increas-

ing policy loan demands. The banks can not load up on securities without endangering themselves.

As the banks can not help, and no nongovernmental agency can either, there is no other course open but that the Government should devise a method by which the new money issued reaches the users of such. Money, on the other hand, can not be given away. Therefore the Federal Government must arrange to purchase goods and services with the new money.

Salvation or relief from depression can not arise from borrowing. People in the United States must be accorded opportunity to earn, to work, sell, and buy. The only other way they can find relief is by the cutting down of their debts.

Therefore, inflation or the issue of large sums of new money must be simultaneous with Government expenditure on a large scale; only then will there be benefit. The United States can now spend on permanent national improvements like roads, housing for the poor, canals, water-power installations and such—some of which might be revenue producing in the future. This may be objected to as unsound economically; it may be such under normal conditions, but to-day it is unavoidable. All large issues of currency at all times and in all countries have been used for government expenditure. Prices will not raise until somebody buys and employs labor; no other agency but the Federal Government can do that in any worth-while scale in the United States at present. The Government can not any longer afford to let things drift, without very serious consequences to the body politic.

In my opinion the Wagner bill for public works affords a basis for supplementing the Goldsborough bill. However, no bonds or interest-bearing obligations should be added to the present total. We have already a Federal deficit of $3,000,000,000. Bond issues may be necessary to cover deficit.

Therefore, if the bill of Senator Wagner, or something similar, to authorize Federal expenditure of, say $5,000,000,000 for national public works, is, in some manner, combined with the Goldsborough bill, which should only give power to the Federal Reserve Board to issue currency to pay for such public works, we are bound to have a rise in prices, and a solution, although temporary, of the depression.

I have endeavored to express as briefly as possible the salient points in connection with the Goldsborough bill. My article with full details and supporting facts and figures will appear shortly, and I will take the liberty of sending you a copy of it. With best regards, I remain,

Very truly yours,

SRINIVAS RAM WAGEL.

STATEMENT BY GEORGE SHIBLEY

Mr. Chairman and members of the committee, I am submitting this statement in writing. My name is George Shibley, of Washington, D. C. I am an independent economist, aiming to help end the depression by telling Congress of the imperative need that it instruct the Federal reserve system to take the necessary steps to end the deflation in the quantity of the people's medium of exchange.

In other words, the Senate should join with the House in enacting the Goldsborough-Fletcher bill to instruct the reserve system to restore to normal the quantity of the people's money and bank credit, and then to stabilize the height of the price level.

This is preliminary to pointing out, first, the dreadful extent that deflation is being continued by the organized bankers' control; and, second, that the only practical way out is the passage of the Goldsborough-Fletcher bill.

THE DREADFUL CONTINUING DEFLATION

Since the assembling of Congress the first week in last December the Congress and the President have enacted nine relief laws for the ending of the depression, but the depression continues to grow and now the depression is galloping on.

That is, from October 21, 1931, the deflation in loans in member banks in the reserve system has been 13 per cent; and the deflation in monetary circulation has been 2 per cent. (Weekly Reports by Federal Reserve Board.)

Since the date of the passage of the Glass-Steagall currency law, February 27, this year, the deflation in loans in member banks has been 7 per cent in two and one-half months; and the deflation in circulation has been 3 per cent.

During the past week the deflation in loans at member banks has increased to a shortage of $125,000,000, and the fall in the price level has increased in speed, to 65.1 on May 7, the index of the Department of Labor.

THE EXPLANATION

The explanation is the organized bankers' control operating through the open-market committee of the 12 reserve banks, the banks of issue. The Government's commission, the Federal Reserve Board, has relinquished control over the quantity of the people's medium of exchange except to approve or disapprove the open-market policy of the organized bankers. In other words, the Federal reserve law places in the Federal Reserve Board a Government regulation of the banks of issue. Section 11 and paragraph (j) says:

"The Federal Reserve Board shall be authorized and empowered * * * (j) to exercise general supervision over said Federal reserve banks."

Yet with this statutory law the Governor of the Federal Reserve Board, Eugene Meyer, in his statement disapproving the Goldsborough bill said:

"The Federal Reserve Board can only approve or disapprove the open-market policies and operations proposed by the reserve banks" (page 558 of House committee hearings).

The explanation is that the Federal Reserve Board by its own edict repealed the supervision by itself of the quantity of the people's medium of exchange; and the open-market policies of the organized bankers' control has continued the deflation by refusing to reflate sufficiently. Therefore the member banks in self-defense are calling their loans. The only practical remedy in behalf of the producing groups is for the Senators to pass the House bill instructing the reserve banks, the Federal Reserve Board, and Secretary of the Treasury to restore the height of the price level to the average for the years 1921 to 1929, inclusive "by the control of the volume of credit and currency."

After the passage of that instruction by more than two-thirds vote in the Senate, then if the officials in the reserve system shall still balk, quickly enact a law giving specific instructions as to the details of the reflation.

The banks of issue can lawfully purchase in the open market $2,000,000,000 of bills of acceptances and Government securities in a week, with an equitable distribution of the bills of acceptance in the various communities, and pay by the issuance of Federal reserve notes. Such a policy of reflation if accompanied by a declaration by the law-making department that the price level is to be quickly restored to the 1921–1929 level would result in a bull panic—a struggle to own property to get the rise in prices.

Gentlemen, I have told you of things which have been concealed for policy sake. But the increasing disorganization of private enterprise has become so dreadful that no longer is concealment practicable. I also quote from Senators Reed and Borah.

A CALL FOR A MUSSOLINI

On May 5 just passed, Senator Reed, of Pennsylvania, a major in the World War, said:

"Mr. President, I do not often envy other countries their governments, but I say that if this country ever needed a Mussolini it needs one now. I am not proposing that we make Mr. Hoover our Mussolini, I am not proposing that we should abdicate the authority that is in us, but if we are to get economies made they have to be made by some one who has the power to make the order and stand by it. Leave it to Congress and we shall fiddle around here all summer trying to satisfy every lobbyist, and we will get nowhere. The country does not want that. The country wants stern action, and action taken quickly, and that is what the President's message appeals for."

Senator Borah rose and said, "Mr. President, will the Senator from Pennsylvania yield to me?"

Senator Reed said, "I yield." And Senator Borah said, "Having the great respect that I entertain for the Senator, I wonder whether he wants the statement to stand which he made, that if ever this country needs a Mussolini it needs one now?"

Senator Reed answered, "This country needs courage in public office, and it has not been getting it. I do not think that we have given the country as good service as it is entitled to expect from us. I do not think we have shown either the energy or the courage the country had a right to expect from us. That is what I mean" (p. 9943, Cong. Rec.).

This appeal to end representative government was by a representative of the ruling few who had deliberately secured the deflation in the quantity of the people's medium of exchange, and Senator Reed on the preceding page of the Record said that the price level is not to be restored; and he ignorantly argued, "It can not be done, and we will not embark upon the incredible folly of trying to do it."

This leadership and that of President Hoover with his nine relief laws in the wrong direction are responsible for the depression, and Senator Reed now appeals for a dictator.

Contrast Senator Borah and more than a majority in the Senate who will vote for the Goldsborough-Fletcher bill to reflate and stabilice the price level. On May 16, 11 days after Senator Borah asked Reed, of Pennsylvania, if he desired his statement for a Mussolini to stand, Borah, in support of the proposition by Senator Couzens for a more drastic taxation of the large incomes, said:

"We have been advised by the Commander in Chief of the Army, and we all recognize it to be more or less true, that the situation which now confronts us is really that of war. All the powers of the Government are to be organized and enlisted for the purpose of controlling and directing the situation in the interest of the public" (pp. 10661–2).

Then Senator Borah quoted the following to show how a revolution might be started in the railway system, similar to the indirect strike of the spring and summer of 1920:

The railroad brotherhoods called on President Hoover and said:

"Within a short time the Congress of the United States will adjourn in order to have time to deal with political matters. Mr. President, we have come here to tell you that unless something is done to provide employment and relieve distress among the families of the unemployed we can not be responsible for the orderly operation of the railroads of the country—that we will refuse to take the responsibility for the disorder which is sure to arise if conditions continue" (p. 10662, Cong. Rec.). And the conditions have been rapidly becoming worse, as the increased rate of loan shrinkage shows.

Peace and an unprecedented prosperity are in the direction of reflation and stabilization of the price level, provided the needed next steps shall be taken for regulated private enterprise, the liberal program, the program for the restoration of liberty, civil liberty.

In contrast is the creditor-class program that is being perpetrated on mankind; and a third program is that in Russia, where there is no unemployment. Senators, take your choice of the 3-cornered programs!

(Thereafter Senator Gore secured the permission of the committee to have inserted in the record of this hearing the statements of Prof. Morris A. Copeland, of the University of Michigan, and of Prof. Benjamin M. Anderson, economist of the Chase National Bank, New York City, relative to the subject under consideration, as follows:)

Statement by Morris A. Copeland, Professor of Economics, University of Michigan

In considering the advantages and disadvantages of the proposed commodity price stabilization act, H. R. 11499, it will be well to begin by examining its meaning. H. R. 11499, in its present form, is not entirely free from ambiguity, and it will promote clarity if we make explicit the interpretation upon which the analysis to follow is based. The proposed act appears to mean that the Federal Reserve Board, the Federal reserve banks, and the Secretary of the Treasury are to be directed to exercise all their existing powers which may, in their opinions, affect the volume of credit and/or currency, in such a way as to raise the Bureau of Labor Statistics wholesale price index to, and to keep this index stable at a figure equal to the average of that index for the years 1921 to 1929, inclusive. Section 3 of the proposed act seems to imply that, where any previously authorized policy or procedure conflicts with this exercise of existing powers, this exercise of powers shall have priority, regardless of the nature or importance of the policy or procedure displaced.

It is further to be presumed that the phrase "volume of credit and currency" means "volume of credit and currency in the United States," and that in the absence of a more specific definition of the terms "credit" and "currency" the Federal Reserve Board, the Federal reserve banks, and the Secretary of the

Treasury are to have reasonable discretion in construing them, subject to court review. Further, the phrase "average purchasing power of the dollar as ascertained by the Department of Labor in the wholesale commodity markets" presumably means "the index of such purchasing power published by the Bureau of Labor Statistics in the form in which it may at any time be currently compiled, subject to revisions of this index by the bureau subsequent to the enactment of the proposed stabilization act." Finally, it would seem that the proposed act does not authorize the Secretary of the Treasury to make additional expenditures for public works construction or other purposes as a means of putting additional currency or credit into circulation, nor does it authorize him to alter the existing mint price of gold, or the existing methods of maintaining that price.

If this interpretation of the intent of the proposed stabilization act is correct, we may proceed to consider the advisability of the proposal. If the proposal is advisable in the public interest, it is clear that the proposed stabilization must be possible without causing more trouble than it cures. Assuming that changes in the volume of currency and credit under the control of the Federal reserve system and the Treasury have as their chief effect changes in the level of commodity wholesale prices included in the Bureau of Labor Statistics index, and that changes in this price level are chiefly due to changes in the volume of such currency and credit, the proposed act should function well in the public interest, provided that it is wise to stabilize at the 1921–1929 average as a norm, and that our existing technique of measuring the wholesale price level is fairly satisfactory. But if the exercise of our existing credit controls should have other important effects, the remedy might be worse than the malady it aims to cure. And if this group of commodity prices should turn out to be more responsive to factors other than such credit controls, the remedy might prove largely ineffective. Again, if the 1921–1929 average is not wisely chosen or if there are important defects in our existing technique of measuring price movement, stabilization of the Bureau of Labor Statistics index at this figure might prove to be unfortunate, although in general stabilization may be a desirable policy.

In considering the advisability of the proposed act, then, I believe we should try to answer the following questions:

(1) What are the relations between changes in the volume of currency and credit and changes in the Bureau of Labor Statistics wholesale price index?

(2) What are the existing types of monetary and credit policy which might be interfered with by the proposed commodity price stabilization policy?

(3) What are the principal causes of changes in the commodity price level?

(4) What are the merits of the 1921–1929 average as a stabilization norm?

Let us consider these questions in order.

(1) What are the relations between changes in the volume of currency and credit and the changes in the Bureau of Labor Statistics wholesale price index?

The term "volume of currency" may for the purpose in hand be identified with the official Federal Reserve Board compilation of "money in circulation." The effectiveness of money in circulation upon prices depends not only on its volume but also on how much circulating it does, upon what is called its "velocity of circulation," or the number of times the average dollar changes hands per year. Thus hoarding may diminish the effectiveness of money. The bulk of money payments made to-day is not made by "money in circulation" but by check, and the amount of this "money work" done depends partly on the volume of checking accounts outstanding and partly on the velocity of circulation of these deposits. Hence the proposed stabilization act does well to include "credit" as well as "currency." We may summarize the situation thus:

Total money work done=(volume of money in circulation) × (its velocity) + (volume of checking accounts or "deposit currency") × (the velocity of "deposit currency").

One of the principal purposes of the Federal reserve act is "to furnish an elastic currency." In pursuit of this object the Federal reserve system permits the volume of "money in circulation" and the volume of "member bank reserves" employed to support their checking and other deposit accounts to expand or contract according as member banks find needs among their customers for a larger or smaller amount of currency and deposits. This makes the volumes of currency and of checking accounts or deposit currency elastic. To attempt to restrict the volumes of currency and deposit currency to prevent a rise in commodity prices, or to attempt to force currency and deposit currency into circulation to stop a commodity price decline, would be to abolish the elasticity of the currency except when the commodity price level shows no upward or downward tendency. If we may judge by past experience, the policy of elasticity would be in abeyance most of the time.

Furthermore, we must distinguish between the degree to which the policy of expansion elasticity and that to which the policy of contraction elasticity can be abandoned. The Federal reserve system might abandon its policy of elasticity during a period of expansion, and closely restrict the amount of currency and reserve deposits of member banks directly, instead of relying chiefly on its indirect controls of money rates through its participation in the money market and of credit terms to member banks. Thus a maximum limit can be closely fixed for currency and probably also for deposit currency, although such fixation may be open to serious objections. But in attempting to prevent contraction it would still have to rely largely on the indirect methods of easier money rates and less stringent credit terms. It is easy to say "force currency into circulation"—it is not so easy to find ways and means to do this under existing mechanisms. The Federal reserve system can offer liberal terms of credit, but it can not well compel the acceptance of its offer, and it can not afford to make its terms so liberal as to be lax. Lax terms clearly spell disaster. And if the system could "force currency into circulation" in the sense of increasing the "volume in circulation," the system has no direct way of making it circulate. The proposed stabilization gives instructions as to how to exercise existing partial controls over the volume of "money work" done; it does nothing to improve those controls. The experience of 1929 has led many students of the problem to question the adequacy of existing monetary and credit controls for the restriction of expansion. Existing controls are certainly even less adequate for preventing or undoing a contraction of the volume of money work.

Let us look for a moment at the other side of the picture. On what is "money work" done? Even if we assume that the Bureau of Labor Statistics index is representative of all wholesale commodity price transactions and of retail price transactions to boot (and this is a doubtful assumption), we must recognize that these transactions account for only a fraction of "money work"—less than 25 per cent in 1929. Between 1925 and 1929 the Bureau of Labor Statistics wholesale index fell from 103.5 to 95.3 (yearly averages). Most of this decline took place between 1925 and 1927—a period when credit terms were favorable to the expansion of money work. During the years 1925–1929 wage rates were rising and a runaway stock market developed, while some other important prices moved up and others down. Clearly more than control of the total volume of money work is necessary to stabilization of the commodity price level. It is necessary also to control the channels through which money payments flow. Existing monetary and credit controls have very little influence when it comes to diverting the flow of money payments into or out of one of these channels.

Existing monetary and credit controls, then, exert some influence on the total volume of money work. That influence is less complete than is necessary to the successful operation of the proposed stabilization act. When we consider that to the successful operation of the proposed act it is also necessary to control the channels through which money expenditure flows, if an attempted contraction or expansion is to take effect on commodity prices, it is clear that existing monetary and credit controls are far from adequate to a stabilization of the commodity price index. Anything approaching the necessary control of the channels through which money expenditure flows would involve a radical change of existing mechanisms of control.

Even if it were feasible to control specifically the fraction of the total volume of money work which is done on commodity prices, the problem would not be solved. This fraction of the total money work fluctuates partly because of changes in the level of prices and partly because of changes in the number of units sold—tons of coal, barrels of oil, yards of cloth, bushels of wheat, etc.—changes in what is called the "physical volume of transactions." There are important seasonal fluctuations in the physical volumes of transactions, which have little or no relation to price movements, and the accommodation of which requires important changes in the volume of currency and credit outstanding. The secular growth of these physical volumes over a period of years also requires a secular growth in the volumes of credit and currency outstanding. The importance of having an elastic currency and credit system is accounted for in part by the necessity of accommodating these seasonal fluctuations and this secular growth of the physical volume of transactions. Existing monetary and credit controls can do little to concentrate the effect of an attempted expansion or contraction upon prices rather than physical volume.

To recapitulate, existing monetary and credit controls affect but can not fully determine the total volume of money work done. They could be used to set a maximum to the total volume of currency and deposit currency in circulation. They are less effective in compelling an expansion than a contraction of the volume of currency and deposit currency in circulation. Their influence upon the rate of circulation is indirect and incomplete. They can do little to direct the channels through which money expenditure flows or to separate the influence of credit controls upon prices from their influence upon physical volumes, in such a way as to concentrate action upon commodity price level changes.

(2) What are the existing types of monetary and credit policy which might be interfered with by the proposed commodity price stabilization policy?

I shall attempt only a partial enumeration of such policies. (*a*) The aim of the Federal reserve act "to furnish an elastic currency" and some of the reasons for this policy have already been noted. It should be added that for full effectiveness this policy needs to include elasticity of credit as well as currency. It is clear that an attempt to "control * * * the volume of credit and currency" would conflict with the policy of elasticity most of the time and might in so far undo one of the most onstructive features of the original Federal reserve act.

(*b*) The Federal Reserve Board in its tenth annual report offered as an objective of credit policy that it should promote "the smooth unobstructed movement of goods from the producer through the channels of distribution to their several ultimate uses." (p. 34.) This presumably means stabilization of business activity rather than mere stabilization of commodity prices. The commodity price level alone is far from an entirely satisfactory indicator of what is needed for business stability. During the expansion of business in 1926 which preceded the recession of 1927, the operation of the proposed act would have required a much easier credit policy than actually obtained, if the Bureau of Labor Statistics index which was declining had fallen below the 1921–1929 average selected as a norm. It is clear that a policy of commodity price stabilization may conflict with the policy of stabilizing business activity.

(*c*) During the two years beginning August, 1927, the Bureau of Labor Statistics index showed minor month-to-month fluctuations about a very stable level. Yet most students of the problem would agree that the Federal Reserve Board was rightly concerned during this period to try to check the wild orgy of stock speculation—would criticise the board, if anything, for not pursuing a more vigorous policy of checking credit expansion. It is clear that the operation of the proposed act would have prevented any efforts to check stock speculation whatever, unless the commodity price level had chanced to be above the average of the Bureau of Labor Statistics index which the proposed act has selected as a norm.

(*d*) The use of credit controls to influence gold movements has come to be a proverbial function of central bank policy in all important countries. In recent years, as the Federal Reserve Board notes in its annual report for 1927, this problem has been complicated by the need for restoring stability of foreign exchanges.

Gold may flow out of the country during a period of falling prices as it did at the outbreak of the war, or it may flow in during a period of rising prices as it did in 1922. A policy of tightening credit to check the outflow of gold might easily be prevented by the proposed stabilization act, if the Bureau of Labor Statistics index were below the established normal. So also a policy of easy credit to stabilize foreign exchanges might easily be prevented by the proposed act, if the Bureau of Labor Statistics index were above the 1921–1929 average at the time, although such a contingency seems unlikely in the near future.

These instances of other credit policies which might conflict with commodity-price stabilization are not intended to be exhaustive. They should illustrate the proposition that credit control has a great many different types of effect and that a wise credit policy will necessarily take these various lines of influence into account and select that course which combines a minimum of undesirable effects with a maximum of desirable effects. Price stabilization, even if there were no question that it could be fully achieved by credit controls, would necessarily not be the only objective nor even in every case the most important objective, of a wise credit policy. It may often be advisable, as it has been in the past, to give chief consideration to other objectives that more emphatically demand attention.

(3) What are the principal causes of changes in the commodity-price level? The commodity-price level has sometimes been thought to have an existence which is independent of the prices of individual commodities, so that a rise or fall may be caused in it without disturbing the relationships between individual prices. If this view is correct, the problem of stabilizing the level of commodity prices is a fairly simple one. According to this view, if the forces of supply and demand in a single commodity market lead to a price increase for that commodity, other commodity prices will fall just enough so that the price level will remain undisturbed. The price level, according to this view, is thus conceived to be like the sea level, and the individual prices like the levels of wave-crests or wave-troughs. The general level of prices, if this theory is correct, can be controlled independently of controls of individual prices.

The actual facts do not conform to this theory. A general influence upon prices which may lead to changes in the price level (e. g., a tightening or easing of credit), acts only through the supply and demand conditions in individual markets, and it puts pressure more promptly and more directly, and puts more pressure, on some prices than on others. Thus, the tight money of 1929 had an especially depressing effect upon the demand for building materials and for export goods purchased on credit, and helped to precipitate a collapse of the valorization program in coffee. But individual prices respond differently to a general influence, such as a tightening of credit, not only because it exerts pressure unevenly, but also because there are important differences in the abilities of different market organizations to resist the forces making for a price change. The combined result of a marked decline in demand and a strong resistance to price change may appear chiefly as a drop in physical volume of sales and only to a slight extent as a price decline. The recent history of steel is a striking illustration.

There is a further conflict between the facts and the view that the commodity price level has an existence which is independent of the prices of individual commodities. When the forces of supply and demand bring about a price decline in one market, the chief identifiable influences on other prices are sympathetic and not opposite: (1) A depressing influence is exerted on competing commodities. (2) If the decline resulted from a decreased demand, a depressing influence is exerted on demand for raw materials and labor and on earnings. (3) If the decline resulted from an increased supply of basic materials there is a depressing influence on the prices of the products made from them. A similar set of statements applies to the sympathetic influence of price increases.

This sympathetic character of price movements has an important corollary. When any considerable group of prices moves downward, the downward movement tends to spread to other prices and to become general. Such a general decline acquires momentum, and tends to continue. Decreased prices of commodities mean decreased cost of living and decreased demand for labor and decreased Government budgets. Decreased payrolls and taxes mean decreased purchases—hence, decreased demand which mean further price decreases. Such a movement of the "price level" or average of prices involves a vicious circle of declining prices or a cumulative movement. The declines of 1920–21, and 1929–1932 are examples. During the war we witnesed the converse process—a vicious circle of rising prices producing still further price increases. This rise of the price level was inaugurated by the widespread increased demand for munitions and war supplies and for labor to produce them and to conduct the war. As a partial explanation of the inauguration of the general price decline we are now experimenting, two factors may be noted: (1) The new phase of the industrial revolution that has been going on for a number of years and (2) the high interest rates accompanying the stock market boom. (1) The new phase of the industrial revolution has brought improved processes of production and the tapping of new areas as sources of the world's raw materials—hence, we have had decreased costs and increased supplies for many commodities, e. g. wheat, sugar, coffee, copper, tin, petroleum, rubber, paper, silk, and rayon. Changes of technique have decreaed the demand for other commodities through more economical use and through the use of substitutes, e. g. coal, leather, lumber, wool, and hay. (2) The high interest rates during the stock-market boom decreased the demand for good, the purchase of which required extensive borrowing. Thus Europe's demand for our goods declined in 1929 and domestic building construction was curtailed.

Such cumulative movements as the war-time rise and the 1920–21 and 1929–1932 declines account for some of the prolonged major swings of the price level. But during the period beginning in the latter part of 1923 and ending in the latter part of 1929 there were considerable fluctuations in the Bureau of Labor Statistics wholesale price index which were not clearly of a cumulative character, and which did not agree with what might be expected on the basis of credit conditions. The movement of the wholesale price index in this period appears as the resultant of the somewhat independent movement of various groups of prices. In a study of this period, I concluded:

"(1) The wholesale price level since 1924 has moved chiefly in response to changes in supply conditions and the prices of raw materials. (2) The price movements largely responsible for changes in the wholesale level are in industries where the output of raw materials is not closely or quickly adjusted to demand: bituminous coal, petroleum, and domestic agriculture; also certain crude imports. Corollary: If the wholesale price level moves chiefly in response to supply conditions in extractive industries, the road to stabilizing it is not, at least for the most part, a quick and easy one via credit mechanisms; under present conditions it is the far more arduous one of stabilizing cotton, wheat, and corn farming, hog production and marketing, and the bituminous coal and petroleum industries. So long as these industries remain unstabilized it will be difficult to avoid those fluctuations in the wholesale price level which have dominated its movements in recent years."[1]

Movements of the price level, then, may be (1) of the vicious circle type or (2) of the type that is merely a resultant of largely independent movements of somewhat separate groups of prices. In either case the price level moves because of the changed supply and demand conditions for individual commodities. The credit situation is only one of a large number of factors influencing these supplies and demands. Its action is neither prompt nor sure. The adequacy of credit controls to offset fluctuations of the price level like those of 1924–1929 is extremely problematical. It can do little to prevent the cumulative character or momentum of general price movements of the "vicious circle" type. That our credit controls could have been so administered in 1928–29 as to have prevented the inauguration of the present decline is problematical in the extreme. Although the violent cumulative decline began in the latter part of 1929, there has been a general downward tendency not only in our own commodity price level but in the commodity price levels of other important countries, at least since 1925, largely as a result of recent technological changes and geographic shifts of industry. Probably the most that can safely be said for credit controls regarding this downward movement of commodity prices is that possibly a much more vigorous credit check on the stock market applied earlier might have permitted the downward price readjustments of the new phase of the industrial revolution to take place more gently. The necessity for such downward price readjustments is certainly not a new phenomenon. This necessity characterized the progress of the industrial revolution throughout most of the nineteenth century.

One important factor which the proposed stabilization act fails to reckon with is that for many important commodities included in the Bureau of Labor Statistics wholesale price index the supply and/or demand conditions are of a world character. Assuming for the moment that we could by existing credit controls raise the average of American wholesale commodity prices back to the 1921–1929 level, could we expect to raise the prices of wheat and cotton, which are determined in world markets? There is no reason whatever to suppose that anything like the average percentage increase would be possible for these commodities without abandoning the stability of our foreign exchanges, unless the price levels of foreign countries were raised at the same time. If the United States were to undertake the stabilization program of the proposed act single-handed, and were to succeed in raising its price level, far from improving the plight of wheat and cotton farmers, it would make that plight distinctly worse. The prices of their products could rise but little; the prices of the goods they buy would rise by more than the average increase.

(4) What are the merits of the 1921–1929 average as a stabilization norm?

While stabilization of our commodity wholesale price level by existing credit controls would have many advantages, if we could achieve it, there is no peculiar virtue in the 1921–1929 average as the level for such stabilization. Quite apart from international complications, such as those involved in wheat

[1] Journal of the American Statistical Association, March, 1930, supplement, p. 169. This paper was presented in December, 1929.

and cotton, there are important relationships between domestic commodity prices and other domestic market adjustments which ought to be considered in selecting a norm. Stock prices, wage rates, rents, important types of taxes, and to some extent the capital structure of industry and trade have been in process of readjustment to the changes that have been in process during the past several years. The selection of the level to be used as a stabilization norm should be based upon a careful study of all the factors in the situation so that the level selected would require a minimum of further readjustments. It is doubtful whether a satisfactory level could be selected under present disturbed conditions. If, in spite of all the difficulties and the dangers enumerated above, it seems wise to try an experiment along the lines of the proposed act, it would be far better to name no norm in the act but to delegate the determination of the norm to the executives intrusted with is administration, leaving them a period of two or three years in which to reach a decision. Furthermore, in view of the fact that necessity for price readjustments involved in technological changes and the opening up of new areas and new resources is likely to be with us for a considerable period, it would seem wise to provide for the necessity of changing the stabilization norm if and when the Federal Reserve Board and the Secretary of the Treasury find that in the interests of minimizing the troubles incident to such readjustments it seems wise to do so. In this connection it is well to remember that downward readjustments of commodity prices accompanied the progress of the industrial revolution throughout most of the nineteenth century.

SUMMARY

We may summarize our conclusions as follows:

I. Assuming that stabilization of the Bureau of Labor Statistics wholesale index at the 1921–1929 level through existing credit controls is possible, it would have important undesirable effects:

(1) If the United States accomplished this type of stabilization independently of other countries, the prices of commodities largely dependent on an export market (e. g. wheat and cotton) would rise less than the index. Certain other prices would therefore have to rise more. Industries and trades dependent on the export market, as is a large part of agriculture, would be adversely affected. (See pp. 14, 15.)

(2) In view of the adjustments already made in wages, rents, security prices, taxes, and the capital structure of industry and trade, the raising of our wholesale commodity price level back to the 1921–1929 average would probably involve more serious further readjustments than would be necessary if some other figures than the 1921–1929 average were chosen as a norm. (See pp. 15, 16.)

II. In any case the continuing variations of the price level would involve the use of existing credit controls most of the time exclusively for purposes of price stabilization. Other important effects of credit controls could receive little or no consideration and other types of established credit policy would have to be abandoned, wherever they conflicted with commodity price stabilization. These policies include:

(1) The elasticity of the currency,

(2) Facilitating the smooth movement of goods from producer to consumer,

(3) Curtailing a speculative mania like that of 1928–29, and

(4) The control of gold movements and the stabilization of foreign exchanges. (See pp. 7ff.)

III. The proposed act adds nothing to existing credit controls. Stabilization of the price level by existing credit controls is impossible, for

(1) While the Federal reserve system and the Treasury can, by abandoning the policy of elasticity fix a maximum for the volume of currency and probably deposit currency, it can not fix a minimum; the Federal reserve system can offer liberal terms to member banks for putting currency and deposit currency into circulation but it can not compel member banks to accept. Further, liberality of terms would be disastrous if it included inadequate standards of credit standing for member borrowing. (See pp. 4, 5.)

(2) Existing controls (through the Federal Reserve system's participation in the money market) have some influence on the rate of circulation of currency and deposit currency, but they can not determine it. Nor can they more than very partially affect the channels through which money payments flow, so as to concentrate the effect upon commodity prices, and avoid unfortunate influences upon other economic conditions such as the physical volume of pro-

duction, trade, and consumption; the stock market; gold movements and foreign exchanges. (See pp. 4, 7.)

(3) Credit conditions are only one of many factors affecting the average of commodity prices. We can not through our credit controls prevent the important influence of special conditions in specific industries which dominated the price index from 1924 to late in 1929. Our credit controls can do little to prevent the cumulative character or the momentum of a widespread continued price rise like that during the war, or the cumulative character of a decline like that we are now experiencing. We can not through our credit controls avoid the necessity for general price readjustments due to world-wide changes in techniques and areas of production such as those that have been in progress at least since 1925. (See pp. 10–15.)

MORRIS A. COPELAND,
University of Michigan.

[The Chase Economic Bulletin, May 16, 1932]

THE GOLDSBOROUGH BILL AND THE GOVERNMENT SECURITY PURCHASES OF THE FEDERAL RESERVE BANKS

(By Benjamin M. Anderson, jr., Ph. D., economist of the Chase National Bank of the city of New York)

The Goldsborough bill brings home to us sharply the question of what should and what should not be asked of the Federal reserve banks. The bill proposes that Federal reserve bank credit policy should be guided by commodity prices. It directs the Federal reserve authorities to raise the general average of commodity prices at wholesale as measured by the Bureau of Labor Statistics to the average levels of 1921–1929, and to keep them there. The theory is that this can be accomplished by a great expansion of Federal reserve bank credit. After this level has been reached, Federal reserve bank credit is to be expanded or contracted depending on whether commodity prices are falling or rising.

I do not believe that the Goldsborough bill, with its absurd proposal to restore the price level of 1921–1929, has any chance at all legislatively. It is opposed by the Federal reserve authorities, it is opposed by the President of the United States, who would undoubtedly veto it if it were presented to him, and there is evidence enough that the Senate does not take it seriously. But the doctrine behind the bill, that the Federal reserve banks, and central banks in general, can and should stabilize commodity prices, has many adherents. There are many who believe that Federal reserve credit can work miracles, that Federal reserve policy can make prosperity by expanding credit and adversity by contracting credit, and that it is the business of the Federal reserve authorities to make us prosperous all the time. There are many who believe that it is in the power of the Federal reserve system, and, consequently, the duty of the Federal reserve system, to regulate the whole fabric of commodity prices and industrial activity.

In opposition to this new doctrine, I offer the old-fashioned doctrine, rarely questioned in pre-war days, well understood and well tested in experience, that central bank policy should be guided by the banking position of the country and the state of the money market, with heavy emphasis placed on the domestic banking position and the domestic money market, but with occasional cooperation with other central banks in international emergencies.

Whereas the new theory asks central banks to stabilize the commodities market, I maintain that they have a great enough task in steadying the money market.

THE OLD-FASHIONED VIEW OF CENTRAL BANK FUNCTIONS AND CENTRAL BANK POLICY

The traditional pre-war view of the duties of a central bank is definite, clean cut, and simple.

(1) It is the business of a central bank to protect the paper money of the country by converting it into gold on demand. This is its first and most essential function, and everything else must be subordinated to this.

(2) It is the business of a central bank to ease off monetary stringencies and to prevent business crises from degenerating into money panics. In a crisis,

the central bank supplies whatever money is necessary, at a steep discount rate. It enables solvent men to protect their solvency, but it does not regard it as its duty t ovalidate the unsound assets of really insolvent men, or to help defer the liquidation of stale positions.

(3) In times of great speculative excesses, whether in commodities or in securities, central banks should act to prevent the extension of unsound credits, to protect the liquidity of the banks of the country, and to check speculative excesses, by tightening the money market.

(4) It is not the business of a central bank to finance a boom—least of all—a stock-market boom.

CENTRAL BANK INFLUENCE ON THE MONEY AND CAPITAL MARKETS

What can central banks do with respect to commodity prices? First, they can influence commodity prices only through their influence on the money and capital markets. Second, central-bank policy is only one of many factors governing money rates and governing the volume of money and capital available in the money and capital markets.

There are five main sources of capital: (1) Consumers' thrift. (2) The turning back of business profits, including corporate profits, to industry and trade. (3) Taxation, when the proceeds of the taxes are used for capital purposes and very especially for the purpose of reducing public debt. (4) Direct capitalization, as when a farmer spends his spare time in building barns and fences, or putting in subsoil drainage, or when a farmer allows his herds and flocks to grow instead of selling off the annual increase. (5) New bank credit, the product of bank expansion, based on excess bank reserves, which may grow out of (a) inflowing gold, or (b) increased central-bank credit.[1] It is the abuse of this source of capital which is responsible for our present financial problems.

The money market proper is the market where bank deposits are exchanged for highly liquid loans, namely acceptances, call loans in the stock exchange, open market commercial paper, prime customers' commercial paper of short maturity, and so on. The capital market is the market where liquid funds are exchanged for bonds, for real-estate mortgages, for corporate shares, for real estate itself, and for other slow, less liquid, and more risky investments.

Rates of interest in the capital market and in the money market depend upon both supply and demand. There are many subdivisions in each of these markets, each with its own special supply and demand, and each with its own special rate or rates.

Normally, rates will be lower for the most liquid loans. Normally, rates in the money market will be lower than rates in the capital market, and, normally, there will be gradations and differentials in each of these markets favoring the shorter, safer, and more liquid loan or investment.

When funds grow superabundant in the money market proper, they tend, however, to overflow into the capital market, making rates lower on long-term loans, and making yields lower on fixed investments. Conversely, when funds grow scarce in the money market, the effort is made to turn fixed investments into cash, and, if the pressure is extreme, this can mean violent increases in the yield on fixed investments, as we have recently been seeing in the bond market.

We saw, in 1929, open market commercial paper above 6 per cent, with time money on the stock exchange at 8¾ per cent, and call money even as high as 20 per cent. At the same time, we saw many common stocks yielding only 2 per cent, and in some cases very much less than that. This was an appalling distortion, and we are seeing precisely the opposite to-day, in violent reaction from the distortion of 1929. To-day we are seeing call money at the stock exchange at 2½ per cent, time money at the stock exchange at 1¾ to 2 per cent, acceptances at 1¼ to 1⅜ per cent, short Government bills at one-half of 1 per cent, while the yield on many admirable common stocks is 10

[1] Many old-fashioned writers would deny that expanding bank credit is a source of capital. They would say that it is absurd to contend that the mere creation of two liabilities, namely, the liability of the borrower to the bank and the bank's deposit liability to the borrower, creates new capital. But, held within limits, it must be recognized that this is a real source of capital. The great trouble in recent years is that this source of capital has been overworked to an extent which passes far beyond the limits which any theory of credit can justify. See the Chase Economic Bulletin, Vol. VI, No. 3, November, 1926, pp. 24 to 27, and the Chase (November, 1920, pp. 318–326).

per cent, and the yield on many bonds, which by all credit standards should be dollar good, are fantastic.

What is the power of central-bank policy with respect to money and the capital market?

First, its direct influence is only on the money market. It can influence the capital market only indirectly as it first affects the money market. Second, in its influence on the money market, it can affect only the supply side. Demand it can not control. Taking money market and capital market together, it can affect the supply side of only one of the main sources of capital, our number five above, namely bank credit. Investors' savings, corporate savings, Government policy with reference to the paying off of public debt, and direct capitalization are all beyond the control of the central bank.

Even in the regulation of commercial bank expansion or contraction, central bank credit is only one[1] of five major influences, the other four being (*a*) international movements of gold, (*b*) the confidence of the people as manifested in their willingness to deposit their cash in the banks or their preference for hoarding cash, (*c*) the confidence of the bankers, as manifested in their willingness to lend or to invest, and (*d*) the confidence of the clients of the banks, as manifested in their willingness to borrow and use borrowed money.

The power of a central bank, therefore, to regulate even the money and the capital markets is limited, and we must not ask too much of it. We may properly expect it to prevent extreme variations, to moderate the movements in money rates and interest rates, to take up slack at times when rates are unduly low, to meet seasonal needs for increased hand-to-hand currency and seasonal variations in the commercial demands for credit, and, above all, to prevent fantastically high interest rates in times of crisis and emergency. But, under anything like normal conditions, it is quite unreasonable to ask more than this of a central bank.

Artificial manipulation of interest rates by a central bank seeking to overcome all the other factors in the money market and the capital market, generates troubles which lead to excessive rates in the other direction at a later time.

This proposition holds true for all markets. An artificially low price for coal would check coal mining, on the one hand, and lead to wasteful use of coal on the other, with the result that sooner or later a great scarcity of coal would come, which could only be corrected by extremely high coal prices, checking the use of coal, and increasing its production.

The main cause for the appalling state of the capital market in the United States to-day, with the fantastic yields on bonds, the scarcity of mortgage money, and the unprecedented yields on good stocks, is the excess of money market funds which flowed over into the capital market from 1921 to 1929.

CENTRAL BANK POWER OVER COMMODITY PRICES

If it is unreasonable to ask a central bank to fix money rates and interest rates, far more unreasonable is it to ask a central bank to fix the level of commodity prices. Central bank policy is only one factor in the money and capital markets, and the state of the money and capital markets is only one of many factors affecting commodity prices. In no way, except through the regulation of the money and capital markets, can the central banks influence commodity prices, and this influence is an influence at second or third remove and the indeterminate degree.

The general average of commodity prices is governed by a multitude of forces. In 1924, for example, in the United States we had a moderate rise in commodity prices beginning in the middle of the year. It started in a sharp rise in wheat growing out of a world shortage, with positive disaster in the Canadian crop, accompanied by an abundant wheat harvest in the United States. American agriculture, which had been very depressed, found its position greatly improved, and agricultural buying of manufactured goods increased sharply. Simultaneously, the Dawes plan restored confidence in Europe among American investors. We had placed only $267,000,000 of foreign securities (refunding excluded) in our market in 1923. But in 1924 we took nearly a billion dollars worth of such securities, mostly in the second half of 1924. Coincidently, our Federal reserve authorities carried through the purchase of a great volume of

[1] Cf. Chase Economic Bulletin, Vol. VIII, No. 1, for an analysis of all the factors affecting commercial bank reserves and bank expansions in the United States.

Government securities, flooding our markets with money, leading to very excessive commercial bank reserves, and to a great credit expansion. This facilitated the enormous placement of foreign securities, which the second half of the year brought. Our export balance of commodities had dropped to about $375,000,000 in 1923, and rose to a billion dollars in 1924. Commodity prices increased from an average of 148.8 in the first half of 1924 to an average of 158.4 in the first half of 1925. In the absence of any of these three factors, the rise in commodity prices would have been less than it was.

In general, central bank policy has a very limited control of the general average of commodity prices in a gold standard country. The relation between goods and gold is an international matter. Long-time variations in the production and consumption of gold, taking the world as a whole, have a great deal to do with commodity prices. Changes in the production and consumption of goods of various kinds have a great influence.

Changes in the proportions in which various goods are produced may make radical changes both in particular prices and in the general average of prices. If, for example, agricultural goods are produced in great excess, while manufactured goods are produced inadequately, the resultant break in agricultural prices may so reduce the buying power of the farmers that they are unable to take even the relatively scant product of the manufacturers at prevailing prices, and a break in the prices of manufactured goods comes also. Prices are interrelated. We saw precisely this situation as one of the major factors in the break in commodity prices in the United States and in the world in 1920–21.[1]

THE FACTS V. THE "QUANTITY THEORY OF MONEY"

Adherents of the view that central banks can and should stabilize commodity prices may be divided into two classes. The one holds simply to the old quantity theory of money. This theory holds that, allowing for changes in the volume of trade, the average of commodity prices will go up or down in precise proportion to the quantity of money and bank deposits. The more scientific adherents of this theory make allowance also for "velocity of circulation" of money and deposits, but usually contend that "velocity" is guided by more or less fixed habits and customs. This doctrine is false even in theory, but I need do little more than present recent history to confute it.

In the middle of 1919 the quantity theorists told us that we were on a permanently higher level of commodity prices as a result of the great expansion of bank credit, and we were assured that while prices might fall or rise moderately 5 or 6 per cent above or below the existing level, with the business cycle, the existing level was permanent and safe. In the year and a half that followed commodity prices first rose 15 per cent and then dropped precipitately 49 per cent, with the volume of bank credit higher at the end of the drop than it had been at the beginning of the rise.

Following the great drop, the quantity theorists told us that prices would have to rise again to very high levels, because of the great flow of gold that was coming in to us, a flow which continued year after year on a colossal scale, reaching its climax in 1927. The gold came, but the rise in commodity prices did not materialize. The average of commodity prices stood in 1928 precisely where it stood in 1921.

Facts do not ordinarily make a great impression upon the quantity theory school, as John Stuart Mill observed long ago.[2]

In this case, however, the facts have been so startling and so disappointing that a myth arose among certain European quantity theorists to explain the

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[1] Cf. The Chase Economic Bulletin, Vol. I, No. 3.

[2] "Not only has this fixed idea of the currency as the prime agent in the fluctuations of price made them shut their eyes to the multitude of circumstances which, by influencing the expectations of supply, are the true causes of almost all speculations and of almost all fluctuations of price; but in order to bring about the chronological agreement required by their theory, between the variations of bank issues and those of prices, they have played such fantastic tricks with facts and dates as would be thought incredible, if an eminent practical authority had not taken the trouble of meeting them, on the ground of mere history, with an elaborate exposure. I refer, as all conversant with the subject must be aware, to Mr. Tooke's History of Prices. The result of Mr. Tooke's investigations was thus stated by himself, in his examination before the commons committee on the bank charter question in 1832; and the evidences of it stand recorded in his book: 'In point of fact, and historically, as far as my researches have gone, in every signal instance of a rise or fall of prices, the rise or fall has preceded, and therefore could not be the effect of, an enlargement or contraction of the bank circulation.'" Principles of Political Economy, Book III, ch. 24, par. 1.

facts away. The myth was that our Federal reserve authorities sterilized the gold which came to us, and prevented it from expanding credit and raising commodity prices.

The table on the opposite page demonstrates the absurdity of this myth.

In the course of this expansion, the ratio of monetary gold stock to commercial bank deposits declined from 12.33 per cent in 1922 to 9.73 per cent in 1928.

Credit expanded, running far beyond the growth of trade, but commodity prices did not rise. Commodity prices would have had to be 83 per cent higher in 1928 than they were if the quantity theory of money were to be justified. Commodity prices would have had to be 123 per cent higher in 1931 than they were, if the quantity theory of money were to be justified. I present the details of this computation in an appendix.

Deposits of commercial banks[1]:	
Apr. 11, 1928	$44,234,100,000
June 30, 1919	27,728,241,000
Increase	16,505,859,000
Increase ... per cent	59.5
Apr. 11, 1928	44,234,100,000
June 30, 1921	29,831,015,000
Increase	14,403,085,000
Increase ... per cent	48.2
Loans, discounts, and investments of commercial banks[1]:	
Apr. 11, 1928	47,607,000,000
June 30, 1919	31,724,523,000
Increase	15,882,477,000
Increase ... per cent	50.1
Apr. 11, 1928	47,607,000,000
June 30, 1921	34,209,282,000
Increase	13,397,718,000
Increase ... per cent	39.1

The expenditure of ammunition in the form of credit expansion was tremendous. The effect on commodity prices was nil. Instead, we financed a great real-estate speculation and a stupendous stock-exchange speculation.

Some defenders of the quantity theory have objected to figures of the sort I have presented here on the ground that they do not take into account all prices but only commodity prices at wholesale, and urge that if account were taken of all other prices, including stocks and bonds and real estate, the picture would look better.

Let me say, first, that for the purpose in hand this point is quite irrelevant. We are discussing commodity prices at wholesale, and we are discussing the theory that proportioning the volume of money and credit to the volume of trade will stabilize commodity prices at wholesale. This is the doctrine that lies behind the Goldsborough bill.

Let me say, second, however, that if, in the price index, we included stocks, bonds, and real estate, while it might improve the picture for the theory down to 1929, it would make the picture look very much worse from 1929 to date, since the decline in the prices of stocks, bonds, and real estate has been far more rapid than the decline in commodity prices at wholesale, and very much more rapid than the decline in the volume of money and credit. Bank credit, in fact, reached its peak in the autumn of 1930, long after the decline in stocks, bonds, and real estate began.[2]

[1] The figure for Apr. 11, 1928, is estimated. See the Chase Economic Bulletin, Vol. VIII, No. 1, Appendix A.

[2] There was a temporary peak in the panic week at the end of October, 1929, due to the emergency expansion of credit, but with this one exception the autumn of 1930 shows the real highs in bank deposits and in bank loans and investments combined for the reporting member banks of the Federal reserve system. All member banks show their high point in deposits in June of 1930 and practically their high point for combined loans and investments in the same month.

THE NEW FORMULA OF THE STABILIZERS

Disappointed in the behavior of the figures, or ignoring the figures, certain of the stabilizers have devised a simpler formula. They do not try to relate the volume of money and credit to the volume of trade. Instead, they look simply and solely at commodity prices at wholesale, and call upon the Federal reserve authorities or the central banks to regulate commodity prices without reference to anything else. If commodity prices are falling, keep expanding credit until they stop falling. If commodity prices are to be raised, keep expanding credit until they are raised to the desired point. If, in the course of this, you generate a wild stock market speculation, pay no attention to it, and do not let it influence your credit policy.[1]

THE GREAT CREDIT EXPANSION DID AFFECT COMMODITY PRICES

The great expansion of bank credit, running far beyond any need for credit, left commodity prices in 1928 precisely where they stood in 1921. But the price level would have gone down between 1921 and 1928 if that great expansion had not taken place. The expansion had its influence not in raising commodity prices but in maintaining them. It worked, however, not as the quantity theorists expected, by a mechanical equilibration of the quantity of money, on the one hand, and the quantity of goods in the process of exchange, on the other hand. It worked, rather, in indirect ways, the most important of which are the following:

(1) The great expansion of bank credit made it possible for us, a creditor nation with very high tariffs, to maintain a great export trade, and even a great export surplus. The outside world was unable to sell goods, within our borders, in sufficient quantity to obtain earned dollars with which to pay interest on its debts in our country and to buy goods from us. But the great expansion of bank credit made possible the flotation of a tremendous volume of foreign securities, giving the outside world borrowed dollars, with which to pay interest on past borrowings and to continue to buy our goods.

(2) There was immense activity in our building trade and in other longtime construction, including the building of roads and highways, which would not have gone so far had the volume of bank expansion been less.

(3) The financing of installment buying with bank credit went much further than would have been possible under ordinary circumstances.

(4) Consumer demand was swollen on a great scale by profits in stocks, bonds, and real estate which accrued with the speculative developments in these fields. The Federal Treasury reported in 1928 that almost 11 per cent of the income reported for taxation in that year represented either profits on stocks, bonds, and real estate or capital net gains on assets held over two years. This percentage represents only the case of realized profits on transactions actually completed. In addition, we know very well that the successful speculator, who had large paper profits, increased his expenditures through drawing on his balance with the brokers, when the balance greatly exceeded margin requirements. Brokers' loans increased to offset these withdrawals, and thus in part represented consumers' expenditures, including trips to Europe and automobiles!

COMMODITY PRICES OF 1926–1929 ABNORMALLY AND DANGEROUSLY HIGH

The prices of 1926 and the years immediately preceding and following, which the Goldsborough bill wishes to regain, were thus dangerously insecure prices. They were dependent (*a*) on export trade done on credit, (*b*) on building trade and State and municipal construction financed by bond and mortgage issues, based on bank expansion, (*c*) on rapidly expanding installment finance, and (*d*) on the spending of speculative profits. Such a price level can not be regained, and should not be desired. We should prefer a tougher and more tenacious price level, self-sustaining, resting on the expenditure of normal income. We should prefer an export trade soundly based on the balancing of goods and services against goods and services. We should prefer to have our building trade and our State and municipal construction financed with investors' savings, and, for that matter, in the case of State and municipal construction, paid for in much greater degree out of current taxes.

The commodity price level does not need to be as low as it is to-day. We have to-day a panic price level. If we can restore our foreign trade—and

[1] This view was maintained vigorously by Professor Cassel and others in 1928–29. See Chase Economic Bulletin (Vol. IX, No. 3, pp. 13–16).

we can if we will—we can bring about a radical revival in the prices of agricultural commodities, and in the ability of the farmers to buy manufactured goods. With the restoration of activity in the manufacturing field, raw materials will enjoy a radical rally. Wih increasing volume of activity, the prices of manufactures will not need to rise in order to make manufacturing profitable. With the restoration of the balance between the prices of manufactured goods and the prices of foods and raw materials, we shall have a price level safe, dependable, and adequate. But the way to accomplish this is not to create another great credit expansion, but, rather, to deal directly with our foreign trade, through the reduction of our tariffs, and through settling interallied debts and reparations.

THE OPEN-MARKET POLICY OF THE FEDERAL RESERVE SYSTEM [1]

I have usually, not always, been critical of the large purchases of Government securities made in the open market by the Federal reserve system. I opposed these operations in 1924, in 1927, in 1930, and in the summer of 1931. I opposed them when their effect was to create an excess of funds beyond the needs of trade. I approved thoroughly [2] of the purchases of 150 millions of Government securities which the Federal reserve authorities carried through in the panic week of October 23 to 30 of 1929. I approve what the Federal reserve authorities have done in the purchase of Government securities in 1932, and I am convinced that they have not overdone it.

There was no shortage of money in the United States in 1930. The open market operations in Government securities in early 1930 in fact led to an excess which generated a false stock-market boom and a new flood of bond issues in the first few months of the year. The peak of bank credit [3] for all time was reached in the summer and autumn of 1930. There was substantial hoarding of money following the Bank of United States failure in the winter of 1930–31, but the general volume of bank credit was maintained well, and high above the needs of ordinary commerce, until the summer of 1931. The following table shows the figures:

Deposits, loans, and investments of banks of the Federal reserve system

	Weekly reporting member banks					All member banks			
	Total deposits	Loans	Investments	Total loans and investments		Total deposits	Loans	Investments	Total loans and investments
1927:									
Feb. 16	18,908	14,309	5,228	19,538	Mar. 23	33,756	22,327	9,622	31,949
July 6	19,700	14,925	5,659	20,584	June 30	35,398	22,938	9,818	32,756
1928:									
Feb. 29	20,344	15,221	6,107	21,328	Feb. 28	35,375	23,099	10,590	33,688
July 3	20,601	16,143	6,170	22,314	June 30	36,060	24,303	10,758	35,061
1929:									
Feb. 27	20,302	16,366	5,972	22,338	Mar. 27	36,799	24,945	10,448	35,393
Oct. 30	22,105	18,934	5,496	24,431	Oct. 4	36,694	26,165	9,749	35,914
1930:									
Feb. 26	19,822	16,428	5,575	22,003	Mar. 27	35,836	25,119	9,937	35,056
June 25	21,051	17,059	6,081	23,140	June 30	38,139	25,214	10,442	35,656
Sept. 24	21,213	16,912	6,385	23,297	Sept. 24	36,364	24,738	10,734	35,472
Oct. 29	21,540	16,764	6,731	23,495					
1931:									
Feb. 25	20,969	15,464	7,183	22,647	Mar. 25	36,000	22,840	11,889	34,729
June 24	20,764	14,540	7,803	22,343	June 30	36,268	21,816	12,106	33,922
July 29	20,807	14,486	7,810	22,296					
Sept. 30	20,378	14,191	7,916	22,107	Sept. 29	33,480	20,874	12,199	33,073
Dec. 30	18,127	13,104	7,428	20,532	Dec. 31	30,746	19,261	11,314	30,575
1932:									
Mar. 30	17,073	12,211	7,143	19,354					
Apr. 27	17,006	11,882	7,151	19,033					
May 4	17,272	11,842	7,435	19,277					

[1] From an address before the Bankers Forum of the New York Chapter of the American Institute of Banking, May 12, 1932.

[2] Chase Economic Bulletin, Vol. IX, No. 6, pp. 10 and 11.

[3] Except the temporary bulge in the panic week, Oct. 23 to 30, 1929.

Beginning with the summer of 1931, however, when a new hoarding movement started, real pressure began to manifest itself in various parts of the country, and, with the foreign run on our gold in the autumn of 1931, an immense and very rapid liquidation of bank credit got under way. For the 600 weekly reporting member banks, alone, this amounted to approximately $4,000,000,000 in deposits from July of 1931 to March of 1932, while their loans and investments declined $3,000,000,000 in the same period. For all the banks in the Federal reserve system there was a decline of $5,500,000,000 in deposits from June of 1931 to December of 1931 and a decline in loans and investments of three and one-half billions between the same dates.[1]

The very rapid liquidation was accentuated by the inability of the Federal reserve authorities to make much use of the resource of buying Government securities as the process went on. They had already gone so far in buying Government securities that they had reduced their "free gold" to a relatively low level. As they had bought Government securities the banks had used the funds in reducing rediscounts, and, consequently, the supply of eligible paper which could be used as collateral for Federal reserve notes was very low. It was, therefore, necessary to use gold instead as collateral for Federal reserve notes. There was no increase in Government securities purchased during the foreign raid on our gold, the Federal reserve credit needed being supplied entirely by rediscounts or by purchases of bills. Government securities were purchased in the usual manner in connection with the December 15 Government transactions, and also at the year end, but these purchases receded again to approximately the early September levels. The liquidation was, therefore, more violent than it would have been had it not been for the preceding bond buying policy of the Federal reserve system.

With the emergency legislation of the Glass-Steagall bill, allowing the Federal reserve banks, with the approval of the Federal Reserve Board, to make use of Government securities purchased as collateral for Federal reserve notes for a period of one year, it became safe for the Federal reserve banks to allow their "free gold" to sink to much lower figures, since, with the approval of the Federal Reserve Board, Government securities could be used to replenish it.

With the great liquidation of bank credit, with the adverse developments in the stock market and the bond market, which political developments, both at home and abroad, intensified, and with numerous bank failures which the late autumn of 1931 and the early part of the winter witnessed, the hoarding was intensified. Many banks under pressure from depositors were forced to obtain money from whatever source they could, and liquidated good merchants and withheld credit from other good merchants and manufacturers. Other banks, not themselves under acute pressure, but frightened, also adopted a very unduly rigid credit policy. I am glad to say that in New York City, almost without exception, the great banks have continued throughout the whole of this trouble to make good commercial loans as a matter of course, and have taken care of customers with respect to all sorts of credit requirements in an adequate way. But there have been important parts of the country of which this can not be said.

The successful meeting of the foreign drain on our gold, and the successive emergency credit measures of the National Credit Corporation, the Glass-Steagall bill, and the Reconstruction Finance Corporation, did succeed in arresting bank failures and in reversing the hoarding movement. But they did not stop the liquidation of bank credit, as shown in the table above. Nor did they succeed in bringing about an adequate reversal of bank policy in important parts of the country with respect to ordinary loans for business.

For the first time in our trouble, we have had the factor of credit shortage as a cause of business depression—a factor that was not present in any effective degree until the summer of 1931, but which has grown progressively acute since the summer of 1931. This credit shortage, moreover, has been accompanied by fear of an unprecedented intensity—a fear far greater than even the admitted adverse facts can warrant, and a fear which I believe is already lifting and growing less acute. It is this set of facts which justifies the inauguration of the 1932 policy of open-market purchases of Government securities by the Federal reserve banks.

The following table shows the changes that have taken place affecting member bank reserves since the policy began:

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[1] It was the violence and suddenness of this liquidation, rather than its magnitude, which made the trouble. See Chase Economic Bulletin, September, 1930, pp. 12–13.

Changes in member bank reserves

[In millions of dollars]

Member bank reserves Feb. 24, 1932	1,878
Member bank reserves May 4, 1932	2,147
Changes[1] which increased member bank reserves:	
Increase in Federal reserve credit—	
1. Bills discounted	—329
2. Bills bought	—88
3. United States securities	546
4. Other securities	—10
5. Float	10
6. Due from foreign banks	—3
Total	126
Decrease in money in circulation	144
Increase in money outside the Treasury, other than gold, gold certificates, and Federal reserve notes	2
Decrease in Government, foreign bank, and other nonmember deposits in Federal reserve banks	6
Total	278
	7
Estimated increase in reserves	271
Actual increase in reserves	269
Changes which decreased member bank reserves:	
Increase in unexpended capital funds	2
Decrease in monetary gold stock	5
Total	7

	May 4	Feb. 24
Federal reserve credit:		
1. Bills discounted	506	835
2. Bills bought	45	133
3. United States securities	1,287	741
4. Other securities	5	15
5. Float	12	2
6. Due from foreign banks	6	9
	1,861	1,735
Money in circulation	5,448	5,592
Money outside the Treasury, other than gold, gold certificates, and Federal reserve notes	1,831	1,829
Government, foreign bank, and other nonmember deposits in Federal reserve banks	90	96
Unexpended capital funds	351	349
Monetary gold stock	4,345	4,350

I am sorry that I can not include in this table the figures which will be published in to-morrow morning's papers, which will bring the story down one week later. It is significant that up to May 4 the heavy purchases of Government securities had not yet succeeded in bringing the total of bills discounted by member banks with the Federal reserve banks below $500,000,000. Prior to 1928, when rediscounts were above $500,000,000, enough banks were under pressure so that they were disposed to call loans and sell investments, in the effort to get out of debt, and the money market was firm. The experience of early 1930 would seem to indicate that rediscounts must go as low as $300,000,000 before a generally comfortable money situation is reached.

The injection of new money into the money market by Federal reserve buying of Government securities has not operated as effectively as it has in the past in the reduction of rediscounts. Funds are not flowing as smoothly and as automatically throughout the system as they have done in the past. But real progress is being made. I should myself be disposed to arrest the open-market buying for a time, and see what the effect of the surplus reserves in the financial centers would be upon the general banking situation before forcing out much more money. But this is a question of judgment, and there is a good deal of leeway here. I should certainly be very reluctant to see the Federal reserve system go further than the effort to remove money market pressure from the business of the country. If they were to take seriously the demand that they should raise commodity prices, I should be very much afraid.

But the figures in our table above, coming down to May 4, make it clear that the $546,000,000 increase in Government securities purchased since the new policy began has led only to a $126,000,000 increase in Federal reserve credit.

The figures for all reporting member banks, as of May 4, which appeared on Tuesday, May 10, indicate an increase of two hundred and forty-four millions over the preceding week in the total of loans and investments, and an increase of two hundred and sixty-six millions in deposits. But this is all accounted for by an increase in United States Government deposits, matched by an increase in United States Government securities purchased by the reporting member banks. The figures in general indicate that the tendency toward contraction has been arrested, but has not been reversed.

There need be no apprehension at all with respect to the purchase of Government securities which the Federal reserve authorities have made. If carried too far, it could make us money-market trouble, but it would have to be carried very far indeed to justify any apprehension regarding our gold standard. None of the operations of this kind in the past have endangered the gold standard. The most recent operations, far from being dangerous, are, in my judgment, salutary and justifiable. The justification is found in the money and banking situation, which is the proper care and concern of the Federal reserve authorities.

With respect to the volume of business and even commodity prices, real improvement can come with the success of a Federal reserve policy which is limited to the elimination of money shortage. Money shortage is only one of the adverse factors in the situation, and its elimination will not correct the others, but it is an important adverse factor, and its elimination can easily make a very substantial improvement in the volume of business, and a more modest improvement in commodity prices.

Appendix

THE FAILURE OF THE QUANTITY THEORY OF MONEY

The modern version of the quantity theory of money deals with six factors: (1) The volume of money in circulation, (2) the velocity of circulation of that money, (3) the volume of bank deposits, (4) the velocity of circulation of bank deposits, (5) the volume of trade, and (6) the average of commodity prices at wholesale.[1] The contention of the quantity theory is that the general average of commodity prices is governed by the other five factors. If money in circulation, or volume of bank deposits increases, this operates to raise prices proportionally, assuming that velocities of circulation are unchanged and that volume of trade is unchanged. An increase in velocity of circulation either of money or of bank deposits likewise operates to raise prices proportionally. On the other hand, an increase in volume of trade operates to reduce prices proportionally, according to this theory, assuming that the other factors named remain constant.

Prices are supposed to be passive, having no causal influence on the other factors named: whereas the other five factors, namely money and bank deposits, and their velocities, and the volume of trade, are supposed to be active causes, all operating on prices.

[1] Quantity theorists differ among themselves as to bringing other prices into this average. Cassel refuses to admit any others. Fisher's average is overwhelmingly dominated by wholesale commodity prices. For present purposes, which relate to commodity price stabilization projects, other factors are irrelevant.

The doctrine is sometimes formulated in an equation as follows:

$$MV + M'V' = PT,$$

where M is hand-to-hand cash; V, its velocity; M′, bank deposits; V′, its velocity; P, prices; and T, volume of trade.

The following figures give index numbers for each of these magnitudes, based on the American statistics since 1919:

	Index of—							
	M [1]	V [2]	M [3]	V′ [4]	P [5]	T [6]	MV	M′V′
1919	100	100	100	100	100	100	100	100
1920	112.1	100	112.8	97.6	111.4	108.1	112.1	110.1
1921	100.7	100	104.3	81.1	70.4	87.6	100.7	84.6
1922	91.5	100	108.5	86.9	69.8	99.9	91.5	94.3
1923	98.9	100	116.7	92.7	72.6	116.8	98.9	108.2
1924	99.4	100	125.	93.7	70.8	112.5	99.4	117.1
1925	98.7	100	136.2	98.5	74.7	119.3	98.7	134.2
1926	100.2	100	142.6	97.1	72.2	125.3	100.2	138.5
1927	99.5	100	149.9	96.6	68.8	121.4	99.5	144.8
1928	98.4	100	157.3	103.4	70.5	124.4	98.4	162.6
1929	97.3	100	155.3	121.4	69.6	128.3	97.3	188.5
1930	92.7	90	156.1	97.1	62.3	110.9	83.4	151.6
1931	98.9	70	143.1	80.1	52.7	94.1	69.2	114.6

[1] This index is based on revised figures of money in circulation reported by the Comptroller of the Currency at the end of each fiscal year.

[2] Hand-to-hand cash in circulation makes less than one-tenth of all the payments made in the United States, the greater bulk of our payments being made by check. MV is thus so unimportant in our calculation that a constant velocity of money has been assumed for the period previous to the hoarding movement which began in 1930. In estimating velocity of money for 1930 and 1931, the amount of hoarding has been taken into consideration.

[3] This index is based upon total deposits of all reporting commercial banks as of June 30 for each year indicated. If individual deposits subject to check were taken instead, the increase in deposits would have been less and the velocity would have been correspondingly greater, and M′V′ would have remained unchanged.

[4] V′, or the velocity of bank deposits, is estimated by dividing the total of bank clearings of the country plus Federal reserve clearings by deposits. For the period 1919–1928, inclusive, the results are essentially the same if "debits to deposit account" are used instead of clearings, and the results are also essentially the same if clearings outside New York are weighted by 5 in accordance with Professor Fisher's method as laid down in his Purchasing Power of Money, Appendix to Ch. XII. It has seemed unnecessary to apply these checks to the years 1929–1931.

[5] Bureau of Labor Statistics Index Number, with base shifted from 1926 to 1919.

[6] This index of physical volume of trade is constructed on lines familiar to students of the quantity theory. I have criticized this entire procedure in my Value of Money, Chs. III and XIX, as being irrelevant to the simple truism of the "equation of exchange," which is merely that sellers receive what buyers pay. For the purpose at hand, however, I am following the procedure of the quantity theorists. (Professor Fisher includes sales of securities with his physical indicia, but gives them a weighting of only one out of twenty-four, so that practically they do not count. I have not put them in at all.) The index is an arithmetic means of a production index and a transportation index. The index of production is a weighted average of indices of agriculture (40), mining (7), and manufacturing (53), the data being drawn from the Federal Reserve Bulletin and Bureau of Agricultural Economics as quoted in the Statistical Abstract. (The 1931 figure for agricultural output is estimated.) The index of transportation is itself an average of the indices for tonnage of revenue freight of Class I railroads, ton-miles of revenue and nonrevenue freight, and carloadings of revenue freight, based on data drawn from the Interstate Commerce Commission and the Bureau of Railway Economics.

When the effort is made to apply these indices to filling out values in the so-called "equation of exchange," fantastic results appear, as shown by the following table:

	Total [1] (1) (9) (MV+M'V')	Index of PT	Hypothetical P which would justify quantity theory and fulfill equation of exchange	Actual P which disappoints quantity theory and spoils equation of exchange
1919	100	100	100	100
1920	110.3	120.4	102.0	111.4
1921	86.2	61.7	98.4	70.4
1922	94.0	69.7	94.1	69.8
1923	107.3	84.8	91.9	72.6
1924	115.3	79.7	102.5	70.8
1925	130.7	89.1	109.6	74.7
1926	134.7	90.5	107.5	72.2
1927	140.3	83.5	115.6	68.8
1928	156.2	87.7	125.6	70.5
1929	179.4	89.3	139.8	69.6
1930	144.8	69.1	130.6	62.3
1931	110.1	49.6	117.0	52.7

[1] The index of MV+M'V' is based on the indicia of MV and M'V' taken separately, weighting M'V' by 9 and MV by 1. A more precise mathematical technique would be called for if MV were quantitatively important. But over 90 per cent of all payments in the United States are made by check.