

GOLD RESERVE ACT OF 1934

HEARINGS

BEFORE

THE COMMITTEE ON COINAGE, WEIGHTS, AND MEASURES HOUSE OF REPRESENTATIVES

SEVENTY-THIRD CONGRESS

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ON

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SEVENTY-THIRD CONGRESS

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II

GOLD RESERVE ACT OF 1934

MONDAY, JANUARY 15, 1934

HOUSE OF REPRESENTATIVES,
COMMITTEE ON COINAGE, WEIGHTS, AND MEASURES,
Washington, D.C.

The committee met at 10 o'clock, Hon. Andrew L. Somers (chairman) presiding.

The CHAIRMAN. The committee will please come to order.

Gentlemen, the purpose of calling you here this morning is to hold hearings on the monetary policy of this country. It is to be hoped that in these hearings we shall make a record that is available to the Congress, which will enable all of us to become exact students of the various monetary movements in this country.

To that end, it is the intention of the chairman to call before the committee the foremost experts available. We have this morning asked to appear Professor Sprague, who was professor of banking and finance in the Harvard University School of Business Administration, and at a later date, economic adviser to the Bank of England. At a later period still he was financial assistant to the Secretary of the United States Treasury. He is the author of any number of books on this subject, principally "The History of Crises Under the Banking System", which, you will recall, was prepared for the Aldrich committee.

His experience throughout many years has been such that I feel his testimony will be of great value to us.

Dr. Sprague, while he has not prepared a definite, formal statement to present to us this morning, will endeavor to answer any questions the members of the committee may have in mind.

If you will permit the chairman to suggest, it might be well for Dr. Sprague to tell us something about the advisability of cutting the gold content of the dollar. That is a technical subject, and we who are not monetary experts may not be aware of the full significance of it in all its phases. So I feel it would aid us a great deal in understanding what condition we would be in if the movement did succeed in this country.

Following Dr. Sprague's preliminary statement, we will have questions by various members of the committee.

I am sure you will realize that Dr. Sprague, although a very energetic individual, is only human, and that we should try to limit our questions as much as possible.

Dr. Sprague, we would like to have you proceed in accordance with my suggestion, and if you would be good enough, discuss the advisability of cutting the gold content of the American dollar at this particular time.

**STATEMENT OF DR. O. W. M. SPRAGUE, PROFESSOR OF BANKING
AND FINANCE, HARVARD UNIVERSITY SCHOOL OF BUSINESS
ADMINISTRATION, CAMBRIDGE, MASS.**

Dr. SPRAGUE. The subject which your chairman has suggested is one of extreme difficulty, owing to the fact that no country has ever devalued its currency in circumstances quite like those which obtain in the United States at the present time.

There have been many instances of a revaluation or devaluation, but in all instances, so far as I am aware, they have been in the nature of a recognition of a situation that had come about.

Let us take a particular case, that of the revaluation of the French franc in 1927, a lowering of the value of the French franc far greater than that which has been suggested for this country.

It was simply a recognition of the value of the French currency as it had become in 1927. Between 1914 and 1927 France was off the gold standard and prices had advanced to between four and five times the 1914 level. This was the result of the inability of the French to finance the war exclusively by means of taxation and by borrowing limited to current savings, and following the war to heavy expenditure in connection with the restoration of the devastated areas.

Throughout the entire period of 13 years there was an active demand for labor and for materials in France. Consequently prices tended to rise rapidly.

When such conditions had reached a sufficient stage of stability to warrant the return to the gold standard, the franc was revalued at 3.9 cents as contrasted with the old value of 19.3 cents. An endeavor to restore the old value of the franc would have involved an extreme contraction of credit and currency and a catastrophic decline in prices.

The revaluation of the franc was not designed to bring about an increase in prices, but simply as far as one could judge at the time, to maintain something approaching the level that then obtained.

As a matter of fact, the French franc was probably revalued at a slightly lower rate than that which might have been adopted. A rate of, say, 4.5 cents for the franc, would probably have been a little more in line with relative prices in France and in other countries. It was of course a disturbing factor in the situation for the rest of the world that the French franc was revalued at that time a little lower than what was probably an equilibrium rate.

Now, revaluation in our case presents a problem of a very different sort. The level of prices in this country, as compared with prices elsewhere, is not one which supports or provides a basis for a revaluation of the dollar at a third or a half of its former value.

We are revaluating the dollar with the expectation that the revaluation will set in motion forces which will bring about an upward movement of prices. The problem, therefore, before us, is to consider whether a lowering of the value of the dollar preceding a rise in prices, relative to prices in other countries, will bring about a rise in prices and an accompanying greater activity of business.

The most obvious and certain effect of revaluation is to provide the Government with what may be styled a wind-fall profit. The Government will have some billions of dollars to spend from sources

other than taxation and borrowings. Will such an expenditure serve to bring about a considerable rise in prices, and a rise in prices that will hold? I should say that depends in every considerable measure upon how that money is expended, and, indeed, upon how the other funds the Government secures are expended, not upon the mere fact that a certain amount of money is secured from sources other than taxation and borrowings.

In all my thinking about these subjects, I am impressed rather more, than a great many others who have given attention to these matters, with the importance of the nonmonetary factors in the bringing about of a movement of prices, and of securing stability at a desired level of prices.

We look toward reaching a situation in which there will be full employment of labor and an active demand for materials, without persistent and continuing special expenditures on the part of the Government, such as those involved in relief expenditure, public works, or special expenditures designed to bring about a much needed forward movement in agricultural prices.

We do not look with satisfaction upon a continuance of public works and civil relief and other similar expenditures. We regard them, and properly, as emergency expenditures.

I insist that whether the expenditure of these wind-fall profits, as well as other expenditures, proves helpful, depends upon the way in which the money is expended, and the effect that the expenditure has upon the whole economic situation of the country.

If the Government expends enough money, it can employ, directly and indirectly, all of the idle labor of the country, and bring a rise in prices, just as happens in time of war. In the case of a great war, a very large number of people are drawn into the training camps, and the Government incurs huge expenditures for materials for war purposes. And when we reach a point at which there is full employment of labor and an active demand for materials, if there is a plentiful supply of credit and currency, prices go up.

But always in the case of a war we recognize that at its close we are to be confronted with a period of difficult readjustment, with the absorption of the men employed in the armies and the men employed in military production into other occupations.

So, in case of public works, civil relief, and so on, we can get a rise in prices if we expend money enough for those purposes to bring about full employment of labor; but the problem still presents itself whether we are employing that labor in such wise and under such conditions that that expenditure will gradually taper off through the absorption of these men in civilian work, or whether we are simply doing something analogous to that which takes place in war, employing them under conditions that subject us to the necessity either of continuing these expenditures indefinitely or making painful adjustments when these expenditures cease. That seems to me to be the essential problem before us.

If, for example, the wage policy and the price policy as regards materials employed in public works are such as to establish relatively higher prices for that kind of work and for that kind of material, then you check the absorption of that labor and the use of such materials in private industry. That seems to me to be the most serious question that can be raised as regards our entire recovery program.

In this country there has been wide-spread criticism, or skepticism, regarding British unemployment insurance, commonly known as the dole. It has been criticized on the ground that the rate of the dole was so high it tended to impede the absorption of unemployed labor in industry. Many people in Great Britain recognized this, and it was very definitely recognized at the time Britain went off the gold standard, when the dole rates were reduced, as a means, in part, of balancing the budget.

But Public Works expenditures or Civil Works expenditures that establish or maintain high rates of pay may have exactly the same effect of impeding the absorption of labor in private employment.

It is not then solely the immediate effect upon prices of revaluation that must be considered, but it is the probable permanent effect. It does not seem to me, in other words, that in the recovery program there has been proper consideration of the need of arriving at a situation in which emergency expenditures will no longer be necessary.

Now, I come to another aspect of revaluation. I said a few minutes ago that the French revaluation at a slightly lower value for the franc than that which events proved was required, on the basis of relative prices in France and elsewhere, was one of the disturbing factors in the situation in the succeeding years.

Obviously, for a great country like the United States to revalue its dollar at a rate which far more than in the French instance, goes below relative prices, will be consequently even more disturbing. If prices had risen in this country during the last year relative to prices in other countries to anything like the extent of the suggested revaluation, then it would not be disturbing to other countries. Again, if after revaluation prices were very promptly to advance in this country far more rapidly than in other countries, it would not be a disturbing factor in the situation.

I do not think anyone can dispute the proposition that the revaluation of the dollar to 60 percent is establishing a value for the dollar that is far below its equilibrium value at the present moment.

Now, if some one of our States, let us say Mississippi, were a separate country adopting this policy, it would probably almost at once produce the desired effect. The State of Mississippi, if it were a foreign country, would be engaged in producing mainly for export. A very large proportion of the total output of the labor in that area would be engaged in producing goods for export, in particular cotton, and the revaluation of its currency would almost at once affect the entire monetary situation, and establish equilibrium with the rest of the world.

One of the difficulties about revaluation as a means of bringing about an upward movement of prices in the case of the United States is due to the fact that the country is so large that its export trade is comparatively small, and that sufficient expansion of its exports induced by a revaluation, to affect the entire monetary structure, is quite inconceivable, and if it developed would be so disturbing to the rest of the world that unquestionably protective measures would be taken by other countries.

It is a little difficult to see, in other words, how revaluation can possibly effect directly and immediately the prices, let us say, of very many of the goods produced in New Jersey or in Michigan, even though they may have a considerable effect in Mississippi or Arkansas,

although in those States not so great an effect as if they were separate countries.

Now, we come to a third possible effect of revaluation; what may be supposed to be the effect of revaluation upon the great mass of manufactured products produced and consumed within the country, and of agricultural products, not produced very much for export; upon the value of hay, eggs, pork, and wheat, of services, such as electricity and gas, as well as manufactured products, from steel rails to typewriters.

The direct effect must be pretty small. You and I do not have any more money in our pockets as the result of revaluation; our bank balances are not increased. We do not have any more purchasing power than before. The only increase that has taken place in purchasing power is the increase in purchasing power possessed by the Government through the windfall profit. It has from two to four billions of dollars to spend that it would not have except through additional taxation or additional borrowing.

So, once more we come back to the question of the influence that may be exerted by the expenditure of this money. Revaluation leaves us with somewhat more money to spend for other purposes than would otherwise have been the case. Taxes for the moment may be a little lower, or funds that would otherwise have been borrowed by the Government we shall have available for other purposes, available for making loans to industry. But will there be a greater demand for funds from non-Government agencies, from the railroads, from the utilities, from the industries, or from the building trades, on account of the revaluation?

And shall we be more ready to lend the 2 or 3 billions of dollars that we would otherwise have been lending to the Government? That, you can easily see, is a highly complicated question.

There may be a favorable influence on confidence, if it is believed by the business community at large that revaluation is definitive.

If the dollar is revalued at 60 percent, or some other percentage, and a definite stand is taken by the Government to the effect that under no circumstances whatever will it repeat those operations, and under no circumstances whatever will it resort to further extraordinary monetary measures, then it is, at least, possible that business confidence will be strengthened. On the other hand, if it is to be presumed that it is simply an experiment, to be followed by other experiments of an uncertain nature in the event that there is no early response in higher prices and greater trade activity, then you will not get that strengthening of confidence which is one of the factors, though not the only factor, required for a resumption of business activity along normal lines. In other words, a strong case can be made out for revaluation now if the Government is prepared to say that it is the last of the monetary devices that it is going to use to bring about trade recovery. If it is not prepared to take that stand, then I should not suppose that revaluation would have any appreciable effect on confidence, or any desirable effect on bringing about an increased demand for goods and services that will hold.

I am not at all impressed by the reports of increased business activity that come out from week to week. Of course, there will be increased consumption of a very considerable variety of consumable goods so long as the Government is expending large and increasing

amounts of money. The problem, as I see it, is whether those expenditures, as I said before, are being handled in such ways that they will in the course of a not too distant time cease to be necessary because the equivalent or greater expenditures will be made on the part of the industries of the country.

Now, Mr. Chairman, I hope I have gone far enough to induce some searching questions on the part of your committee.

The CHAIRMAN. Thank you, Professor. There is just one other subject that I would like to have you discuss before we leave, although not necessarily at this moment, and that is the relationship that silver would bear to a managed currency, if the country were to decide upon managing its currency in the future. I believe the members of the committee have some questions suggested by your statement, and they would prefer to ask them while they are fresh in their minds. Will the members of the committee indicate to me whether or not they want to ask some questions at this time?

Mr. DIES. I would like to ask a question at this point: Doctor, it is said, but I do not know how truthfully, that the public and private indebtedness in the United States amounts to about \$230,000,000,000, so that if we started out to pay it off at this minute, at the rate of \$1,000 a minute, it would take 385 years to discharge it. Now, do you not think that a revaluation of the dollar, on the basis of a 50-cent dollar, would relieve this country from a condition approaching bankruptcy; and that only through a managed currency can we possibly liquidate our indebtedness, with the least disturbance to our economic system—in other words, that it is a question of necessity and not a question of expediency?

Dr. SPRAGUE. I agree with you that the burden of debt has become intolerably heavy, and that the existence of this debt greatly impedes trade recovery. The question is how we can lighten this burden of debt. Now, if revaluation of the currency would overnight provide all of us with additional income, then it would be very likely exceedingly helpful; but my point is that this does not provide the debtor with additional income. It only provides him with additional income if it induces such a situation as regards the demand for labor and for material, and the prices of material, as to yield higher money incomes so that the burden of debt will become lighter. I am not in disagreement, I imagine, with anybody here as to the desirability in some way or other of lightening the burden of debt. It is a question of means.

Mr. DIES. In that connection, let me see if I understand you: Is it your contention that, if we revalue the dollar by cutting the grains of gold in it by one half, or deflate the value of the dollar to that extent, that will not automatically double the price of commodities, stocks, farm products, and so forth?

Dr. SPRAGUE. It certainly will not, in my judgment, because prices—

Mr. DIES (interposing). I do not mean relatively, comparing one commodity with another. I do not mean a relative change in values, but I mean all commodities, debts, bonds, taxes, and so forth. Is it your contention that a revaluation of the dollar, or a reduction of the gold in the dollar to eleven-and-some-odd grains, or to a 50-cent basis, will not actually cut indebtedness in half?

Dr. SPRAGUE. It certainly would not. It would do so if, when the Government did that, my bank balance and your bank balance were to be doubled in amount. Then we would have twice as much purchasing power as before, and would be able to pay twice as much as before for wheat, neckties, and everything else. It does not do that immediately or automatically. The only prices which will tend automatically to go up on devaluation will be the prices of the things that are exported very heavily.

Mr. DIES. That would be cotton and wheat.

Dr. SPRAGUE. Not wheat. We do not export an appreciable amount of wheat, because our price is already maintained at a level of 20 cents or more above the Canadian and Argentine price. There is nothing in devaluation to bring about any appreciable rise in the price of wheat, because it is already above the world price. It is only through the indirect influence that it may have on the general situation of inducing a much greater demand for credit and for currency than before. If the business community is tumbling over itself in order to get more capital and get more credit, as was the case, not only during the war, but in 1919, after the war, when everybody was believed to be fairly solvent, a situation in which there was a demand for anything that anybody could produce, then you will have a rise in prices; but when the business community does not see very clearly any profit from increasing its plant equipment, or the quantity of goods produced, you will have difficulty in getting a rise in prices. In my judgment, you cannot get it exclusively by monetary means, unless you go sufficiently far to create a situation in which there is widespread distrust of the currency—something which I believe no one contemplates as a desirable policy. However, it is perfectly possible, if you want to reduce the value of the dollar temporarily to a nickel by Governmental policy, to create a situation in which virtually everybody will seek to convert the money in his pocket and the money in his bank balance, and his insurance policy by borrowing against it, into goods or into tangible property, but that is not what we are considering.

We are considering how by monetary means within a reasonable range we may create a situation in which there will be full employment of labor, an active demand for material, with rising prices, which will yield permanently greater money incomes, and so lighten the burden of debt. My own feeling with regard to the burden of debt is that it would be wise on the part of the creditor class and helpful to the country if creditors were to accept for the time being a lower rate of interest payments on the part of the great mass of outstanding debts, and, where proper, in a great many instances to reduce the principal of the debts without forcing debtors to go into receivership or into bankruptcy.

Mr. DIES. I do not want to ask too many question, because there are other gentlemen here who want to ask questions, but I would like to ask you this: Do you know of any nation that has not been compelled to resort to inflationary measures, as France did when she reduced the purchasing power of the franc from 100, the normal point in 1914, down to 14 and probably to 10 before it was finally stabilized in 1917? Even England was compelled to resort to inflationary measures. Now, it seems to me from the little study I have given the subject, which is not a great deal, that the inflationary

policy of France had the effect of stimulating production and stimulating business activity tremendously in that country during the post-war development. In fact, she became an export nation for many commodities that before the war had always been imported. Now, could we alone stand out against the world, when all other countries are resorting to inflationary measures, or could we alone maintain the gold dollar as it existed before?

Dr. SPRAGUE. I am willing to agree to that, but the point I made at the very beginning was that inflation in France came before revaluation, and was an incident of a situation in which over a long period of years there was a full demand for labor and material in France. My point is that it is difficult for this country to inflate in any ordinary fashion. It is not easy to inflate when you have a great many millions of people unemployed, and when throughout the entire range of business, you have a situation in which very few people see any good prospects for the employment of more capital or the enlargement of equipment. That is why I said that the nature of the Public Works expenditure is a vital problem. One direction in which it is possible to find a demand for labor and materials in this country far more considerable than that which developed in the case of automobiles is through the development of a situation in which it will be possible to produce better houses with proper equipment and furnishings for the mass of people with incomes under, let us say, \$2,000. There is a potential demand, if you could only tap it, for better housing in this country. But, however, it requires organization directed toward the prevention of an advance in costs of construction, or of rising land values, rake-offs on the part of contractors, rake-offs on the part of those engaged in producing materials and furnishings that go into houses, and securing a reasonable scale of wages in the construction trades.

Now, a policy which tends to stimulate and to encourage an upward movement in the price of cement, plumbing supplies, and so forth, a policy which supports the maintenance of high wages in the construction field, is a policy which chokes the possible demand for a large amount of labor and materials. As I see it, our public works policy tends to do just that thing. It does not examine the whole situation or try to discover the things that would be wanted in much greater quantity if prices were relatively lower. That is why I fear that when we have expended the \$6,000,000,000 or whatever the amount may be, for emergency purposes, we shall find that the emergency is still with us, and that if we stop in 1935 or 1936, we will be in exactly the position we were in at the time of the Armistice in 1918.

Mr. MCGUGIN. I would like to ask the Professor this question: Last spring we were confronted in Congress with the proposition from industries all over the country that depreciated foreign currencies were making it possible for foreign industries to flood our markets, and, at the same time drive us out of the foreign markets. Now, do you believe that the depreciation of our money in keeping with the depreciation that has already taken place in foreign money, will solve the problem that we were confronted with then as a result of depreciated foreign currency?

Dr. SPRAGUE. It is largely, I think, a question of the importance of the particular influence. I do not think that the figures as regards world trade indicate that it exerted a very great influence. World

trade all over the place was shrinking, and our trade dropped off along with the trade of the rest of the world. Here and there, I think there were particular situations in which we lost sales owing to depreciation of world currencies, but the amount thus lost I would say was not sufficiently great to have been one of the big factors in our situation. If you take, for example, the most conspicuous case, that of Great Britain, you will find that the amount of stimulation to British exports arising out of the departure from gold and the depreciation of the pound was not very great. The British position was something like this: There had been a shrinkage for a number of years before the country abandoned gold, because of the failure of British costs to come down as rapidly as they had been reduced in other countries. Therefore, when the country went finally off gold, the pound at once dropped, roughly, about 25 percent of its previous value. From that time, the pound was held fairly steadily at that point. The equalization fund which was established was used not to depreciate the pound when it was weak, but to support it, and to acquire foreign currencies only at times when the pound was temporarily strong, in order to have foreign currencies to support the pound when it was weak. Generally speaking, I would say the policy followed there was not to use depreciation as a means of stimulating the British export trade, partly for the reason that it was naturally feared, or believed, that further depreciation of the pound brought about by the policy of the British Government would lead to protective measures on the part of other countries.

Mr. MCGUGIN. Recalling a question by Mr. Dies pertaining to debts, I was very much interested in your statement that it would be better for the creditor class to take a reduction in interest, and, possibly, a reduction in principal. We might agree with that proposition, but would it not be one that would be utterly impossible to carry out? It would require the sanction or agreement of the mortgage companies and insurance companies to bring about a reduction in the amount of the principal and interest of mortgages, and, in fact, it would require the cooperation of the entire creditor class, including bank depositors, holders of insurance policies, and so forth, to reduce the amount of deposits and the amount carried in insurance policies. Now, it would be utterly impossible to secure any such concurrence as that, would it not?

Dr. SPRAGUE. I think, taking it as a universal policy, I would quite agree with you, that it would be impossible, and it is largely for that reason that people have been seeking for some monetary means of turning the trick. I do not expect, or think it possible, that it could be made universal, but I think that by a little here and a little there a good deal could be accomplished in that direction that would be helpful. I do not consider that any one means is adequate by itself to meet our present difficulties. I think that a little more could be done in that direction if it were impressed upon all classes in the community that it was desirable. It has been done to a certain extent, both as regards to farm mortgages and as regards urban properties.

Mr. MCGUGIN. I have one more question: If we continue as we have been going during the last 5 years, with unbalanced public budgets, particularly in the case of our local government units, with most of them applying to the Federal Government for relief, with the Federal Government and the local government units operating each

year with budgets more and more unbalanced, in the end, is there any possible way to escape inflation in one form or another?

Dr. SPRAGUE. Well, I think, it depends upon whether we are making progress in the right direction, doing a little here and a little there.

Mr. MCGUGIN. The point is, can there be any progress in legitimate industry, private industry, productive industry, or whatever you call it, so long as Governmental units are absorbing all the credit of the country? It is being absorbed by the Government of the United States, and by every local community. They are issuing bonds every year to take care of their deficits.

Dr. SPRAGUE. Let me illustrate it by a possible case: Suppose we were taking in hand the railroads of the country: Here is a first-rate agency for moving goods, which for one reason or another is being duplicated to a greater or less extent by the use of roads by trucks. I would be disposed to think that a policy regarding transportation which would look at the problem as a whole, and which would be directed toward using the railroads for the class of traffic for which they are best suited, which would examine the structure of the railroad rates with the purpose of discovering whether there are not a good many rates the reduction of which would serve to stimulate traffic and reduce the cost to the consumer of particular products that consumers would want in greater quantities if prices were relatively lower, would be helpful in that one field.

It should be one that would also examine the railroad debt or financial structure, and recognize that in the past probably there have been serious errors made in financing which must be adjusted through wiping some of the obligations off the slate. Some of the trouble we are in seems to me to be due to the fact that following the collapse in 1929 we went forward for a period of 3 or 4 years rather on the assumption that somehow or other things would snap back, and would be where they were before. Now, that does happen in the case of minor recessions. We had a minor recession at the end of 1923, and then things improved in 1925. In 1925 we were doing about the same things that we were doing when business was going on prior to 1923—the same distribution of labor, and about the same proportion of different things being produced.

The same was true after the modest collapse in 1927. But in 1929 we entered a period in which, apparently, very considerable adjustments were necessary, with shifts in labor and shifts in values; and that, upon the whole, we refused to do. We looked for a recovery and a return to the condition of, say, 1928. The general point that I am making is that no one policy, whether it be monetary or nonmonetary, is sufficient to meet the present situation. I feel that the attention that has been given to monetary policies in the last few months in this country has tended to obscure in the minds of most people the necessity for doing a good many things in the financial and nonmonetary sphere in order to bring about the desired trade recovery.

Mr. ELTSE. Dr. Sprague, as I understand, you believe that the matter of adjustment of debts is largely an individual matter as between debtor and creditor, and that the Government cannot do much to help in that direction. Is that correct?

Dr. SPRAGUE. I think it can do more than it has been doing. It has been doing a good bit in connection with smaller home loans and farm mortgages.

Mr. ELTSE. But, speaking generally, will it not be a case of individual adjustment more than anything else?

Dr. SPRAGUE. Yes.

Mr. ELTSE. Now, with respect to this policy of devaluation as a strengthening of the credit structure of the Nation, if the gold is to be taken in to the Treasury of the United States, and against that these new bonds are to be floated to the extent of several billions of dollars, is that going to help the credit structure at all? Is it going to relieve the strain on the credit structure to any extent?

Dr. SPRAGUE. I should think that the supply of funds available or the supply of credit was and had been adequate. Let me take the situation as it was developing last summer. Last summer we brought out an issue of 8-year bonds, testing the market by a longer term Government issue than had been put out for a number of years, and that was a decided success. At that time there was at least relatively a fair expectation on the part of the public that the Government was not going to resort to extraordinary monetary devices. Then early in October we went a step farther and offered 10- to 12-year bonds, asking subscriptions for 500 millions of new money and venturing to call 2 billions of the Liberty 4½-percent bonds for payment in April, offering the 10- to 12-year bonds to holders of the called bonds; and the response was very satisfactory. Assents were secured to the extent of some 800 million out of the two billions in the course of something like 2 weeks. Then the gold-buying policy was announced, and assents to conversion immediately ceased; that is the position at the present time, and the Government has over a billion dollars to pay out on those called bonds on the 1st of April to people who have not assented.

I still believe that the assents would have been secured for practically the entire amount if we had gone forward on a basis of ordinary governmental financial policy. The supply of credit, the ability of the Federal Reserve to expand credit in response to any demand, is very great. I do not think that we need to revalue now from the point of view of the supply of credit; and I come back to the statement that I made earlier, that if it is stated when we revalue that this is simply one of a series of experiments to be followed by others of an indeterminate and undisclosed sort, then I should be disposed to think that business confidence would be weakened, and also that confidence in the credit of the Government might be so weakened that it would be more difficult to float the additional 2 or 3 billions of bonds over and above the windfall profit than it would have been to float the entire quantity on the basis of complete confidence in the monetary intentions of the Government.

In other words, I feel that revaluation, if it takes place, should be the last of the monetary devices of the Government, aside from the matter that your chairman mentioned a moment ago, of silver, about which I shall have something to say a little later, after we have gone around the table, I suppose.

Mr. ELTSE. As I understand your position, then, underlying all business of the whole Nation, of every individual and group of individuals, is a contract, the terms of which may be performed almost

immediately or may be performed over a period of months or even over a period of years, and until the parties to those contracts can rest assured that conditions will be such at the time of the performance of the contract as they were on the day of the execution of the contract, confidence is not going to be restored, industry will not be speeded up, and the wheels of the factories will not begin to turn again.

Dr. SPRAGUE. I should imagine that I agreed with you about that, although it is one of those general statements upon which we might have differences as to what we meant by them. But for the moment I will agree with you as to that.

Mr. FIESINGER. Professor, does the supply and demand of gold have any effect upon prices of goods and services?

Dr. SPRAGUE. If you give a sufficient long period of time, it does. There are times when the effect is immediate; there are other times when it is not. You may have a situation, for example, in which the metallic reserves required by law underlying the credit structure do not permit any further expansion of credit and currency. If at such a time there is an active demand for more credit and currency, then you may say that an increase in the metallic base would serve immediately to bring about an expansion of credit and currency and probably an increase in prices, or prevent a decline. That, in my judgment, would probably have been the situation of the world in, let us say, 1898, if the Rand Mines in South Africa had not been developed. I am convinced that if those mines had not existed silver would have been added to gold as a part of the metallic base for currency some time between, let us say, 1898 and 1905.

If, however, you take a situation like the present, in which, in the case of all of the important central banks of the world the gold base is largely above gold requirements—Germany alone excepted—and a situation in which there is not an active demand for more credit and currency on the part of the business community, I do not think that you get any immediate response through enlargement of the metallic base, whether it be an enlargement through more gold or an enlargement through more silver. If you project your mind over a period of the next 20 years, I should be disposed to think that the addition of a considerable amount of silver to the metallic base would have an effect upon prices, because I presume that in the course of the next 20 years there will be periods in which there will be an active demand for a very much greater quantity of credit and currency than now. But the direct effect of the use of silver in bringing about a trade recovery, in improving conditions in this country and elsewhere next month or in the course of the next 12 months, seems to me to be comparatively slight, and only brought about through such effect as it may have on trade with the Orient.

Mr. FIESINGER. Professor, prices of commodities exchanged in world markets are measured by the value of gold, are they not?

Dr. SPRAGUE. Yes; they are measured by the value of gold; they are measured by the value of sterling; they are measured by the value of anything you like to take.

Mr. FIESINGER. But is not the basis, after all, gold, that they are measured by?

Dr. SPRAGUE. I think I can agree that that is the usual yardstick.

Mr. FIESINGER. Well, would you say, then, if all commodities were low in price, and the value of gold was high, that there was anything the matter with gold?

Dr. SPRAGUE. I should have to look into the question as to what brought about that low value of commodities, and if I discovered that it was due to an inability of banks to meet an active demand for credit, because their gold reserves were low, then I should consider that gold had been responsible for the low value of commodities. But I should have to examine each case by itself; and in the particular case that we have at the present time before us, I simply do not believe that a considerably greater amount of gold in the reserves of the central banks of the world during the last 10 years would have made any appreciable difference in the present value of commodities.

Mr. FIESINGER. Did you read, Professor, the brief that was sent over to you by Mr. McIntyre with reference to the plan therein to make possible profits to industry, farming, and commerce?

Dr. SPRAGUE. I am very sure I must have read it, and I am very clear that I did, but I should not be in position to discuss the plan without refreshing my mind. As I recall, it must have been last August that it came along to me.

Mr. FIESINGER. You do not think that there is anything the matter with gold, then, primarily; that the yardstick has been increased in value, and all other commodities thereby decreased?

Dr. SPRAGUE. No. I would say that whatever the yardstick is, it will be affected by all of the operations that take place, financial and otherwise; that in so far as there has been a direct influence exerted by gold, it has come about, as I see it, in this fashion:

As I said before, the French revalued the franc at a point which undervalued it; which was not an equilibrium rate. The British in 1925 valued the pound at the old parity, which overvalued it relative to the trading position and the price position of the country. Numbers of other countries went back upon gold before they were in a strong trading position, borrowing in London and New York in order to provide themselves with an appropriate gold reserve. Then these various nations, with their existing burdens of debt and taxation, and prices not in equilibrium, found themselves in a difficult and uncomfortable situation, some of them tending to lose the gold that they had acquired, because they had acquired it not as a result of their trading operations and of a strong trading position, but through the negotiation of loans on the unfounded supposition that merely reestablishing themselves on the gold standard, however they managed to do it, would of itself serve to place them in equilibrium with the rest of the world. That did not happen, and so you had a maldistribution of gold, not due to a scarcity, taking the world as a whole, but very definite indications of scarcity in the case of particular countries.

I can illustrate the point in this way: After Britain went off gold, there was an eagerness on the part of some people in Great Britain, as well as an eagerness on the part of numbers of people outside, that the country return to gold speedily, but not necessarily at the old parity. But there was no evidence at that time to determine what would be an equilibrium rate for the pound—a rate which it would be quite within the capacity of the country to maintain without extreme difficulty, or a rate which would not be seriously disturbing to other countries and their trading position if it were established. It therefore seemed the wise course to adopt what may be styled a more or less neutral policy—to avoid, if possible, extreme fluctuations of the pound, but to take no action calculated or designed to fix it at a

particular point until, by trial and error and experience, and the shaping of events in the rest of the world, it could be determined what the equilibrium rate might be.

Mr. FIESINGER. You say that the central banks have got sufficient gold; that there is not a demand for credit. You do not agree, Professor, with Mr. Winston Churchill when he said that our yardstick had gotten out of shape?

Dr. SPRAGUE. No. I very seldom agree with Winston Churchill, I may say.

Mr. DIES. Mr. Fiesinger, may I ask you a question? It is a little out of the line of the examination, but it is a very vital question. I understand that a bill will be submitted to the Banking and Currency Committee involving the question of revaluation or devaluation of the dollar. At the last session of Congress, on March 20, I introduced a bill, which was referred to this committee, to revalue the dollar. I took it up with the Speaker, and upon looking into the unbroken precedents we found that this committee had always exercised exclusive jurisdiction over that question, as well as the silver question. Now, what I want to know is, Under and by what authority—if you or any other member of this committee knows—is the Banking and Currency Committee to be permitted to deprive this committee of its long-honored tradition of exclusive jurisdiction over this subject, and whether or not this committee is going to be disposed to permit that to be done without some protestation?

The CHAIRMAN. May the Chairman interrupt to say that it has come to his mind this morning that it might be well for us to discuss this matter of our jurisdiction in executive session immediately after the witness has completed his testimony; and if the gentlemen of the committee will be good enough to just wait a moment or two, I think we can go into that thoroughly and decide what procedure we should follow.

You may continue, Mr. Feisinger.

Mr. FIESINGER. I think that is all.

Mr. WHITE. Mr. Chairman, I would like to ask the Doctor on what assumption he bases his statement that there is no active demand for credit at this time.

Dr. SPRAGUE. I think there is no active demand for loans that will pass the most rigid of banking tests, because of uncertainties about the future, where it is desirable and profitable to expand. Then I believe that there are a large number of other instances of a possible demand where the obstacles are twofold. One is that a great many concerns that were formerly pretty good borrowers are now not so good. The banks are looking or have been looking for a very high degree of liquidity, a greater degree of liquidity than was consistent with the existing situation and a greater degree of liquidity than has characterized their operations in the past.

Then there are particular areas where the number of bank failures has been so considerable that it has deprived a good many concerns of banking facilities as liberal as those which they enjoyed in the past. But these are banking questions and not monetary questions.

For example, if you take the excess reserves of the member banks at the present time, they are very large—seven or eight hundred millions of dollars. It is not because of an inability of the banks to

extend more credit, but it is an inability of particular banks to extend more credit. But if these excess reserves were much greater than they are, there is no reason to suppose that the excess reserves would become lodged with the banks that are not now able to lend more, but rather with the banks that already have excess reserves and, for one reason or another, do not extend the additional loans that they might make.

I believe that the insurance system ought to lead to a loosening up of bank credit, and I was strongly in favor of trying to get the system going by at least as early as the 1st of October, to remove that impediment to more liberal lending on the part of the banks. Our bank examiners have been exceedingly restrictive. They have reached the state of mind where they are very fearful that after they have examined a bank, it shall be discovered that the bank has some frozen assets that they did not note and there have been bank examiners from different agencies more or less competing with each other in discovering slow and doubtful assets. So that you have had a situation in the country in which banks were peculiarly unwilling to grant loans with a customary degree of freedom.

Mr. WHITE. Doctor, the trend of prices is a controlling factor in the matter of banks making loans, is it not?

Dr. SPRAGUE. It is one of the factors, but not the only one. But if that were the case, there should be much greater freedom in making loans than before, because a great many prices have risen from the extreme lows.

Mr. WHITE. I would like to ask the doctor with reference to securing a uniform money system throughout the nations of the world, something comparable to the agreement of the Latin Union: Do you think it is desirable that we should standardize our unit of primary money as to fineness and value throughout the world?

Dr. SPRAGUE. I should think that that was a development that might very reasonably come as an improvement of world monetary arrangements. But I think it must come after the more difficult problem of determination of the appropriate rates for the relative values of different currencies. That is the most difficult problem from an international point of view, and I confess that I do not believe that it is possible at the present moment to determine the appropriate values for the currencies of different countries. I believe that it is desirable to go through a period of trial and error in which various countries, avoiding extreme and positive monetary measures, shall afford sufficient time to let the various currencies reach something approaching an equilibrium one with the other.

Mr. WHITE. The idea of stabilizing the currencies of the world with one value for gold and silver, you do not think is desirable?

Dr. SPRAGUE. I do not think it is feasible at the present moment to sit around a table and to try to decide whether, measured in the dollar, the pound shall have a value of five dollars or six and the French franc a value 6 cents or 7, 5 or 4, and the Argentine peso a value of 40 or 30 cents, or whatever it may be. That does not seem to me to be possible until we have gone sufficiently far in world trade recovery to be able to picture the future a little more clearly than we now can.

Mr. WHITE. The disparity between the moneys of the different nations as related to the value of gold and silver is one of the difficulties in carrying on international business?

Dr. SPRAGUE. Undoubtedly.

Mr. WALDRON. Doctor, is it not true that the greatest difficulty with which we have to contend at the present time to provide permanent employment is to provide capital for the industries of the country, for the business interests of the country? Is not that the great drawback at the present time?

Dr. SPRAGUE. To provide capital and to get a situation in which the industries will want capital.

Mr. WALDRON. As you have stated here, the appropriations that we have been making for relief, in connection with public works and in other channels of that kind, are expended after a limited time, and then the people are out of work again; consequently we were not getting anywhere that way?

Dr. SPRAGUE. That is what I fear.

Mr. WALDRON. What we have got to do is to get something in the shape of permanent improvement of business, permanent employment.

Dr. SPRAGUE. Right.

Mr. WALDRON. Something that will start our business interests going where they were going before this panic a few years ago. Otherwise we will just continue to remain in this uncertain state, is not that so?

Dr. SPRAGUE. That is what I fear.

Mr. WALDRON. That has been my position right along, that unless there is capital provided, and it appears to me it must be provided by the National Government, business will not be improved permanently. It seems to me that our great drawback in the greatest manufacturing district of the country, in the Northeast, around Philadelphia, is the fact that business interests are unable to get the capital necessary for them to start their plants, and to bring back people in employment.

Dr. SPRAGUE. I quite agree with that, if you are prepared to add one more provision, and that is that those who furnish the goods that are purchased with this additional capital participate in the financing. Let us take, for example, such a case as the railways. If there were to be a very considerable Government expenditure or assistance for the purpose of rehabilitating and improving the equipment of the railways, those who will benefit as vendors of the equipment should, somehow or other, participate in financing the same. I think one will get a sounder basis of finance by that method than if the Government does the entire financing. But that is merely what seems to me a detail, though a very important and practical one.

Mr. WALDRON. Doctor, there are any number of instances of sizeable manufacturing plants that are idle today for want of working capital. They have no mortgages against their property, but they cannot get the necessary credit from their banks with which to start those plants going. That is the great difficulty as I see it, particularly in the large industrial centers, such as Philadelphia.

Mr. MURDOCK. May I ask the gentleman, even if capital were available, with prices as they are today, would they want any loans? Is not that the problem? In other words, it is not a lack of credit

but, because of commodity prices, they do not want any credit, and until we bring those prices up they will not ask for credit.

Mr. WALDRON. That is not the case from my knowledge of the situation. We have any number of business houses who are in need of working capital and who claim that they can use money to advantage. Some of them are quite sizeable concerns and have not anything against their real estate. Everything is clear, but they cannot get the money that they need with which to start going.

Mr. MCGUGIN. They claim they need it and they could use it and make a profit, but they cannot convince the bankers, and the National Banking Department, that they can make a profit, is not that the case?

Mr. WALDRON. I really could not say that.

The CHAIRMAN. Gentlemen, may I suggest we have only 10 minutes remaining and three other members of the committee may want to ask questions. May I ask that you reserve this intracommittee debate for some other time? I would appreciate it.

Mr. WALDRON. That is all, Mr. Chairman. I just wanted to bring out that one point.

Mr. MURDOCK. Doctor, it is not feasible at this time to get away from a metallic base entirely for our money, is it?

Dr. SPRAGUE. No. I think a metallic base on the whole exerts a desirable restraining influence at times. It would have been far better for this country if our metallic base had been very much less in 1928 and the years before than in fact it was. We were not compelled to exert a restraining influence on credit or on the whole economic situation that was getting in bad shape. We were not compelled to do so because the Federal Reserve had a reserve of 70 percent. If its reserve had been 50 percent or under in 1928, we should have had that very much needed restraining action. We did not take it for that reason and for the further reason that prices were not going up rapidly.

I doubt whether you would ever get the desired action under a managed currency because of that feeling, that you do not want to hurt business, that obtained in 1298, and which prevented taking restraining action.

By and large it seems to me that we need a situation in which no very considerable departures from equilibrium can take place without some restraining influence being exerted.

Now, a metallic base is not enough, because sometimes it is too big and sometimes it is too little. You need some management. But on the whole, I am inclined to think, human nature being as it is, that it is a desirable safeguard.

Mr. MURDOCK. Doctor, the addition of silver to our gold base would have a steadying influence on prices at all times and it would thereby preclude such a disparity as exists now and has existed for the last 2 or 3 years, is not that so?

Dr. SPRAGUE. If you look over the period from 1920 to 1929, I am not inclined to agree with that, for the reason that I believe that it would have meant somewhat larger reserves in the Reserve Bank of New York and the Bank of France and in one or two other countries, and no appreciably larger amount in those countries that at that time were

finding it difficult to maintain their gold base and were resorting to all sorts of devices, including excessive borrowing, in order to do so.

In other words, I do not believe that any monetary system, pure and simple, yields stability unless you have foresight and restraint in the disposition made of credit resources, intelligence and foresight in the investment of capital at long term, and a readiness to make adjustments in the industries and in the relative prices of different products, and so on.

The monetary factor is only one of very many factors in the situation.

Mr. CARPENTER. Do you not think it would simplify the process a good deal, Doctor, if we turned our thoughts more to a national system than if we try to reconcile our differences with foreign countries; if we cut loose from those countries and just try to adjust ourselves within ourselves?

Dr. SPRAGUE. I wonder whether you can. After all, we do have foreign trade, and the value of our currency is in a very large degree measured by its value relative to other currencies. You will recall that when the gold-buying policy was started and there were no purchases except of domestic gold, it had no appreciable effect, so far as one could discover, at any point whatever. It was when we began to buy foreign gold that it began to be regarded as a somewhat potent influence and affected foreign exchange rates, and that affected at least in part the price of certain important exports. The only way in which you can influence the situation internally is by monetary action that will affect the demand for credit and currency within the country; and in our modern organization of industry the only way, as I see it, in which purely monetary action can exert an influence on prices, is through the effect that your monetary action has upon the demand for credit and currency.

It is along that line that I find myself constantly at odds with people like Professor Fisher and Dr. Warren. They do not seem to me to carry through the process of price change. They start and largely end with money proper, apparently supposing that changes in money more or less automatically affect the operations of banking, not merely the supply of credit, but its demand.

Now, I hold very definitely that monetary changes only have a direct effect upon prices in those occasional periods when there is an active demand for credit and currency running in excess of the supply of credit and currency possible under any given monetary arrangement. When your supply is far and away in excess of that demand for credit and currency, I fail to see how you can expect any immediate response by a monetary change which merely increases that potential supply.

Mr. CARPENTER. How much of a debt do you think this country could put upon itself and be able to pay under the present line of expenditures, and maintain the so-called public credit, national credit?

Dr. SPRAGUE. How far could it increase its debt?

Mr. CARPENTER. Yes.

Dr. SPRAGUE. Is that the question?

Mr. CARPENTER. Yes.

Dr. SPRAGUE. I think it could go very far through the maintenance of confidence in the monetary and economic policies of the Government. Let me make this comparison. The British Government's debt is between 35 and 40 billions of dollars, with a population one third that of this country. Of course, their local debt is not as great as our local and our State debt. But I would say that it was quite within the taxpaying capacity of this country over the years, for the United States Government debt to be very much greater than it now is.

The CHAIRMAN. The chairman has just one question, and I think, Doctor, you will be able to answer this yes or no. I am merely asking your opinion. If confidence is shattered by the reflation at this time, do you think it will be more difficult to borrow the three billions still needed than it would have been to borrow the entire sum of our indebtedness without reflation?

Dr. SPRAGUE. Yes, sir.

The CHAIRMAN. I think Mr. Fiesinger has one question and Mr. White has one question, and then the chairman is most anxious to hold a short executive session.

Mr. FIESINGER. I just wanted to ask one further question.

Professor, I have before me a letter from the White House to Congressman Lamneck, acknowledging receipt of a letter of May 24, and an enclosed memorandum on the American plan for the control of gold values. The letter says that the memorandum was sent to Dr. Sprague. Doctor, you recall that document that was delivered to you, I believe you said some time in August of last year? I do not know whether you recall it or not, but that document was asked for by the President of the United States and was sent to you. It purports to give a remedy for some of the things that you have spoken of here this morning as needing a remedy. You say, however, that this document has now been sent on with your papers to Massachusetts and you have not a very distinct recollection of it. I wonder if you could give me, or give the committee, rather, if the chairman will receive it, an answer as to why the proposal therein contained would not work?

Dr. SPRAGUE. I shall be very glad to do that, sir. But it will perhaps facilitate matters if you can provide me with another copy.

Mr. FIESINGER. I can provide you with another copy of it here today, if you wish.

Dr. SPRAGUE. Very good.

The CHAIRMAN. Would you care to submit your answer to that in writing to the committee, because I doubt if you would have time to do it now, Doctor.

Dr. SPRAGUE. I think I had better do that.

Mr. FIESINGER. In writing?

Dr. SPRAGUE. Yes. But I do not know just when I will get at my papers, so if you would furnish me with a copy, it will speed action.

Mr. FIESINGER. I shall be glad to furnish you with a copy.

Mr. WHITE. Doctor, do you favor discarding the precious metal base under your managed paper currency system?

Dr. SPRAGUE. Oh, no. I simply insist that a certain amount of management is necessary under any system, more management than we have had, probably, in the past; but that it is decidedly helpful,

human nature being as it is, that we have a metallic base, and that it is desirable that over the years that metallic base be adequate; and that in that connection it may be desirable that some amount of silver be included in the metallic base of central banks around the world.

The CHAIRMAN. Thank you very much, Doctor. Your testimony has been most informing to this committee and we assure you of our appreciation.

The committee is now adjourned.

Dr. SPRAGUE. I understand you will not want me further?

The CHAIRMAN. I think not, Doctor.

Dr. SPRAGUE. Thank you.

(Whereupon the committee adjourned to meet tomorrow, Tuesday, Jan. 16, 1934, at 10 a.m.)

GOLD RESERVE ACT OF 1934

TUESDAY, JANUARY 16, 1934

HOUSE OF REPRESENTATIVES,
COMMITTEE ON COINAGE, WEIGHTS, AND MEASURES,
Washington, D.C.

The committee met at 10 a.m., Hon. Andrew L. Somers (chairman) presiding.

The CHAIRMAN. The committee will please come to order.

Gentlemen, this morning we will have the privilege of hearing Mr. Frank A. Vanderlip, formerly Assistant Secretary of the Treasury, at one time president of the National City Bank of New York; later president of the New York Clearing House, and at some period later than that he was chairman of the New York Clearing House.

I know Mr. Vanderlip has given a great many years to the study of monetary systems, and I am quite sure the information he will give to us this morning will be greatly appreciated.

Have you a prepared statement you would like to make to the committee, Mr. Vanderlip?

STATEMENT OF FRANK A. VANDERLIP, NEW YORK, N.Y.

Mr. VANDERLIP. Mr. Chairman, I would prefer to talk face to face with you.

By the action of the President yesterday, I presume we will soon find ourselves with all the monetary gold of the country in the Treasury of the United States. There may be a little surreptitiously hoarded still, but substantially the whole stock will be in the Treasury, with that portion that comes from the Federal Reserve banks represented by gold certificates, if the suggestion made by the President is followed.

The subject then becomes a question of what is to be done from here on. We are off gold; we propose to stabilize gold so that the dollar will represent fewer grains than the old standard, but to go back on a gold standard. I said "on a gold standard."

Under no circumstances should we go back on the gold standard as it existed prior to last March. Thirty-four nations have gone off the gold standard, and there is an important reason.

If I may take a minute, I would like to define what the gold standard is, and what its functions properly are.

Let us imagine the monetary stock of the country as a block of gold, and you know all the monetary gold in the world would only be about 31 feet square. That block of gold would bear certain burdens. There are just two functions it should bear as a gold standard.

It is a basis for currency issue. That gives confidence to the currency, a feeling that there is something back of that currency.

As our laws are now set up, it is also to control the amount of currency.

Taking the Federal Reserve bank notes as an example, they must have 40 percent reserve. Therefore, if we have a block of gold, we can erect Federal Reserve bank notes two and a half times the size of that block, but that is the limit.

The first function of a gold standard I would state as being a basis and a limit to the currency issue.

Then it has another important function. Imagine a pair of balances in which we put all our imports of goods in one balance and all our exports in another. They would be somewhat out of balance.

Then we put in our invisible imports and exports, that is, freights paid to foreign vessels, tourists' expenditures, interest coming in, and so on. They are still out of balance.

We can then tend to balance it by including the money that may be borrowed in a foreign country, which has exactly the same effect as the movement of goods. It will still be somewhat out of balance.

One way to adjust that balance, which must be adjusted, is the shipment of gold, gold being the one thing that is acceptable in every market of the world. So there is a second function of the gold standard, to settle foreign trade balances. First, it is used as a base of paper money and the control over its limit of issue, and, second, for the settlement of foreign trade balances.

During and since the war, there developed some influences that upset what had been an orderly working of the gold standard for a century. There had been interruptions. We went off gold in the Civil War; England went off gold five times during that century, but on the whole, it had worked extremely well.

There developed a large amount of liquid capital, that crossed frontiers, without any reference at all to foreign trade, frightened capital, the owners of which became concerned about conditions in the country where they resided, and wanted to remove their wealth to some other country. There were what we call flights of capital.

There was an astute capital that sought temporary employment and higher interest rates in some countries. A notable example of that was here in 1928 and 1929, when there accumulated 2 billion dollars of bank deposits owned by foreigners, in New York. That inroad of capital came because there were high interest rates. It stimulated an expansion of credit, and was a large influence in causing the grotesque rise of prices that finally resulted in the debacle of 1929.

A monetary gold stock, when we return to a gold standard, must be guarded against demands by this flow of liquid capital.

That liquid capital has been augmented in the last 3 years by the English stabilization fund, which is a menace to any other country. I have no fault to find with England for establishing it. It is distinctly in England's interest.

Here is what happened. England went off the gold basis, and Parliament appropriated £150,000,000 to be handled by the Bank of England to stabilize the pound in foreign exchange. It was found that that was insufficient, and Parliament later appropriated 200 million pounds more. That is a billion and three quarters of credit.

And remember, there is only a little over \$11,000,000,000 of gold in all the world.

That fund can be thrown across frontiers through the exchange market, without any regard for foreign trade. It may move in quite the opposite direction to the direction gold should be moving when governed by the foreign trade of the country alone.

The whole object of the fund is to manipulate foreign exchanges in the interest of the pound. The movement is utterly secret; nobody knows the position of that fund and what it does.

But I regard that movement of capital across the borders as being as menacing as a flight of military airplanes, and it should be met.

Another form of liquid capital is in the international ownership of securities. If a foreigner owns a million dollars' worth of American securities and decides to turn them back on this market, he secures in 24 hours a bank balance which, under the old gold standard, was convertible into currency, which, in turn, was convertible into gold, and that movement of capital had just as much influence on the exchanges and on the international balance of the country as would the export of goods. A cablegram from a financier could mean more than a whole fleet of freighters carrying imports or exports.

Now, I would return to a gold standard, but it would be a limited gold standard, so far as the redemption of currency is concerned.

There is another danger that I should have spoken about first, and that is the danger of domestic hoarding. We have only had two important experiences in my time. At least, in 1896, during the free silver campaign, there was a certain amount of hoarding. And just a year ago there was a very large amount of hoarding. Some \$600,000,000 of gold was withdrawn, and a new gold standard, a modernized gold standard, must guard against that.

This is the sort of gold standard which I would advise setting up. I would first make it a bullion standard, not a coin standard. That is, I would melt all the coin and never coin any more, and when there was a redemption of currency, it would be in gold bars, perhaps of a medium size of \$5,000.

Now, the paper money would be redeemable, presumably, in a definite number of grains of gold, and if there were a commodity dollar, it would still be redeemable in gold, but in fluctuating credit. So that any one with currency could demand gold and take it out of our monetary stock, which is the base for our currency, and through our currency is the base for our bank deposits.

I might interpolate a thought there. Suppose a country's currency issue was down to the legal limit, that is, that it had just two and a half times as much currency as it had gold. Bank deposits must have a currency reserve. Say the reserve has to be 15 percent, and the bank deposits stood just at that point, at 15 percent of currency reserve.

I want to trace the effect of drawing a million dollars of gold out of that country. You draw out a million dollars. Back on the gold basis, you would have to reduce the currency $2\frac{1}{2}$ million, and by reducing the currency $2\frac{1}{2}$ million you would have reduced the bank deposits \$16,660,000. That is not exactly an accurate picture of our position, but it is practically so.

The danger of a movement of gold having no relation to trade, a capital movement of gold, is that it may multiply easily 16 times in

its effect upon bank credit, which must be reduced, in order to reduce bank deposits to come within the limits of the currency as they would have to be. The withdrawal of a million dollars, as used in my illustration, forces the calling of loans of \$16,000,000.

Now, to go back to what I would propose as a gold standard. It would be a bullion standard, but currency could be presented for the redemption of gold only for one purpose, when the gold was wanted to settle a foreign trade balance, a debit balance, where gold was needed for export. You could not get it if you wanted to hoard the gold. A foreign capitalist who shipped securities to this country and sold them could not invade our monetary base by having gold liquidity given to those securities.

I would then have a free gold market. I would not condemn us to being a hermit nation economically at all. We should have a movement of capital, but that movement of capital could not attack the monetary base; if it got to a point where they wanted to move gold out of the country, they would have to move gold out of the free gold market, rather than out of the monetary base.

As I stated at the beginning, we will presently find ourselves with all of the gold in the Treasury of the United States. What is best to be done with that? My recommendation would be the formation of a new arm of the Government, as much a part of the Government as the Treasury of the United States. I will not call it a central bank, because it is not a central bank. It will have no capital; it could never receive any deposits. It lacks those functions of a bank, but it would perform some of the functions of a central bank.

I would give this new arm of the Government the sole power to issue currency. I believe the issue of currency is particularly a Government function. I would take the right to issue currency away from the Federal Reserve banks, and perhaps also from the national banks. Taking it away from the national banks would not be essential to the scheme, but I think it would be desirable, on the whole, and unify our money by having one type of Government money.

The functions of this institution would be very few. It would receive no deposits. It would rediscount for Federal Reserve banks self-liquidating commercial paper which the Federal Reserve banks had, in turn, rediscounted for their member banks.

I am taking away from the Federal Reserve banks the right of currency issue, and they must be supplied with some recourse if they are to have the obligation of always rediscounting for member banks.

I would have them able always to go to this new institution and re-discount that paper.

I would permit this institution to deal in the open gold market in gold. I would abolish the free coinage of gold; that is, I would not obligate the Government, as we have before to buy and sell gold at a fixed price.

The Government would, through this institution, buy and sell gold, but would not be forced to buy gold, as it must under free coinage.

In addition to rediscounting for Federal Reserve banks, it would buy and sell gold, and it should conduct open-market operations in short-term Treasury paper, never in long-term bonds. I would like to see it permitted to deal in short-term Treasury paper not having more than 6 months to run; and also conduct open-market operations

in bank acceptances, having the names of two banks, and to deal in foreign exchange.

I would put the legal minimum reserve of gold back of this institution's notes.

The institution should be under the compulsion of publishing weekly the ratio of gold reserve to its total liabilities, but with no dead line of reserve below which it could not go. That corresponds with the Bank of England and the Bank of France, and I think nearly all of the central banks.

These would be the instruments, so far as manipulative operations may go, to influence the price level, except the instrument of varying the gold content of the dollar, which would not be embodied in this institution.

However, if the Congress should ever decide upon the commodity dollar, with a varying gold content, it would fit into this scheme perfectly. Even a symmetrical currency, composed of part gold and part silver would fit into it. It seems to me designed either for a definite gold standard of a fixed number of grains, or for a varying gold standard, or for a gold and silver standard.

Very briefly, Mr. Chairman, that is what I would have to say about a return to the gold standard, and about a Government arm which should issue currency, which should take over the open market functions of the Federal Reserve system, and which should rediscount paper for the Federal Reserve banks.

I have some very distinct ideas about things that should be done, and probably would have to be done to the banking system at large. I do not know whether you gentlemen want me to go into that, or confine myself to the gold standard, to the stabilization of the dollar, and so forth.

The CHAIRMAN. I think, Mr. Vanderlip, in view of the interest that the country has in the gold standard at the present time, it might be better to confine ourselves to that definite subject.

Mr. VANDERLIP. Very good, sir.

The CHAIRMAN. The chairman usually reserves his questions until the last, but as he may be called away before the completion of questions of other members, if you will permit me I would like to ask one or two questions now.

You spoke about the equalization fund of Great Britain, and referred to it as being like an invading army. That can only operate against a stabilized gold dollar, can it not?

Mr. VANDERLIP. Oh, no, sir; that can operate against the value of our dollars measured in pounds or francs, or kronen, or what you will.

The CHAIRMAN. I do not quite understand how it could. For instance, with the dollar changing from day to day, and with the tendency to drop, would you make it undesirable on the part of the British Government, for instance, to attempt to stabilize that dollar when it was free to drop for a while?

Mr. VANDERLIP. The Bank of England finds itself possessed of this great fund. It owns pounds. In the foreign exchange market they can buy or sell dollars, and they can sell them short. That is, they can sell what we call spot dollars, dollars that become available in the bank deposits here at once, and against that, could buy a future to make good those dollars, which would have the effect in the exchange

market of depressing our dollars; or it can buy in the exchange market itself, increasing the demand for dollars, and advancing them. They can manipulate the exchanges of every country, up or down.

The CHAIRMAN. They did operate against the American dollar when we were on the gold standard and ceased to operate when they left gold?

Mr. VANDERLIP. It is operating very effectively now.

The CHAIRMAN. Is there any report that you have that indicates that the British Government has been buying American dollars lately?

Mr. VANDERLIP. There never has been the slightest whisper of a report. The English economists and banks talk about the mystery of President Roosevelt's monetary policy; but the mystery of the British equalization fund is complete.

The CHAIRMAN. The only way by which we can meet this equalization fund is by the creation of a similar fund in this country?

Mr. VANDERLIP. No; I have been trying to explain another way, the setting up of a gold standard where such a fund could only operate against a free gold market, and not against a monetary system. Such a fund would always influence the exchange market, but it could not move gold. Of course, it cannot at the moment move gold with us, because we will not permit the gold to be moved. We could meet that, if we are not quickly prepared to cope with it, through a new gold standard. We could meet this fund at once with a 2-billion-dollar stabilization fund. That seems to be the administration's opinion, as it is suggested that the gold which is free from the devaluation of the dollar be used for such a fund.

The CHAIRMAN. I think that is what I asked, was it not possible to create a fund to meet that?

Mr. VANDERLIP. Yes; and that is highly desirable. It is as desirable to have that as it is to have protection for your country if you are going to be invaded.

The CHAIRMAN. At the present time it is the only way of meeting the equalization fund, until such time as you create a system such as you have described?

Mr. VANDERLIP. We have met it in a most feeble little way, with a few gold purchases we have made, and there has been a little resistance to it.

Mr. THURSTON. You make reference to the effect upon our security values, and incidentally the stock exchange, of permitting large quantities of securities to be sold, and that if there is a sufficient number of these throughout the world you will eliminate the value of our securities. Would you suggest how the amount or quantity of stocks or bonds should be limited so that the sale could be spread over a period rather than to be at one time?

Mr. VANDERLIP. No, sir.

Mr. THURSTON. How would you prevent that?

Mr. VANDERLIP. I would not prevent the international intercourse in securities. I would permit a foreigner to own our securities, as we own foreign securities. But when those securities cross the frontier, they would not have any command over the monetary gold stock.

If an English investor sold a million dollars' worth of securities in New York, he would have a New York bank balance. He could turn

that into currency, but he could not get gold for that currency. You could get gold for currency only when the gold was needed to meet an international trade balance. You could not get it if it was asked for to be hoarded, or if it was to be shipped in answer to a capital movement.

Mr. THURSTON. In other words, we would have a permanent embargo upon the exportation of gold?

Mr. VANDERLIP. So far as the Government gold stock is concerned, and we would have a free gold market into which gold could flow from anywhere, wherever purchased.

Mr. THURSTON. You made reference to the creation of another Government entity, which probably would be called a central bank?

Mr. VANDERLIP. I do not think it ought to be called a central bank, because it is not a bank, in the sense that it has no capital and could never receive any deposits.

Mr. THURSTON. It would be the creation of another unit in the Treasury?

Mr. VANDERLIP. Yes.

Mr. THURSTON. If such an instrumentality was provided, would it be necessary to continue the Federal Reserve System?

Mr. VANDERLIP. Oh, yes. I should hesitate very much to see a Government instrumentality reaching down into the banking system where it controlled, in a large sense, the granting of individual credits. This new instrumentality would rediscount this paper for Federal Reserve banks, but the paper would first have to have been accepted by a Federal Reserve bank and endorsed by it, so that the capital of the Federal Reserve bank, which is the property of the member banks, would have to be the stake of that endorsement. I would not have the Government taking really any risks at all, or having any direct interest over the granting of the individual credits.

If this is the appropriate moment to do it, I would like to make a suggestion as to the management of such an authority or institution. There is the fear, of course, on one side, of too great control or meddling from political quarters. I think there would justly be as much fear of meddling by organized banking interests. Therefore, there should be set up, as far as is humanly possible, an independent, intelligent management of this organization that is protected both from political meddling and from organized banking meddling influence.

Mr. THURSTON. Mr. Vanderlip, in the last few years political meddling has not done any more injury than banking meddling, has it?

Mr. VANDERLIP. I am inclined to think much less, sir. However, it is well to meet both of those things as far as we can. I have reflected on them. Of course, I do not pretend to have the answer, but I would throw out a suggestion. Let us have seven trustees. The appointment of those must lie with the President of the United States, by and with the consent of the Senate. Perhaps in this peculiar case I would also ask that it be the advice and consent of the Banking and Currency Committee of the House. That would be a new idea, but it would give the House direct voice, or at least veto, regarding the management of such an organization.

Now, there should be insurance that there be at least some experienced minds in the management of this organization, and I have thought of this possibility: That 3 out of the 7 should be appointed

from a list of nominees made in concert by the 12 Federal Reserve bank governors. That would insure 3 of the 7 men being what the banking community regarded as sound, experienced men. I certainly would provide that in every case such a trustee had to divest himself of financial interests, as the Secretary of the Treasury must now divest himself of any entangling financial alliances or corporate directorships.

Mr. FIESINGER. Mr. Vanderlip, why did you say that this new institution should not deal in anything but short-term bonds?

Mr. VANDERLIP. I regard that as very important. This institution ought not to finance the Government. If the Government could turn its long-term bonds in to it and get currency in return, and if the Government could influence—as of course it could—the management, there would be no limit to the amount of currency that might be issued. Of course, you may answer that under this scheme there would be no limit to the short-term notes that might be issued and reissued and the bank or organization would have issued its circulating money against these short-term issues. The answer to that is, in the first place, that the Government is not likely to go crazy. I have not the fears about inflation to infinity that many people have. I am afraid of printing-press money inflation. It is a most dangerous road to start on. But the opponents of it always quote Germany and the French assignat as illustrating the certainty that if you start on that road you go to financial damnation. They seem to forget that we fought the Civil War with printing-press money, and we did not let it run away with us, and with sacrifice and hardship we very promptly returned to a gold basis and resumed specie payment.

I do not believe the Congress of the United States or the people of the United States are as featherheaded as to go into unlimited currency inflation at all. I am not afraid of it, and I do not believe that through this organization there would be a constant creation of 6 months' Treasury paper having constantly to be renewed, so that you would get an endless inflation of the currency. In any event, you would have a board of trustees—of course they could be removed from office; I do not suppose you could give them a term like a judge; you could, but presumably they could be removed from office—but in any event you would have a board of trustees of experience, of understanding of the current situation, and they would be a considerable safeguard even as against an administration that distinctly wanted to inflate. This authority or organization would never be compelled—certainly should never be compelled—to buy short-term notes. They could take them if they wanted to, or need not if they decided not to. They could operate in the open market. That is particularly where the handling of this short-term paper would be effective.

Now, if I were going to set up a theoretically perfect organization, I would exclude the Treasury paper. I think that is politically impossible and probably undesirable practically.

Mr. FIESINGER. You are sure you would have to have liquidity of its funds?

Mr. VANDERLIP. The Government of the United States has no right to demand gold liquidity for its obligations, if that gold liquidity attacks your monetary base, and through that your whole currency structure, and through that your whole credit structure.

Mr. FIESINGER. Now, Mr. Vanderlip, is there a difference in the interest of the nations in price levels, that is, between the European nations and the United States?

Mr. VANDERLIP. A difference in the interest? I do not quite understand you, sir.

Mr. FIESINGER. Is there a difference in interest in price levels? Are the European nations interested in a lower price level than the United States?

Mr. VANDERLIP. Oh, that depends. England is interested in a higher price level. A nation that has too great a debt structure, created at a higher price level, to be bearable at an existing lower price level, is vitally interested in raising that price level.

Mr. FIESINGER. I am speaking about the United States. You state that they are interested in a higher price level, which I concede; but are they interested in as high a price level as the United States?

Mr. VANDERLIP. Not in a price level that would advance as much as we seem to desire the advance here. But our prices have fallen lower.

Mr. FIESINGER. Now, then, as to this stabilization fund: Do they not use that to gain a price level that is to their interest, and which may be disastrous to the United States?

Mr. VANDERLIP. England unquestionably used that stabilization fund to depreciate the pound, so that her foreign trade, which is vital to her life, would be stimulated. Now, during the process of reducing the value of a country's currency, there is great stimulation to its foreign trade. After it has once stabilized on a lower level, and all prices and wages have been adjusted to that lower level, there is no advantage at all. But during the whole process of adjustment there is a great advantage. We have seen it reflected in the large increase in our exports in the last 3 months, and we will see that we are competing successfully with England in markets which she did command up to the time our devaluation began—markets perhaps that she had taken away from us because of her devaluation that was going on.

Mr. FIESINGER. You have not yet given us an opinion as to whether or not England is interested in a lower price level than we have to have in the United States to maintain our wealth structure.

Mr. VANDERLIP. I think England desires a higher price level.

Mr. FIESINGER. Than we do?

Mr. VANDERLIP. A higher price level than she has at present, I think would be the answer, rather than a higher price level than we have. She desires, undoubtedly, a lower ratio of the pound to the dollar than at present exists, or than was the old standard relationship.

Mr. FIESINGER. Well, if she could get a higher price level, and yet lower than our price level, she could command the markets of the world, could she not?

Mr. VANDERLIP. Yes, sir.

Mr. FIESINGER. And she has operated that stabilization fund to accomplish that object, has she not?

Mr. VANDERLIP. Absolutely; manipulated the exchanges—all exchanges.

Mr. FIESINGER. Exactly. Now, are commodities sold in international markets measured by gold?

Mr. VANDERLIP. That depends somewhat on the market. They are, in the last analysis, all measured by gold; that is to say, you can harmonize the prices of an international commodity in all its markets through that common denominator of gold.

Mr. FIESINGER. Now, then, if that is so, why should not the United States control the value of gold, in the interest of its price level, or the price level that it should have in order to sustain its wealth structure?

Mr. VANDERLIP. The price level and the value of gold are just two ends of the same teeter. You can say that your price level has gone up or you can say that the value of gold has gone down. They are a part of the same movement.

Mr. FIESINGER. Gold value in gold-standard countries is the price level, is it not—the price level of commodities?

Mr. VANDERLIP. Yes; the price level of commodities is the gold value. But that gold value can fluctuate, and as it fluctuates the price level will move.

Mr. FIESINGER. Now, then, if that is so, in order for the United States to control its destiny, it ought to control the value of gold, should it not?

Mr. VANDERLIP. It ought to have a market here that sets the world's value of gold, and the Government ought to have the power to buy and sell in that market; and that is what I have provided.

Mr. FIESINGER. Could the value of gold be controlled by the placing of silver in our monetary reserves in competition with gold, in order that we might control the value of gold and thereby control the price level that we need to sustain our wealth structure?

Mr. VANDERLIP. No; the value of gold could not be controlled by that action, but it would be influenced.

Mr. FIESINGER. It would be vitally influenced, would it not?

Mr. VANDERLIP. Yes, sir.

Mr. FIESINGER. Then why not use silver in competition with gold to influence, if not control, gold, and thereby take the thing out of the manipulation that is possible, or that you fear, and that we all fear—political influence and banking influence?

Mr. VANDERLIP. I would rather use the word "cooperation" than "competition" in that relation. If through symmetallism——

Mr. FIESINGER (interposing). I am not talking about symetallism. I am talking about placing silver in our reserves in competition with gold.

Mr. VANDERLIP. Merely in the bank reserves?

Mr. FIESINGER. At the market price of silver. I would not put any fixed ratio on it, but at the market price of silver.

Mr. VANDERLIP. Put it into the bank reserves, you mean?

Mr. FIESINGER. Put it into the bank reserves at the market price of silver, or the gold price of silver, in order that we might better control the value of gold and thereby control the price level.

Mr. VANDERLIP. We have now segregated all gold, taking it out of the banking reserves and having it represented there by a paper currency. To put silver into the bank vaults as a part of their reserve, but having no gold actually there in the bank vaults, would be a little curious. I think what has been suggested is that the reserves of central banks might contain a proportion of silver.

Mr. FIESINGER. Well, the proportion of silver, unless you used it definitely to control the value of gold, would not be any good. Is not that what we are doing now?

Mr. VANDERLIP. You could not control the value of gold. You would make a less demand for gold.

Mr. FIESINGER. That is the point.

Mr. VANDERLIP. By substituting something for the gold.

Mr. FIESINGER. If you made a less demand for gold, Mr. Vanderlip, then there would come an increase in commodity prices that are exchanged in international markets?

Mr. VANDERLIP. Yes, sir.

Mr. FIESINGER. Now, then, if that is so, why is not that desirable in order that we may sell our products of which we produce an exportable surplus at higher prices in international markets and get the advantage for the producers of prime commodities in the United States? And when I say "prime commodities," I mean wheat and cotton and copper and those prime commodities that are sold in international markets. Is not the trouble in the United States largely the farm problem, and that we have had to sell our farm products in international markets below the cost of production, and that the sale of those products in international markets reflects back upon the prices in the United States, and thereby breaks down the farm prices below the cost of production?

Mr. VANDERLIP. Unquestionably an important part of our trouble is the agricultural problem. This depression is not as simple at that, however. That is not the whole thing.

Mr. FIESINGER. That is a large factor, though?

Mr. VANDERLIP. If I were going to name one thing—and it would not at all be a comprehensive answer to the causes of the depression—it is what has been a world-wide misconception of the possibility of liquidity. Now, liquidity means ability to turn goods into cash or wealth into cash. We thought bank deposits were liquid, but permitted 75 percent of the bank deposits to be devoted to long-term capital purposes, where the loans had in them no self-liquidating quality. It was an illusion. It was a fallacy. Banker and depositor alike believed that those deposits were liquid. The banker was not a rascal. He was ignorant of the science of banking, and devoted demand deposits to long-term capital uses. So that misconception in the banking world is the chief cause why 10,000 banks failed in a decade. Nations went off the gold standard through the misconception that all forms of property might be converted into currency; that the currency might be a proper demand on the gold; that capital movements having no relation to trade movements at all might become a demand on gold; that is, that gold liquidity was given to capital movements and to any property that could be turned into currency. Now, that is a misconception. You cannot do it. You are attempting the impossible; and it was the attempt of the impossible that has put 34 nations off gold.

Mr. FIESINGER. Mr. Vanderlip, I am not going to take up any more of your time now, except to ask you one more question: Were not the bank failures due to a fall in the price level and a fall in prime commodities that lowered those commodities below the cost of production? Was not that the prime cause?

Mr. VANDERLIP. No, sir; by no manner of means. It was a contributing cause. There were numerous causes. There was blank mismanagement in some cases; there was dishonesty in some cases. Those are small. But the great underlying thing was tying up in capital uses demand deposits. When the banks put three quarters of their assets into capital purposes, they made a fatal blunder.

Mr. FIESINGER. Based upon the price level then existing, it was not a blunder, was it?

Mr. VANDERLIP. Let us see what happened. One half of those were in real-estate mortgages and in the actual ownership of Government, State, municipal, or corporate bonds. Now, there is no self-liquidating character in that at all. All you can do is pass it on to some other investor. If investors become scarce, the price falls. If investors become very scarce, there is a debacle in prices. Well, investors became so scarce that there were times when there was no bid for a bond of first-class character. Where is the liquidity of a bank deposit that has been so invested? We have got to separate commercial banking from investment banking—really separate it; no show of it—really separate it, and have one class of banks that will deal only in commercial paper, that will pay their deposits on the nail or close.

If they dealt only in rediscountable commercial paper, they would be unassailable. They could always rediscount at the Federal Reserve, and the Federal Reserve, according to the suggestions I have been making this morning, could in turn rediscount at the Government organization, and your commercial banking situation would be unassailable.

Now, you will have to set up investment banks, and those banks should receive deposits. But the deposits should be made with the depositor's eyes open as to what use is to be made of it. Those deposits will be devoted to capital purposes, and when you invest money in a capital purpose, it is not necessarily liquid. It is an investment. There is some permanence about it. You should not be able to invest in a capital purpose today and treat that as a bank account that you could check on, that you could turn into money in 24 hours, at any time. That was the theory we operated under. It is the same misconception about the possibilities of liquidity that has broken down the gold standard and broken down our banking system.

Mr. FIESINGER. Just one more question, Mr. Vanderlip. You read the literature of the committee for the Nation?

Mr. VANDERLIP. Some of it. It is pretty voluminous, and I have not read it all.

Mr. FIESINGER. At any rate, you remember their statement that 85 percent of the banks failed because of a lowering of the price level, and about 15 percent due to mismanagement and corruption?

Mr. VANDERLIP. Well, I would not agree with the statement.

Mr. FIESINGER. You would not agree with that statement?

Mr. VANDERLIP. No.

Mr. FIESINGER. You do not think that the fall of the price level to where it has been below the cost of production destroyed any considerable number of banks in the United States?

Mr. VANDERLIP. No, sir. It was an influence. It made a more difficult banking situation.

Mr. ELTSE. More of an effect than a cause?

Mr. VANDERLIP. No; it was a cause. If a bank's collateral declines in value, its management is put in a more difficult position. But that decline in value was not so rapid but what a bank, in the long run, would have readjusted its loans all the time, and the cost would have come on the owner of the grain rather than on the banker.

Mr. FIESINGER. How many banks have failed in the United States in the last 5 years?

Mr. VANDERLIP. Ten thousand failed in the 10 years from 1920 to 1929.

Mr. FIESINGER. What proportion of the 10,000 banks, Mr. Vanderlip, in your opinion, would have failed if we had continued that price level that we had in 1929?

Mr. VANDERLIP. You cannot really put that supposition, because the real trouble was the lack of liquidity in the investments. If there had been a movement to withdraw and a forced sale of the bank's investments, you could not have maintained a price level. You are speaking, of course, chiefly of the commodity price level.

Mr. FIESINGER. Would there have been a disposition to withdraw if the price level had been kept up in 1929? Was it not a fact that there was a falling of the price level to the extent that the people who had deposits in banks got scared?

Mr. VANDERLIP. The price level had not begun to fall in 1929—the general commodity price level.

Mr. FIESINGER. You say it had not begun to fall in 1929?

Mr. VANDERLIP. No, sir.

Mr. FIESINGER. Have you a chart on that?

Mr. VANDERLIP. I think I have.

Mr. FIESINGER. Do you remember the days of profitless prosperity that commenced about 1927?

Mr. VANDERLIP. Yes, sir. Commodities did not go up, but they had been pretty fairly level. No; they had not, either. I guess you are right.

Mr. FIESINGER. There was a fall in the price level?

Mr. VANDERLIP. Yes; there was a fall.

Mr. FIESINGER. Have you seen my bill, H.R. 1577, Mr. Vanderlip?

Mr. VANDERLIP. I regret to say I have not.

Mr. FIESINGER. I sent it to you; but you have not read it?

Mr. VANDERLIP. I have not.

Mr. FIESINGER. Would you read it and give me your opinion about it?

Mr. VANDERLIP. I will be glad to do so.

Mr. FIESINGER. I would like to pursue this investigation very much further, but on account of the other members of the committee desiring to ask questions, I will give way now to the other members.

Mr. DIES. Mr. Vanderlip, I would like to ask you a few questions in connection with what the gentleman from Ohio said about the price level. In your opinion, is the price level materially affected by the quantity of money or the quantity of gold in the country, or rather by other factors such as production, supply and demand, export trade, and things of that sort?

Mr. VANDERLIP. There are many elements that enter into prices. I do not believe any expert knows them all or could weigh their relative importance.

Mr. DIES. But the point is, Do you believe that through the quantity of money issued by Government you can materially control or stabilize the price level?

Mr. VANDERLIP. Undoubtedly you can control or change a price level by the quantity of money. Now, I do not believe that you can get a mathematical correspondence or a prompt relationship. Obviously, if you produce enough money, you will so depreciate your yardstick that it will measure more yards. That is all. The prices will be higher.

Mr. DIES. Well, relatively speaking, inflation, or the depreciation of the country's currency, is merely beneficial insofar as it enables the better classes to discharge their obligations; is not that a fact?

Mr. VANDERLIP. Relatively speaking; yes.

Mr. DIES. Yet it does not benefit you and me in the exchange of commodities between us. It only benefits me to the extent that I owe you an obligation, either in taxes or in mortgages or any fixed charge, and that fixed charge is scaled down through the depreciation of the currency, enabling me to discharge that obligation with the lower prices that I am receiving?

Mr. VANDERLIP. There is an important psychological effect of inflation. With rising prices enterprises are stimulated.

Mr. DIES. Surely; because of the fact that when the currency is depreciated, say for instance when the United States depreciates its currency 50 percent, that means, in effect, that foreign nations are paying 50 percent less for our commodities than otherwise?

Mr. VANDERLIP. Yes, sir.

Mr. DIES. And the reason we are selling our commodities for 50 percent less is because industry is paying 50 percent less for wages, 50 percent less for all fixed charges, such as bonds, taxes, and so on and so forth; and so the effect of it is that foreign trade is stimulated for the time being, due to the fact that nations can come into our market profitably and to their advantage and purchase the things that we have to sell?

Mr. VANDERLIP. Yes; but domestic business will be stimulated also by a rising price level.

Mr. DIES. In other words, when nations or countries become heavily involved in debt, such as has been the experience for many hundreds of years in practically every nation, there have been periods, going back as far as Rome, when on account of the wars she waged she became so heavily in debt that she was compelled to scale down her indebtedness, and she did so by taking the Roman standard of currency and reducing its content. She first reduced it 50 percent, and she then reduced it as much as 90 percent, to enable her citizens to discharge that indebtedness which meant bankruptcy to the nation. Now, every nation has had to resort to that. France, England, Italy, Germany, practically all of the nations have been compelled to resort to inflation—not as a desirable thing; not as what they wanted to do, but rather as a necessity, because they were so overwhelmingly involved in debt and staggering under such a tremendous burden that the nation could not pay out, and they had therefore to scale down the debt. Is not that true?

Mr. VANDERLIP. That is true.

Mr. DIES. Now I want to ask you this: You believe that the quantity of gold has a direct relation to the price level; is that a fact?

Mr. VANDERLIP. It has a direct relation; not a mathematical relation——

Mr. DIES. I understand.

Mr. VANDERLIP. Where, if you change the gold content of the dollar, you will immediately see, by some price level, a corresponding mathematical change in prices. That will not happen.

Mr. DIES. In other words, the quantity of money does not necessarily mean that all commodities will rise in the same proportion. Some may not rise at all.

Mr. VANDERLIP. Certainly; that is true.

Mr. DIES. But others may rise very high, and others only moderately. Now, the point I want to ask you about is this: As I understand your views on this subject, you think the Government ought to maintain a metallic base which ought not to be subject to withdrawal upon the part of foreign nations or speculators?

Mr. VANDERLIP. Yes, sir.

Mr. DIES. That it ought to be under the control of the United States Government?

Mr. VANDERLIP. Yes, sir.

Mr. DIES. To serve as the foundation or the base of our currency and credit system?

Mr. VANDERLIP. Yes, sir.

Mr. DIES. Now, in your opinion, in view of the fact that during the past 13 years, with the exception of last year, the production of gold has steadily fallen off at approximately the rate of 13 percent a year, whereas the volume of business increases normally 3½ percent a year, and in view of the unequal distribution of that gold, to such an extent that only 3 nations control approximately 85 or 90 percent of the gold supply of the world, do you think it advisable, in view of the tremendous commercial activity of the world and our present civilization, to broaden our metallic base by adding to it silver? Do you think that advisable?

Mr. VANDERLIP. I should not be opposed to it. I would rather hesitate at the present moment in bringing that into a discussion if I could avoid it, because I believe those things that I have been laying out are essentially important, and are primary to the use of any metal.

Mr. DIES. But the point is—and it is a vital question; of course it goes to the very heart of this problem—if, as a matter of fact, our metallic base is insufficient, then notwithstanding any expedient we may adopt here, though it may serve for the time being to stimulate business and to furnish the business world with sufficient money and credit, eventually we will come back to the same proposition, the insufficiency or the inadequacy of our metallic base. Now, the point I want to make is this, and I want to ask you a question predicated upon this observation: It has always been urged that the objection to bimetallism is the Gresham law and the ability of one nation to maintain a fixed ratio between the two metals; but under your theory, and under the President's plan, which is now embraced in a bill which will probably be submitted to this Committee, unless we are deprived of it through some sort of maneuvering—under that bill the President proposes to conscript, you might say, all of the gold now in the possession of the Federal Reserve System, place it in the Treasury, and prohibit it from being withdrawn by speculators from abroad

and by nations who want to build up artificially their supply of gold. Now, under that theory, which I understand you to approve—you approve that, as I understand your testimony?

Mr. VANDERLIP. I certainly approve taking over the gold; yes, sir.

Mr. DIES. All right. Now, under that theory, in addition to the \$4,500,000,000, approximately, of gold owned by the United States, why not add 2 or 3 billion dollars of silver? Of course, the Gresham law could not apply, because certainly, under that law, since they could not draw out gold, they could not draw out silver, and we would not be bothered with the problem we had during the 80 years that we had silver.

Upon several occasions we had the problem without gold being taken away from us or silver being taken away from us. Now, under the plan which the President incorporates in his bill, why could we not broaden the base by adding a sufficient quantity of silver to the gold?

Mr. VANDERLIP. It is not quite as simple as you state it. As you see, with the gold embargo nobody can get the gold anyway. I believe, too, that we must return to the gold standard where there is redeemability of the currency in gold. However, if my recommendation is followed, it will be for the limited purpose of supplying gold with which to pay the foreign trade balance. However, there must be a redeemability basis between gold and the currency. Under your plan there would be no redeemability, only insofar as——

Mr. DIES (interposing). Would there be complete redeemability under your plan?

Mr. VANDERLIP. There would not be redeemability under any circumstances whatever. But, if the gold is wanted to settle foreign trade balances, it would be available.

Mr. DIES. Do you mean that even as to the gold held by the Treasury?

Mr. VANDERLIP. Yes; for the purpose of withdrawing gold to pay legitimate foreign trade balances. That is a primary function of the gold standard.

Mr. DIES. You mean, in other words, a limited redeemability, but not a general redeemability.

Mr. VANDERLIP. Yes; a very strictly limited redeemability. I would have no objection to adding a certain amount of silver to the gold base. It is true I believe that the total production demand of the world cannot increase faster than gold increases. That is, that would be the case if gold were the monetary base of the whole world. I think that would be an economic law. I think that a more rapid increase of the base than $3\frac{1}{2}$ percent a year, which has been about the increase of gold stocks, would be desirable. I think that a definite increase that you could put down at \$1,000,000,000, or an increase that would be in relation to the volume of business, would be desirable. I would see no serious objection to the introduction of an amount of silver along with a larger amount of gold as representing the redeemability of the dollar. Then the dollar would be redeemable in a definite number of grains of gold plus a definite number of grains of silver, which would be symetallism.

That is not altogether a modern idea. Marshall, the great classical English economist, first published it in 1886, but it has never been tried. It would broaden the base without laying us open to

receiving the whole silver stocks of the world so far as the owners of the silver might choose to send it to us. I have tried to avoid the silver subject. It is a very controversial one. There are some very important things to be done first; but the plan I have laid out would work equally well with the dollar redeemable in a definite number of grains of gold and with the dollar redeemable in an indefinite number, under the commodity dollar theory.

Mr. DIES. Do you think that commercial banks should be compelled to maintain liquidity at all times?

Mr. VANDERLIP. Yes.

Mr. DIES. In order to meet the demands of depositors?

Mr. VANDERLIP. Yes.

Mr. DIES. That would make it necessary to separate commercial banking from investment banking.

Mr. VANDERLIP. Yes.

Mr. DIES. Could private banks, independently of governmental agencies, supply sufficient long-term credit to take care of the investment needs of the United States?

Mr. VANDERLIP. Not on the theory that you must have credit that will permit you to turn any investment into currency overnight. The investment must have the quality of permanence. It must not be a speculation, but a real investment. It does not mean something on which money is to be borrowed at any time for any purpose. I have in mind long-term investments. The other kind is not an investment at all, but is a speculation.

Mr. DIES. Do you think that, if the Government should refrain from stepping into the field of long-term investments, except in a financial emergency where we are compelled to do it during a crisis, private business would furnish sufficient long-term investments to meet the needs of our people?

Mr. VANDERLIP. Yes. Is there any doubt that there will be new investments enough to absorb the fresh savings? There can be no possible doubt of that.

Mr. DIES. You have read the President's message, have you not?

Mr. VANDERLIP. I have.

Mr. DIES. Do you approve his plan?

Mr. VANDERLIP. Thoroughly.

Mr. DIES. You think that it is a wise and sound plan?

Mr. VANDERLIP. Yes. It seems to me that there is much less mystery about what the President is doing than the opponents of his policy have indicated. If I understand at all what he is doing, and I have not the slightest reason for understanding it any more than anybody else among the public has, everything he is doing is falling right into a pattern, as a jig-saw puzzle would do, or as it would be put together. The message of yesterday proposes two perfectly logical and proper steps.

Mr. DIES. You think, in other words, that we must first get possession of the gold to keep private interests from profiting from the reduction in the gold content of the dollar?

Mr. VANDERLIP. Yes; to avoid the injustice of leaving that gold which you and I have been deprived of forcibly for the profit of the Federal Reserve banks. That is something that cannot be considered. Of course that gold should come into the Treasury where it will be held to the profit of all the people.

Mr. DIES. Do you believe we should leave in the Executive a leeway of 10 percent, not to be fixed by Congress, but giving him discretionary power to observe a limit of 10 percent in revaluing the gold content in the dollar from 50 cents to 60 cents? Do you think that discretion should be left with the Executive?

Mr. VANDERLIP. Yes; I would be perfectly willing to leave it to him.

Mr. DIES. And not fix that differential by Congress?

Mr. VANDERLIP. Yes; let the President fix the last decimal.

Mr. ELTSE. In that connection, something has been said about the gold going into the Treasury not being a theft. What would be your answer to that? It has been said that the gold has been taken away from the people who formerly owned it, and that they would be entitled to the profits. As I understand your answer, it should not be permitted to remain in the Federal Reserve banks, and that they are not entitled to the profit, but that it belongs to all of the people. Of course, the people from whom it came were the ones who owned it.

Mr. VANDERLIP. I said that when you put that gold into the Treasury, the profit on it will belong to all of the people. If it had never been brought back into the Federal Reserve banks, the profit would have belonged, not to all the people, but to the comparatively few in number who held the gold, or the people who were so astute or so suspicious of our ability to stay on the gold standard that they hoarded the gold. Where they drew out the gold and hoarded it, it does not seem to me that they established a very valid right to that profit.

Mr. ELTSE. After all, was not the percentage of people, men and women, who did that relatively small, as compared with the great number of people who had gold, and who acquired it in good faith, without any idea of hoarding it?

Mr. VANDERLIP. No; I think there was very little gold in the possession of people prior to the time that this hoarding movement began.

Mr. ELTSE. Referring back to the stabilization fund of England, you say that we should counter with a stabilization fund of our own: Now, if we do that, and I am not saying that I am against it at all, my mind being open on the subject, would not that start a movement by the other principal nations of the world that were formerly on the gold standard, to do the same thing, and if that should be the case, what advantage would there be to the United States? Would we not be going around in a vicious circle?

Mr. VANDERLIP. It would not start something new. The whole thing is not so new. France never had what was known as a stabilization fund, but the Bank of France had \$800,000,000 here in 1928, and the withdrawing of that money almost forcibly put us off the gold standard. No; by no means do I think we should refrain from protecting ourselves from the fear of starting something else that we would be frightened about.

Mr. ELTSE. In other words, you believe in putting our own house in order, and protecting ourselves while we are doing that?

Mr. VANDERLIP. By doing that we will make the best contribution we can to the world.

Mr. WHITE. Mr. Vanderlip, do you make any distinction between the terms "inflation of the currency" and "replenishing the supply or volume of primary money"?

Mr. VANDERLIP. That is a little difficult to answer, because this word "inflation" will be defined differently by about as many different economists as we have. All of them will define it differently. You can harmonize them. Those two terms are usually in the greatest disharmony by virtue of the way you define them. If you mean by inflation, or by any controlled inflation, inflation through the printing press, I would say there was the greatest difference. I think there is some difference in any event. It depends on your manner of contrasting the word inflation with deflation.

Mr. WHITE. I said "replenish."

Mr. VANDERLIP. But what is the difference? Replenish and deflation mean the same thing. Now, we have had a disastrous liquidation, and we need replenishment or deflation, or we need inflation according to the way in which you define those terms.

Mr. WHITE. Inflation means to expand.

Mr. VANDERLIP. Or leading us back to normal before we really start what would be truly called inflation.

Mr. WHITE. One of the big factors in the depression and the falling of prices was the shortage of the element we call cash, was it not?

Mr. VANDERLIP. I do not think that was an important element at all, really.

Mr. WHITE. When we turn to liquidation, cash is the main factor in liquidation, is it not?

Mr. VANDERLIP. Yes.

Mr. WHITE. Did not this country have a stringency or shortage of cash?

Mr. VANDERLIP. We certainly had the impossibility of liquidating the country in the wholesale fashion in which it was attempted.

Mr. WHITE. If there had been an adequate volume of money or cash, liquidation would have been easy, and the price fall would not have been so drastic, would it?

Mr. VANDERLIP. That would have been the tendency. It would have depended somewhat on where the volume of money rested, or whether it was in the hands of people who would turn it into an effective arrest of liquidation.

Mr. WHITE. You are in favor of adhering to the metallic base of currency, are you not?

Mr. VANDERLIP. Yes.

Mr. WHITE. Are you in favor of having a volume of new money or coinage supplied to the business world that would keep pace with the increasing population and expanding business?

Mr. VANDERLIP. I would not want to say a new volume or increase by any new kinds of money. I certainly am not in favor of that.

Mr. WHITE. I mean metallic money or basic money.

Mr. VANDERLIP. I am in favor of a volume of purchasing medium that is fully keeping pace with the expansion of business.

Mr. WHITE. Do you think that gold, with its present value and rate of production, does that thing?

Mr. VANDERLIP. At times it does it; at times it more than does it, and at times it very much less than does it. The volume of purchasing medium has got to have expansibility and contractibility, if it corresponds as it should correspond with the volume of business needs.

Mr. WHITE. I desire to call your attention to a statement by Governor W. P. G. Harding, of the Federal Reserve Board, contained

in Senate Document No. 310, made on May 18, 1920. Governor Harding said that since June 30, 1914, the expansion or increase in the volume of currency in circulation had been about \$1,900,000,000, and that the expansion of bank credit in this country had amounted to about \$11,000,000,000. He said further—

During the same time there has been an advance in commodity prices of about 25 percent. This has been accompanied by a decrease in the production of essential articles.

The thing we are attempting to do is to increase prices. Do you not think that it would be in line with the information supplied by Governor Harding to say that an increased volume of primary money will bring about a rise in the price level, and a restoration of business?

Mr. VANDERLIP. I would rather read Governor Harding's full statement before I undertook to answer that definitely.

Mr. WHITE. It is contained in Senate Document No. 310, entitled, "A conference with the Federal Reserve Board and Federal Advisory Council of the class A directors of Federal Reserve Banks."

Mr. VANDERLIP. I never saw that document.

Mr. WHITE. Did the debasement of silver in the coinage of European nations and the sale of silver by the English Government for India in effect create a money vacuum, or a vacuum in the supply of international money?

Mr. VANDERLIP. It tended to make a scarcity. I should hardly characterize it as a money vacuum. It did have a profound effect upon the value of silver. It depressed it unfortunately and unduly.

Mr. WHITE. It did very adversely affect the export business of this country, did it not?

Mr. VANDERLIP. I think it did with South America and the Orient.

Mr. WHITE. Now, as to the supply of new money from the production of the mines, basic money or money of ultimate redemption, do you think that the supply of gold is adequate to the needs of business?

Mr. VANDERLIP. If the whole world were to go on the gold standard, it would depend then upon how much you devalued the currencies of the world. Of course, the volume of gold necessary to support currencies depends on what the relation is between the volume on the currency and the volume of the gold—that is, the ratio of redemption of the currency. You could so devalue the currencies of the world that the present volume of gold would be adequate, or, possibly, too large. That is conceivable. One of the troubles with gold as a standard is that its increase seems to be limited on the whole to about 3½ percent a year, while the increase of business ought to be at times, and is at times, much more than that. We therefore do not anticipate our base as much as we ought to at times, if our money is to keep pace with business. That is taken up by an expansion of bank credit which is pretty effective in supplying the needs; but the gold standard is not perfect. I would not define it as a perfect instrument.

Mr. WHITE. If the revaluation of gold is only a temporary expedient, you do not think that over a large number of years we could keep on revaluing gold, do you? Must we do that ad infinitum, or continue to revalue gold and never stop it?

Mr. VANDERLIP. There we have just the same problem that arises from the currency printing press. In other words, can you

start it and stop it? Certainly we would lose confidence in the gold standard if there were frequent changes. However, England went off gold, went back on, and then went off again. She has been off the gold standard five times in a century, and there is still, perhaps, more confidence in the English management of finance than in the management of any other nation's finances.

Mr. WHITE. But their going on and off did not contribute to the stability of English finance.

Mr. VANDERLIP. No; but it still remained the most stable money in the world, nevertheless.

Mr. WHITE. What, in your estimation, was the annual profit of the English financiers in handling the world's banking business prior to the war in 1914?

Mr. VANDERLIP. I have no means of estimating that. We could get a part of it by knowing the profits of the great joint-stock banks of England. Still it would be very difficult to make an estimate of it. However, I would certainly venture to say that it was an extremely large amount.

Mr. WHITE. Mr. Garrett in his articles mentions \$400,000,000 annually.

Mr. VANDERLIP. I do not know, but if he mentions that figure, I would say that it was not extravagant.

Mr. WHITE. The value of the pound and the stability of the bank of England have been a large factor in maintaining their control of the world's banking business.

Mr. VANDERLIP. Yes.

Mr. WHITE. As a result of the war, financial supremacy shifted from London to New York, did it not?

Mr. VANDERLIP. Only momentarily. It would undoubtedly have done so permanently if we had had the men and a public sufficiently trained. We naturally did not have that. We did a great many foolish things and failed to do a great many wise things. That is not particularly to our discredit, however. We have been an insulated banking community, and we did not have the men or the knowledge.

Mr. WHITE. Was there not a competition between the banks of London and the banks of Paris, the banks of London and the banks of New York, and the banks of Paris and the banks of New York to capture the financial supremacy in the world's banking business in recent years?

Mr. VANDERLIP. Yes; but not so much as to Paris. Paris has not an ambition to occupy the position that Great Britain has so long occupied, and it has not the temperament to do it. There has been sharp competition, not only between those nations, but the sharpest and most vicious competition among our own bankers for supremacy in that field. That is a competition they engaged in in buying certain issues of foreign securities. That competition was silly.

Mr. WHITE. One of our main efforts was to raise and maintain the high value of our dollar as a means of capturing that supremacy, was it not?

Mr. VANDERLIP. I think they were more concerned in maintaining a high commission on the securities.

Mr. WHITE. France and England were trying to maintain the high value of the pound and the franc, were they not, and were not our American bankers also engaged in that contest?

Mr. VANDERLIP. I do not believe the American bankers thought anything about the high price of the dollar.

Mr. WHITE. They have resisted every effort on the part of the Government to increase the amount of primary money, and any attempt at inflation, have they not?

Mr. VANDERLIP. My experience indicates that the practical bankers, or the great practical bankers, as a rule have given very little attention to the currency question. Many of our very best bankers are ill-informed on the currency question.

Mr. WHITE. Do you not think that the influence of our bankers was all on the side of maintaining the high value of the dollar, all through the preceding administration?

Mr. VANDERLIP. Not so very much, consciously, that is, in maintaining the high value of the dollar during that period. I have heard discussions by ordinary banking men, and the question of maintaining the high value of the dollar, I think, was not in their minds.

Mr. WHITE. The dollar did increase materially in value, did it not?

Mr. VANDERLIP. Yes; when commodity prices were falling.

Mr. WHITE. They were not in favor of taking any steps to halt that increase, were they?

Mr. VANDERLIP. Neither to halt it nor to accelerate it.

Mr. WHITE. Did they not resist it, and did not the last administration resist that movement? Did they not resist it all through the Hoover administration?

Mr. VANDERLIP. Just what movements do you refer to that affected the value of the dollar?

Mr. WHITE. There were numerous proposals before Congress for paying the soldiers' bonus as a means of inflation, and for lowering the value of the dollar. That effort was resisted all through the Hoover administration.

Mr. VANDERLIP. They resisted it, I think, because the people, or most of them, regarded it as unsound, either directly or from other reasons. The soldiers' bonus had other elements in it than the raising of prices through the inflation of the currency. That was not the movement back of the soldiers' bonus efforts. There was a movement toward free silver, but that was not taken as a movement to raise commodity prices through debasing the dollar. I do not think there has been in the banking mind a conscious effort at advancing the price of the dollar.

Mr. WHITE. You say there was no movement to halt or to accelerate the advance of the dollar?

Mr. VANDERLIP. No; they have not thought much about it fundamentally. They have thought about the business on their desks.

Mr. BURKE. I was very much interested in the outline of the plan you suggested for setting up a currency authority, and there is just one question I would like to ask you on that subject. You suggested that currency authority in order to eliminate the requirement of a full gold reserve. There has been a good deal of discussion about reducing the requirement from 40 to 33½ percent, or lower. Would you consider it more advantageous to remove the requirement entirely?

Mr. VANDERLIP. Yes. Making the deadline the legal minimum simply sterilizes everything below that. It paralyzes the situation as

you approach the legal lower limit. I think that the sound judgment and management of the bank should be the legal limit. There may be times when things are too buoyant, and you run the reserves, very properly, high. If you were operating very high, there would be great pressure put on you to reduce your reserves because you are so high above the legal limit, whereas, if there were no legal limit, or if the thing was run on the basis of judgment, I think the management would be freed of that pressure. It has been found in European banking that that is the safer and better plan. I am inclined to say strongly that I would not make a definite legal connection between the gold and the volume of currency. However, of course, the gold must be there, and there must be weekly and daily reports on the ratio.

Mr. ADAIR. Would the return of the price level of 1929 be considered inflation or reflation?

Mr. VANDERLIP. Not necessarily either. Inflation or reflation, as I understand it, refers to the volume of currency in relation to the volume of business. A return to a price level might occur without any change in the currency at all. It would be a conceivable thing that the mere action of supply and demand would return us to the 1929 price level. There is really no connection between a return to the price level of 1929, or that of any other year, and the question of inflation or deflation. I mean by that that there is no necessary connection. Inflation would tend to bring us back to that price level, but we could get to that price level without any inflation.

Mr. ADAIR. That would be true even if the price level should exceed the price level of 1929.

Mr. VANDERLIP. Yes; it would be conceivable.

Mr. ADAIR. Is there any dividing line between inflation and reflation?

Mr. VANDERLIP. If you could say there is a normal line, and that you had fallen below that normal line of prices, and wanted to bring it back through a manipulation of the currency, I would say that there would be some relation between them. Now, you cannot say what is normal, and, therefore, I think that it is difficult to define what is inflation and what is reflation. We could say that we are normal now, and that a certain amount of increase over this level is reflation rather than inflation. They both mean about the same thing. The word "reflation" has been coined to soften the word "inflation." That is it.

Mr. ADAIR. You do not take any particular year in the period of the past decade to determine normalcy?

Mr. VANDERLIP. No; the year generally accepted is 1926 as the average for a 10-year period. Also, perhaps, we could point to a given year in relation to debts. We could take that average, and say that the debts were incurred at about that price level. There is nothing sacred about that date, except that it seems to be a good average to take.

Mr. MURDOCK. You would consider the using of silver or the decreasing of the gold content of the dollar as inflation, would you not?

Mr. VANDERLIP. I should say so.

Mr. MURDOCK. Now, do you favor giving the President, or some other Government agency, the right to control the gold content of the dollar?

Mr. VANDERLIP. Do you mean to vary it every time——

Mr. MURDOCK (interposing). To vary it every time it was deemed necessary.

Mr. VANDERLIP. The answer to that is difficult. Just whom would you give the power to? Now, if you say we will adopt some commodity price level as the normal, and when the prices vary 5 percent, or some other amount, either way, then the number of grains in the dollar shall be varied, you will have laid down a principle, and whoever carried it out would not have occasion to exercise judgment, but he would simply follow the principle. I think that possibly that would be a safer course than giving to a man or a body of men a general power to vary the content of the dollar. If that power were given, it should be hedged about with all the safeguards we can think of that did not become so great as to hamper it completely.

Mr. MURDOCK. Do you prefer such a system to putting silver on a monetary basis at this time?

Mr. VANDERLIP. I would not seriously object to either. I do not believe that advocates of the commodity dollar will find that the commodity dollar does all that they have anticipated. It will tend to do partly what they anticipate, but there are other influences and factors that make up prices. The amount of purchasing power represented by bank deposits, and, indeed, some purchasing power represented by the rise in the value of stocks and bonds, enter into the fixing of prices.

There is no quick mathematical correspondence between prices and the gold content of the dollar. If you use the commodity dollar, you use a regulator. With the organization that I have proposed here this morning, you would have all of those and other means and influences to bring to bear on the price level. They would have their influence upon market operations in the buying of gold, on the discount rates, and so forth. If Congress should say to that authority that its duty was to so conduct its operations that they would tend to maintain a level price index, I think that would be better than the setting up of a commodity dollar. However, if you want to set it up, you can set it up perfectly as a part of the machinery.

Mr. MURDOCK. What would you think of a system of symmetallism where by law you would fix the number of grains of gold and the number of grains of silver that should constitute the dollar, leaving gold as the standard unit of value, but without specifying either the value of the silver separately or the value of the gold separately?

Mr. MURDOCK. Having the dollar as our standard unit of value, and without specifying either the value of silver separately, or of gold, but allowing the President, or some governmental authority that you have referred to, to raise, fluctuate, or control the respective values of the two metals, under such a system as to afford the Government sufficient latitude to maintain the dollar at a fairer parity with the others; is not that preferable to any other use of silver?

Mr. VANDERLIP. It is a perfect instrument for governing the situation, but who is going to govern the governor?

Mr. MURDOCK. That same objection could be made to your proposition of setting up this governmental agency.

Mr. VANDERLIP. It can be made to any measure or to any scheme.

Mr. MURDOCK. It would still be in the hands of a governmental agency, but it would really, in my opinion, restore great confidence, or be more conducive to confidence on the part of the people than the system which would allow any governmental agency to increase or decrease the gold content of the dollar, as they saw fit, or as conditions warranted.

Mr. VANDERLIP. Yes. Before adjourning, Mr. Chairman, I would like to ask a question. I have prepared a summary of my full views on this matter. May I have the permission of the committee to insert that in the record?

Mr. LARRABEE (presiding). Without objection, you may have that permission.

(The paper referred to will be found at the conclusion of Mr. Vanderlip's statement.)

Mr. WHITE. Mr. Vanderlip, by revaluing the gold dollar, we will by just that measure increase the purchasing power of the gold hoardings of other countries, and of new gold that may come out of the ground?

Mr. VANDERLIP. We will, unless we advance prices as a result of it, but of course, that is what will occur, so we will not increase the purchasing power.

Mr. WHITE. As to obligations already contracted for, it will advance their buying power?

Mr. VANDERLIP. That is undoubtedly so; we would advance their purchasing power for a time because our prices will not respond as readily as theirs.

Mr. WHITE. Statistics show that 70 percent of the world's gold is mined under the British flag.

Mr. VANDERLIP. Yes.

Mr. WHITE. And it would place an advantage on 70 percent of the gold in the hands of the owners of the British mines?

Mr. VANDERLIP. Yes.

Mr. WALDRON. Is it not true that one of the principal influences or drawbacks we have yet to contend with in recovering from this depression is the fact that the smaller- and medium-sized business concerns of the country are not able to get all the working capital that they require to go ahead; is not that so?

Mr. VANDERLIP. There is a great deal of force in what you say, but it is not because there is not working capital enough; it is not because the banks are in no position to loan. The banks have a surplus reserve now of about \$900,000,000 upon which they could extend credit to 10 times that amount.

They are afraid of the character of the loans. What they are afraid of is that the man who borrows the money is not going to have a profitable business. And I can tell you gentlemen that there is in the business world a great deal of fear of the utterances that have been made in Washington, if profit is going to be taken out of business.

Profit is the foundation stone of the capitalistic structure. You take profit out of it and it all comes down. There is no surer way or quicker way of destroying capitalism than to so legislate that there is no profit in business. Capitalism will melt.

Mr. WALDRON. Is it not true that, until we can relieve that situation, we can not hope to get out of the present condition?

Mr. VANDERLIP. We are getting out of it, a little every day.

Mr. WALDRON. But slowly.

Mr. VANDERLIP. Slowly, and being affected by occasional setbacks.

Mr. WALDRON. The set-up you recommend would not have any influence in that direction, would it?

Mr. VANDERLIP. I think it would have a very great influence. I believe if we could get our whole banking and currency situation on really sound scientific lines, we would return to a measure of prosperity as great as anything we ever had, and then we would greatly exceed it. The possibilities of prosperity are just unlimited. The difficulties are all man-made.

We have the foundations here for a higher scale of living, for greater comforts so far as material things are concerned, more than anything we have ever dreamed of. The thing that gets in our way is our own stupidity, and nothing else.

Mr. WALDRON. When everything was going well and business was booming, we did not hear anything about the money question.

Mr. VANDERLIP. That is perfectly true.

Mr. WALDRON. That has only occurred since we have gotten into this troublous condition.

Mr. VANDERLIP. That is true, but as we look back we can see the mistakes we have made, and the fallacies we have hugged to our bosoms to plague us.

Mr. WALDRON. Then credit was probably too liberal; now we are at the other extreme.

Mr. VANDERLIP. Yes.

Mr. LARRABEE (presiding). Senator Gore is here, and would like to ask Mr. Vanderlip 1 or 2 questions. Without objection, Senator Gore may proceed.

Senator GORE. Mr. Eltse asked you a question that I had in mind, but I will state it a little differently.

You stated that Great Britain's equalization fund might be compared to a fleet of armed battle planes, and that other nations ought not to refrain from establishing a fleet of corresponding planes to meet that attack, if it should come, merely because it might result in such a conflict. Of course, we understand that.

I would like to have your opinion on this point: England has this equalization fund to stabilize foreign exchange. We contemplate the establishment of a similar fund, and you recommended it, to deal in foreign exchange.

What do you anticipate the conflict and competition would result in? Would it lead to an agreement or an adjustment of some sort by which a unit of value or standard of value for international transactions could be arrived at, or would the destination be zero, as the result of this competition?

Mr. VANDERLIP. I have never known of any conflict that did not ultimately reach a peace, not a zero.

Senator GORE. That is what I had in mind. What results might come from the airplane figure, a rational peace, or, recognizing that destruction might result to one or the other, which would not be desirable, might they not arrive at a rational peace instead of waging war to the bitter end, destroying one or the other? Is it not your opinion that sooner or later commercial nations have got to arrive by some means or other at some kind of a standard value, or unit of value, or yardstick for international transactions, so that an English-

man, a Frenchman, and an American discussing a trade, when they use the same word, will each know that it means the same thing.

Mr. VANDERLIP. We certainly have that word now, and it is gold.

Senator GORE. We have had that system in the past, in the days of the gold standard. We have had a sort of chaos since, and conditions essential to the functioning of the gold standard do not now exist. It will not function when conditions essential to its operation are absent.

You might say that a locomotive is a good apparatus to draw a train if you have two sets of steel rails and crossties. It does not prove that it is not fairly good motive power merely because it will not run across the Blue Ridge Mountains without tracks.

I have figured that while we are now in chaos, if we are making our way toward that destination where we will have an accepted unit of a standard of value, we are making progress; but if we are setting up antagonistic forces that will result in delay, that is not progress.

Mr. VANDERLIP. I would think the probability is much greater than, by setting up antagonistic forces, you would lead pretty quickly to an understanding.

Senator GORE. That is the desideratum.

Mr. VANDERLIP. Decidedly so.

Senator GORE. We have to arrive at that before we really set our feet in the path of final recovery; is not that true?

Mr. VANDERLIP. I think it is.

Mr. LARRABEE (presiding). Mr. Parsons, of Illinois, who is not a member of the committee, would like to ask a few questions. If there is no objection, Mr. Parsons may proceed.

Mr. PARSONS. Mr. Vanderlip, the conditions which beset America also obtain throughout the world to a very large extent.

Is it possible for us to recovery to any very large degree without world-wide recovery?

Mr. VANDERLIP. Whatever the answer is to that, I should say, in the first place, that world-wide recovery is well started, and we are not in the forefront yet. Our recovery has been less than the world-wide recovery, distinctly. Surely, it is impossible for us to have a full measure of prosperity with the rest of the world depressed. It is impossible for the rest of the world to have a full measure of prosperity with our condition depressed.

But recovery started in world affairs a year and a half ago, and as we look back on it now we can see that. It has reacted here for one reason or another. I am hopeful it has started here.

Mr. PARSONS. In answer to that, is it not impossible, following what Senator Gore said, for us to reach a full measure of recovery unless we could stabilize the unit of value for the civilized nations of the earth, whether it be gold or silver, with so many grains of gold, or gold and silver taken together to constitute a unit of value?

Mr. VANDERLIP. It is extremely desirable that we have a stabilized unit, but it is not so desirable that we should so hasten to do that that we establish it on wrong principles.

There have been endless resolutions of chambers of commerce and groups of economists, demanding immediate stabilization and a return to the gold standard. They are absolutely in error. If we should immediately stabilize and return to the gold standard, we would re-

turn to an impermanent standard that would work no better than the standard we have had. So, while it is essential to have a stabilized currency, let us have it stabilized on right lines.

Mr. PARSONS. If the nations could get together, say, this winter, within the next 100 days, and agree upon a standard of value of both gold and silver, and constitute a unit of value somewhere along in accordance with our 40 or 50 percent devaluation of gold, adding to that silver, and we could have that unit of value stabilized and agreed upon by all the principal nations, would not we immediately then return to prosperity, that is, would we not go right along, all the nations alike, upon this one stabilized unit?

Mr. VANDERLIP. I wonder if you are thinking clearly through the subject? What do you mean when you say the nations could get together and agree upon the value of gold? What does that mean? The value of gold in what?

Mr. WHITE. That was done by the Latin Union in 1867, including France, Greece, Italy, and Belgium, was it not?

Mr. PARSONS. You have said that you are in favor of at least a 40-percent devaluation, leaving that leeway?

Mr. VANDERLIP. Yes, I am quite in favor of that.

Mr. PARSONS. Suppose the nations actually could get together and agree definitely upon 40-percent devaluation?

Mr. VANDERLIP. Would France agree upon a 40-percent devaluation of her currency? She has already devalued it 80 percent. Would you have France devalue her currency?

Mr. PARSONS. We would have to agree upon a unit of value, so far as international trade is concerned.

Mr. VANDERLIP. The unit of value is gold.

Mr. PARSONS. Of so many grains.

Mr. VANDERLIP. Of some number. You can vary it. There is no necessity for an international arrangement at the present time, although it is desirable, and it will ultimately come.

We can go straight ahead and return to a gold standard, if we will so define a gold standard that we can return to it permanently. We can go straight ahead and stabilize by devaluing it to whatever point we see fit.

Mr. PARSONS. Without regard to other nations?

Mr. VANDERLIP. Absolutely; there is no need of any international conference whatever. Our destinies are in our own hands.

Mr. PARSONS. Will not that isolate us to a great extent?

Mr. VANDERLIP. Not a bit. Are we isolated now? Not in the least. Oh, no; we will not be isolated.

The thing Senator Gore speaks of is highly desirable, to have a better understanding, and the reaching of agreements so far as they can be reached between different nations. But, for the steps directly ahead of us, we do not need to consult anyone or have any international conference before we act.

Senator GORE. You say recovery is under way, and that is undoubtedly true. Would you attribute that recovery in large part to the operation of natural economic law and natural economic forces, and the desire and effort of everybody to better their own condition, or in larger measure to the artificial contrivances of governments to bring about recovery? I do not know that you could apportion them.

Mr. VANDERLIP. I could not apportion them, but I would say it is

due far more to natural forces in European countries, and also in the Orient, although that is not so, I might say, as to Japan. There have been artificial forces that have helped the Japanese recovery. But on the whole it has been a natural recovery.

Senator GORE. Do you not think the wiser policy on the part of a government is to employ such artificial forces as will accelerate the operation of natural forces?

Mr. VANDERLIP. Certainly I do.

Senator GORE. Instead of superseding and displacing them?

Mr. VANDERLIP. Yes.

Mr. McGUGIN. Mr. Chairman, I want to apologize to the committee and to Mr. Vanderlip for my inability to be present earlier this morning. Mr. Vanderlip's views and my own coincide on many things very well, and his theory as to devaluation is the same as mine, to a great extent.

But here is a point I wanted to ask Mr. Vanderlip about. Is not there this danger in our country at this time, that the American people are going to lose sight of the fact that devaluation is for monetary purposes, but on the contrary, demand it as an easy means of the Government getting money, which, in turn, may be the cause of an increased demand on the public Treasury for money, which will more and more unbalance the Budget. And if that be true, no matter what we do, how can we escape at least hopeless inflation in the end, if we do not balance the Budget, and run in debt constantly.

Mr. VANDERLIP. You have asked several questions there. Let me take the last one first.

A hopeless deficit in a budget will in the end lead to inflation, wherever you find it, if you go far enough and long enough.

But take some of your first questions. First, whether or not this devaluation of the dollar will lead to the idea on the part of the general people that devaluation is an easy road to prosperity, and that we will have a demand continually to devalue. I take much more hopeful view of the intelligence of American democracy than that.

In the first place, where has the chief pressure for funds come from? Has not the amount that has been devoted to financial institutions, to corporations, been greater than the amount that has been devoted to individuals? I am not saying that it is not quite proper that it should be so, but there has not been a country-wide demand that you pay everybody something out of the Treasury.

Mr. McGUGIN. Pardon me a moment. I think there is one thing that you financiers fail to get a slant on that any Member of Congress gets. It is just the other way around. If you read any Member's mail on any morning, you will find out that, back at the grass roots, you can scarcely find a citizen in any walk of life, whether he be banker, merchant, farmer, lawyer, doctor, or a man out of a job—you will find that the mind of this country today is absolutely overwhelmed with the thought that it is legitimate and proper for the public money to go to the people, and this being a democracy, the public mind will control. So it seems to me the danger of our program today is that it is going to be misunderstood by the people, and that there is a greater requirement for a balanced Budget now than at any time since the depression started, because I believe that 90 percent of the people today think you are devaluing in order to get more gold in the Treasury, and I am afraid that is what is going to happen.

Mr. VANDERLIP. It is shocking and horrible if 90 percent of the people of this country have that attitude.

Mr. BURKE. I dissent to that, for one.

Mr. WALDRON. And I dissent to that.

Mr. ELTSE. I dissent to that in part, but there is a terrific element of truth in it.

In that connection, may I say I have two telegrams on my desk, received this morning. My home is in Berkeley, Calif. When I left there we had no unemployment problem. Now, there are 1,800 men in the C.W.A. work, and there are 3,000 standing in line, and the mayor and the city manager are asking me to use every influence I have to get appropriations continued, and to bring such pressure to bear as will assure the continuance of that program.

I have a companion telegram from the mayor and city manager of the city of Oakland, saying that unemployment conditions are worse there than at any time during the depression.

It is my fear, may I say, that there is a greater element of truth in what Mr. McGugin says than most of us recognize or are willing to admit.

Mr. MCGUGIN. Let us look at the facts as they are.

Mr. WHITE. I would like to say that it is my opinion that the pressure for Government appropriations in various communities is an effort to secure their share of the money that may be expended, rather than a general movement to secure public money by the population.

Mr. ELTSE. In other words, a division of the money; is that it?

Mr. WHITE. An equitable distribution.

Mr. ELTSE. A redistribution of wealth.

Mr. LARRABEE (presiding). The Chair would remind the members of the committee that we are encroaching upon the time of the next meeting here. The committee is under deep gratitude to Mr. Vanderlip for his wonderfully clear presentation of this subject this morning.

Mr. VANDERLIP. Thank you, sir.

(The matter submitted by Mr. Vanderlip is as follows:)

MEMORANDUM PROPOSING A MECHANISM FOR ISSUING CURRENCY, CONTROLLING CREDIT, REFORMING THE BANKING STRUCTURE AND CONTROLLING THE PRICE LEVEL

In view of the recommendations in President Roosevelt's message to the Congress today, we shall presumably soon find all the monetary gold stock in the United States in the possession of the United States Treasury. The gold will, in the main, be represented by outstanding circulating currency in the form of gold certificates.

What should be the next steps?

In my opinion, the nature and order of these steps should be as follows:

Congress should create a Federal financial mechanism which would have, in part, the functions of a central bank, but as it would have neither fixed capital nor the right to receive deposits from any source, the word "bank" is not applicable. I shall call it the Federal Finance Authority.

This mechanism would be wholly an arm of the Government. My tentative suggestion as to its management would be that it should have a board of seven trustees, appointed by the President with the advice and consent of the Senate. Possibly it would be wise to have these appointments also receive the approval of a majority of the Banking and Currency Committee of the House. The President should have a free hand otherwise to make these appointments, except that for the purpose of insuring a number of experienced men among the trustees, I would suggest that three of them must always have been selected from a list proposed by the governors of the 12 Federal Reserve banks acting together. In

any event, the management of the bank should be protected from political interference and interference by organized banking interests.

The institution should be endowed by Congress with the sole power of currency issue without a fixed legal minimum of metallic reserve, but under compulsion to publish weekly the ratio of reserve to liabilities, as is the practice of the Bank of England, the Bank of France, and most other central banks.

The power of issue should be taken away from the Federal Reserve banks and desirably from national banks, and the aim should be ultimately to consolidate all forms of circulating money into one type of currency issued by the new authority.

The Federal Reserve banks would continue to operate along the lines of the original intention of the Federal Reserve Act; that is to say, they should constitute a central reservoir for holding the reserves of members, and should always be in a position to rediscount for members, eligible self-liquidating commercial paper.

As it is suggested that the power of issue should be taken from the Federal Reserve banks, the new institution should have laid on it the obligation always, in turn, to rediscount any self-liquidating commercial paper which has been rediscounted by any Federal Reserve bank for its members, thus continuing the ability of the Federal Reserve banks always to rediscount such paper.

The new organization should further have the power to buy and sell gold in an open free gold market to which would be admitted gold of whatever origin anywhere in the world. This market would be created from the new production of mines in the United States, from any shipments resulting from capital movements and from such operations as the Central Finance Institution conducted. There should be perfect freedom for individuals to buy and sell gold in this free gold market.

In returning to a gold standard, we must guard against those forces which have made the old gold standard an untenable financial mechanism. The true functions of a gold standard are to furnish the base and the control of the issue of currency, and to supply gold for export to meet any unfavorable trade balances. The gold standard has broken down because of the added burdens of giving gold-liquidity to international capital movements. Internationally owned securities cannot properly be given a gold liquidity which invades the monetary base, nor can other capital movements, such as the flight of timid capital, the movement of astute capital seeking higher interest rates, the operation of exchange speculators and the menacing operations of foreign governmental stabilization funds. The British equilization fund, now aggregating \$1,750,000,000, created for the sole purpose of manipulating the foreign exchanges, crosses frontiers without the slightest reference to whether a country has a favorable or unfavorable trade balance. It is operated by astute generalship and we have heretofore had no means for combatting it.

The suggestion in President Roosevelt's message to set up an opposing stabilization fund of two billion dollars, created from the gold which will be freed when the dollar is devaluated, is admirable. Such a fund would be unnecessary with a modernized gold standard which would prohibit the redemption of currency in gold except in cases where the gold was needed to pay legitimate trade-balances.

I would suggest that the right of free coinage of gold should cease. The Federal Finance Authority should augment or reduce its gold stock as it saw fit, through operations in the free market.

The new institution would have in its hands the main instruments for controlling the general price level. The principal manipulative factors that control the price level are the volume of currency in respect to the volume of gold, the rediscount rate, the open market operations conducted by means of the purchase or sale of short-term Treasury paper and bank acceptances, and the foreign exchange market. While I would not lay upon the management of this institution the explicit obligation of maintaining the price index at a continuous level, I would charge it with the responsibility of so using those powers as to tend to maintain stable prices after the price level had first been raised to the desired point.

If at some future time the Congress should decide to stabilize the dollar at a fluctuating amount of gold, or if the Congress should adopt a symmetrical base, either plan or both would fit into this mechanism. The proposed institution is perfectly adaptable to stabilization of the dollar in a fixed number of grains of gold only.

Those who are convinced that a commodity dollar anchored to an adjustable gold base can be made to give us a steady price level will find in the suggested mechanism nothing to stand in the way of the Congress adopting such a procedure. My own belief is that a variation in the gold content of the dollar

alone would not give sufficiently prompt and certain control over the price level, and that it would be far safer to make full use first of those other functions of a managed currency—the rediscount interest rate, the open market operations and some participation in the foreign exchange market. Almost as necessary and important as the adoption of a modernized gold standard and the creation of an institution of issue, is a reformation of our general banking system.

The need has been clearly demonstrated for a complete separation of the two essentially different types of banking—commercial banking and investment banking. Ten thousand banks failed in a decade, largely because demand deposits had been devoted to capital purposes. It came about that only about 25 percent of the assets in bank portfolios was made up to self-liquidating commercial paper. The remaining three quarters of the banks' portfolios were made up of collateral loans against corporate stocks and bonds, real estate mortgages, and of actual ownership of foreign and domestic Government securities, State and municipal securities, and the bonds of corporations.

The use of demand deposits for such capital purposes is fatal to the currency liquidity of the deposits.

The situation demands the absolute separation of these two types of banking.

The commercial banks should receive deposits upon which they will pay no interest, but they should assume the obligation of keeping their deposits so liquid that they may meet any demand made upon them.

If the portfolios of the commercial banks are made up of self-liquidating commercial paper, always rediscountable at the Federal Reserve bank, the position of such banks will be unassailable so long as their conduct is within the lines that the law should lay down.

It may be argued that there would not be sufficient commercial paper to supply the demand. As deposits would receive no interest, even that is a situation which is not dangerous, and so far as it existed, it would only go to insure the complete liquidity of deposits.

As deposits in commercial banks could no longer be devoted to collateral stock and bond loans, and as there would presumably be an excess of deposits, the commercial interest rates would tend to be much lower than under the old system, and lower than the call loan rate. Commercial borrowers would not have to compete with the capital market.

The investment banks should receive deposits also, and should pay a substantial rate of interest on them, but funds so deposited would not, under all circumstances, be liquid. It is improper that there should be any attempt to give capital funds complete currency liquidity.

Capital investment carries with it some consequences and obligations of permanence. At least, attempts should not be made, as now, to give capital investments complete currency-liquidity under all circumstances.

There should be a clear understanding on the part of the depositor in an investment bank that his deposit is to be devoted to fixed capital purposes, and that it has liquidity only so long as the capital market is open. If he needs liquidity, he must forego interest and place his deposit in a commercial bank.

Attempts to meet fixed capital needs with demand deposits have been disastrous. Capital needs should be supplied from the deposits in these investment banks. The investment banks would make collateral loans and meet the other temporary needs of the fixed capital market, including the call money market; and conversely, the funds of commercial banks could not be lent in the call money market.

While the following proposal is not essential to an orderly construction of a banking system, I would, nevertheless, like to suggest the tentative trial of a new type of commercial bank.

My suggestion is that permission be given to form mutual commercial banks. In such banks there should be two classes of deposits: First, those coming from depositors who never borrow, and whose only use for a bank is a safe repository for their funds. The desire of such depositors is, in effect, to have a safety-deposit vault upon which they can write checks and through which checks can be collected. To deposits from this type of depositors, I would give a preference in the mutual commercial bank.

The borrowing depositors would constitute the mutual control of the bank and they would, much as stockholders in a bank now do, elect the directors of the bank.

The directors would have much the same function that the directors in capital-stock banks have, with the important exception that they would not have the power to appoint the officers. I would delegate that power to the Federal Reserve bank of the district in which the mutual commercial bank was located.

This would create what would amount to a new career in banking. No longer would it be the open road to a position as a bank officer to be a nephew of the chief stockholder; nor would the road of progress for an efficient bank officer be blocked by seniority and the necessity of awaiting the death of more or less superannuated officials.

The Federal Reserve bank would move officers from one bank to another, filling the more important positions with the successful career-men and guarding entrance to the career of banking by a professional service examination which would require a thorough grounding in economic principles and in the science of banking.

Such efforts as we have had heretofore to establish mutual commercial banks have failed through inefficient management. Such a system as I suggest would, I believe, insure a more efficient management than has resulted from the profit motive of capital-stock banks, and it would have the distinct political and social advantage of placing bank officers in their true light in the eyes of the public—that is, not as personages of great wealth having credit favors to dispense, but as the competent and respected servants of a properly constituted banking system.

In a mutual commercial bank, such as I am suggesting, borrowing depositors would have mutual control of the bank. They would have to subordinate their deposit claims to the deposits of nonborrowing depositors. If such a bank made losses, such losses could be met from the bank's earnings; and beyond, the loss would fall pro rata on the borrowing depositors.

The rate of interest that borrowers would have to pay would always be a nicely balanced figure between the lowest feasible rate and the necessity for making earnings sufficient to conduct the bank efficiently but economically, and to meet any losses that the bank might encounter. It would no longer be a bank making the highest interest rate that the traffic would bear, because it would be to the interest of the mutual control, all of whom were borrowers, to have a low rate. On the other hand, there would be a force preventing the rate being made too low, because every borrower would know that if the bank's earnings were insufficient to meet losses, the loss would fall upon the borrowing depositors' deposit balance.

The defect of the gold standard, of our currency system, of our banking organization and our security markets may be traced in large measure to a single general and almost world-wide misconception. We have failed to recognize what is feasible in the way of giving liquidity to currency, to bank deposits and to investment securities. Liquidity means the ability to turn any form of wealth into money. We have attempted to give such gold liquidity to all forms of wealth. That fallacy has caused the debacle into which we were thrown, but from which we are beginning to emerge. A complete financial program, therefore, would also include some changes in our securities markets which would clearly recognize the impossibility of giving gold liquidity or even currency liquidity to all forms of investment.

(Thereupon a recess was taken until 2 p.m.)

AFTER RECESS

The committee reassembled at 2 p.m., at the expiration of the recess.

STATEMENT OF REV. CHARLES E. COUGHLIN, PASTOR OF THE SHRINE OF THE LITTLE FLOWER, DETROIT, MICH.

The CHAIRMAN. The committee will please come to order.

This afternoon, gentlemen, the chairman is very happy indeed to present Father Charles E. Coughlin, pastor of the Shrine of the Little Flower, of Detroit. In presenting Father Coughlin, I wish to say that in the last 3 or 4 years he has proven himself to be one of America's best authorities on finance. He has come today to help us to consider ways and means of improving the monetary system of this country.

Father, if you have any prepared statement to make on this subject, we shall be very pleased to have it now. At the conclusion of your statement, the committeemen, who will not interrupt you during your speaking, would like the privilege of asking questions.

You may proceed, Father.

Father COUGHLIN. Thank you, Mr. Chairman. I have no prepared statement.

Mr. Chairman, I thank you first of all for this kind invitation which you have extended to me to speak before this most important committee on the matter of improving the monetary system of the country.

I do not appear before you as an expert in things monetary; that is, in their specific practices throughout the world, and especially throughout our country. I do pretend to know perhaps a few generalities about money in its relation to human nature and to the necessities of trade and commerce as a medium of exchange.

For more than 3 years there has been an advocacy in this Nation for a change in our financial system. I suppose this agitation or advocacy was brought about more or less by the happenings which have been brought to the attention of every schoolboy in the country. Eventually everything was brought to a head last March 4, when our banks collapsed. Those of us who are interested in finance (and tracing our interest back to the year 1913), recognize that at that date there had been introduced into our Congress and passed into law the Federal Reserve Act. The main purpose of the Federal Reserve Act, as I gather it, was to so stabilize the finances of this Nation that never again would there be a depression. Those are not the exact words of the preamble to the Federal Reserve Act, but I think that is the thought inculcated.

Well, after 1913 we still persisted in finding our way into the panics which followed and finding our way out of them. It was evident that this great piece of legislation, so well conceived in honesty, did not function, and perhaps could not function. Why it could not function is not my purpose to answer.

About the year 1914, shortly after the establishment of the Federal Reserve banks, we were very close to a financial panic. I believe there are many economists in the country, and especially in England, who will maintain that the World War saved us from a break-down at that period. During the course of the war we made progress in things financial. Our country became wealthier than ever in industry and commerce; but, hand in hand with it, our national debt increased from approximately \$1,400,000,000 in 1914 to about \$23,000,000,000, as it is today. We were borrowing our way into prosperity, and had forgotten that some day these debts must be paid, because we had no intention of adopting the Stalin philosophy of repudiation. Never will we have that intention in this country. I believe we are too well cultured, too well educated, too well civilized, to fall into such a breach of one of the fundamentals of civilization.

It so happens that in my brief study of the theories of money I have discovered that in proportion as debts nationally accrue and get out of control, almost in the same proportion currency runs into hiding. As a result, we went through that aftermath of the World War culminating in 1929, when it was found just impossible to keep on borrowing ourselves out of debt. It was just impossible to face these tremendous debts with any reasonability. Men began to question, not exactly the soundness of capitalism—I think the sane people in this nation have always lent their support and will always lend their support to that theory of economics—they began to question the

abuses that grew up around capitalism. The theory was perfect; the practice had fallen into abuse.

Many questions were brought to the front concerning this. The Socialist was on his soap box; the Communist was agitating in his darkened hall; the legislator was planning to find ways and means out of this predicament in which we found ourselves. And finally we bethought ourselves of what was transpiring in England, in France, and in the other European countries—countries which had become intricately involved in the same problem as had we ourselves. I believe that France came out of the Great War with a debt approximating 80 billion dollars, if we use our money terms instead of their franc terms.

Well, with the French possibilities and potentialities for production, 80 billion dollars was just something that was ephemeral, something fantastic. Consequently, the French decided to revalue their franc. They did it 5 to 1. The franc, instead of being 20 cents, as we ordinarily estimated it in this country, was reduced approximately to 4 cents. Some of us did not understand at the time why France took this step. But after much inquiring we discovered that the reason motivating this financial move was to reduce their debts—at least the payability of their debts, if I may coin that word. By revaluing the franc 5 times, they divided their debts 5 times. Their 80 billion dollars was just cut to 16 billion dollars. France again was solvent. Her debts were payable. Bear in mind that all this time she did not necessarily go off the gold standard, at least as far as the civilized world was concerned.

Is France the only nation which accomplished this end? Not at all. I believe there were something like 37 nations involved in the Great War. As a result of the financial predicament in which they found themselves after the war, 36 out of the 37 nations went through the same process as France did. That is history; that is over the dam; there is no use in our discussing that. Later on I will return to the discussion of one nation. I will refer to Japan specifically when I come to speak of silver intimately.

And so it was that about 3 years ago I began a campaign on the revaluation of the gold ounce. At that time it was considered quite radical even to mention this, but eventually the idea seemed to catch hold. I found that I was not the only one thinking of this. Many eminent bankers, who were afraid at the moment to have their names publicized for entertaining such thoughts, held kindred views. Many eminent statesmen, so I discovered, were of the same opinion. This gave me courage to carry on, until today our most beloved President, who has seen fit to hold tightly to capitalism, and yet rid capitalism of its major abuse—our President, who prefers the preservation of human rights when confronted by a host of financial rights, has taken the first primary essential step in the revaluation of the gold ounce or of the gold dollar.

You gentlemen are well apprized of the fact that this fetish, this superstition of a gold ounce at \$20.67 is more or less of a modern conventional practice. Only for 61 years in the history of the world has gold been valued at \$20.67 an ounce. For the 60 million years preceding it, if the world existed that long, no one ever thought of designating an ounce of gold at \$20.67. And, more than that, in the minds of those founders of the system of capitalism, in the mind

of Adam Smith, in the mind of Ricardo and those other gentlemen, there was never entertained the superstition that this one commodity, this one yardstick upon which all our wealth is predicated, should be gaged at \$20.67 an ounce.

Who was it that invented the superstition—just as idle as the superstition of the god of Baal and his idols? It is difficult for us to discover; but I do know this much: That it was not even seriously intimated in the parliaments of men that gold should be \$20.67 an ounce until after the Napoleonic wars. There is a long story associated with the Napoleonic wars which is more or less of a side issue to this question. I will state this much relative to it:

Napoleon evidently was bent upon obtaining the dictatorship of the world. England had spent almost her last man, her last pound, in preventing this catastrophe. England had issued bond upon bond; she had dined with her last penny at the battle of Waterloo. In Berlin, in Paris, and in London there were three brothers, one in each capital, the Mayer brothers—the Rothschilds, as they have become better known—and these three brothers, in their sagacity for things productive and for things constructive along lines of finance, played England against France. If France should win the war, they would win, because they had issued bonds there; if England should win the war, they again would win, because they had issued bonds there. And so I remember the story, that is not all fiction; I remember the story that perhaps cannot be proven—how in the very process of Wellington's victory over Napoleon, one of the Rothschilds had the news sent to England, some hours before the truth had arrived there, that Napoleon was victorious. As the result of this news, the English bond market suffered tremendously in those few short hours. The Rothschilds bought the depreciated bonds. The truth arrived in England, and the depreciated bonds were doubled in value. The Rothschild fortune was originated and made.

England came out of the war owing this tremendous debt. Those bonds had been made payable in gold, and the English people owed the most tremendous gold debt ever cogitated by the mind of man.

That was, we will say, approximately the year 1820. And so during those years that immediately followed, it so happened that English intelligence, English patriotism and English perseverance conspired to save their country from financial disaster.

By the year 1873 the plans originated from 1820 or 1826 until that date had been completed. We know how England, which until that date had been on a silver and a gold standard, decided to rest the security of her future finances upon gold only. We know how France and Holland followed. We know how, by 1873, silver was demonetized in this country, in a manner that Mr. South Trimble, I believe, has already told this committee; and we know how from that date, 1873, until this present date, silver, that has always been the money used by the majority of persons in this world, was cashiered, and gold from that date was priced at \$20.67 an ounce—a throwback to the Napoleonic wars.

Sixty-one years, I said, have elapsed since then until this present date; four fifths of the people of the world still persisting in going on using silver as their money, one fifth of the population of the world dedicated to the use of gold as their sole standard—gold at \$20.67 an ounce. But who were this one fifth? They were the most cultured

people in the world in one sense. They were the most enterprising people in the world in another sense. England, Germany, France, Spain, Holland, Portugal, South America in part only, and North America, including the United States and Canada, dedicated themselves to the solid, single, sole gold standard. I am not saying this out of any braggadocio spirit, but I really think that this one fifth of the world's population which I have enumerated were during this cycle of civilization the finest type of people in the world—the most enterprising; the most cultured, I repeat—and naturally they began to dominate the world. The seas were crowded with our ships; the cities were filled with our goods of production; our wheat fields in the West supplied a hungry England; our factories in Detroit made automobiles for Europe; our textile mills on the eastern coast, in Massachusetts and up and down the Atlantic, supplied raiment for more than one fifth of the world. We made tremendous progress—not because of the gold standard, but in spite of the gold standard.

Now, all during this time, if we have our picture complete, four fifths of the world—because they had no gold—remained in the background of this marvelous progress which we witnessed over the face of this earth. In our prejudice—yours and mine both; we are both guilty of it—we have been taught to look upon China with more or less disrespect. We cast our eyes upon India, referring to its people as pagans, referring to them as barbarians—people of our own flesh and blood; people in whose hearts there was that desire to have the things that we possess; people who desired to go ahead with their railroads, their paved highways, their electric washing machines, their bath tubs, their motor cars—and all this time their newspapers, such as they had, carrying the story of American civilization and burning into their own minds the story of their own degradation. They could not trace it.

I am going to come to another point in this discussion: The point that the single gold standard at \$20.67 an ounce—and I am very careful to emphasize the \$20.67 portion of this argument—the single gold standard at \$20.67 an ounce has proved to be a bottle neck, through which all this tremendous commerce of America, England, France and Germany, this one fifth of the world's best blood, was forced to pass—this little narrow gulf, this little narrow bottle neck—until eventually we found that it was clogged in passage. Why, years before this time the great problem of production had passed out of existence. It was no longer a problem for us how to grow enough wheat to feed our folks; it was no longer a problem how to make automobiles for the demand of the American public. Detroit is geared up to make 9 million units per year, and the most that we can consume, or the world can consume, in its present plight, is three and a half million a year.

It is the same with every article of our production. I repeat, production had been no problem. The problem now had become one of distribution; and this little bottle neck could not distribute, from the great ocean of our production, our goods, or the goods of Germany, or France, or England, or Spain, or South America, to the hungry mouths, to the naked backs, that were clamoring for these things.

Now, all that I have said, perhaps, is simply relative to the sociological aspect of gold at \$20.67 an ounce. Let us become more specific and speak more of its financial aspect.

As we know from our history and from the experience which we ourselves have gone through, we have never used gold as money in the sense that you have had it in your purse and you have carried it about in your pocket and paid your grocer and your butcher and your milliner and the rest of your people in gold coinage. We have not been accustomed to do that. Gold is money, yes; but gold was never admitted to be currency money amongst us. Gold was too precious a thing really to be held as currency money. The natural attrition of one gold coin rubbing against another—why, that was a superfluous waste. And, on the other hand, we are not forgetting the little emery cloth that some people with rubber consciences used, rubbing off a little piece of gold here and there—saving it—stealing it. We are not forgetful of the debasement of our gold coins.

Very correctly, then, gold was not used as currency money. But we did discover this from our own experience and from the experience of those who preceded us that it was quite possible for our Government, or for those who had control of the gold, to keep it in a safe place and issue against it those dollar bills that we carry around to the extent of two and one half times as many dollar bills as we had dollars' worth of gold in our Treasury or in our vaults. I am telling you absolutely nothing new when I am repeating these ancient-history facts. Currency money at the rate of two and one half times the amount of gold money would be found to be adequate and would be found to be reasonable, and we would be on the gold standard. Now, we had this thought in our minds, that the philosophy of capitalism, as I understand it and interpret it, means that in the issuance of money, capital provides a means by which we may have two and one half times as much currency money as we have of gold money, and by which we may have 12 times the number of debt dollars that we have of gold dollars in our hands for safe-keeping. We are perfectly conservative when we do that, but what happened? After the great war, we awoke one morning, with the aid of our bookkeepers, to discover that we had about \$235,000,000,000 payable in gold. Those \$235,000,000,000 were not all Government dollars. Some of them represented insurance money owing to policy holders, and some of it was corporation money owing to stockholders. Some of them were corporate debts as well as private debts. The \$235,000,000,000 was simply the sum total of our national, corporate, and private debts, payable in gold.

Well here, after all our license to capitalism for financing us, we said capitalism should issue only $2\frac{1}{2}$ currency dollars and 12 debt dollars for every gold dollar that we actually possessed. It was not difficult to see that capitalism could not go on any more than a human being equipped for the operation of breathing air could go on when submerged in the waters of the ocean. We were out of our element. Now, what was the financial suggestion? The financial suggestion was heard that our Constitution, one of the finest instruments ever written or conceived by man, had already provided for this emergency. The Constitution of the United States, ever since its inception has said that Congress shall have the right to coin and to regulate the value of money. The word "regulate" came up, and it was dis-

cussed time and again. It was discussed, I remember, by Ex-President Taft, a man whom I revered and knew very well. It was the subject of a great deal of discussion, and they even went to the dictionary to find out what the word "regulate" meant. If you will interest yourself sufficiently to examine any accredited dictionary, you will find that the word "regulate" certainly does not mean to fix. Were I to drive down the street with a fixed steering wheel on my automobile, certainly I would run into another motor car or into a side wall, if I went any distance. I must regulate where I am going. The verb "to fix" and the verb "to regulate" are almost antithetical in their meaning. They are almost opposed. The verb "to regulate" is used in the constitutional statement.

The Constitution says that Congress has the right to coin and to regulate the money of this Nation, whereas we have been going on interpreting this verb as if it meant that Congress had the right to coin and fix the value of money, or the money basis, at \$20.67 per ounce. Why, we have been unconstitutional. We have not been acting in the tenor of the minds of Washington, Jefferson, and the rest of them who conceived the human idea that money is the servant of man, and not his master. At last this idea has seemed to make inroads on the minds of the people all over the country. The school children of the Nation have been taught the meaning of this verb "to regulate", as well as the diplomats of the Nation, and as well as the financiers of the Nation. That has been going on until today our most wonderful President, whom God may bless and keep in health until he finishes his program, has caught the meaning of the verb "to regulate", and has caught the meaning of that moral principle that man shall not be the servant of gold, but gold the servant of man. Now, conjoining those ideas, we are not going to be Bolsheviks, and we do not plan to be Stalinites and repudiate our debts. We all readily admit that the debts must be paid.

On the other hand, we readily admit that we must find the wherewithal to pay them with honest money, and not with printing-press money. Was not that a problem to be faced? Mr. Roosevelt viewed that problem, with gold at \$20.67 per ounce, and said, "You cannot issue sound currency to the extent of $2\frac{1}{2}$ times the value of this gold that will be adequate." On that basis, you could not predicate the payment of this \$235,000,000,000. We owed this \$235,000,000,000 either through our own fault or the fault of our parents. This indebtedness of \$235,000,000,000 was created out of the war, which, to use the words of President Wilson, was a commercial war. It was a mistake, but we have the debts and must pay them with sound and adequate money. We are paying for our mistakes and for those of our parents. Let us not be welchers on that point. Let us be honest and admit that we made the mistake, or that our parents made the mistake. The philosophy of Nietzsche, of Hegel, and of Schopenhauer—the philosophy of Germany that might makes right, was responsible.

The philosophy of greed that is still evident in radical commercial warfare; the philosophy of greed that leads people to believe that they must be the only nation; the philosophy of individualism—all of it culminated in the shell holes of Flanders and France. Let us admit that it was a mistake, but let us also admit that we are bound to pay the price for having committed that mistake. Perhaps this is a strange philosophy to be preaching to a legislative committee,

but, nevertheless, it is the philosophy of truth. All of those ideas certainly must have been in the mind of President Franklin Roosevelt, and that is why he said that in order to pay, in order to save capitalism, and in order to save the world against its own self, let us widen the base of this little \$20.67 per ounce of gold until it is \$40 per ounce, or thereabouts. That means for every gold dollar we can have two and a half currency dollars, and if necessary, we may have 12 debt dollars for every unit of this gold. On yesterday we cut our debts back by one half. The \$235,000,000,000—and I am speaking in round figures—have been practically cut to \$117,000,000,000. That was done on yesterday provided the President will follow through with the policy to which he has committed himself. To my mind there is no reason to think that he will not follow it through.

Now, I hope I have clarified that much of it, and now let me say this regarding the question of following through with it: Speaking in round numbers, we have about $4\frac{1}{2}$ billion dollars of gold in the country, at \$20.67 per ounce, and we have about, in round numbers, $5\frac{1}{2}$ billion dollars of currency money, which, with a population of 126,000,000 people totals about \$42.06 per capita. That is all the currency money there is in this country. There is no need of my asking the question whether capitalism will live up to its prerogative of issuing two and a half times the amount of currency money that we have of gold. Really we have about $1\frac{1}{2}$ billion dollars of currency money against the gold, and from that you can see what capitalism is doing. Now, to follow it through will mean that the \$42.06 of currency money per individual in this Nation will be practically doubled. What are the figures? The $4\frac{1}{4}$ billion dollars in gold yesterday automatically became $8\frac{1}{2}$ billion dollars in gold. Of course, I understand that that is not legislation as yet. Congress has not yet passed upon it, but I cannot conceive for one moment of Congress refusing to follow through on this point. Gentlemen, if Congress should refuse to follow through on what President Roosevelt suggested yesterday, I predict revolution in this country, and a revolution that will make the French revolution silly. It is either Roosevelt or ruin. I think I am able to say something about that. About 150,000 letters every week come to my office unsolicited from every quarter of America.

These people came almost in confession before me, without trying to sell me anything. I think I know the pulse of this Nation. Therefore, I am taking it for granted that this $8\frac{1}{2}$ billion dollars in gold is already here. Congress cannot do a thing but say "Mr. Roosevelt, we follow on that point." To my mind the Congressman, who, either through mental laziness does not acquaint himself with the facts surrounding this question, or through some other circumstances refuses to understand what Mr. Roosevelt means, and the problem which he is forced to face—that Congressman who opposes him is certainly playing with political dynamite. I say that not because I care for myself. It does not make any difference to me personally, but it does make a difference to me as a citizen. It does make a difference when I look out on those people who write to me and tell me what is in their minds.

Perhaps I have diverged a little bit from what I was going to say. I am taking it for granted that we have $8\frac{1}{2}$ billion dollars of gold on which capitalism will permit us to print two and one half times the amount in currency. I said it will "permit" us to print, and I do not

say that it will force us to print the two and one half times the amount of gold in currency. That would be about \$19,000,000,000 of currency money that capitalism will permit us to have on the basis of that 8½ billion dollars in gold. I do not mean that we necessarily will go to that extent. I do not say that we must do that, but capitalism will permit us to have, in addition, 12 times that amount in debt dollars, which will serve to cut the \$235,000,000,000 in half.

Now, that is the first follow-through. That is the course which it is up to Congress to pursue. We cannot make one solitary movement from this present condition in which we find ourselves unless that step is taken. The joy throughout the country, the happiness in the minds of the people from Maine to California, and all that transpired on yesterday, was predicated upon their hope of what you Congressmen will do. That is true because so far it is only psychological. So far it is only idealistic. The realistic side of it will happen when you gentlemen legislate it into law. That is true because Congress, and not the President, not the people, nor any council, has that power. Congress has the power to coin and regulate the value of money. That is what our Constitution provides, and above all things we are going to remain constitutional.

The second follow-through is this: The mere revaluation of gold is not sufficient. It will still remain only a hypothetical revaluation, or only a psychological or idealistic revaluation, unless more money is put into the hands of the people. The revaluation without increased circulation is hypocrisy. That is why we want real revaluation. We do not want it simply as a literary achievement, or as a philosophical idea, but we want it as a practical thing in order to get more money into the hands of the people. We have \$42.06 per capita in this nation, and \$14 per week is the salary of the average laborer in the United States.

Now, how can a man work on \$14 per week? How can he buy a \$550 or \$600 Ford car? How can we hope to keep the factories going when we are paying the average laborer \$14 per week? The price of the commodities they eat and wear will more than take up the entire \$14 per week. Are our manufacturers simply going to be makers of automobiles to be stored on the plains of Arizona, or thrown into the ravines of the Rockies? Our wage level must be lifted through some of this circulation if there is going to be such a thing as distribution. I repeat that production is not our problem, but it is distribution. In other words, we want to restore the purchasing power of our people. We want to make it possible for the General Motors, Hudson-Essex, Packard, Henry Ford, and all the rest of them, to make motor cars so as to keep our men employed, and to make it possible for the people of the country to purchase their products. Now, that is one point. That was the second follow-through. I conclude that part of it by saying there should be additional money circulating in the hands of the people. Now, as to the third follow-through, and now I am coming to a point relative to the subject of silver. Would you mind if I incorporated in this discussion at least a portion of a booklet published by W. J. Marshall & Co., at 350 Bay Street, Toronto, Ontario? The title of the booklet is "The Silver Situation." For the benefit of members who wish to obtain this booklet, I will say again that the address is W. J. Marshall & Co., 350 Bay Street, Toronto, Ontario. My reason for reading

this is to show you what is in the mind of some English bankers on the silver situation, and to show you that they are not so far from our own minds. This article is entitled "British Economist Urges Empire Bank to Set Up New Gold Unit." The article is a special to the Toronto Daily Star, dated "Ottawa, May 12," and it reads as follows:

"I see no way out of the present economic world depression but the restoration of silver," said J. F. Darling, director of the Midland Bank, the second largest bank in the world, in an interview with the Daily Star today. "I like to be an optimist, but I am satisfied that matters will go steadily worse until we restore the equilibrium of our financial structure by the rehabilitation of silver. The danger is that the world may come to disaster before the bankers of the world agree upon the solution. I believe that the necessary action will be taken, but apparently, there will be no move until things are so bad that it is seen to be the only way out. For that reason, while I grieve when I read of new evidence of depression and new tales of unemployment, I am somewhat cheered also, because I think of it as a step nearer to ultimate prosperity."

Mr. Darling is in Canada on his own initiative, attempting to interest the Canadian Government and Canadian bankers in his proposals. He has been quietly sounding out public opinion. The conversion of the Dominion to his idea would be a great step forward, he thinks, to the larger scheme which he feels is the logical way of achieving "the rehabilitation of silver."

"Suggestions are made from time to time of an international conference to agree on a silver ratio to restore the purchasing power of the Orient, and so forth," he said. "But is there any record of an international conference ever accomplishing anything," he asked. "To my way of thinking, that is not the solution. I propose a bank of the Empire which would set up a new gold unit, Rex."

That will be interesting to you gentlemen, because these thoughts are not published ordinarily in English news journals. These thoughts, we are tempted to believe, are more or less foreign to the English mind. We are apt to think that England and the United States are financially hostile to each other, but that is not entirely true.

Mr. Darling continues:

I propose a bank of the Empire which would set up a new gold unit, Rex. It would acquire the gold reserves of the British Empire, and establish a ratio of value between gold and silver.

What ratio would you set up? At present the value of silver has fallen so low that its intrinsic value is only one sixtieth or one seventieth the value of gold. I would fix the ratio in the first instance at 20 to 1. I would fix the value of the "Rex", which is equivalent to our pound sterling (about \$4.87) at 113 grains of fine gold.

That is the statement of Mr. Darling. The purpose I had in reading that long excerpt, first, was to show you that England and Englishmen are thinking about the rehabilitation of silver, and, secondly, to show you that they are proposing to use it in a new coin called "Rex."

This is something that I cannot be dogmatic upon, because I do not know enough about it. You will hear a great many people on this subject.

The point is, what are we going to do about silver? Mr. Roosevelt told us in his message yesterday that something is going to be done about it. There is no question about that. What are we going to do about it, and why are we going to do it? Why are we going to do something about silver? The answer is obvious. There are some in our Nation who tell us that silver must be rehabilitated or remonetized or restored—all these verbs are used, I believe, synonymously—for two reasons: One reason is to broaden the base of our gold, of our

basic money. The other reason is to help the Orient regain its purchasing power.

May I discuss first that question of broadening the base of basic money? Briefly and candidly, I have not yet been convinced that silver is absolutely necessary to broaden the base of our basic money. I am not convinced yet that it is necessary, because I am still convinced of the correctness of our Constitution which permits us to regulate it at \$50 an ounce, at \$100 an ounce, at a million dollars an ounce, if necessary, and which will never be necessary. The point is, the value of an ounce of gold is elastic; it is regulatory. That is the thought behind the founders of the Nation; it is the thought behind the Catholic Cardinal who suggested it; it is the thought in the mind of Gresham, for whom the law was called; it is the thought behind the minds of business men, of men of great national and international prominence; gold is elastic. So, because of that reason, it has not convinced me that silver must be rehabilitated to broaden the base of our basic money.

There is another reason why it should be restored, rehabilitated, remonetized. What is that? It deals with the Orient and it deals with the United States, both. How does it deal with the Orient? In those nations we have 800,000,000 people, approximately, living in China, India, Afghanistan, and Manchuria, added to the hundred million or so living in South America, who are all on the silver standard. I realize and I appreciate that since 1926 India has been, nominally, on the gold standard, but as I said, rather facetiously over the radio, they are on the gold standard like we were on the dry standard during the period from 1918, and so forth, nominally. Only they are still on the silver standard, and there is no deceiving ourselves about that, although they are legally on the gold standard.

What is their silver worth? It is selling somewhere about 44½ cents an ounce. How did it happen to get to 44½ cents an ounce? Was it not a dollar and \$1.39 an ounce at one time? Oh, yes. How did it happen to fall to 44½ cents an ounce? I remember in 1926 Stanley Baldwin passed an act of legislation. He was then premier; that act put India on the gold standard, and it permanently kicked her silver into the back lot, almost the same as silver was outlawed here in 1873. From that moment, instead of putting India on a gold standard, we put India on the loin-cloth standard. From that day on, we have had Gandhi traveling up and down India opposing English things, opposing England, opposing all the propaganda of English purchasing power, and of purchasing English textiles. We find India, instead of buying a few million yards of cotton cloth from Japan, as formerly, we find them today buying a great deal more; Japan is supplying most of the textiles to India, and England has been cast out of the picture.

I believe Senator Wheeler has brought this matter to our attention in a radio address within the last 2 weeks. India's purchasing power has been cut in half; it has been quartered in more senses than one. The same applies to China. Now, that is one point to bear in mind. India and China cannot buy our bathtubs, our shoes, our shirts, our wheat, our automobiles, and our copper pipe, because if they attempted to do so, instead of paying \$1 for wheat, India would be

obligated to pay four in their money; they cannot afford to trade with us.

Eight hundred million people have been closed from our manufacturers, from our farmers, from our industrialists; the greatest wall in the history of civilization has been built on the shores of the Pacific; not the Chinese wall, but the silver wall, which prevents the Orient from trading with us.

In the meantime, what has happened in Europe? This has happened: Since the beginning of the war, especially, we have fallen into the habit of sending to Europe our blueprints, our brains, our machinery, our money. Perhaps the best iron and steel processor in the world happens to live in my parish, and his name is Michaels. He was employed by a large automobile manufacturer in Detroit, Henry Ford. Michaels was requested, in view of his knowledge of steel and iron processing, to go to Russia and teach them all that he had learned. Michaels went over and spent 2 years there, and taught them all the phases of iron processing. I asked him, "Henry, how many men did you really teach? First, did you have clever men to teach?" He said they were clever men; 20 of them. I asked him if he succeeded in teaching them, and he replied, "Surely, I did." Then I asked him if they learned, and he replied, "Oh, yes." And then I asked, "You have there just as good iron processors as you?" He answered, "Yes." I asked, "How many did you teach?" He answered, "At least 25", and you have not 25 Michaels on this continent.

Machinery, I stated, was exported to Europe. You remember the old model T Ford which was a wonderful car. Mr. Ford had put the best money, the best materials behind the manufacture of the machinery to make that car. It was lifted up from Detroit body and bones and carried to Russia. We have exported our machinery. Did we export our money? Did we expatriate our money? We have expatriated so many dollars that we do not know ourselves how many it is. It is at least nineteen billions of dollars, publicly and privately, since the Great War. They have our brains, our blueprints, our machinery, and our money. That is one item.

The second item about Europe is that in an official document which was released a week or so ago by the Federal Government, and I believe I referred to it over the microphone, they tell us that last year that little strip of land known as Italy produced more wheat than the great Dominion of Canada produced. Mussolini had preached the gospel of self-preservation and self-sustenance to such an extent, he told them to dig up their vineyards and plant wheat there, until last year they succeeded in producing more wheat than Canada. Europe produces more wheat than North America, and we are talking of opening up our trade and commerce allowances to Europe in order that we may send wheat there. They are laughing at us; they are in position to export wheat to America.

That is astounding; that is one thing Fascism did to Italy; that is one thing it is doing to Germany; that is one thing Stalinism is doing to Russia. I have been through Germany; I have been through those countries; I have watched with what tenacity they till the soil. There is not room for a fence; no wastage; every square foot of ground is under cultivation, but never under such cultivation as it has been recently. That is for our farmers and our manufacturers. That

applies to the machinery, to the blueprints, and our financialists find that it applies to the money, and so, it is only the ill-informed who are under the superstitious delusion that Europe is going to be our big customer. We are practically through in Europe, and let us learn that from facts and not from fancies.

As I said, what are we going to do, lie down and die; because we are geared to make 9,000,000 cars per unit industrially, are we going to content ourselves with making only a million, keeping our laborers engaged only 1½ months and allowing them a rest period for the other 11 months? No; we are not built like that in America. We are not going to keep on burning our cotton, destroying our wheat, slaughtering our pigs, because God has given us fecundity and because we are going to find a market, make one, and in order to do it, since Europe has our brains, blueprints, machinery, and money, let us, for God's sake, turn to the Orient. Let us turn to China, with whom we have never had objection except in the Boxer rebellion; let us turn to India that has been on the loin-cloth standard. The lord mayor of an English city was at my home not many months ago. He is a graduate of Oxford and a highly polished gentleman. At lunch he said to me, "You Americans are not apprised of the fact of Gandhi's great contribution to the United States. You may think I am radical, but of one thing I feel certain, he has delivered India into the hands of the United States."

In India and China there are 800,000,000 people, and are we going to suck our thumbs and wonder if we will rehabilitate their silver so they can buy our goods, shoes, wheat, cotton, or are we going to put our men on the C.W.A. for the rest of their lives?

Now, it is this oriental problem that is in my mind as I talk about the rehabilitation of silver.

Silver is the oldest money used in the world. Christ was betrayed for 30 pieces of silver. Gold was not money in the time of Christ; gold was a precious metal or commodity. In fact, the Wise Men who came from the East brought gold, frankincense, and myrrh. They had gold, but long before they had gold they had silver, and they will have silver long after they have gold. We do not know much about the production of gold. The greatest gold mine in the world is in South Africa. I am acquainted with Mr. Denny, whom I consider to be one of the greatest economists in the world. Ontario spent money to hire good brains, and they hired Denny to tell them something about it. That rich mine in South Africa will be all worked out in 75 years, according to the Minister of Mines of South Africa, according to Denny, according to prominent people in the British Empire. It is said that they are all wrong; we will find new mines; we have been trying to find gold in such a way in the last hundred years that I think people have put more into the ground than they have taken out. It has been the biggest scandal known in America.

I am saying silver will be used, because gold is petering out, but passing that over, the main point at issue is, let us restore the purchasing power of the Orient, of 800 million people, so that their silver is brought back somewhere near the price of its value, and so that our farmers, our industrialists, our laborers will not have to look forward to the tragic spectacle of being servants under the C.W.A. for the rest of their lives.

We have mass production machinery and we persist in using it. Two years ago my mother was in Egypt. She saw them bringing water from one of the tributaries of the Nile, bucket full by bucket full. One man would dip the water and pass it to another and so on until 10 men were engaged in this one simple operation. She said to them, "Why don't you put a hose down there and get it out in that way?" One of them who spoke English very well said, "Will you please mind your own business? If we put a hose down there it will throw 10 men out of a job."

We are not going back to that system; we are going to keep the blessings that God has given us; we are going to produce and we are going to find markets where our production can be consumed.

Many things are changing rapidly since 1914 to the present; we have been in a cycle of change. Perhaps this is one of the culminating factors of the financial depression. At last, the Orient is going to be respected; at last, we are going to observe that there is a possibility that they are going to wear shoes, to wear clothing instead of loin cloth, to have macadam roads instead of dirt holes, to have plumbing, steam boats on their rivers, steel rails across their continents.

You may think it very peculiar for a priest to be interested in such matters. To tell the truth, the reason I became interested, and why I still am, I have heard it said that our Catholic and Protestant missionaries when asked if they are making any converts will say, "No; those poor devils who have not anything to eat will come around, but we are not making any progress." It has been drilled into them that we have sent them over to preach the Christian gospel, but we do not say, "You can have our bathtubs, our wheat, and our cotton"; it is a fine theory; but they say, "We will not accept your religion." We are the world's champion hypocrites. Then, we begin to chisel in on Christ and say our brother is the man who lives next door to us, but not the one who lives across the Pacific. I believe in the survival of Christ's doctrine of brotherhood. The world cannot exist one fifth oversupplied and four fifths on the verge of starvation.

You have read Floyd Gibbons' Red Napoleon; how the people came down the coast of British Columbia; I do not believe that for a moment; what I do believe is this: If I may define the yellow peril, it is this: Those people are going to have automobiles; they are going to have clothing, wheat, cotton, and if we do not give it to them, the yellow peril that faces us is that their markets will not consume our products; their markets will not consume the products of our factories; our factories will remain idle and our fields will become idle. That is the yellow peril, the coming revolution in America, unless we find an outlet for the production of America. That is the yellow peril. We are never going to have communism or anything like that here, but we are liable to have a lot of other things. That is why I am interested in the restoration of silver, to build up the purchasing power of 800 millions who are hungry for what we have and what we have they cannot get, and who cannot purchase that which we have because we have quartered their purchasing power. We have so much gold in the world. We have four and a quarter billions, which is more than we should have, in this country; we have so much that we have unbalanced the purchasing power of the rest of the gold nations.

We talk about Spain buying from us, and South America buying from us. You cannot get blood out of a stone; they cannot buy on a gold basis; they have not got gold.

Coming to the more practical point, how are we going to restore silver; what method are we going to use to restore silver? There is the bimetalist who wants silver and gold both used, independently, as a base, and there is that other type who wants us to take all the gold and dump it into the Atlantic; he is pretty radical. There is the third type who thinks we can use both together. I do not want to be dogmatic about this, because I do not know anything about it. I do not think anybody else has come to defend his conclusions. I have some suggestions; it is likely that they are wrong; perhaps there is some truth in them; let us advance them. My suggestion is this: I am zealous that the United States should nationalize all the commercial silver in this Nation; that is the first method. How much commercial silver is in this Nation? I do not know, and I do not think anybody else knows. I do not think anybody knows definitely. The best answer is in Mr. Denny's book. He admits he does not know. There is, conservatively, 100 million dollars' worth of silver at about 45 cents an ounce. I think we have that; I am sure we have. Supposing in this process that the Government sets out tomorrow to purchase all the silver, spot silver it will be, not contract silver; tomorrow we will go into the market and buy at 45 cents; the next day it will be 50; eventually the United States will have purchased all the silver in this country at a figure somewhere around 54, 55, or 56 cents an ounce; that is, commercial silver, if I know anything about the market; I may be wrong. That is my presupposition on the matter. A hundred million dollars is only a drop in the bucket; it does not mean anything; that is not enough silver.

Supposing Mexico learns that we are in the silver market; they start bootlegging; London learns; Hong Kong learns; Tokio learns; they bring the silver in and we say, "Sure, we will buy more." We could buy almost 300 million dollars worth of it; I think we could succeed in purchasing three hundred millions of spot silver at somewhere under 64½ cents an ounce; that is, do it now. After we have that nationalized, as its first step, I think we have two things to do, according to my mind. First of all, we have token money in our pockets; in our pockets we have a half dollar piece. This 50-cent piece is no more 50 cents than this lead pencil is a camel. This 50-cent piece is worth 22 cents. Anybody can tell you that a silver dollar contains about 1 ounce; a half dollar about a half ounce; it is valued at 44 cents an ounce, and the 50-cent piece contains about 22 cents worth, at the most. The first thing to do is let us raise this from token to real money. That is the next thing, according to my mind. How are we going to do it? Before we start, some person is going to tell me the story that was preached about the thirteenth century. Just the other day, one of our bishops told me that he had something to show me. It was a French volume of sermons which some priest had preached in the cathedral of Rouen. He was talking about hell and purgatory. He was telling the people, "When you die, you will have neither a gold pocket in your shroud nor a silver pocket." I said, "What are you showing me that for?" He said, "Did you ever hear of Gresham's law?" Now, here is the point: All through the thirteenth century every man had two pockets in his clothes; one for gold and one for silver. Now, when a man would go to a shoemaker he would say, "How much are the shoes?" And the shoemaker would reply, "Two dollars." He would look at

the shoemaker and if he was an easy mark, he would give him the two dollars in silver. The idea was to preserve the more precious metal.

Whenever cheaper and more precious money existed hand in hand, the tendency was for the cheaper money to drive the dearer money into hoarding.

Gresham never invented that law; he was a plagiarist. A Catholic cardinal invented the law and Gresham, a "high-faluting" Irishman, stole it. He was a boy friend of Queen Elizabeth's. The Gresham law is this: That cheap money has a tendency to drive dear money into hiding; that is the simple way of stating it; that is the truth.

In order to obey Gresham's law, what are we going to do? Are we going to call silver a basic money equivalent to gold? That is going to be the great question which you gentlemen must decide. I do not know; I do not pretend to know. Offhand, I would say, that since gold is the more precious money, I think gold should be the more basic money, if I can coin that comparison, and silver an auxiliary money; not saying it is not good, but it is not as precious as gold. Offhand, again, I would say that this Gresham's law invariably operates, and has operated over the history of finance; since Gresham's law has a tendency to drive dear money into hiding, why not mix a little of the dear in with the auxiliary so it cannot be driven into hiding?

Having nationalized our silver, as well as our gold, and having decided that we are going to lift its price so it will be real money instead of token money, shall we issue a new coinage? Shall we abolish the good coinage we have in the United States today; I mean, the dollar plus the printing press money? No. I think the simpler we can keep the currency the better. Why multiply currencies? Simplification is best; keep what we have, our one, two, five, ten, and so forth; keep them. We will still issue then two and one half dollars to our unit of gold, but with our money nationalized, our silver nationalized, and with an equivalent price of perhaps a dollar an ounce—I am not trying to say it should be 15, 20, or a 100 to 1. I do not know who is able to do that, because no one knows how much is in the world. We have it in candle sticks, teapots, chalices, tableware; we have it hidden, and we do not know how much is hidden in India; the Indians do not trust the bankers either. We do not know how much is in the world; we guess 8 billion ounces in the world; that is the best guess any person of the reputation of Denny will make; we do not know. We do not want all the silver in the world here. If we had it we would be liable to die of King Midas' disease. Just now, I hear it asserted that if we start on a great gold-purchasing program in England, they will give us more gold than we can assimilate. Combining, therefore, gold and silver as a basis, it is possible in the redemption of our present silver money to symmetallize it, to put a little gold in it, so it will not be all silver, and we have not so much silver money in America, and to issue good currency dollars at least on the rest of it, in the ratio of two and a half to one.

These thoughts, gentlemen, perhaps have dealt with the philosophy of money; with the sociology behind it; with the revaluation of gold and with the restoration of silver. After all is said and done, I think there is one who has even more interest than any of us and that

is Mr. Roosevelt, As far as I understand his program, he is bent upon nationalizing gold; that will be done. He is determined to revalue gold; that will be done. He has his mind fixed upon doing something for the precious metals, gold and silver; that will be done. Those things have passed the stage of debate, but it is not debating to ask how shall we do something for silver? How shall we expand currency? As I understand it, this is the purpose of this meeting of the Weights and Coinage Committee. You gentlemen have a huge task upon your hands, to listen for perhaps two or three months to people telling you how it should be done. It must pass through the sieve of your intelligence, and eventually, I know, much good will be accomplished. You will strike upon something, not today, not tomorrow, not that my ideas are going to be acceptable, but merely provocative of more thought. I have some qualifications or characteristics, being a pioneer, as all are pioneers. We are going to make mistakes, but when we are finished we are not going to have a mistake. I know if we patiently and intelligently follow Mr. Roosevelt he is not going to make a mistake, because God Almighty is directing him. We have said enough prayers to get us out of the depression. I think he is the answer to our prayers. He is trying his best; he is honest, courageous and intelligent; he has the qualifications; he has leadership and he has followship, which is the important thing; none are opposing him, and with followship we are going to get out of this depression. We do not know what the word prosperity means; we think we have had prosperity in the past. It was not; it was only the mirage.

Five years from now we will have a greater prosperity in this country than was ever dreamed of, and we are on our way; we are not turning back, and I think that you gentlemen in this Congress, the Seventy-third Congress, when history will have been written 200 years from now, will go down more famous perhaps than the First Congress of the United States.

Mr. FIESINGER. Have you finished, Father Coughlin?

Father COUGHLIN. Yes.

Mr. FIESINGER. Mr. Somers wanted me to apologize, since he was called before the House, and he asked me to take his place. I am interested in one of the last things you said. One of the last things you said was that you had just heard that England was going to put some gold on the market. We might have to buy quite a lot in the United States. Did you say that?

Father COUGHLIN. No; I said this: I said this, if I can recollect, without calling upon the clerk, that perhaps we were going to pursue the program of buying more gold, it might be to our advantage not to get too much. Week before last we had bought about 75 millions of newly mined gold, and of the European gold; last week we bought about 90 millions more. All during this time we have been venturing to buy newly mined Canadian gold, South African gold, Australian gold; I simply said that we might pursue the policy to buy more and that it might be to our disadvantage to get too much.

Mr. FIESINGER. You agree that gold is a commodity.

Father COUGHLIN. Yes.

Mr. FIESINGER. Measured by the same law that other commodities are measured by in this world.

Father COUGHLIN. In one sense.

Mr. FIESINGER. You agree that the commodity is regulated by the law of supply and demand?

Father COUGHLIN. Not altogether. I believe, in this matter of using something as a medium for trade and commerce, a medium of exchange, we must have a yardstick. Therefore, let us take a commodity that is precious, that is malleable, that is beautiful; gold is only the yardstick. We can put a more or less permanent value on it—there is a more or less qualification—and call that the value, the value of gold at \$40 per ounce. That is not dedicating ourselves to the theory that we must keep it forever and ever.

Mr. FIESINGER. I am not trying to trip you up. I am trying to get light. They have gold markets in London, free-gold markets, where they buy and sell. Mr. Vanderlit was before our committee and he advocated the establishment of free gold.

Father COUGHLIN. I freely concur in that.

Mr. FIESINGER. I take it that these markets would deal in the commodity gold?

Father COUGHLIN. The newly mined gold?

Mr. FIESINGER. I am referring to the word "gold", to the commodity; wherever it could be purchased if it is free. Therefore, the markets would be regulated by the law of supply and demand. The price of gold would be regulated by the supply and demand of gold. If we revalue, and you say we are on the way, and in the international markets the dollar is valued at 50 cents, what would happen if England should throw vast quantities upon the markets of the world and break the price down again to \$20.67? Would we not then have a dollar worth a quarter in international markets rather than 50 cents?

Father COUGHLIN. That is a problem, truthfully, I have not worked out, in matters of dollars and cents. What I did intimate, in general, was this: In all likelihood, if we go into gold purchasing too far we are liable to have more thrown at us than we require.

Mr. FIESINGER. If we are going to maintain prices——

Father COUGHLIN (interposing). We do not have to continue.

Mr. FIESINGER (continuing). If we are going to maintain prices, we have to buy and continue to buy so we can keep the price up at that figure; otherwise the price will go down.

Father COUGHLIN. I do not think so.

Mr. FIESINGER. In other words, the market in New York would go below the price set upon the dollar?

Father COUGHLIN. I do not think so. We happen to be the creditor nation of the world, and therefore we can regulate the price. Were we the debtor nation, I think your contention would be correct. We happen to be in the saddle.

Mr. FIESINGER. I am trying to get some information. I do not quite get the bearing of being a creditor nation on the price of gold in international markets.

Father COUGHLIN. May I explain a little further? Today England owes us billions, payable in gold. Today she is not paying it; she is paying token money. Supposing she starts throwing off gold on the markets; we can start collecting some of our money if it is placed over here.

Mr. FIESINGER. You think we could pick it up by sending the sheriff after it?

Father COUGHLIN. I think it is long overdue.

Mr. FIESINGER. Do you agree with this: That the United States is in a different position from any other nation before in the world's history, in this, that it is a great agricultural Nation, a great industrial Nation, and a great producing Nation?

Father COUGHLIN. Correct.

Mr. FIESINGER. Now, in order to maintain our position as a great agricultural Nation, we ought to get as high a value for the things we send abroad as it is possible to get. Do you agree with that proposition?

Father COUGHLIN. Not altogether. I do not think we should take advantage entirely of the law of supply and demand.

Mr. FIESINGER. Do you not think that the prices of wheat and cotton and the other things which we produce in considerable surplus in this country are more or less determined in the markets of the world?

Father COUGHLIN. Correct.

Mr. FIESINGER. So, it would not be to our advantage, would it, to depress the prices of those things in the international markets?

Father COUGHLIN. I think you are correct.

Mr. FIESINGER. If it should happen that England or some other nation wanting to buy our products cheap should sell gold in order to break down the price of gold, would not they thereby be in position to buy those things below the cost of production, even?

Father COUGHLIN. I think you are correct. Of course, that brings us back to one more question, Are we going to have a universal quota in finance until the nations learn to cooperate instead of strangling each other?

Mr. FIESINGER. In that connection, Father, you said at one point that you thought that there was not so much difference in financial interests between Great Britain and the United States. Do you not recognize that there is a great difference in the interests of the two nations?

Father COUGHLIN. Perfectly.

Mr. FIESINGER. With reference to the price level; that is to say, the price they will pay for things in the international markets?

Father COUGHLIN. I think you are correct. England is not self-sustaining for 24 hours. It is a nation, immensely wealthy, living off colonies, steamship trade, and commerce. We, on the other hand need not live off another nation; we are self-sustaining.

Mr. FIESINGER. You know we took some steps to protect our money—rather protect world money, not our money but world money, which is gold, so that we will get a reasonable price for products, a price that will sustain the wealth structure of the United States, and still you save to pay debts which now aggregate—

Father COUGHLIN (interposing). I perfectly agree to that extent, but may I go on another point? That is peculiar; I did not intend to touch upon it.

Senator GORE. May I ask a question, because you have touched on two points that mystify me or concerning which I am in the mist. The first point I entirely agree with you about, and that is Congress has power to coin and regulate the value of money. You suggest that we want to remain and would remain constitutional, and I agree with you. I was wondering if the act of May 12, last, and that act, while passed in a few days, does it not in fact transfer the

power to regulate all money from Congress to the President? Is not that the very point in this proposed legislation?

Father COUGHLIN. Senator Gore, I think there is room for debate in what you say, in this sense; I do not know what is the best judgment of the country; the attorneys and the judges would have to decide that, whether or not Congress has the right to delegate the coining of money to anybody else. But, during the period of time since the origin of the first national bank in this country, we have been unconstitutional in that we have practically given to the national banks of this country the right to coin, print money. We are talking about acting unconstitutional today, when since the inception we have been unconstitutional.

Senator GORE. I come to the next point, and you and I agree that gold has been too dear in this country; that gold is too high; we agree?

Father COUGHLIN. Yes, Senator.

Senator GORE. That its purchasing power is too large and that fact is the reason that things are too low.

Father COUGHLIN. Correct, Senator.

Senator GORE. Our great objective is to reduce the value of gold, cheapen gold, in order to increase the price of commodities; that is true?

Father COUGHLIN. Correct.

Senator GORE. You agree, I take it, that if the President revalues gold, the enhancement should and could properly be taken over by the Government instead of allowing it to remain in the hands of the private owners and the banks; do you think that justified?

Father COUGHLIN. I certainly do, Senator.

Senator GORE. In China, you say we want to increase their purchasing power, increase the value of silver from 44 to one dollar or \$1.30 an ounce.

Father COUGHLIN. Approximately.

Senator GORE. That is based on the theory that money in China is too cheap, and that we must raise the value of money in order to restore Chinese prosperity. Here is the thing I cannot understand; I cannot figure out why it is that we want to cheapen the money here in order to enhance the price of commodities and on the other hand we want to make silver dearer in China in order to restore Chinese prosperity.

Father COUGHLIN. Would you like me to talk on that point for awhile?

Senator GORE. Yes, I would like to hear you. It looks to me like the two things are working in reverse.

Father COUGHLIN. Very well, Senator Gore. I may start out by suggesting that you can do this to both. In this country, we are finding ourselves in the position of having all the productivity, as far as factories are concerned; our civilization has been regulated so that our laborers depend upon factories for their livelihood, mass production. Now, we find ourselves in a position where our factories cannot produce; where there is no purchasing power. Therefore, in order to save ourselves, and we are hoping simply to be fair and honest, not to be necessarily philanthropic; not to be necessarily humanitarian, but just to be honest, plain honesty in this sense, that we know that nature has bestowed upon us for every 1 ounce of gold, 15 or 16 ounces of silver. Since 1453 we have kept accurate account

of the production of silver and it is 15 or 16 ounces to 1 of gold, and yet we price it at 70 to 1.

Senator GORE. China, as you know, was experiencing a boom in the building trade, as long as silver was cheap, 25 to 30 cents an ounce. Since silver went up, China has moved into this depression, and for the last year and a half a depression has prevailed there and it prevails there today, like it does here; I am not an economist.

Father COUGHLIN. I do not know, Senator. I disagree with you, that China has been in a period of depression for 500 years.

Senator GORE. Compared to the Occident, that is true.

Father COUGHLIN. Moreover, I have the figures of Senator Burton K. Wheeler on the textile industry in China and Japan.

Senator GORE. There is a great deal of silver in China, and if you raise the price of silver in China, I can see how that will help the man with silver in his pocket and the bank with silver in its vaults. Suppose you raise the price to a dollar; that is, raise it over 100 percent; then it will take twice as much tea to get an ounce of silver as it does now; it will put their prices down but the value of their silver goes up.

Father COUGHLIN. May I explain that, Senator?

Senator GORE. Yes.

Father COUGHLIN. The price today of silver is unjust; it is like the price of cotton; simply by act of British legislation, passed by Stanley Baldwin in 1926, the price of silver was purposely beaten down, because I can go this far from good authority; we learn that England was under the impression in 1926 that they had to pay for the war, and therefore, India and China were going to pay for the war.

Senator GORE. I did not want to lead you afield.

Father COUGHLIN (continuing). Consequently, since the price was intentionally beaten down, so that we have this Chinaman and this Indian paying four times as much.

Senator GORE. I note that Chinese trade has declined less than any in the world. There must be some reason for that.

Father COUGHLIN. He had less to lose.

Senator GORE. He had less to lose, but China pays for our goods with her goods. When you put the price of silver up, you put the price of goods down. Here is the point which is mystifying: We are trying to hammer gold down, believing it is too high, and if we can, it will put the price of commodities up. On the other hand, we are trying to prize the price of silver up, which will have the effect of putting the price of tea down, so the remedy through which we are trying to restore prosperity is just the reverse of that urged on China?

Father COUGHLIN. I don't take that attitude at all.

Senator GORE. I know you don't want to do it.

Father COUGHLIN. I want to be open in it, I want to be fair.

I didn't answer your other question, though. The answer to the other question is this. Is it fair when nature distributes 15½ or 16 times as much silver as she does gold, and we are using both as money, as we are doing today, is it fair to say nature is distributing 70 to 1 when we wish to lift the price of cotton up to where it is profitable for the farmer to produce it, or to raise wheat up to where it is profitable for the farmer to produce it, and not to produce the same thing to the miner who produces the silver?

Senator GORE. Here is the point I am driving at. If you succeed in doing that and raise the price of silver in China, you might make

her money lower like ours is now and you might make her things cheap, like ours are now.

Father COUGHLIN. I don't agree with you; you say like ours are now.

Senator GORE. I mean up to a week ago.

Father COUGHLIN. It is a different thing. I am not revaluating silver 15 to 17½ times 1, I have personally taken that argument away from the nonsilverites and put it up to 40 to 1.

Senator GORE. Let's say we cut gold in half in a week, and your suggestion was, I believe, to a little more than double silver in China.

Father COUGHLIN. Yes; and here also.

Senator GORE. We are cutting gold in two here to raise the price of things, then we are doubling the price of things in China, won't that cut the prices half in two?

Father COUGHLIN. Not exactly, Senator; no. If we double the price of gold, and make it 41 or 42, therefore naturally we are doubling the price of every other commodity in this country.

Senator GORE. We will assume that, but it won't work out that way.

Father COUGHLIN. We will say silver is 41, or make it 45, or even make silver 46, we are doubling that and making it 92, or as I see it, approximately a dollar, I am still treating it as a commodity.

Senator GORE. If the value of silver should go up in China, each bank that holds it, if we should put it up here, would have his silver in his bank, or in his pocket doubled, and would it be your idea the Government should take the enhancement in silver like we did in gold, or have you given that thought?

Father COUGHLIN. No; I have not given it thought. My idea is that the Chinese Government will hold their silver and let it alone, as they will be glad to keep their hands off of it, because they know its purchasing power has been doubled in the United States. We know, as water always seeks its level, that if it raises over there, it will raise here.

Senator GORE. But that hurts the man who has the silver, and it doubles the price on things.

Father COUGHLIN. That is true, but we have hurt them over there for 500 years in their Western civilization; we have hurt them so bad they don't know what to do.

Senator GORE. I have to go now, but I am sure you will pardon me one remark, in reference to what you said that we are not philanthropic. If you will pardon me, I will say I was talking to a Senator and he asked the question I am asking you now, and suggested it would react unfavorably on China if we did raise the price of silver there, and if I may be allowed to say this, he said, we don't give a damn about China, we are looking after the United States.

Father COUGHLIN. But I do give a damn.

The CHAIRMAN. There is a discussion on that in our committee hearings, Senator Gore, and I will try to find it for you.

Senator GORE. I will be glad to have it. I am sorry to have to go and I thank the committee for indulging me this privilege.

Father COUGHLIN. Were there any further questions on the case of Japan which we were discussing?

The CHAIRMAN. There are other members of the committee who would like to ask questions. I would like to pursue my line of questions, but I will not do it. I will call on Dr. Larrabee.

Mr. LARRABEE. I have no questions.

The CHAIRMAN. Mr. McGugin.

Mr. McGUGIN. There is no question about revaluation, it is coming to us in a few days, and following that there will be left about 8 billion dollars of gold in the Treasury, and after that would be the following increase in circulation from the present about 5½ billion dollars up to 10, 12, or 15, or whatever it may be. What is your suggestion as to the best way for the Government to get that money into circulation?

Father COUGHLIN. That is a very fine question. We have about 6 billion dollars of war bonds, Liberty bonds, that are now callable. My suggestion is we use some of the circulation money with which to cancel these bonds for which we are paying interest for the shell holes and the white crosses and the broken bodies of our veterans. My suggestion is that the citizens who have suffered from the war, rather than gained, should have this benefit, by our ceasing paying interest on bonds. That is a theory upheld by the best capitalists and by the best moralists. Then, put these 5- and 10-dollar bonds into circulation that Mr. Roosevelt was speaking about yesterday, and that is what he means by it, I am sure, put those in the hands of the present Liberty bondholders. That is the way to cancel it.

Mr. McGUGIN. Under our present revaluation we would have approximately an inflation of 12 billion dollars, would that be about right.

Father COUGHLIN. Approximately.

Mr. McGUGIN. Now, is there not this danger, that the public, the American people, and this is a democracy, and after all public opinion prevails—might they not reach the conclusion that if we could save 12 billion dollars that easy, that would be the way to pay 30 billion dollars, and in that way might we not get into a spiral of printing presses in printing money as every other nation has done?

Personally, I am for deflation, and want the currency to go up accordingly; but what I do see in the future, unless the American people are by all odds the best financiers in the world, if they pay a part of it by printing money, they will never stop until they have paid it all that way, and deflation will not do any good.

Father COUGHLIN. That is very well, and here is the best way I can answer it, because I don't know the future any more than anyone knows it. I think the American people have been well educated in the constitutionality of our program of money, and by the way, it is the only constitution in the world today that has that article incorporated in it, and that has been taught to every high-school child, that our Congress has this right.

Mr. McGUGIN. There is no question about the right that Congress has given to it. Congress has the right to go into deflation and inflation and it would be perfectly constitutional if we had a hundred billion dollars inflation.

I have been one that has been in favor of deflation of the gold dollar for over a year and a half. Now that the purpose is about to be accomplished, I am glad to see it accomplished, but what I am fearful of is that the thing the people are going to see in this is 4 billion dollars of easy money, and not a monetary reform for monetary purposes.

The responsibility is now going to be upon the last one of us who have advocated deflation to help keep the public mind straight, that the purpose of the deflation was not primarily to get easy money, but to try to get circulating money that has some relation to the value of commodities.

What I am fearful of, is that this thing is going to lead straight forward into hopeless inflation, and I am afraid it is going to be on the basis of bonds, and if we take up 12 billion in that way, they will demand that we take up 30 billion.

Father COUGHLIN. The public might demand every bond in relation to the war should be canceled, and the public would be justified in that; and if capital is going to save itself, we must come to that conclusion.

Mr. McGUGIN. How can we distinguish between the bonds?

Father COUGHLIN. They are perfectly distinguishable, just read the name of the bond. Every Liberty bond is a bloody bond. It was the most heinous name given to a bond.

Mr. McGUGIN. That might be where there might have been a mistake.

Father COUGHLIN. No; we can conscript human life, and we are going to conscript wealth hereafter. A war is not fought to preserve the home of the poor man only, it is also fought to preserve the industry and the wealth of the rich alone.

Mr. McGUGIN. That is true, but if we let this thing go it may run into a spiral of conscriptions.

Father COUGHLIN. Yes; the question is how to stop this thing.

Mr. McGUGIN. That is my question.

Father COUGHLIN. My answer is, first, I have too much confidence in the American people in their ability to distinguish between a good bond and a bad bond, or distinguish between good money and bad money, and next, you and some of the others should be telling them on the radio and otherwise the truth, and I think we can convert them. We have had an uphill fight bringing them this far.

Mr. McGUGIN. I suppose about 12 billion or 16 billion of those bonds you refer to as the bloody bonds constitute a part of the debt?

Father COUGHLIN. There is about 14 billion altogether directly or indirectly traceable to the war. Some times we try to borrow ourselves out of debt, which is bad business.

The CHAIRMAN. May I ask one more question before I go, Father Coughlin?

Father COUGHLIN. Surely.

The CHAIRMAN. If we make \$2 out of \$1, that is, if we value gold at \$41.34 and make two dollars out of one, as we have it now, how would that help to get more money for the wheat and cotton and those things that sell abroad for grains of gold?

Father COUGHLIN. Abroad?

The CHAIRMAN. Yes.

Father COUGHLIN. I think our market abroad is just about null and void. I am not even thinking of "abroad" in terms of Europe; I am rather thinking of abroad in terms of the Orient. I have tried to point out where they are selling wheat in Europe; Europe will sell us wheat.

The CHAIRMAN. After all, the price of wheat is determined at Liverpool, that is the great market for wheat in the world, and that

price of Liverpool may reflect itself in the Orient, and certainly does reflect itself back into this country.

I think you stated before if we produce an exportable surplus of a commodity, the price abroad reflects back on the price in this country.

Father COUGHLIN. That is true; but it is a complexity of a situation I do not understand and have never heard explained in any book—why the debtor nation should set the price of gold, wheat, or any other commodity.

The CHAIRMAN. You think we ought to determine the value of the gold in this country?

Father COUGHLIN. I think, being the creditor Nation, we should.

The CHAIRMAN. And fix the value of gold in our own country?

Father COUGHLIN. I think so. Let's take ourselves first, honestly and justly.

The CHAIRMAN. I have got to be excused, and will ask Mr. Berlin to take the chair; I am called to the floor of the House.

I want to thank you for your testimony and your statement, Father Coughlin.

Mr. BERLIN. Mr. White, have you any questions?

Mr. WHITE. Father Coughlin, do you favor a managed system of currency?

Father COUGHLIN. I would prefer the word "regulated."

Mr. WHITE. Would you favor or not favor a metal basis?

Father COUGHLIN. I am in favor of a metal basis.

Mr. WHITE. What is the need for basing your currency on a metallic basis?

Father COUGHLIN. To have a yardstick of wealth.

Mr. WHITE. Just as a yardstick?

Father COUGHLIN. Yes; and you have to have something printed that cannot be destroyed or mutilated.

Mr. WHITE. Over in the Bureau of Weights and Measures we have a yardstick, and it is only 1 standard yard. Would 1 standard dollar perform the same function?

Father COUGHLIN. It would for the domestic trade if we were honest, but unfortunately there has been such a thing as original sin, which has dishonestified people, so money is the cause of natural dishonesty of human beings.

Mr. WHITE. Do you believe in the proposition of adhering to a metallic basis for our currency to automatically limit the volume of currency?

Father COUGHLIN. I don't understand the question.

Mr. WHITE. We maintain currency on a metallic base to automatically limit the volume of currency to the production of those precious metals.

Father COUGHLIN. I think that in theory; yes. Some times in practice it doesn't work out, as for instance, in Lincoln's day, they put out several million dollars of greenback, and there is about 300 thousand dollars of them around the country today without any metal backing, people are accepting them, and they are just as good as any money. That is in theory. If we wish to retain expansion, it should be about $2\frac{1}{2}$ to 1.

Mr. WHITE. We are talking of those things you mention as the real taxing power of Congress.

Father COUGHLIN. Yes.

Mr. WHITE. Congress levies taxes and will accept those greenbacks in payment of taxes, and they have a legal value, they are backed by the wealth of this country.

Father COUGHLIN. Yes.

Mr. WHITE. The record for the annual production of gold in 1930 was 20,150,000,000 ounces, and in 1931 was 21,300,000,000 ounces, and this would be 426 million dollars in the gold produced annually. Under the plan now of revaluing the dollar, this would give a purchasing power, up to the time of new production of gold, of 426 million dollars, which is 70 percent produced under the British flag; wouldn't that give the British Nation a great advantage over us in this country?

Father COUGHLIN. I think 60 percent is closer, according to the Britishers themselves in the reports here. Surely it will give them an advantage in one sense, and it will give us an advantage in another sense. It is a case of gaining in one case and losing in another.

Mr. WHITE. It is proposed to reduce the purchasing power of gold in this country by reducing the gold content in the dollar; would not the remonetization of silver effectively do this and at the same time advance the price of silver and increase the purchasing power of foreign countries for our surplus products.

Father COUGHLIN. After all, gold and silver are only the ambassadors of wealth, they are not wealth. After all, the real wealth of our country is its farms, its fisheries, its forests, its labor. If we can work harder and produce more, and grow more than the Englishman, we can transfer our work and products for gold. It is not the man who mines the gold that is the wealthiest, it is the man who works the hardest, or the nation, that gets the gold.

Mr. WHITE. Isn't the remonetization of silver of more value than revaluing the gold dollar?

Father COUGHLIN. Not necessarily, no.

Mr. WHITE. It would at the same time reduce the purchasing power of gold, and revalue gold, wouldn't it?

Father COUGHLIN. Only in a small sense, because we have sold so few ounces of silver. There are only 8 million ounces of silver in the world, and the most we can figure it in this country is 45 cents an ounce, which is about a hundred million dollars of silver here today.

Now, we have two problems, the domestic problem and the foreign problem.

The domestic problem is to get ourselves on our feet so that production will be increased. The foreign problem is to enable the people to pay us, and they can't do that now.

In China we say we won't take your silver, and they won't do that, and the silver problem is directly related to the foreign problem. Our rising and fall of the domestic problem is directly related to the revaluing of our gold, so that our debts will be paid, so that both things are needed.

Mr. WHITE. In buying 200 million ounces of silver in 1920 under the Pittman Act, we had the highest price silver ever reached in the country, when it went to \$1.29, higher than the value in the Orient; and don't you think if we remonetize silver we will deflate the gold dollar and increase the purchasing power of foreign customers and find an outlet for our products?

Father COUGHLIN. I am sorry, I don't agree with that, for this reason, if we simply reflate our silver or remonetize it at \$1.25, or even

\$1.39 per ounce, which I think is the highest the Irving Trust Co. or the Guaranty Trust Co. sold it to England for out of our treasury, then I think we would have an influx of silver in this country from China, Japan, South America, and India buying our gold, and it would not be five years until we would be drained of all of our gold.

We have to take care of our gold as well as the silver. We know what happened in the last administration in January, February, and March, those 3 months of last year, the first 3 months of the year, we lost about 700 million dollars worth of gold out of our Nation. Do you know what we lost it for, and traded it for? England had her printing presses going, she printed a lot of pound sterling notes and shipped them over here and took away our gold. France did the same thing with francs. We got into that in January, February, and March, and it nearly cost our shirt.

Mr. WHITE. Would you think no country can keep more than its distributive share of what may be called international money? You might issue bonds until doomsday and even if you get hundreds of millions of dollars of gold, if you do not lock up that gold and keep it under guard, it would not remain. The volume created abroad would lead to a fall in prices abroad, while the increase of the money volume by the inflow of gold would create a rise here, and the moment you unlock your treasury, would flow out again. Isn't that the effect of it, if we unlock our treasury the gold will flow out again—isn't that the underlying cause for having to lock up our gold?

Father COUGHLIN. That is the underlying cause of nationalizing our gold. If you want to get on the question of international banks, why should we permit our gold to be in the hands of international bankers who cut it back and forth from Europe to America and to Tokio, they making a rake-off on the handling of commerce. Isn't this the height of time for the United States to get into the international banking business?

Mr. WHITE. It is as futile to keep gold under such circumstances as to attempt to pump the water out of the harbor of Liverpool into the harbor of New York and expect to maintain two separate levels by such an operation.

Father COUGHLIN. Unless we nationalize it and begin to sever the chains which bind us, not to England—I wouldn't disparage the Englishmen, I think too much of them, but the national bankers in England; and unless we exert our authority as being the creditor nation, and do not hang our head with our tail between our legs.

Mr. WHITE. Didn't 200 thousand ounces of gold flow out of this country—

Father COUGHLIN. That was after the war.

Mr. WHITE. I beg your pardon, the war closed in 1918 and this was in 1920.

Father COUGHLIN. Yes, and they bought our silver with our gold. It was still the war.

Mr. WHITE. Do you recall at that time, that to protect the price of silver in the Orient, we borrowed 45 million dollars from the United States Treasury and the gold was melted and shipped to the Orient and protected the price of silver?

Father COUGHLIN. You are talking about what the Federal Reserve bankers did, not what the American people did.

Mr. WHITE. When we succeed in protecting the price of silver, we have raised the price of other commodities.

Father COUGHLIN. In that you are right, but they will never do that again with us.

Mr. WHITE. Not if we remonetize silver.

Father COUGHLIN. Not if we remonetize and nationalize silver.

Mr. BERLIN. Mr. Murdock, have you a question?

Mr. MURDOCK. I have a question which has been submitted in writing by Mr. Weideman of Michigan.

While we are the creditor nation, the price of wheat, cotton, gold, and silver, is fixed in a debtor nation, England, but are not the prices fixed by the international bankers?

Father COUGHLIN. Of course; where is the head of the international bankers, it is in Threadneedle Street, England.

You are acquainted with the philosophy that flowed out of England, not the English people, and I wish that understood, they are just as fine as we are, but they have been dominated, too.

Let me explain that a little bit. I remember going to school under Professor Mayward, and at that time we had a rather thin-skinned professor of British history who was always telling us about the persecution of the Irish people. Professor Mayward, of Scotland, took exception to this professor talking about it, and he said, "You boys don't understand the persecution the English people have undergone. They have suffered more than the Irish, and they have no means of expressing their suffering; they have been dominated by the international banker."

That was in 1911 when old Professor Mayward told us how the English people have suffered more than we are here.

I think in one sense, so far as financial philosophy is concerned, it was the most iniquitous we have had to deal with. They regulate the finances of the world; and through it they regulate to a degree the House of Lords in England and the House of Commons in England.

It was they, I believe, who undertook, and rightly, to hire the best talent in this country. Who did they hire, a little banker in Wisconsin or in Idaho? No, they hired the best banker, the biggest banker and the most immortal banker in the world, J. P. Morgan Co., to be their representative; and here they have dominated our Federal Reserve bank. And, if you will notice, the President in his statement yesterday, omitted the word "Federal," is the Reserve Bank, because he is too smart a man for that.

I will admit graciously we have been dominated by banking, by central banking, and by individuals, who through commerce and trade have been the bottle neck, the man at the tollgate, exacting a toll on every automobile and shoe and everything else made, and now it is the time for taking gold, their play toy, away from them, and not let them clip the coins and debase the coins passing through their hands.

Mr. MURDOCK. You said in this follow-through program they probably would use this field for profit that comes to the Nation, and by the revaluing of gold and the payment of bonds, the Liberty bonds, or bloody bonds, as you call them, and in that case wouldn't those bonds largely be in the hands of your big bankers?

Father COUGHLIN. Correct.

Mr. MURDOCK. Are not you a little afraid if this matter gets into their hands, they may tighten up on it like they are now doing?

Father COUGHLIN. No; I am not afraid of that for this reason, that there is what we call, as far as bankers are concerned, "hot money." Hot money is currency money. The bankers cannot hold onto currency because it gains them no interest like a bond does. Hot money must be put out to gain interest, and where can he put it, if he doesn't put it in bonds; he will have to put it in good, solid American agriculture and industry.

Mr. MURDOCK. Don't you think one of the most efficient means of following through this program would be the payment of the soldiers' certificates, and get the money out into the hands of people who will keep it in circulation?

Father COUGHLIN. Two years ago, Mr. Murdock, I appeared before the House Ways and Means Committee to advocate that, when Mr. Hoover was still President. Had Mr. Hoover followed the suggestion and put \$2,000,000,000 into circulation in the hands of our veterans, we would not be meeting here today to discuss this thing.

Mr. BERLIN. Gentlemen, I dislike very much to prevent the remaining members from enjoying the liberty of questioning Father Coughlin. However, you must bear in mind that he has been here 2½ hours now. After all, as brilliant as he is, he is only human, and I am quite sure he doesn't want to be imposed upon. So may I be permitted, on behalf of the committee, to express our appreciation of the brilliant manner in which you have expressed yourself today, Father Coughlin. If at any time in the future you will be good enough to return to us, we will be delighted to have you whenever you care.

Father COUGHLIN. Thank you, Mr. Chairman, and gentlemen of the committee.

Mr. BERLIN. The committee will now adjourn until 10 o'clock tomorrow morning.

(Whereupon, the hearing was adjourned until Wednesday, January 17, 1934, at 10 a.m.)

GOLD RESERVE ACT OF 1934

THURSDAY, JANUARY 18, 1934

HOUSE OF REPRESENTATIVES,
COMMITTEE ON COINAGE, WEIGHTS, AND MEASURES,
Washington, D.C.

Hearing on H.R. 6976, a bill to preserve and protect the gold standard (etc.) was resumed before the committee at 2:45 p.m., Hon. Andrew L. Somers (chairman) presiding.

The CHAIRMAN. We will resume the hearing on H.R. 6976.

We have before us Mr. John Janney, who has appeared before us on two or three other occasions during the time when we were considering other questions, so that I think it is entirely unnecessary for me to go into an introduction of any length. We all know him intimately.

He has, I assume, read this bill pretty carefully.

I think, Mr. Janney, that we would like, if you will, to have you confine yourself to the details of this bill, showing how in your opinion it is intended to operate. We do not have much time to go into theory, and I think that we are pretty well grounded in the effects of commodity prices and the conflict between our stabilization fund and other funds, but if you will explain how you think the various paragraphs of this bill are going to operate, we will be very appreciative.

STATEMENT OF JOHN JANNEY, CHAIRMAN OF THE BOARD, AMERICAN SOCIETY OF PRACTICAL ECONOMISTS

Mr. JANNEY. The fundamental thing in this bill as to its effect on the monetary system is this change of the gold content. The rest of the bill, aside from that, relates to certain management in the departments of the Government.

The change of the gold content of the dollar is a thing that, the more you study it, the more you realize the subtleties of it. How I could bring the minds of this committee down to its various ramifications in so brief time as is available, I do not exactly know. I suppose that each member of the committee has thought a great deal about it.

The thing that gives me the most apprehension is the habitual misstatement of the factual situation. For example, we hear it said that we can "raise the price level" by changing the gold content of the dollar.

That is fallacy which, it seems to me, Congress should thoroughly visualize and understand. If you change the price of a bushel of wheat in terms of dollars, and at the same time change the value of the dollar, you have to watch out, because you are considering two

opposite value motions. You may not at all be increasing the value of the wheat. Price is one thing; value is another thing. If you lower the content of the dollar 50 percent, and get double as many dollars for a bushel of wheat, you are not changing the value that you get for that wheat. You get exactly the same value for it. By the term "price level" we refer to the "value" of what you get not the name of what you get.

You have to consider the ramifications of that question, because it may lead you into the most dangerous position this country could possibly be in, namely the foreign control of the value of our property and our products. That is what is holding back India today and other countries that are being exploited. I want to emphasize this, because there is a pitfall here and a trap for us. The United States of America may by this bill put the very important matter of your price levels entirely out of the hands of any official body of this country, and into the hands of foreign bankers—not foreign governments, but foreign bankers. I would like to explain a few things that are very important to consider in connection with this bill.

The Bank of England is a private institution. It consists of private partners. They have little official or legal restrictions from the British Government. You will find all of that fully set out in the McMillan report. It comprises a group of men associated together very much like those associated in the firm of J. P. Morgan & Co.

During the Napoleonic Wars, in consideration of about 14 million pounds sterling loaned to the Government they received or enlarged the right to issue Bank of England notes. That is to say the right to issue currency. That right, coming from the Government, gave to the bank certain powers which was perfectly safe for the British Government to give them, and it has worked very well. But for our Government to give the same power to any group of men in this country, would not be safe and it will not work well because in our case the task is to raise the value of our production and in their case the task is to lower the value of products they buy. A bank can easily function under their money system so as to depress present price levels, but a bank cannot function so easily or at all to elevate price levels.

If we are going to be guided by monetary experts in the United States who have been schooled directly or indirectly in Europe we must analyze carefully this distinction. I had the privilege of talking to Dr. Sprague, with Mr. Blagden of New York and a stenographic reporter, about 2 months ago, in the Treasury Department. The Secretary of the Treasury, Mr. Woodin, arranged this interview just before he retired and I have a record which I can show—and it is a very illuminating document—when the time comes if the committee wishes to go into that. I have talked to other advisors of our Government lately on this subject. I have been driven to the belief that many of our economists in this country have been schooled in the procedure of English finances, and the Bank of England system, and we must watch our step, for if we get into that, we are lost.

Here is the basis of this distinction: The wealth of England is based upon trade, commerce, colonization, and manufacturing. The wealth of the United States is based upon vast natural resources and the production and manufacturing of the yearly yield that flows from them. I will not elaborate this distinction. I have done this already in former

hearings of this committee. I will merely say this is a fundamental economic difference. It accounts for why England has achieved the 1913-14 price level and why we wish the 1926 price level. England and America can never agree to any matter affecting value levels except to the disadvantage of America. That is a historic fact as well as an economic factor.

Those who do not fully understand this will do well to study into it carefully.

In this connection there is a detail in banking that also becomes a factor in this situation. A banker, at will, can contract his credits. A banker, at will, cannot expand his credits. For a banker to expand his credits requires a borrower who is able and willing to borrow. For one to be willing to become a borrower, he must have a prosperous business condition whereby he can return the money and retain a profit from the use of it. For this reason the credit expansion of banks does not work in times of depression. The credits cannot go out for the lack of confidence in borrowers.

The Constitution of the United States took that matter into account when it said that Congress shall regulate the value of money. For Congress to regulate the value of money in the case of a producing Nation like the United States is all right, and for the Bank of England to regulate the value of currency in the case of a consuming nation like England is all right, but the two are entirely separate and distinct economic applications and if the United States abandons that distinction, we are going to live to see the day where that will become one of the most tragic things that ever happened in the history of this Nation. To express simply and in a few words what this economic difference between England and America means when translated into the monetary situation I will say England will do well to strive for high purchasing power of gold together with a managed currency. America will do well to have a low gold-buying power and a managed money base with a currency attached to gold, not a managed currency. And this can easily be done, if we wish to do it. It is my view that in this bill you are not regulating the value of money but you are setting up a managed currency. The two are quite different things.

How can I in a few minutes explain to you gentlemen the point so that you can mentally digest it? It is impossible for me to do that, but I can point the warning to you, to take home with you for consideration, and I recommend that Congress does not act on this bill until you have thoroughly digested that principle. This bill should have deliberate consideration and exhaustive debate if we are to avoid going into a trap that will impoverish the masses of our people.

How can it be said that you are removing the cause of your trouble when you get in 60 percent money, 10 cents a pound for your cotton instead of 6 cents a pound in 100 percent money. There is a very serious deception there, because for a time it will look as though you are getting out of your trouble.

Let me illustrate this temporary illusion by supposing that we pass a law tomorrow declaring the gold content one fourth grain to the dollar—we make a penny \$1. You sell a bushel of wheat now worth \$1 and you get \$100 in the new money. At the store the price of a pair of shoes is \$5. You buy the \$5 shoes with one twentieth of the

bushel of wheat and you have \$95 left. That works because of your system of bookkeeping. That man who bought that pair of shoes for his store paid \$3 to the wholesaler or manufacturer. He put them on the shelf to sell for \$5 several months ago. Now he gets \$5 and that's his method of transacting business. It takes months for that difference of price under the new money denomination to percolate through. When you get 10 cents a pound for your cotton under this continual changing value of your dollar, your costs and your losses are charged off under a different and lower scale.

In a situation where we change the gold content of the dollar, it takes months for changing costs to percolate through, and then if we change it again, it takes additional months for that to percolate. In view of this, our past experience with a devaluated paper dollar cannot be accepted as a safe guide to future permanent devaluation. Especially where billions of dollars of borrowed money from the Government have gone into the maintenance of activities of a temporary and artificial character. Profits to private enterprise, which is our only way out of our difficulty, will only come from higher price levels and not from higher sounding names to the same old values.

Does this bill mean that the United States of America is going to imitate England, and go to a managed currency system, without imitating England by first managing the value of the metallic monetary base?

When the United States goes to a managed currency without first controlling the monetary base, there is only one thing in the offing there, and that is an agreement between England and the United States whereby we will go in and say that \$4.20 is a pound or \$4.80 is a pound, or we will fasten the two currencies together by an agreement of some kind, and when we do that England, with her colonies, and with her banking system all over the world, will be able to control the value of all currencies by controlling the purchasing power of sterling in terms of its value in units of the metallic base. Then they can put sterling up and the dollar will go up with it, and as they put sterling down the dollar will go down, and they will be in control of the value of the dollar, the value of our commodities, and the value of billions of nominal dollars of our property.

In other words, those who are in favor of lowering, or interested in destroying property values in this country, would be placed in a position to control our dollar and hence our property as to its price level.

Now, I am not trying to argue against this proposal. I am trying to point out the dangers in it. I am trying to point out what should be carefully thought out on this matter by Congress before they vote on it. This bill is loaded with dynamite. Our past history is strewn with mistakes in our agreements with foreign nations. This may prove to be the most tragic of them all.

I have prepared a chart, if I have it with me—I did not expect to be here today—which shows diagrammatically the picture of price levels in relation to the basic money of the world.

From the high point of this chart you have a picture of the exact repercussion following the operations on the money base. In 1929 something happened to depress the value of the monetary base from a point on the scale here [indicating] to a point on the scale there [indicating]. This is a diagram of a fact, not a theory. After about 12 months you will see that the prices of the commodity level followed

it exactly. The price level of the commodities is affected by the issues of credits as we all know. But if it has any effect it is shown on this chart, but the amount of credit that you can superimpose on your monetary base is determined largely by the stability of your monetary base. And you can note how it has acted because any action is here shown. The problem for this Congress is to control this line.

It seems to me that if this bill were amended so as to give American control of price levels by control of this lower line (value of metallic base) you have solved your problem.

My contention is that with any managed currency, you have European control of price values, and with a managed base you have American control. England may have all of her colonies and may have all of her banks, but England has not greater commercial friendship among many of the nations than the United States has. The United States has the commercial friendship of nations like India and China and other important commercial nations that are going to grow in importance if we can lift the standard of their living. With basic money we can secure their trade, and I cannot conceive how this great nation can willfully abandon the idea of controlling the monetary base which they can easily do at practically no cost, and throw themselves into the domination of European nations by a managed currency system. Certainly not until they have first thoroughly explored the possibility of this country managing the monetary base or determining whether or not they can do it.

In the matter of the monetary base, you have no entangling alliances in front of you with any nation in the world, nor any complicated agreements. You do not have to stabilize your currencies by agreements with nations. All that you have to do is to exercise your economic power within the Nation to arrive at this level [indicating] on this chart, and we can put that curve, that line on that chart, at any point we wish, and we can hold it there, and we can do away with the oscillating up and down on that curve by a process that this committee has already passed upon in the form of the Fiesinger bill.

Now, this monetary drop here [indicating] was due not to the destruction of the gold values, but to the destruction of silver values, because there was a good gold production in these years. The same reaction always shows on the chart.

If the United States of America takes in hand the enhancing of the gold value of the silver in the world, it can take that curve and put it up to the point that would produce the 1926 price level. This would fulfill the Presidents declared policy in value as well as in name. I cannot imagine anybody contradicting that, after you thoroughly understand what I have said. If the United States of America, acting alone, can control the monetary base as it can do, and if this is contradicted it should be also debated, the commodity price level will most certainly continue as it has for the last 100 years to follow the monetary base.

Also I cannot imagine the United States of America giving to the Secretary of the Treasury the powers that are involved in this bill until this fact is first availed of, or else successfully contradicted.

Also I certainly think that the time should be limited, as one of the members of this committee has just urged. It is inconceivable

to me to give the powers that this bill involves to Government officials for any length of time more than is necessary. It may require a two-thirds vote to withdraw this power over veto. Such a vote could hardly be secured, due to the very nature of the power involved.

Mr. CARPENTER. Do you make a distinction between the Secretary of the Treasury and the President of the United States?

Mr. JANNEY. No; I would not give any official that power, because we all know that all of these officials get so busy that they have to delegate these powers. Theoretically they are doing it, but practically they are not.

Mr. MCGUGIN. In the case of an equalization fund, would the witness believe that it would be infinitely better to set up an equalization board of five members, to do nothing but the handling of that fund?

Mr. JANNEY. I think that it would be very much better.

The CHAIRMAN. Do you think that the passage of this bill would prevent us from regulating the value of our dollar for the future?

Mr. JANNEY. I do.

The CHAIRMAN. Do you think, Mr. Janney, that there is any legislation that we can add to this at a future date that will take care of the policy of some foreign country controlling our dollar?

Mr. JANNEY. No; I do not think there is. If we get into this, we will get into such a messy situation that we will never get out of it except by a war.

I want to point out one or two things. We went into the Jay Treaty just as we have gone into this; the Senate was hurried into the ratification of the Jay Treaty on exactly similar propaganda conditions that we have as to this. Nobody in the country understood the Jay Treaty, and there were tremendous prejudices reflected in the meetings which passed resolutions as to it. We fought the War of 1812 because of the transgressions of our rights on the seas but at the peace conference, what happened? There was nothing said about our regaining our rights to the seas which we held before the Jay Treaty. During the World War, the English, operating under the Jay Treaty, captured and took possession of our consignments over the ocean in such a high-handed fashion as was little understood in this country. It is a grave question whether that might not have led us into war if the conditions had been different.

I think, Mr. Somers, that this is leading us into a similar treaty with England——

The CHAIRMAN. This is an effort at stabilization, is it not?

Mr. JANNEY. No. This is not, if you will excuse me and if you want my opinion, because by stabilization I will assume that you mean a stable value of your products, a stable buying power of your commodities, or a stable price level. This is a stabilization of your products in terms of dollars, but the dollar will not be stable if it is tied to sterling. It will be subject to the Bank of England in the matter of stabilization. And after we enact this bill, from then on our power to stabilize gold as to its buying power is gone.

The CHAIRMAN. On that I quite agree with you. Nevertheless, this is a stabilization of the commodity price level in America to the American dollar. In order to make that a world stabilization, the pound sterling, the French franc, the German mark, and so forth,

must be in turn stabilized in terms of the American dollar, and I think that you and I agree pretty much on that theory.

But here is what I want to get clear in my own mind. Stabilization is going to be brought about some day. We can not always go on battling one against the other.

The British pound has a tendency to fluctuate in value, and in this bill we permit the American dollar to fluctuate 10 percent, and the British pound, in fluctuating 10 percent, would fluctuate to a degree that would amount to approximately 48 cents.

Now, is there any likelihood in the immediate future of the British pound fluctuating beyond 48 cents, or beyond the fluctuating capacity of the American dollar under this bill?

Mr. JANNEY. Yes. There are two things there. In the first place, that fluctuation of the American dollar destroys the American dollar from competition with sterling in the foreign market where sterling is staple in terms of English securities used as a basis for credits. A managed currency issued by this Government cannot compete with a managed currency issued by sterling, on account of the fact that the English control the foreign banks and largely the ocean-going ships of the world, and can in that situation extend sterling loans to central banks of other nations freely. They can place commercial treaties along with these loans.

To compete with sterling, we must have a dollar with a fixed metal content. For these reasons we cannot compete with their managed currency.

That is a thing that you want to make very clear.

The CHAIRMAN. I agree with you. However, I wish that you would make clear in my mind——

Mr. JANNEY (interposing). Now, then, the other question, if you will excuse me, is the manipulation of the pound. Once we go into this arrangement which I consider a trap, the English will manipulate the pound to the extent that they wish to manipulate it, and in a way that will absolutely control our price levels and we will not have the power to counteract that. The reason is, England will still control the money base. This 2 billion dollars, if we want to, can be placed into this contest and dissipated. England has the greater power in the commerce of the world, through her control of banks, shipping, colonial possessions, and world trade, and it would be the dog wagging the tail as far as sterling wagging the dollar is concerned, if we tie our hands by passing this bill.

The CHAIRMAN. Let us get back to your original answer. You said that if the British pound should operate against the American dollar, we must have a currency that is not tied to gold.

Mr. JANNEY. No; we must have a currency that is tied to gold and fixed in its gold content, so that in the commerce of the world they will have more confidence in our dollar than in sterling.

The CHAIRMAN. I misunderstood your answer. I agree with the expression that you just made. I wanted that made perfectly clear.

Now, when the British equalization fund operates against a dollar pegged to gold, we must have some instrument of defense against that.

Mr. JANNEY. Yes, and our defense is to control or regulate the purchasing power of gold itself.

The CHAIRMAN. We are attempting in this bill to create just that instrument of defense by establishing two billions of dollars in the control of one man. You can make the control so flexible that the man can do anything he wants and raise the value of the American dollar to meet the competition that you spoke about. Now, I contend that while to go back to gold might be dangerous now, in an attempt to stabilize, nevertheless, with the creation of this new defense, we are protecting ourselves against the very operation that you complain about.

Mr. JANNEY. I will tell you why I do not think that. Suppose that we stabilize as you call it under this bill by the devaluation of the gold dollar between 40 and 50 percent. That makes the dollar worth, say, 50 cents, and temporarily it puts the dollar where we are striving for. But suppose England then sells on the market suddenly \$100,000,000 worth of gold, so as to lower gold-buying power?

The CHAIRMAN. Then we can protect ourselves by purchasing that gold.

Mr. JANNEY. Suppose they sell another \$100,000,000 worth of gold?

The CHAIRMAN. Where will they get it?

Mr. JANNEY. They have it.

The CHAIRMAN. They happen to have it, but this is not the only demand on British gold. They have not that in excess of their demands.

Mr. JANNEY. But, Mr. Somers, you must recognize the fact that the English own the gold mines of the world and we have no direct information as to their gold holdings, except the Bank of England holdings. England first discredited silver as a monetary metal, and now gold is not functioning satisfactorily. Gold becomes discredited from its buying power being elevated and forcing countries off of the gold basis. This brings sterling currency into general use. I do not think that we will ever see the gold standard come back as it was; we will never see the old cornered-gold standard again. If the United States does not set up a regulated gold standard where the gold value is not allowed to fluctuate, we will have little control of the world price levels.

In other words, we have to look to the possibility that if we do not defend the monetary base, there will be no stable primary money in the world, and the world market will then accept sterling exchange as a preferable world money. Then England can sell gold or buy it freely.

The CHAIRMAN. We will assume that what you have just described comes about, and that they do that very thing. There is still one way that we can meet it, by doing for silver what she refused to do, is there not?

Mr. JANNEY. I do not think that that would be sure.

The CHAIRMAN. It would not be sure, because you have the Japanese yen which will come into the picture to disturb both of them, but I do think that you will agree with me this far, that we could defend ourselves—not protect ourselves but defend ourselves; do you see the distinction?—by the use of silver if the condition that you describe came about.

Mr. JANNEY. I would like to explain why I do not think that you could do that.

The CHAIRMAN. I want to complete this thought. The Japanese yen would come into the picture at that time, that being purely a managed currency predicated upon nothing except a budget not balanced in 29 years and a beautiful, altruistic desire to ruin the Chinese people by capturing her territory, and Japan would come into the picture and disturb us both, so that it might be difficult for us to control our dollar even if we used silver unless we had a flexible system to operate against the Japanese yen.

I say that because that is my theory of money in a nutshell, and it is my hope, as chairman of the committee, that the progress of the monetary system will lie along some of those lines, and I would appreciate very much your reaction to that.

Mr. DIES. I would like to get something cleared up.

Mr. FIESINGER. Let him answer this question of Mr. Somers.

Mr. JANNEY. This is a very important question.

Take this dollar that we have now and devalue it down to 60 cents, that gives a gold dollar that is right for the moment, if then England, to get her gold price level, sells gold down to where it was in 1914, then as gold comes down, the new dollar will come down with it. Our dollar will then be worth 35 cents in present gold buying power. We are creating that very situation by this law. We are giving England this power and not providing for ourselves any defense from it.

Silver provides no remedy in such a situation. Using silver still further lowers the value of your gold, so you will get the dollar down to about 25 cents.

I am glad you asked that question, it is vitally important. It brings out that this bill gives away or forfeits our power of control. Great Britain would have world price level control, in terms of world values, absolutely in the hollow of her hand if we would do this thing. She can lower gold and thereby lower our dollar if we fasten it to gold as provided in this bill, and we would be perfectly powerless to control the situation because of the way we have drawn this bill. Permit me to give you a piece of mental gymnastics to go through in your minds so as to uncover the subtlety in this bill. If you will increase the gold content of the dollar, if you will add 25 percent to the gold content of the dollar, so that you have 28 grains of gold in the dollar—and I am not proposing this; this is merely to help you understand something—what will that do to the value of your dollar? It will make it go up 25 percent, which of course makes it too high.

But, then, if you will reduce the ounce of gold in its buying power 50 percent which you can do, that brings your dollar down to the purchasing power that you want, but what have you done to your wheat and cotton and copper? You have increased their buying power and insured American prosperity. When you send your cotton and wheat and copper to Europe, its buying power is 25 percent greater in terms of their gold money. That illustrates how our interest is defeated by lowering the gold content of the dollar.

But, if you will continue the gold at its present content, and bring the value of gold, and all gold moneys are included in that, down to where you want the dollar, then you have England and France and these nations that want a low commodity price level defeated, and you have won a victory. If you lower the value of the gold content, you have the American producer defeated and England and France

have won a victory, because to bring gold down then will make the dollar too low.

Mr. DIES. Here is what I want to know, in some sort of language that one can understand.

The CHAIRMAN. I hope that that is not a dirty crack. [Laughter.]

Mr. DIES. No; I do not mean it in that sense; but, getting down to the practical operation of the thing, you will agree that if we devalue the gold dollar or reduce the content 50 percent, commodity prices will rise.

Mr. JANNEY. Yes, in terms of dollars.

Mr. DIES. It will double the price of your cotton and of stocks and commodities, as distinct from fixed charges, such as debts, taxes, and so forth; in other words, the prices of those commodities will double—is that not a fact?

Mr. JANNEY. I will say yes, but you must remember that stocks will not double unless the corporations are put in good shape, but I understand what you mean.

Mr. DIES. That will aid those who have those commodities, in paying off their debts.

Mr. JANNEY. Certainly.

Mr. DIES. We have approximately 230 billion dollars in public and private indebtedness, so that the debtor engaged in the production of farm products, and the debtor who has tangible property as distinguished from fixed charges, debts, and so forth, will profit to the extent that one half of his debts will be liquidated?

Mr. JANNEY. That is right.

Mr. DIES. Now, that is one salutary result that will flow from this devaluation.

Mr. JANNEY. That is one result.

Mr. DIES. Do you think that that would be a good result, in view of the fact that we are staggering under a crushing burden of indebtedness, assuming that we are staggering under it?

Mr. JANNEY. I am glad to answer that question, it is very important.

It will do as you say as to debts but it is not a benefit to cancel debts in this way, in my opinion. If you want to cancel them, do not wreck your money system in the process; do not put your money system into a junk pile in order to cancel 50 percent of your debts.

Let me point this out to you, Mr. Dies: Debts are not paid by partial cancelation, but from profit from business. What you want to do for the debtor is to increase his earning power—is that not right?

Mr. DIES. That is true; I see your reasoning, but what I want to get are some of the results of this bill, whether good or bad.

Mr. JANNEY. I think that they are bad in that respect. I think it is better if we do not cancel debts in that particular way. If we provide this country with a workable money system which meets the condition in America, if we evolve a sound money system and put business on a profit basis, then the creditor is in a position to get paid the other half at least.

Mr. DIES. I understand that.

Mr. JANNEY. After you have done that, then is the time to decide what you want to do as to the cancelation of debts, and if you do want to cancel debts, pass a law which says that 50 percent of all

debts are canceled, or 40 percent, or 60 percent. Thereby you will have the two things separately. You will have a sound money system which will put the debtor in a position where he can make a profit, and you will have your debts canceled also.

Mr. DIES. I am trying to get the results of this bill. You say that you agree with me that it will devalue commodity prices and enable the debtor to pay off his debts at 50 percent of what they are now.

Mr. JANNEY. Excuse me; I do not want you to understand that I say that the debtor can pay off his debts. Understand me; a debtor has got to make a profit before he pays any debts, and under this bill I do not think that we would restore profits in this country, for this reason, that we do not increase the commodity price level in terms of value.

Let me see if I cannot make that clear to you. A nation like the United States, that produces 18 billions a year out of the ground has as its fundamental source of wealth, productive industry. The problem of the United States is to restore that price level which gives a profit to its producers.

Now a price level which gives a profit to a producer is a level of prices not in terms of dollars, or any other name that you write on a piece of paper, but in terms of wealth.

The point that I want to draw is that you have not permanently raised your price level in terms of wealth by this change of the gold content. Of course there is a temporary condition that will last for a year or two but it will fade away.

Mr. CARPENTER. What do you mean by "terms of wealth"?

Mr. JANNEY. In terms of what you could exchange it for in other things.

Mr. DIES. Do you mean relatively, between one commodity and another?

Mr. JANNEY. You send a bushel of wheat to Europe, say, and you get \$2 for it——

Mr. CARPENTER (interposing). Do you not mean, by your reference to exchange, international trade?

Mr. JANNEY. I am getting to where the exports determine the value of your home products. If you cannot get rid of your surplus production by export, it comes back on your home market and destroys your profits because of that competition.

In other words, if I can ship wheat to Europe and get \$1.20 a bushel for it, you have to give me \$1.20 a bushel for it in Chicago.

Mr. CARPENTER. But if you did not have to worry about the international trade, would that not simplify our method and make this plan that we have much more workable?

Mr. JANNEY. No.

Mr. CARPENTER. I do not like to think in terms of international trade.

Mr. JANNEY. Nobody does in this country, because we have been propagandized into thinking that our international trade is a disadvantage. They tell you our foreign trade is only 10 percent, and let me tell you something about that. A farmer will grow a cow, and send the cow to market. The cow is skinned, and the hide goes to the tanner, and that goes on the books, and the tanner sends it over to the leather manufacturer, and that goes on your books. The leather manufacturer sends it to the shoe manufacturer, and he makes

shoes out of it. That hide is entered on your books 10 times in your internal trade. In your export trade it is handled only once.

When we have a foreign trade of 6 billion dollars, and you have a production from our natural resources of 18 billion dollars, that foreign trade might represent an export of 3 billion dollars, or all of the surplus of what we have produced. Don't let yourselves be deceived by figures, for figures are of no value until after they have been analyzed.

The point is not whether your foreign trade is 3 percent or 2 percent or 10 percent, but whether you can send out your surplus, even if 1 percent, and get a profit for it, for even if it is only 1 percent, that 1 percent accumulates and in a few years will destroy your profits.

Mr. McGUGIN. I do not believe that you meant exactly what you said in answer to Mr. Dies' question, that reducing the dollar 50 percent would double the price of all commodities. It will not double the price of a commodity of which we produce a surplus and have no foreign market for, such as wheat.

Mr. JANNEY. That is right.

Mr. McGUGIN. It might do it for cotton, but as to hogs, cattle, sheep, wheat, dairy products, all of those products which we are producing more than can be consumed and which we have no foreign market for, if you make dollars out of nickels it will not materially increase their profit.

Mr. JANNEY. That is absolutely right, and that is a very good point, and that point ought to be explained a little bit.

If you have a product on which the price is doubled by a change in the gold content of the dollar——

Mr. DIES (interposing). Let me ask you this——

Mr. JANNEY (continuing). And you cannot export that surplus because, you have your price doubled at home and it still only brings 2 shillings abroad, then you do not send that product abroad, but you leave it at home in order to get that \$2, then the price at home is forced down.

Mr. SWANK. Why did Congress ever fix the gold content of the dollar at 23.22 grains, and what is there sacred about fixing it at that price?

Mr. JANNEY. Absolutely nothing sacred about fixing it, but there is a great deal sacred about, after having fixed it, maintaining it.

Mr. SWANK. Why did they do that?

Mr. JANNEY. Because they made a coin 90 percent fine, and they put the alloys in it and it happens to work out that many grains of pure gold in the coin.

Mr. FIESINGER. Did they not follow the British pound on that, and was it not an act of England that fixed the price of gold, and did we not fix the dollar according to the pound?

Mr. JANNEY. I think that we had a Spanish silver coin that more or less directed that.

Mr. McGUGIN. There is another thing in connection with this bill——

Mr. JANNEY. If you will excuse me, I want to answer this question about why we fixed 23.22 grains.

It does not matter a bit what we fix; that is an arbitrary thing to start with, just like when you fixed a yard, you might ask why we fixed it at the length that we did. We could have fixed it at any

length that we chose, but here is the point, after you fix it and have everything based on it, then you cannot change it without affecting all of those things that represent past transactions.

Mr. SWANK. If Congress has said that there should be 40 grains, we should not change that?

Mr. JANNEY. We need not change that, if we can regulate the value of those 40 grains, which we can do as soon as we understand the law of supply and demand as applied to gold.

Mr. SWANK. That is what we are doing or trying to do in this bill.

Mr. JANNEY. We do not regulate the value of gold; we change the volume or weight of our dollar currency. We should regulate the value of the ounce of gold, and this Congress has never enacted a law in its history that tends to prevent the commodity gold from either going up or down. You do not regulate the value of gold when you change the gold content of the dollar. And even as to the dollar, you are changing it, not regulating it. Suppose that you are driving your automobile, and it is going to one side; would you change it and leave it there? The value of gold, like wheat or any other commodity, is determined by the law of supply and demand.

Mr. ELTSE. By regulating the value, you do not mean shoving it up or down? You mean regulating something else that brings it about?

Mr. JANNEY. Yes. Controlling the value of anything is not determined directly by the laws that you write in your statute books, but by economic laws and the effect of your statute has either upon supply or upon demand.

Mr. ELTSE. You mean regulating the thing that the dollar buys.

Mr. JANNEY. You can put in your statute books things that should control the demand or the supply of the material in your dollar and thereby you work with economic law.

Mr. MCGUGIN. From your statements, do I understand that this bill reduces the content of the gold dollar?

Mr. JANNEY. That bill gives the power to reduce it but fixes those limits which deprives us of free action and leaves price levels low in terms of foreign money.

Mr. MCGUGIN. So far as that is concerned, the President already has the power, under the Thomas amendment, to fix that anywhere between 50 and 100?

Mr. JANNEY. Yes. And that gives free play if left that way.

Mr. MCGUGIN. And as far as this is concerned, after we pass this bill he still has the power to leave it at 100 or to fix it somewhere between 50 or 60?

Mr. JANNEY. Yes. Subject to the limits fixed in the law.

Mr. LAMNECK. He has not the power under the Thomas amendment.

Mr. MCGUGIN. Yes, he has.

Mr. LAMNECK. But he cannot use it.

Mr. MCGUGIN. Why can't he? This bill does not change that a bit. It simply clarifies the Thomas amendment.

Mr. CARPENTER. Do you know of anything in this bill that is of benefit to this country, and, if so, what is it?

Mr. JANNEY. I do not think that it does anything that is good, and I think it does a great deal that is bad, but I will say that if you

take the spirit of this bill, and put the objective of this bill into a law, which is to get the 1926 price level, and to get a dollar that will not vary in a generation, which are the objects of the President's policies that would be very desirable. The President's policy is right. This law does not carry it into effect.

Mr. ELTSE. It is not clear in my mind what we mean by regulating. Is the yardstick, so to speak, the measure of value, to be a fixed permanent thing, in that the value does not change, but to regulate supply and demand, for example? Is that what you mean? In other words, you do not regulate the value of the dollar by moving it up or down, but you regulate the thing that controls what I might term the market value of the dollar?

Mr. JANNEY. Might I state that in a little different way?

Mr. ELTSE. Yes.

Mr. JANNEY. By regulating the value of the thing, you mean the regulating the amount it will buy?

Mr. ELTSE. Yes.

Mr. JANNEY. Now, if you want to coin money out of gold, then the Constitution says, as I construe it, that you must regulate the value of gold. To regulate the value of gold, you have two simple factors; you have a certain supply of gold and a certain demand for gold, and the demand divided by the supply gives you the value. England comes along and tremendously enhances the demand for gold by certain things that she did. Why can we not enact laws that affect the use or demand for gold?

Mr. DIES (presiding). We have a caucus at 4 o'clock, and it is nearly 4 now. I dislike to interrupt you, but what is the pleasure of the committee with reference to that?

(After an informal discussion on the question of continuing or discontinuing the hearing:)

Mr. DIES. The thing that I had in mind is, suppose that, instead of calling a bushel of wheat now bringing 50 cents a bushel, we say that that 50 cents is \$1; will not that wheat bring \$1 a bushel? I will admit that that will not help when you take a bushel of that wheat for something that you need, but if you raise 1,000 bushels of wheat, instead of getting \$500 for them, you have \$1,000, and you can take that \$1,000 to your creditor and pay him off, and it amounts to no more or less in that respect than a liquidation of your indebtedness to the extent of 50 percent.

Mr. MCGUGIN. You are talking about a deceptive thing. I have been silly enough to argue the same thing, and I have made speeches where I said that on the floor last spring, but all of the facts and experiences prove to the contrary. With your juggling of the dollar in the last 4 months, it has increased the prices of the things here that you have an export market for, but at the same time eggs and pork have been going down, and wheat has not been going up. If you had a foreign market for some of these things and could sell them for British pounds and not for the depreciated dollar, it would be reflected in your price, and it does it in your cotton, and it would in wheat if we had an export market.

Mr. DIES. I think you are wrong about that. But we will have to take this up again tomorrow morning.

(Thereupon, at 4:05 p.m., an adjournment was taken until Friday morning, Jan. 19, 1934, at 10 o'clock.)

GOLD RESERVE ACT OF 1934

SATURDAY, JANUARY 20, 1934.

HOUSE OF REPRESENTATIVES,
COMMITTEE ON COINAGE WEIGHTS AND MEASURES,
Washington, D.C.

The committee met at 9:30 a.m., Hon. Andrew L. Somers (chairman) presiding.

STATEMENT OF JOHN JANNEY—Continued

Mr. JANNEY. Mr. Chairman and gentlemen of the committee, I have brought for your consideration charts which show the result of the operations in recent months of our currency manipulations as it reflects upon commodity values; also upon the values of securities listed upon the stock market.

I have here charts which show the price levels in England of their stocks and commodities, and also the price levels in America of our stocks and commodities.

These charts establish that the English management has arrived at a valuation of commodities which gives to them the 1913-14 price level, but they do not arrive at this price level in terms of any fictitious valuation measurement, such as we now have in the currencies of most of the nations. England has arrived at the 1913-14 price level in terms of stable or real measurement of value. On the other hand, American commodities have had a serious drop in value, if the same standard of measure is used as we used in 1932, and the early part of 1933 or any other real standard. It is not generally understood that our commodity prices have fallen in the last year, if measured in actual value, as compared with what they were in 1932 as measured by the same yardstick. You cannot measure the value of anything to get its relative value without using some fixed standard of value to measure it by. Fluctuating currencies cannot be used. The present dollar cannot be used to give you a correct picture of values, not while the dollar is fluctuating. The problem of this Nation, therefore, is not only to control the value of currency, but to control the value of our property and our products in terms of some yardstick of measure which will be used in the markets of the world; and to have that, you must have some real value to measure from.

Mr. DIES. Let me ask you a few questions, because, evidently, you have given a good deal of study to this question: Do you think it possible, as those who are now contending for the commodity dollar believe—and I presume you know what the Fisher plan is—to take the gold content of the dollar and take the average commodity price level, and make the gold content of the dollar conform to it?

Mr. JANNEY. As I understand your question—

Mr. DIES (interposing). What they propose to do is to change the weight of the gold content of the dollar to conform to the rise and fall of the average commodity price level.

Mr. JANNEY. That would be all right if you want to give away your foreign trade. But this we cannot do and prosper, despite what certain informants may say about it.

Mr. DIES. That is what I would be interested in knowing about. The proposition is to change the weight of the gold content of the dollar to conform to the commodity price level, and the average commodity price level would be the standard of value.

Mr. JANNEY. That is what the foreign trader would think it was, and he would not have any confidence in it, because he would not know that you would not change the content of the dollar over night. On the other hand if you had a fixed gold content, say 23.22 grains, and by controlling the demand-supply ratio of gold—a very easy thing for us to do—you thereby held a steady buying power for gold itself, you would have your problem solved. If you want the United States to be a prosperous Nation, you must be able to export your surplus products. Therefore you need a dollar of world-recognized value and you must not sacrifice that necessary quality of money in order to get stability. If you have a surplus of products, products that you have no use for in home consumption, these must be disposed of in foreign trade. In disposing of them in England, for example, sterling would represent the actual money value. The goods shipped to us in return must be represented in dollars. So it follows if sterling and dollars both have a fixed gold content, commerce is helped by money stability.

If you have gold as your basis for money, or if you have money that can be converted into gold for use in your trade with foreign nations you have full basis for confidence. Then all you need do is to provide a stable value for gold as a commodity. The problem of money is to be able to serve these ends, and a fixed gold content plus stable gold values answers the problem. When this is so easy to do why not do it instead of following those schools of thought that are now monopolizing the attention of the country and the Government, and which, while curing one aspect of money stability are ruining other aspects of money—storage of value and confidence in value. Congress has the problem to solve of preserving the three equalities of money. That is to say: First, full value; second, international acceptance or world-recognized value; and third, stable values, not fluctuating value. In the case of the insurance companies, their policies represent the cost of the people who have, at the sacrifice of the present, accumulated wealth for the future. That wealth belongs to the people, and we cannot settle the problems arising from the mismanagement of the world-money system by passing the consequences of mismanagement on to those who have saved. It does not meet the problem to pass the losses of mismanagement from one class to another class. So I propose that we take hold of gold and manage it. There is the answer.

Mr. DIES. Can you regulate the value of gold, or has Congress the right to do that? If we have yanked the price of gold up from \$20.67 per ounce, that was simply the statutory price, and that does not affect the value of gold at all, because the value of gold is determined in the world market, just like wheat or cotton, in accordance with the

law of supply and demand. Would you keep it at that point, as we have the right to do, because Congress has the right to regulate the value of money, regardless of what some people may think? What would prevent us from using silver, since there is 15 times as much silver as gold in the world, or would you use silver for the purpose of stabilizing gold? In other words, when gold becomes too high in purchasing power, would you use silver in order to bring that gold down? Why not bring it down by the use of silver?

Mr. JANNEY. That goes to the very heart of the problem of this country.

Mr. DIES. Could you do that?

Mr. JANNEY. Yes, sir; we could do that. And the United States can do it acting alone. And if we keep away from international agreements we will do it. I have a chart here before me which shows with mathematical accuracy what you could do and I believe I can explain to you how we could do that. This lower line [indicating] represents the value of world money supply going back 80 years. It shows variation in progress from year to year of the value of the monetary base of the world. You perhaps have never seen such a chart before, or a chart so set up that it would definitely answer your question. You have seen charts which represented gold and you have seen charts representing silver, but you have probably never seen a chart that gave you the picture you have here before you. Your question is, How could silver be used to control the value of gold through the use of the law of supply and demand?

Mr. DIES. Yes.

Mr. JANNEY. First note the variations in this lower line [indicating]. It represents the value of all the money of the world, which is to say the value of monetary gold of the world plus the gold value of the world's monetary silver. This is the world's monetary supply. Now, if you will notice from this chart, the upper line which accurately represents the variations in world commodity prices you will note it follows the variations in the line of your monetary base.

Here [indicating] in 1896, when we had our lowest depression in the gold value of the monetary wealth of the world, you had also your lowest depression in commodities and in business. In 1918-20 when we had our highest registered values of the monetary base we also had our highest commodity values and prosperity. You must understand that this line represents only money that has a real or intrinsic value at the time of the transaction, and does not represent a promise to pay some value at a later date. The total value of the cash money of the world as distinguished from credit money is represented by this line [indicating]. It is remarkable how the price level follows exactly this line. From 1870, when we had a prosperous period, to 1896, the gold value of the total money supply of the world steadily dropped, as you see indicated by this line [indicating]. That was not due so much to any falling off in the production of gold, but it was due mainly to the diminishing value of silver and this resulted from legislation. You have your question answered here, because here is a picture of exactly what has happened. We can use this same principle. We can control the monetary line on this chart also by legislation on our part. We can raise the gold value of the monetary base back to this point, which produced the 1926 price level. Or we could put it a little higher or a little lower. England has moved this

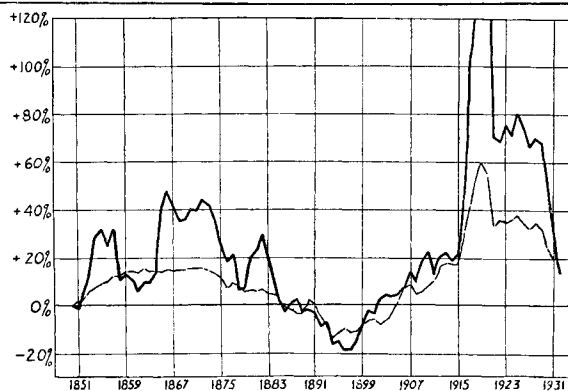
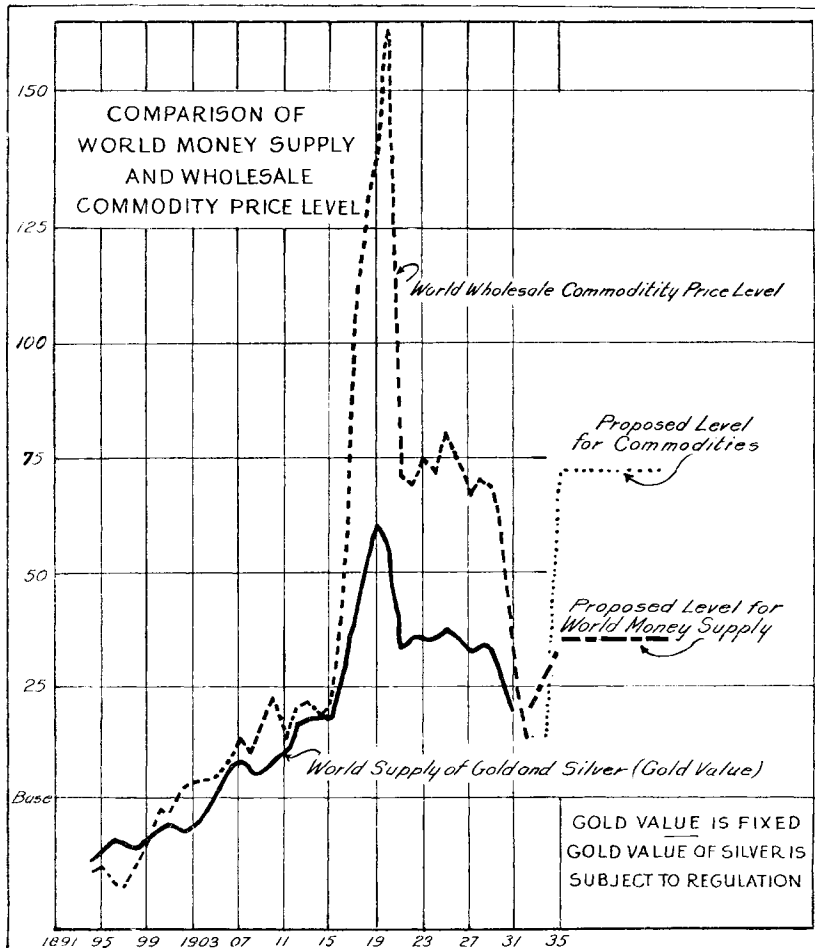


Chart showing price levels in relation to world's money supply

line for 100 years; now let us move it for awhile and bring back a basis for prosperity. And then hold a steady prosperity condition.

Mr. DIES. As long as the western civilizations used silver for money which they did over a longer period of time than they used gold, silver, of course, had that additional demand made upon it because of its use for monetary purposes; but when the western civilizations demonetized silver, that, of course, tremendously increased the demand on gold for money purposes. Silver fell, and gold immediately rose in value. In the silver-using countries, the price level increased. In China, for instance, the price level increased when we demonetized silver, simply because the demand for silver was lessened here. Therefore, it seems to me that the solution of this whole question is that we have to return in some degree to the use of silver in connection with our monetary base.

Mr. JANNEY. The only difficulty about that is that there are so many people in this country who cannot visualize the distinction between silver as money and silver as a standard. They think that unless you make a silver standard, you will not have silver as money. They do not understand the use of the word "standard". For instance, you hear people say that England abandoned the gold standard simply because she abandoned the redemption of her notes in gold, but England has not abandoned gold as a standard. Gold is still the means of measuring values. It is not automatic but they calculate back into gold values to get at the actual value. You cannot have a gold standard and at the same time a silver standard. Two standards of money without a force to hold them together gives great trouble. If you would use silver as money and keep gold as a standard it would make your problem easy.

Mr. DIES. Or use it to regulate the value of gold.

Mr. JANNEY. That is the solution. Use silver as money to regulate the value of gold. You could buy silver and put it in the Treasury, and as you put silver in the Treasury, you are increasing the monetary value of silver, and exactly to that extent you are decreasing the monetary value of gold. England has used that formula through the past century for the purpose of controlling values. The value of our products, that we take out of the earth, amounts to about \$18,000,000,000 a year, and England can take that production of wealth, which should yield us \$18,000,000,000 of values a year, and reduce it by 20, 30, or 40 percent. On the other hand, by reversing the motion we can increase the buying power of those commodities to that extent. By following out this use we can take this lower line on the chart, and we can raise that line exactly to the point we wish. There is no nation on earth that can prevent it. No nation needs to cooperate with us in that. No nation on earth can prevent us from doing what we wish to do in raising this line [indicating]. We can buy silver and put it in the monetary reserve, and we can control the amount.

Every 100,000,000 ounces of silver we put to monetary use will decrease the demand on gold to a point that will represent something like 5 percent. If you want to decrease the purchasing power of gold 40 percent, all that you have to do is to buy a comparatively small amount of silver and put it in the monetary reserve to be used in competition with gold. It could not possibly cost this Government over 50 millions of dollars to do this. In fact we would have a

big profit in the silver we would buy on a rising market. The net total cost to us would be approximately nothing and the rise in property values would be definite and sure and under our control. The trouble with our use of silver up to this time has been this: We have never had a law permitting silver to be used in our monetary supply except where there has always been written into the law a forced limitation on the amount we can use. For instance, between 1834 and 1873 we had a law that permitted silver to be used in our monetary base, but we did not put any silver in, because under the law our Government could not use silver coins if their value happened to be over \$1.29 per ounce. We had bimetallism at the ratio of 16 to 1. Bimetallism at the ratio of 16 to 1 meant that this Government, even if silver was worth \$1.39 per ounce, could only pay \$1.29 per ounce. The result was, as fast as we coined silver into dollars, the dollars were melted down and the silver shipped out of the country in order to get that profit. Now, a fixed ratio between gold and silver does not work, because when gold is above silver at that ratio, you lose the gold; and if silver is above gold at that ratio, you lose the silver. In neither case do you have free control of the money base. Before 1834, in the United States, we got no gold for exactly the reverse reason. Gold was at a premium at the ratio of 15 to 1, and the gold coin if we got any were melted down and the metal shipped out of the country. Silver was at a premium at the ratio of 16 to 1 and shipped out. If you could cure that defect, you could use the two metals.

If you give the Government leeway, or give it the privilege of putting silver into the base, whether the price is more or less, that would remedy the defect. Then you could control the point where you would put silver into monetary use. Then use the quantity of silver as a regulator or flywheel. This line here on the chart [indicating] represents the gold value of the monetary base, no one can understand this use of silver and deny that the United States can direct this line on the chart. Again no one can deny that this will have the effect claimed upon gold values on price levels in gold-standard countries. You would have to deny the law of supply and demand to do that. You cannot find a place on this chart during the last 100 years where the price level of commodities was not influenced by the money base value as here shown. The price level indicated by this line [indicating] represents the value of gold and gold-money equivalents in the world—that is, the monetary gold and the monetary silver, or silver that is in competition with gold in the world money system. In other words this chart merely shows the supply and demand of gold as a commodity. It is natural that its buying power should follow that.

The United States has a solution of this money problem here before you in picture form, which is both safe and sure. Also it is inexpensive. But we are not solving the problem when we take our gold and chop it up into smaller pieces or chunks. They talk of saving to the Treasury additional money as profits from this change in the number of chunks amounting to something like \$2,000,000,000. That is not profit. That is no more profit than would be obtained if we took a piece of pie that was cut into four pieces and cut it into eight pieces, and then took half of the pie.

On the other hand, if you will have the content of the dollar remain at 23.22 grains, and bring the purchasing power of gold down by

operating under the law of supply and demand, you will not only be able to get all of your products sold in foreign markets in competition with the products of other countries, but you will be able to bring about the sale of those products in foreign countries for enough to pay the cost of production and yield a profit. If you can sell your surplus products in foreign countries on a basis that yields a profit, then you will sell what you use at home on a basis that will yield a profit. I say that because you will never make a profit at home on any commodity you produce unless the surplus is sold in foreign countries at a profit. That is where competition is reached in the sale of commodities.

Mr. DIES. If you lessen the demand for gold, it falls in purchasing power.

Mr. JANNEY. Yes. That is a simple mathematical fact. You could get every expert in the world in this room, and not one of them could successfully deny that fact, and they must admit we can control the buying power of gold by this means. You are talking about mathematical facts, not theories or beliefs.

Mr. DIES. That plan is not in this bill, and will not be in the bill. The only way we can do those things will be to have the committee meet and determine it one way or the other, as soon as this other matter is disposed of.

Mr. JANNEY. The President in his message said this:

The other principal precious metal—silver—has also been used from time immemorial as a metallic base for currencies as well as for actual currency itself. It is used as such by probably half the population of the world. It constitutes a very important part of our monetary structure. It is such a crucial factor in much of the world's international trade that it cannot be neglected. * * *

Governments can well, as they have in the past, employ silver as a basis for currency, and I look for a greatly increased use. I am, however, withholding any recommendations to the Congress looking to further extension of the monetary use of silver because I believe that we should gain more knowledge of the results of the London agreement and of other monetary measures.

In the first paragraph that I quoted, the President speaks of silver as currency, and it is possible that he overlooked the use of silver as money. The use of silver as currency is one thing and the use of silver as money is an entirely different thing, because the use of silver as money affects the value of the gold in the world. Our failure to control gold is what is ruining the United States. The value of the gold of the world is still 70 percent above its normal purchasing power. If silver is made currency, it will not affect that, but if silver is made a part of the monetary base in competition with gold, it will affect that. To make silver money is in the interest of the United States. To make silver currency may be so managed as to be in the interest of Europe.

Now, as to this second paragraph, I would like to have the committee consider this observation: If you permanently devalue the gold content of the dollar, you will take away from this country the opportunity that it now has to exercise the control that we need to exercise over this purchasing power of gold. We cannot bring the purchasing power of gold down after we devalue the gold content of the dollar, unless you are willing, when the time comes, to put the value of the dollar down into the sub-basement. It may very easily turn out that the plan to devalue the dollar is a subtle trick of finance to give the world a lower price level in terms of real values.

This country cannot stand price-level manipulations. We do not need price manipulations. As I understand value control, it is exactly as Mr. Dies has expressed it. It is an operation that makes use of the law of supply and demand of the gold money of the world, or in the law of supply and demand as applied to the gold value of the money base. The minute this country does that, we can control the situation and remedy our evils, but as long as we fail in that, we will sink further and further into the morass, and will finally go beyond our depth so that we will never get out. We cannot plow up our crops and spend billions of dollars a year as a dole for the men who planted, harvested, transported, fabricated, and administered to all the wants indirectly involved in this economy. United States Shipping Board, research department, shows that in 1926 we exported 68,139,521 long tons (2,240 pounds each) of commodities, while in 1932 we exported only 31,844,566 tons. Shall we plow up the production acreage that yielded the difference of 36,294,955 tons? What will we do with the railroads that hauled that tonnage, the doctors, the lawyers, the merchants that lived off of it? Where do the ramifications of all that wealth reach to? Are we insane to talk of the willful destruction of all that wealth in order to avoid meeting a problem?

Mr. Chairman, I would like to put in the record a letter addressed to the President under date of December 23, 1933, and also a letter addressed to Mr. McIntyre, secretary to the President, under date of January 1, 1934.

(The letters referred to are as follows:)

WASHINGTON, D.C., *December 23, 1933.*

HON. FRANKLIN D. ROOSEVELT,

President of the United States, White House, Washington, D.C.

MY DEAR MR. PRESIDENT: The interview between Dr. Sprague and the writer, which occurred on October 5, and which was referred to by the Speaker of the House in his speech in New York and as noted in the newspapers of day before yesterday, emphasizes the importance of my immediately writing to you as to what I believe to be a conspiracy against the United States. I will refer also to recent interview with Dr. Warren and Professor Rogers, which followed from my visit to the White House, in response to letter I received from your secretary, Mr. McIntyre, requesting that I interview these gentlemen. I feel it my duty to report to you that in all of these interviews, I found a startling absence of fundamental thinking, so far as the interest of the United States is concerned. I found a subtle completeness of thought processes, so far as the protecting the interest of Europe is concerned. I further found an absence of comprehension as to the difference in the interests of Europe and the United States.

I attribute this advocacy of Europe and betrayal of American interest to orthodoxy or teaching and not to a deliberate effort to betray our country.

I do not know why your secretary wrote me to interview these men, nor why Secretary Woodin arranged the interview with Dr. Sprague, which interview was taken down by a competent reporter and is available in detail for your consideration. I did not request these interviews. On the contrary, in my letter of November 1 to Mr. McIntyre, I gave reasons against the interview proposed by him. I do not understand just what my responsibility is in this important matter. But if these proceedings have any taint of placing responsibility upon me as an economic advisor of certain Members of the House of Representatives or of the Committee of the House, who has reported on this question, I feel sure you will pardon me if I wish to fully divest myself of any such responsibility.

A frank statement of my personal views and impressions gained in these conferences would seem to be in order. My view is that you are surrounded by advisors who have honestly absorbed English tutorage on monetary policy.

This is a point of danger but the greatest danger is something entirely different. I sense a kind of conspiracy among European sources of influence or propaganda and to the end that this Nation is being led into a trap. We are all of us being surrounded by this influence.

You yourself broke away from it as formulated in one trap, by eleventh hour action as to the London Conference. How nearly we fell into that trap, you are fully advised. Now in a little different form, the same trap is set again and you must be equally diligent. I feel it in line with my duty in the above situation to make to you a formal report and record as follows:

These interviews, so far as they were permitted to progress, show that these three men, Dr. Sprague, Dr. Warren and Professor Rogers, are all in favor of an economic theory that should be considered favorable to England, France, and other nations in their class, and against the interest of the United States and nations economically situated in its class.

Dr. Sprague was frank in expressing favor of English control of money values and opposed to American control. Professor Warren and Professor Rogers, while not so frank in expressing this view, are in favor of policies that will result by subtleties in English control of world moneys. There is a trap set here where the real truth is not disclosed because it is not superficial and these men seemed to be unwilling to dig into the subsurface and consider the fundamental facts. They are not frank as Dr. Sprague was in avowing favor for English control. They would, in fact, deny it in words, while they advocate it in action—not intentionally, of course.

I do not need, Mr. President, to tell you that I have complete confidence in you in every respect; your loyal advocacy of the interests of the United States; your intelligent grasp of this question; your earnest effort to serve the people. These need no eulogy from me, but as President Washington was misled in his advocacy of the Jay Treaty, which relinquished our right to the freedom of the seas, as President Grant was misled in his approval of the monetary law of 1873, so it is possible for you to be misled, unless you consider the two sides of this monetary question and share with Congress this responsibility by permitting full and free debate upon this question.

I will state briefly and somewhat roughly these two opposing principles.

AMERICAN INTEREST

If you will study a proposal to increase the gold content of the dollar 25 percent or to about 28 grains of gold, and then lower the purchasing power (as expressed in world commodities) of gold to the 1926 price level for this new dollar, you are thereby increasing the purchasing power of the products of American resources in terms of world trade to an extent that will insure American prosperity. This would be decreasing the purchasing power of the ounce of gold to approximately 50 percent of its present purchasing power. It would give the 1926 price level to the dollar and a still higher price level to our commodities in terms of world trade.

EUROPEAN INTEREST

If you decrease the gold content of the dollar 50 percent you lower the purchasing power of the dollar but leave the purchasing power of commodity gold uncorrected. Thus you advance European interest and defeat permanently American interest (by purchasing power I mean in terms of world trade and not in terms of dollars or other currencies). It can be undeniably shown that this plan does not give to America control of the value of her commodities in world trade. It does not give to America control of the purchasing power of gold, but you do sacrifice permanently the great opportunity now available to you. If you do not change the gold content of the dollar, you can control the value of gold and also the value of the dollar. If you increase the gold content, you strengthen the American position. But if you decrease the gold content, you will thereby decrease the purchasing power of American resources to a degree that will insure great prosperity for the nonproducing nations of Europe and saddle this country with a lengthy period of depression. And that is not all, you will permanently place this country in a position where it cannot exercise the power now available to control gold values as a commodity, which means the purchasing power of our products in world markets.

THE TWO PLANS CONTRASTED

The difference in the two plans is essentially this. In the first, America assumes control of the purchasing power of all gold values in world commerce among gold standard countries. In the second, we leave this control with Europe and thereby we leave to them the power to manipulate our changed gold

dollar hereafter and to manipulate the currencies of the world. Our power to correct our position which we have suffered ever since 1836 is gone. Our position will then become intolerable.

Whoever controls gold values in terms of dollars or francs or other detached currencies, accomplishes nothing other than an adjustment between debtor and creditor. Whoever controls the value of the commodity gold, controls the prosperity of this Nation and the commerce of the world.

The values of world commodities in undefined currencies represents a vital deception that has worked into this discussion. This deception must be cleared before we make a false step based upon it. The stakes are momentous, are ruinous. They represent a disadvantage to this country that will run into billions of dollars per year. This loss we cannot continually endure.

If this disadvantage is fastened upon this country by binding international agreement, such as the Jay Treaty or the Hay-Ponceforte Treaty, it will eventually mean war between the United States and Europe or else the complete servitude of the United States to Europe in monetary policy. America will then be somewhat in the position India now occupies.

Without the freest kind of public discussion and free parliamentary debate, such an arrangement would take the risk of a revolution in this country and the responsibility of determining an issue of such far-reaching consequence is a responsibility that cannot be taken in any other way unless the spirit and intent of our Constitution is ignored.

This whole proceeding in regard to our monetary policy must be taken away from secret discussions of experts and given a full and free airing upon both floors of Congress, if there is to be any chance of counteracting European education and European influences which all who understand this subject see clearly to be a potent force in guiding such clouded public opinion as prevails on this subject in America.

Permit me to say that the gold-content clause was not allowed freedom of debate in the House of Representatives at the time it was enacted. It was urged as an expedient to give power to the Government for the purposes of the London Conference. It was in some quarters considered as a delegation of power not to be used unless necessary, without further debate in Congress. The record will show that there was no adequate debate on this question.

Permit me further to say that the entangling agreements with other countries as embodied in the proceedings at the world conferences, secured by Senator Pittman, relating to limitations of the action of governments, as to silver, will have the effect of limiting our control in this matter. Otherwise, it can be shown that we have free control. If we engage in entangling alliances with other nations as to the matters of monetary policy proposed in this morning's papers, you will further tie the hands of this Nation without any compensating advantage.

And in conclusion, permit me to say that you cannot safely follow these men who are your advisors blindly. At least you cannot follow them so long as they cannot face a discussion across the table in the presence of responsible Government officials, in the presence of a reporter, to make a record of this discussion, and in the presence of representatives of the Congress who are members of this committee charged with constitutional responsibility in this matter.

Our country is being betrayed by false teaching. This is not my personal view alone. It is the view of almost all of those who with me have studied this question. What I have stated in this letter represent the views of many of our patriotic citizens who find themselves unable to speak to you on this subject. Among them are citizens of this country who perhaps hold a higher constitutional authority and responsibility than even the executives hold on this subject. I refer to a member of the committee of Congress, which under the Constitution, has jurisdiction on this subject, which committee, under authority of expressed resolution of Congress (Feb. 8, 1932) has devoted months of study to this subject and has stated to Congress, in formal report, that we are suffering from "The legislative acts of European countries". (Rept. no. 1320, May 14, 1932.) I refer also to a member who in conference with other members of this committee, has introduced a bill into Congress (H.R. 1577, 73d Cong., 1st sess.) which gives a defensive plan to America and in a way that avoids entangling agreements with other countries.

In my interview with your various advisors, I have been shocked to find that these men not only have not studied this proceeding of Congress, but apparently they did not know of it. In my conference with Dr. Sprague, I found that the

paper which you requested should be submitted on this subject to you on May 24, had never been read by him. On that date, you requested Congressman Fiesinger, Congressman Lamneck, and myself to submit a certain written discussion bearing on this question. This was handed by Congressman Lamneck to your secretary, Mr. McIntyre. It was submitted by him to Dr. Sprague and in the conference with Dr. Sprague, in answer to question, it was disclosed that he had never considered the matters contained in this document.

It is with great regret that I feel it necessary to occupy your valuable time with this communication. You will recall I have never before since your election to the Presidency, volunteered any communication to you on this subject. There have been many requests that I know of from others or suggestions that I communicate with you on this subject. Until now, I have not seen it as my duty to do so.

I now see the possible betrayal of the vital interests of this country, innocently of course, but none the less effectively unless these vital matters are given full consideration. Those who pose as advocates of these two respective sides of this question must be heard. You cannot leave the advocacy of the American side of this question to your advisors for the reasons I have above suggested, and the intimation in today's press of a hasty action on the very eve of the assembly of Congress, in a matter where constitutional authority is vested in Congress, causes me the greatest concern and may I venture to say, strongest sense of personal responsibility.

Someone should communicate with you thus freely and frankly on this important matter. Everyone is leaving it for someone else to do. In this circumstance, I feel I must view my responsibility as advisor to members of Congress in this matter, a sufficient ground to trespass upon your valuable time to the extent of sounding this note of warning as to the hidden dangers that lurk below the surface in this intricate and important matter.

With great respect, I am,
Very sincerely yours,

JOHN JANNEY.

WASHINGTON, D.C., January 1, 1934.

Hon. M. H. McINTYRE,
*Secretary to the President,
The White House, Washington, D.C.*

MY DEAR MR. McINTYRE: In our telephone conversation of Saturday you asked me to let you have a written statement on the point under discussion and as I understood you referred to the subject of money control in the sense of the control of the purchasing power of the metallic base.

The function of governments as to currencies, bank notes, and credits is oftentimes delegated to banks. In some governments the value of the monetary base is controlled at the discretion and in the power of banks. The Bank of England, which is a private bank, enjoys large powers in both of these respects.

In the United States the case is different. The power to regulate credits may be delegated to bank managements but not the power to regulate the value of the metals from which coins are made. Under our Constitution this power rests with Congress. "Congress shall coin money and regulate the value thereof."

By the value of a metal we mean its buying power. The depression of property values in the world is synonymous with enhancement in gold values in countries where gold is the standard of measure.

This tragic world event which we call depression always occurs when there is a depressed value of the total metallic or money base of world. Prosperity has always accompanied an increase in the value of the world money base at the rate of 3.2 percent or more per year. In history there has been no exception to this natural and fundamental fact situation when averaged over a period of years sufficiently long to register. In a few words this fact may be crudely stated as: The more there is of a thing the less it will buy.

The nation which controls the gold value of the world money base will control the price level in all gold standard countries and will at least share equitably in world trade and commerce and export profitably its surpluses of production.

The depression of the money base paralleled the destruction of Rome and the Dark Ages. The depression of the money base accompanied the depression of

1873-96. The depression now in progress has accompanied a serious depression in the gold value of the money base.

By the value of the money base I mean the gold value of the metal used in the world as a monetary reserve for governments, banks, corporations, and individuals, as a basis for business activities. This includes the monetary gold and monetary silver of the world. Together they constitute the base of the credit structure and capital structure of the nations and the vital force back of world commercial activities. These two metals under normal conditions are freely exchangeable each for the other at their market value and the depression of one, for this reason reacts upon the other. They both therefore must be reckoned as a part of the world monetary base.

This interaction between gold and silver was testified to by Mr. Montague Norman of the Bank of England in 1926. I can furnish you with charts to show this relationship with almost uncanny accuracy. And this relation can be controlled by the United States in the interest of stability with greater ease than other nations have affected it by their activities and the power to control this is placed in the hands of the Government of the United States by the Fiesinger bill now before Congress.

The United States is just now vitally concerned in this matter and for the moment is in the hands of a government which has announced a policy of restoring the 1926 price level which is a prosperity price level. At the same time the administration has declared for a dollar whose value will not materially change in a generation and for a sound dollar which means a dollar recognized in world markets as carrying its face value and which is accepted at such value by world markets.

The achievement of this policy would restore prosperity to the United States, would open a market for its products on a profitable basis and should be the aim of all Departments of the Government. However all of the advisers of the administration with whom I have discussed this matter would sacrifice some of these qualities in order to secure others and thus defeat the high aspirations of the President in affording this country the economic protection it must have and has a right to expect.

To restore gold values in the metallic base to where they were in the year 1926 would cost this Nation, operating under the Fiesinger bill, less than 5 million dollars net. It could be accomplished within 90 days. Those who do not wish to admit the law which operates here to produce these results can offer no real opposition as there could be no material loss of either time or money. On the other hand, a favorable demonstration would save billions of dollars of values, material, and other losses, moral and physical, beyond our power to compute or even imagine.

This is perhaps the first time in our history that our Government has been in the hands of the real interest of the people, facing a break down of a former system with the opportunity before it of an open doorway to the control of money values. The authority for this control has been placed by our Constitution in the hands of Congress. The door of opportunity stands wide open and this Government has not yet moved in that direction. Our experts are not urging that we take control of the world money base away from corporations and banks of foreign governments to place this control of this powerful factor for human welfare or human woe in the hands of Congress.

If the group in the committee of Congress which has recommended this control is to be heard in the councils of the administration, they would recommend in some form the principals for American control of the world money base as set out in the Fiesinger bill (H.R. 1577).

This bill gives a clean-cut, definite, simple program for taking control of the money base and exercising that control so as to completely carry out the policies of the President as publicly announced and as above outlined.

The Fiesinger bill involves no complications, it involves no experiment. It uses accepted or proven methods and accomplishes a complete and uncompromising control of the gold value of the money base until the 1926 price level in terms of gold is captured and permanently held. It takes the control of price levels away from individuals and establishes a price level fair to all and in the power of Congress alone to change.

This leaves the matter of bank credits, currencies, and exchange to receive consideration as soon as the bases upon which they rest, and the values with which they have to deal, are rendered stable and definite. The power of private

manipulators and exploiters is curbed to such an extent as will guarantee protection to the people. And the basis for the people of one nation to exploit the people of another nation becomes modified to such an extent as to pave the way for disarmament by removing the real reason for maintaining armaments.

Today we have a whole nation back of a Government which has defined a policy that implies that this thing will be done. The thing that gives me concern as expressed in my letter to the President of December 23, is the apparent unwillingness of the administration's present advisers to face this issue. None of them have been willing to discuss the matter.

On the contrary we have all the various "red herrings" that it would seem possible to devise to lead us away from an American plan to control the money base and leave this control in the hands of those who have been exercising it to our destruction during the past century and a half.

These diversions leading us away from American control receive almost daily comment from high political advisers, from the press, and other sources of discussion. On the other hand it seems impossible to gain adequate consideration for any plan that will give American control.

They are:

1. The 16 to 1 remonetization of silver, which would so limit the scope of the action of our Government as to curb and hamper its power of monetary control. In addition there would be the handicap of two standards of value to be maintained of equal purchasing power. This would lessen our control and increase foreign power of control of the money base.

2. The silver proposals of Senator Pittman which would leave Europe in the control of the money base and of world money values and require that our silver money be supported by gold in order to maintain its parity.

3. The change of the gold content in the dollar which operates on our national currency and not on the world money base. It changes the value of dollars, as a currency unit, not the value of gold. It changes the value of debts but does not increase the ability to pay because it does not correct the lowered buying power of our products in the markets of the world which is the basis of profits.

4. International agreements as to silver which destroy our freedom of control and limit the freedom of world silver markets upon which the operation of an American plan for control of world money must be based.

These various proposals all leave Europe in control of the value of our property and our commodities in world markets. They all constitute a surrender of the constitutional power of Congress to control money values. They do not permit Congress to any longer regulate the value of the metals which we coin.

In point of fact this Fiesinger bill is the only method yet proposed under which Congress is permitted to discharge this duty of our Government delegated to it under our Constitution.

Do you know of any valid objections to the Fiesinger bill? None of the advisors of the Government whom I have had the privilege of conferring with have urged any objection to it at all. After months of investigation and after serious conferences with leaders in banking and finance I can find absolutely none with the exception that the power to regulate values is taken away from banks and placed automatically at the price level fixed by Congress. This would be an objection to the President's policy and not to the bill for in this respect the bill adopts the policy of the President.

The most far reaching benefit from this bill is that the American dollar reinstates a world recognized value as a basis for world trade. This dollar is in a position of advantage in competition with bank credits and fiat exchange of foreign countries. Sterling exchange becomes a secondary world money and not a primary world money.

No other form of dollar currency can meet this requirement. The plans proposed for the consideration of our Government will sooner or later be attached to sterling by some form of agreement and those who manipulate sterling will also manipulate dollars.

The constitutional control of Congress will pass by this arrangement to foreign countries. Our people and possibly our courts will seek to repudiate such a violation of our Constitution as soon as the burden of it presses down as hard as it inevitably will upon us and becomes discernable to the senses of a confused people. The armies and the navies of the other parties of these agreements will

be there to guard the other interest who have entered in to the agreement against us.

You have uncertainty, confusion and danger on the one hand and clear cut right, justice, and simplicity on the other. Why cannot this matter receive consideration from our Government at least equal to that being given to these various proposals, all of which in common leave to European bankers and European Governments the control of the value of and the markets for our property and our products.

Here is an American plan for American control of the purchasing power of gold through the means of the control of the world monetary base. We take possession of the same means that other nations have used but which we have neglected to use. We control by this process the gold value of the metallic base of gold plus silver in the world which the history of the 2 centuries demonstrates, without any doubt, to be the basis for the control of the prosperity of the producing nations, of the world.

It will cost us nothing to do this. It involves simply the purchase of silver and its use in our national money reserves, for its world-accepted value and to such extent as will raise the value of the silver half of the world's monetary base and lower the value of the gold half of the world's monetary base until gold reaches its normal purchasing power as of the year 1926.

Nothing could be more simple. Nothing could be easier. Why cannot the approaching session of Congress address itself to this simple solution of the world's monetary ills? If Congress will do this, our monetary troubles will soon be a thing of the past.

The basis of Government and banking finances will then be firmly established. Credits can be extended with confidence. Commerce will begin to move among the nations, because central banks can provide themselves with adequate reserves to support currency and commercial requirements. Surpluses will vanish by moving into the voids of want and privation in remote sections of the world. Prices will rise under this natural demand, and a profit basis will be restored.

Individuals and corporations will find operating capital to back up the activities thus created. The buying power of home markets will revive through the disbursement of these profits. And the buying power of Asia with the increasing standard of living and a stable system of finance assured from its stable world buying power, will develop in each one of its 1,000 million people, an ever-increasing buying power for our products so that we may transform an over equipped world into a world of ever-increasing wants to be satisfied only by ever-increasing circulation of world products. Such a state of affairs, as far as Asia is concerned, has never existed in the history of modern finance as will be established by this bill.

There is much available data which I have collected to back up these statements and it will give me pleasure to do what I can to meet any objections which you may find being raised to this proposal. And if none can be raised, can I not rely upon you as a patriotic American citizen to help clear away misunderstandings and confusion as to this important matter.

Cordially and sincerely yours,

JOHN JANNEY.

Mr. JANNEY. I would like to say, in connection with Mr. Dies' question, that Mr. Walter Lippman, in the New York Herald-Tribune, of January 16, has expressed himself as follows:

TODAY AND TOMORROW—THE RECONSTRUCTION OF MONEY

[By Walter Lippmann]

The President's proposals contain so many technical implications that I do not feel able to discuss them after having had only a few hours to think about them. Offhand, it would appear, however, that what he has done is to keep himself uncommitted as to a permanent solution of the monetary problem, while taking two definite measures for the immediate management of the dollar.

The first of these measures aims at a tentative stabilization of the dollar within wide limits—between 50 and 60 cents gold. The second establishes an equalization fund to keep the dollar within those limits by buying and selling gold and foreign exchange. This fund is to come from the capture of the gold profit of the Federal Reserve System and the Treasury. The profit arises from the fact

that the official price of gold is raised from about \$20 an ounce to at least \$34 an ounce.

The decision to use this fund from the gold profit primarily as an equalization fund, and not as a whole, at any rate, to finance the deficit, is in itself very important. If I interpret it correctly, this decision means that the President is not letting this great fund of 3 to 4 billions find its way into the banking system where it would swell excess reserves to a point at which credit inflation would be difficult if not impossible to control.

So it may be said that the President is proceeding on the principle of keeping the dollar under control: externally by means of an equalization fund, internally by keeping the excess reserves of the banking system in a form and within limits where credit can be managed by the normal methods of credit expansion and contraction.

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All of this, as the President makes clear, is only a step, and a tentative step at that, toward "an ultimate world-wide solution." That solution is not yet in sight. It may be useful, however, to attempt to state the nature of the problem which calls for solution.

The practical difficulties of restoring the international gold standard and the dangers of restoring it in its old form are perhaps not fully appreciated among those who look upon themselves as the guardians of sound money. Yet we have just witnessed the break-down of that standard less than 3 years after it had been reestablished, and it is difficult to see how responsible statesmen and financiers can advocate a second restoration until and unless they are reasonably certain that the causes of the recent break-down have been cured.

* * * * *

It is probably more difficult to restore the international gold standard today than it was in 1925. For since that time the bulk of the world's monetary gold has been accumulated and sterilized in three countries. There are about 23,000 tons of gold in the world and about 18,000 of them are held in the United States, France, and Great Britain. Obviously, these three great gold-holding countries have got somehow to redistribute their gold if there is to be an international gold standard. How is this to be done? How are Japan and Germany and Central Europe and South America and Australia and India to get enough of this gold to set up true gold currencies with gold reserves? Obviously no one in France, England, or America is going to present the Japanese and the Germans and the Argentinians and all the rest of them with their fair share of the world's small stock of gold. Nowhere does devotion to the gold standard go to the length of contemplating free gifts of gold to countries which lack it.

But if gold is not given away, then those who lack gold must borrow it or must buy it. But who in London, Paris, or New York wants to lend gold to countries that lack it? The reason they have lost their gold is that they already owe more than they can pay. The only other way they could get gold is to buy it by exporting more goods than they import. They could do this by depreciating their currencies. But this would mean that Britain, France, and the United States would have to stand by and let their foreign trade be undercut by the debtor countries and their home markets flooded by cheap imports.

Political human nature will not stand that. Therefore, the gold which is now cornered in these countries cannot be redistributed as a gift; it cannot be borrowed or bought by the debtor countries except by threatening the trade of the creditor countries.

* * * * *

Some observers, notably Mr. L. L. B. Angas in his extraordinarily interesting pamphlet on "The Coming Collapse in Gold" have concluded that the practical difficulties of redistributing the gold, and of keeping it distributed, are insuperable. They prophesy the abandonment of gold and advocate the continuation permanently of what now exists in three quarters of the commercial world, that is, managed paper currencies. This is a conclusion which most men will be extremely reluctant to accept. The President has made it clear in his message that he does not accept it. For while it is indisputable that all modern currencies are, and necessarily must be, managed, it seems extremely dangerous, in view of the limitations of human wisdom and disinterestedness, not to have some metallic measure which restricts somewhat the discretion of those who manage money.

But any one who is conservative enough to desire a metallic control of money must be bold enough to recognize that gold as it is now distributed, and the gold

standard as operated since the war, offer no hope whatever. The basic reason is that while the gold standard controls national currencies, this control is tolerable only if the gold standard itself is wisely and effectively managed. Before the war the single gold standard worked well from about 1896 to 1914. That was its best period. In that time there was a plentiful supply of new gold and the gold standard was well managed from London. Since the war nobody has managed the gold standard effectively or well, and there has been no great supply of new gold. The upshot is that most of the world is off the gold standard, and most of the gold of the world lies sterile in Paris, New York, and London.

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The restoration of an international metallic standard would, therefore, seem to require two things. One is the breaking of what has been called the corner in gold, that is to say, a deliberate reduction of the value of gold so that those who have cornered it and hoarded it will wish to sell it and so get it distributed. The other is the establishment of a method of holding the lowered value of gold steady so that nations returning to gold will not thereafter be subjected to violent deflations or violent inflations.

The real question for all monetary conservatives, among whom the President must clearly be included—for all who want metallic money and not completely managed paper money—is this: By what device can gold be made less valuable, and its value then stabilized? For until gold itself is stabilized, no one who understands this question will wish to stabilize the dollar permanently on gold. Well, what is it that gives gold its value? Its beauty? In some measure. But there are more beautiful metals than gold. Its utility? It is not very useful. The chief reason why gold is so valuable is that in all the civilized countries of the West it can always be sold at a fixed price. When the mints are open, nobody need fear that he cannot sell his gold. In other words, the greatest value of gold is due to the fact that it is legal money at a statutory price for a fixed quantity. This makes it a universal means of storing wealth. Without that, were gold demonetized as silver has been in the West, its value would fall to what people would pay for it to fill their teeth and to make jewelry and other industrial products.

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If we do not wish to demonetize gold, but do wish to reduce its value and then regulate its value, it follows that we must do something to its monetary position. For it is its monetary position that gives gold its chief value by creating an unlimited demand. Now to reduce the value of anything, you have either to reduce the demand or increase the supply. To regulate its value you have to control effectively either the demand or the supply. But it is impossible to do very much about the demand, though some of the reformers think they can do something. The President seems to share their view in that he proposes to stop entirely the circulation of gold coins. This reduces demand, no doubt, but it does not control demand.

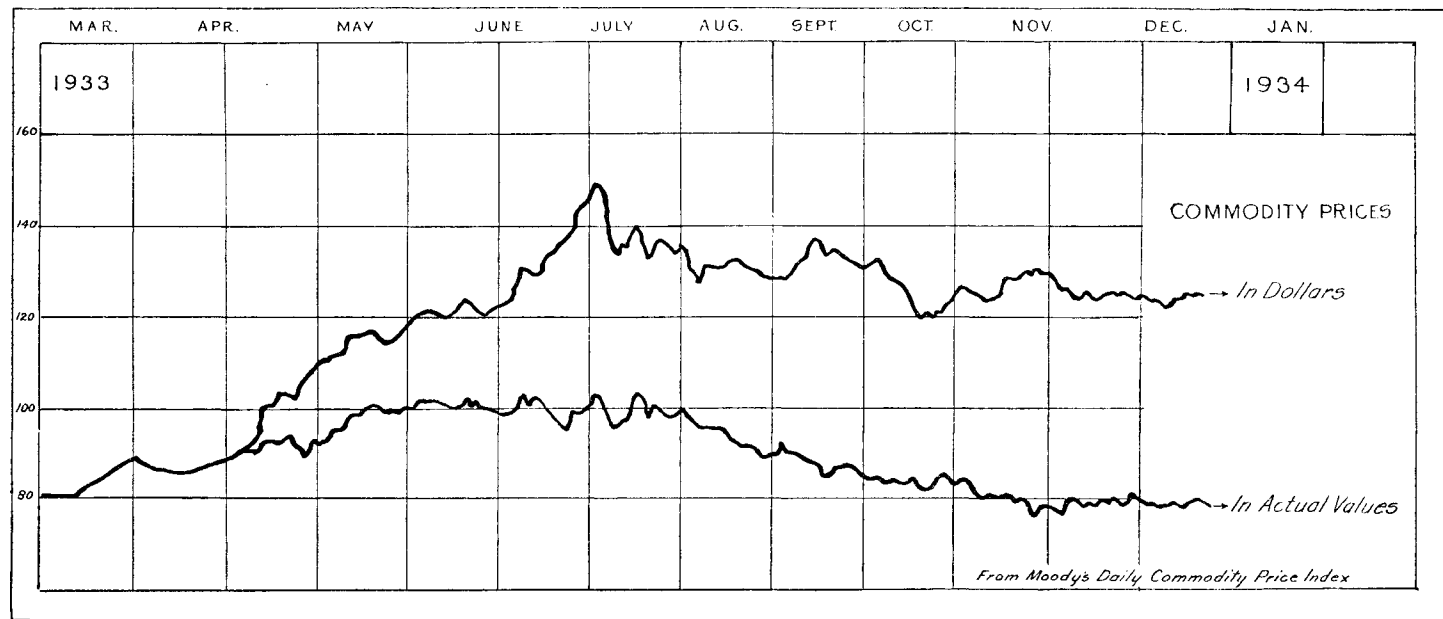
But the supply it may be possible to control because it is such a small supply. The two possible ways of controlling it are, first, by varying the gold content of currencies in each country, and second by reestablishing silver and treating it by law as an equivalent for gold. The first method is purely national. It would adjust the dollar to compensate for changes in the value of gold. The second method is international. It would adjust gold by compensating with silver for changes in its value.

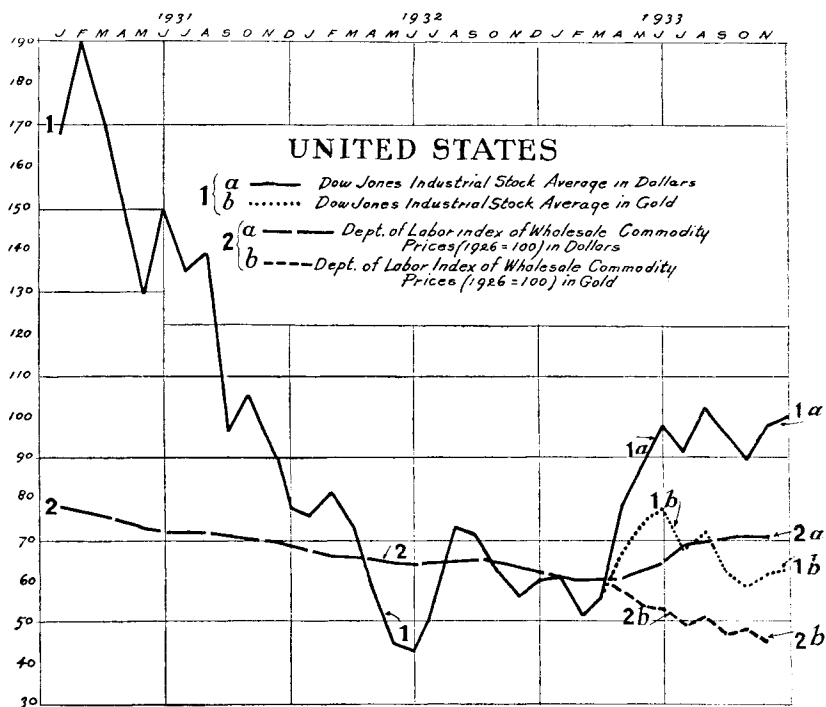
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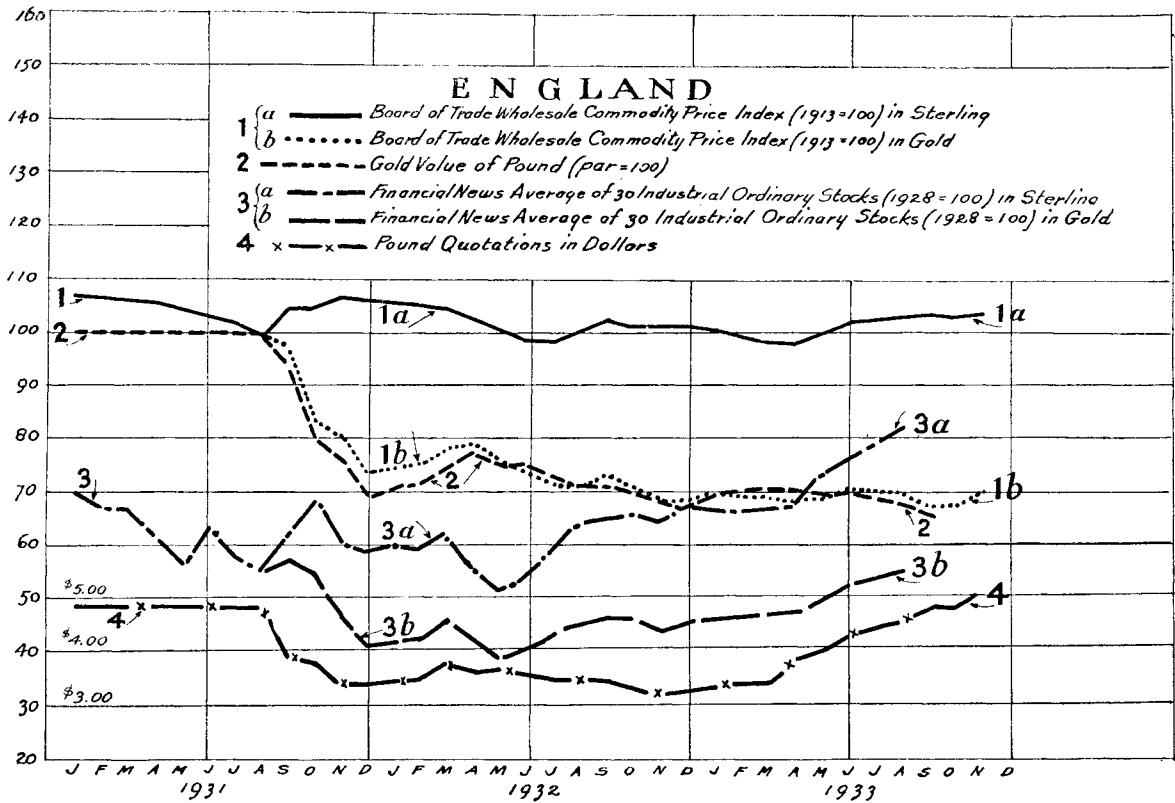
The two methods are not exclusive. It is quite conceivable that the United States might take the lead in managing the value of gold by balancing it with silver in order to obtain reasonably stable international prices, and also manage the dollar to govern the American price level in relation to those international prices.

I hope this does not open up vistas which are too alarming. My own conviction is that this is the ground we have immediately to explore if we are still conservative enough in monetary matters to prefer hard money at the base of credit to absolute paper money. From the point of view of the reconstruction of a gold standard, those who are exploring the possibilities of silver and of a variable gold content are the true conservatives. They alone are trying to find a middle road between the old gold standard, which is now impossible to restore, and the paper money system, which is gaining ground so rapidly in the world.

Mr. FIESINGER (presiding). Does that complete your statement?
(Thereupon the committee went into executive session.)







GOLD RESERVE ACT OF 1934

FRIDAY, JANUARY 19, 1934

HOUSE OF REPRESENTATIVES,
COMMITTEE ON COINAGE, WEIGHTS, AND MEASURES,
Washington, D.C.

The committee met at 2:15 p.m., Hon. William L. Fiesinger presiding.

Mr. FIESINGER. Gentlemen of the committee, we have with us this afternoon the distinguished junior Senator from Texas, Mr. Connally, who will expound this measure.

STATEMENT OF HON. TOM CONNALLY, A UNITED STATES SENATOR FROM THE STATE OF TEXAS

Senator CONNALLY. Mr. Chairman, I want to apologize to the committee for being late. I had a hearing before the Secretary of Agriculture, and just got out of it a few moments ago; and my material for this presentation is in my office. I want to apologize for appearing before the committee without more accurate and detailed preparation.

First, I am strongly in favor of the President's program in connection with gold, as outlined in the proposed legislation.

As early as January 24, 1933, I believe it was, having given a great deal of study to the demand for inflation, and to the fact that commodity values—lands, houses, agricultural products, manufactured products, and everything else—had declined in value so radically compared to the gold dollar, I came to the conclusion that the only sound and safe process of inflation was to cut the gold content of the dollar. I made a speech in the Senate on January 24, 1933, while Mr. Hoover was still President, proposing that such be done. At that time I suggested a 65-cent dollar. It was such a radical move at that time, in the view of many, that I dared to be rather conservative in the amount of cut proposed.

Again, on January 25, 1933, and on April 18, 1933, I made other speeches in the Senate along the same line; and when the inflation amendment came along later in April I made an extended argument about the constitutional powers of the Government to cut the gold content of the dollar.

In essence, the President's plan is entirely satisfactory to me.

I do not think there is any question on earth but what, under the powers given to the Congress in the Constitution to coin money and regulate the value thereof—I do not say fix the value—the Congress may whenever it sees fit change the gold content of the dollar. The Constitution says that the Congress shall have power to coin money and regulate the value thereof; and if regulate means anything it

means the power to change the standard of money; to change the gold content of the dollar whenever the Congress may see fit so to do.

This is like any other great power confided to the Congress. The people simply have to trust to the Congress to do the fair, the just, the wise thing. For instance, the Congress has power to make war; and it may make an unjustifiable war or a terrible war; yet that is one of the things with which we have to take chances. Therefore when the Constitution gives to the Congress the power to regulate the value of money the Congress has that power subject to its own discretion. There can be no doubt of that. Undisputably the Congress had the power to change the amount of gold in a dollar whenever the Congress may see fit to do so. If we do that, it would be unconscionable to allow the Federal Reserve System to get the profits on all gold in its vaults, because gold is charged with a public interest, it being a medium of money; and the Government, having control of monetary gold and money, it certainly has a right to demand of the Federal Reserve banks that they turn that gold over to the Government, not without compensation, but on the fair basis of dollar for dollar.

In other words the Federal Reserve banks would get just as many dollars for their gold as they paid in dollars for it, or as they credited their depositors for it. If they have, say, 3 billions of gold in their vaults and turn it over to the Government, they will receive for it \$3,000,000,000 in new money.

Mr. COCHRAN. May I interrupt the gentleman?

Senator CONNALLY. Certainly.

Mr. COCHRAN. Referring to the matter of gold in the Federal Reserve banks, that gold came from the member banks, did it not?

Senator CONNALLY. Yes; part of it did.

Mr. COCHRAN. And they obtained it from the people?

Senator CONNALLY. Yes.

Mr. COCHRAN. Therefore in the end if the provision were made that Federal Reserve banks should reap the benefit of profits due to inflation, would it not be just and proper that this money be passed to the people who put it in the banks? And there is no way to find who put it into the banks.

Senator CONNALLY. That is right. Of course, every dollar of money in the United States belongs to somebody. The money the Federal Reserve banks have in their vaults does not after all belong to the banks, it belongs to the fiduciaries whoever they are. The local banks received the money from their depositors, naturally.

If it is lawful to make an individual come in and surrender his gold to the Treasury or to the Federal Reserve banks, and have that individual take \$20 in paper money for \$20 in gold, why is it not fair to do the same thing with the Federal Reserve banks; that is, make them turn over their gold for so many paper dollars?

Of course, the constitutionality of making individuals turn over their gold has not been determined; but we have gone ahead and acted and required that the people of the United States turn their gold over to the local banks or the Federal Reserve banks or the Treasury. They have surrendered their gold. Obviously, gold in the vaults of the Federal Reserve banks is gold turned over by the people of the United States, because the people were afraid not to turn it over, fearing prosecution. Would it not be an outrage to take

that gold away from private individuals and let it pass into the hands of the Federal Reserve banks and then give the Federal Reserve banks two dollars for one upon a surrender of that gold to the Government?

Mr. PERKINS. Where did the gold turned in under the Executive order go?

Senator CONNALLY. Turned in by the individuals?

Mr. PERKINS. It wound up in the Treasury or the Federal Reserve banks.

Mr. PERKINS. So that part of the money in the Federal Reserve banks is money you and I and other citizens turned over to those banks?

Senator CONNALLY. Yes. Much of the money in the vaults of Federal Reserve banks is gold that was in the hands of private individuals a year ago, and they had, by compulsion, to turn it in. This money was first turned over to the Federal Reserve banks.

Failure to take over the gold in Federal Reserve banks would simply permit the Federal Reserve banks to make a profit from individual citizens who turned in their gold.

I am sure that all you gentlemen have read the opinion of the Attorney General concerning this subject. The Attorney General takes the view, and I think properly so, that the price of gold, \$34 an ounce, applies to newly mined domestic gold only. According to the statutes of the United States an ounce of gold is now worth \$20.67. Gold is the only commodity on earth, about which I know, whose value is fixed arbitrarily by law. Take 23 grains of gold to the mint, and you get a gold dollar for it. It does not make any difference how much gold is produced in the world, you still get \$1 for 23 grains of gold. Repeating, it was the only commodity on earth whose value was absolutely and rigidly fixed by law. And that is still the value of monetary gold. It is only the new gold that is worth about \$34 an ounce at the Treasury.

How would we cut the gold dollar successfully in any other way than by this proposal here? How would we adjust the difficulties without requiring everybody to turn in his gold to the Treasury. Otherwise some citizens would make an undue profit.

Mr. WHITE. Would not the remonetization of silver accomplish the purpose of revaluing the gold dollar?

Senator CONNALLY. I do not think so. Whenever the price of gold is raised the price of silver also is raised. You, of course, want to help silver; but the minute you raise the price of gold, like this bill would do, you raise immediately the price of silver and make it worth that much more. That is because there is a well-known ratio between gold and silver. When the price of gold increases the price of silver also increases.

Mr. WHITE. We are seeking to raise commodity prices and to decrease production here.

Senator CONNALLY. Yes; that is true.

Mr. WHITE. That is a function of Government?

Senator CONNALLY. Yes.

Mr. WHITE. In the statement of Mr. Harding to the members of the advisory board of directors of the Federal Reserve System he stated that from 1914 to 1921, as a result of putting \$1,900,000,000 in circulation, with an expansion of credit of \$11,000,000,000, prices

rose 25 percent and we had a decrease in the price of essential articles. If we did that by increasing the money in circulation, with a constant expansion of credit, then if we remonetized silver we will do the same thing again.

Senator CONNALLY. I do not agree with the silver thesis, and I will tell you why. The minute you cut the gold dollar to 60 cents you increase the volume of money, if you want to issue it by 66%, because you cut 40 percent off. The basis then is 60, or 40 percent. If we take a gold dollar and cut it in half, have we not twice as many dollars. We have only about $4\frac{1}{2}$ billions of actual gold. By cutting the $4\frac{1}{2}$ billions in half we would, of course, have 9 billions in hard money. Under the reserve laws we can issue a great many more certificates than there are gold dollars, because the reserve requirement is only 40 percent. We could, therefore, issue about 13 billions of gold certificates and have a 40-percent gold reserve.

I favor using silver as part of the monetary reserves, as a subsidiary coin, but, my dear sir, the minute we go on a free-coinage basis, according to my humble view, unless we have an agreement with foreign nations, as to what the ratio shall be, we should have the bulk of the silver of the world and no gold. What is the trouble with India and China today? They have all or most of the silver in the world, and it is worth practically nothing. Do we want to exchange roles with them. Do we want to use silver only and therefore have other nations look upon us sorrowfully?

Internationally, all trade balances are settled in gold. If we had free silver we should have to use gold also. The difficulty about gold and silver is the matter of ratio.

There is the Gresham law, which means that when you cut the ratio of gold and silver to the point where silver is worth more here than elsewhere, the silver of the world will come here, and gold will leave here. After the Napoleonic wars France had a silver ratio of 15.5 to 1. We had a ratio of 16 to 1. Silver was worth more in France than here and the result was that our people sent their silver to France.

Mr. WHITE. How do you account for the fact that when we, under the Pittman Act, placed a value of a dollar an ounce on 2 billion ounces of silver the price of silver in India was \$1.42, higher than the normal value of a silver dollar.

Senator CONNALLY. We bought and stored that silver and therefore made it scarcer. When any article gets scarce, the price of it goes up, of course. For example, if I should buy in imagination 5 million bales of cotton, the price of cotton would soar, but when people learn that it is only imagination the price will decline.

By this proposal we would increase the volume of money by several billions of dollars. But what difference does it make as to form of money, so that it is cheaper?

Mr. WHITE. We want to obviate future money stringencies and to avoid a repetition of our present experience.

Senator CONNALLY. You say we would have more money if we should coin silver. There is not any more silver on the valuation basis than there is gold. Is not that true? It is even.

Mr. WHITE. That is correct.

Senator CONNALLY. Certainly, it is perfectly even. Suppose we coined all the silver, we would not have any more money than if

we coined the gold. Why not let us have some legislation once in awhile on the subject of money without getting the silver question in it.

MR. PERKINS. The difficulty some members will experience when called upon to vote on this bill is that they do not feel that the gold should be taken from the Federal Reserve banks. They will agree that the increased value should be taken. Will you please address yourself to that, Senator?

SENATOR CONNALLY. I introduced a bill on this subject in the Senate to take the gold from the Federal Reserve banks. That bill provided that the Federal Reserve banks should turn over their gold to the Treasury and receive in lieu thereof gold certificates in the same number of dollars as the present amount of the gold. If they turned in 3 billions, they would receive that amount in gold certificates; and as soon as the gold content is changed those Federal Reserve banks could go to the Treasury and get gold certificates to which they are entitled and use the certificates as a reserve in lieu of actual gold. Is there anything wrong with that proposal?

MR. WHITE. Do you think it would have the same debt-paying power as the present gold dollar?

SENATOR CONNALLY. Yes; so far as debt is concerned. If, for example, I owe you a thousand dollars, the Supreme Court has said that I may legally take a thousand paper dollars and pay you. If you have a gold bond for, say, \$5,000 issued 5 years, the maker of that bond may take new gold and pay off that bond. That point has been settled since the decision in the Legal Tender cases. During the stress of the Civil War the legal tender laws were enacted, and they were passed upon by the Supreme Court after the war. Greenbacks were freely issued without their having a gold or a silver reserve behind them. Those paper dollars were worth only about 35 cents in gold; but, because the Congress had said that those greenbacks should be legal tender for the payment of all debts, excepting taxes, the Supreme Court held, although by a divided court, that such an act of the Congress was legal, and one could pay his debts dollar for dollar with a 35-cent dollar.

MR. WHITE. The money was legal tender?

SENATOR CONNALLY. Yes; even though it was practically worthless.

MR. WHITE. You mentioned the subject of the constitutionality of the act. Will you please address yourself to that subject and say whether we are, in your opinion, declaring a constitutional function Congress has to the Executive in this act?

SENATOR CONNALLY. You are not. There are several Supreme Court decisions in this connection. Legislative authority cannot be delegated. I grant that. There is, however, a line of Supreme Court decisions holding that when the Congress, by an act, outlines its policy and limits the authority an administrative officer is to exercise under that act—when the Congress outlines its wishes and desires—the remainder of it is purely an administrative act which an executive officer may perform.

In *Field v. Clark*, which is a tariff case, the issue was one in which the President had been given authority to place embargoes and prohibitions against foreign countries that had in the matter of commerce discriminated against the United States. The constitutionality of that power exercised by the President was questioned. The

contention was that the Congress was allowing the President to select the nations for reciprocal treatment and allowing him to say how much the duty should be on articles from certain countries, which, it was alleged, was strictly a legislative power, because the Congress was empowered to fix duties and taxes. The Supreme Court in that case held that such a law was not a delegation of the congressional authority, because the Congress had clearly indicated a governmental policy, and that the determination as to what country or countries were so discriminating against the United States was an administrative function that the Executive had a right to determine.

So that in this proposed act the Congress has made a declaration of policy that it is the intention to cut the gold dollar to between 50 and 60 cents. This would simply vest in the Executive certain administrative duties with reference to the enforcement of the law; but the Congress has, repeating, clearly outlined a governmental policy. Without this proposed act this could not be done, probably. This act expresses the congressional will and the congressional policy, and I do not believe it is a delegation of the authority vested in the Congress.

In closing let me say that the reason I advocated cutting the gold dollar was, for some reason, the gold dollar had been going higher and higher and higher while property values were going lower and lower and lower, measured in gold. The States and the municipalities and the Federal Government were so loaded with bonded indebtedness, our people generally were so loaded with mortgage indebtedness on property, that I did not believe they could ever discharge those debts in gold dollars of the old content under present economic conditions and according to present price levels.

I believe it is wise and sound and safe and proper to cut the gold content of the dollar, because that will permit of a general adjustment of the debts of everybody and the commodities of everybody. I believe it is wiser and sounder and safer to do this than to go on and have a period of absolute deflation wherein our people would be foreclosed, cities would become bankrupt, and our Federal Government would have to issue bonds at increased rates of interest. I believe it is wiser and sounder and safer to do this than to try to go through on the high-standard dollar.

This is no new doctrine. Nations from the beginning of time have revalued their money. France did it. Great Britain did it. When Great Britain stabilizes she will do so on a lower level than the old pound.

Now talk about contracts. My friends, of course, I believe absolutely in respect for contracts; but contracts are not superior to great governmental powers and great governmental functions that are superior to anybody's individual contract. Talk about the gold clause in contracts. This is my answer to that: When a man issues a bond payable in gold coin, and when a man buys a bond payable in gold coin, they do so with the knowledge that, under the Constitution, the Congress may legally at any time change that gold dollar; and that constitutional provision is written into that contract. We have the power to make war. Let us say that a man had a contract to sell goods in Europe and the war came on, an embargo is placed against our export; that is not a violation of the contract because the man knew that the Congress had power to declare war; and if the man

has such a contract and those circumstances overtake him, the contract is not worth a dime. Repeating, when a man contracts to make payment in a gold dollar he does so knowing that the Government may say what a gold dollar shall be at any time.

Mr. PERKINS. Many contracts were made payable in gold of a standard weight and fineness?

Senator CONNALLY. Yes.

Mr. PERKINS. When we have eight or nine hundred billions of gold obligations and only 10 or 12 billions of gold, there is something that rises above contracts, and that is absolute necessity.

Senator CONNALLY. True, contracts may be sacred; but there is something more sacred, and it is the high function of the Government to take care of the general welfare of the people of this Republic. We have many, many millions of indebtedness in the United States payable in gold coin of the present weight and fineness. How could that indebtedness be paid?

Mr. ELTSE. But all that indebtedness does not mature at one time.

Senator CONNALLY. No; that is true.

Mr. ELTSE. Somebody has remarked here that the undertakers could not take care of the business if everybody would die at the same time.

Senator CONNALLY. Could any considerable part of those debts be paid now?

Mr. PERKINS. Referring to the matter of the undertaker, if everybody should die at one time the undertakers too would be dead, therefore we need not bother about that. [Laughter.]

Senator CONNALLY. I mean that individuals have to yield in the face of a great public necessity; and the reason the Congress was vested with these transcendental powers over money was so that money is a function of Government and a dollar is just a symbol. It is not something that may be eaten or worn. A dollar is just a symbol that the Congress sets up as an agency or means of exchange.

Mr. ELTSE. Is it so much a question of whether the Government has the right to devalue the gold content of the dollar, and thereby breach faith with makers of contracts, as it is a question of the right of business men and industries of the Nation to have some definite, fixed, determinable standard by which they may gauge their future conduct.

Senator CONNALLY. Have they had such a standard during the past 4 years?

Mr. ELTSE. Yes; I think they did, until the first of this year.

Senator CONNALLY. They thought they had a standard. Business was paralyzed. I do not recognize any difference between a business man and any other kind of man. Everybody who works or toils is a business man. I do not especially recognize any thin, upper crust called "business men." Everybody in this country is a business man. The business man has had a fixed standard of gold during the last 4 years and he has been keeping his money in their vaults. He has not been buying property, because of the uncertainty of economic conditions and not because of the dollar.

After all, when we went off gold everybody took these new dollars. Did you gentlemen see any banks refusing to take any of the new dollars for deposit? Did you gentlemen see any merchants who declined to take a 65-cent dollar? A dollar is a recognized symbol

and the only question is whether it will be accepted by everybody. When the gold content of the dollar is cut we have every dollar in circulation worth a dollar. Every dollar would be worth the same; every dollar would be a sound dollar. Every dollar would pass current.

Referring to certainty—when we change that value why is not the dollar as certain for the business men as for anybody else? They do not take any more chance than anybody else.

Mr. ELTSE. I say let us fix it and be done with it.

Senator CONNALLY. This bill will fix it better than it is fixed now, because it may be worth a hundred cents now or it may be worth 50 cents.

Mr. ELTSE. Under this bill, as drawn, it is not mandatory that the President shall devalue.

Senator CONNALLY. Yes. He has devaluated to 65 cents, and he is not going above that. He will not make it any dearer than it is now.

Mr. ELTSE. Except the profit the Government would make from devaluation, what would be the advantage?

Senator CONNALLY. It would give the certainty you say you want. Besides it would give the sanction of the Government to this plan and be assurance that this would be the policy. Under the present plan the matter is up to the Executive. If the Congress passes this proposed bill, and announces its policy, we shall have assurance that this will be the fixed, definite policy of the Congress of the United States to regulate the gold content of the dollar between definite limits. I myself should be glad to fix it definitely, but, on account of exchange and fluctuations, it might be desirable to have a little tolerance. At the Bureau of Standards they preserve a standard yard and weight, but there is always allowed a little tolerance. If we were in a normal condition and the world were not upset, I should be willing to say it should be 50 cents, and fix it there; but the 10-point variation is not undesirable. That is a practical consideration.

Mr. PERKINS. It would prevent the hoarding of gold?

Senator CONNALLY. Yes. I introduced a bill last April looking to cutting the gold dollar to 66 cents and calling all gold into the Treasury, and not having any more of it coined, simply keeping the bullion, and having a dollar worth so many grains of bullion. I would not have coined any such money, but would have issued certificates. We have to use this money in international exchange; and why have the gold coin when we have a gold certificate? We do not need any gold.

Let me tell you an interesting story about gold. I had a month's salary in gold certificates and I left it with Mr. Pace, in the Senate disbursing office; and I thought I would take a look at it before surrendering it. I went to do so, and I found the money in greenbacks. I asked, "What did you do with those gold certificates of mine?" and he replied, "I turned them over to the Treasury because the President ordered them turned in."

Mr. BERLIN. In section 10 of this [indicating] bill 2 billions is set aside as a stabilization fund. Is that not the real ace in this whole bill?

Senator CONNALLY. I do not think so; but is is, I grant, important. That is, I think, modeled after the British equalization fund. We would not lose that money. We would gain at one time and lose at

another, and come out just about even. That is due to exchange rates and fluctuations. That is just part of our profit. One of the policies of the administration is, instead of spending that profit, to keep that profit in the Treasury in this fund until we get to normal and then dispose of it as we see fit.

Mr. PERKINS. Why should we make a law for the permanent of this 2 billions. Why not make it pending the emergency or for some definite time?

Senator CONNALLY. If we say "emergency", I do not think that is possible. If we should make it for only a short time, that would make a difference with foreign countries and they would probably play against it; but if it be made permanent we could discontinue it when we got ready. I do not think that would cause any trouble.

Mr. WHITE. We have spoken about profits in the operation of that fund. May I ask whether there would be any losses?

Senator CONNALLY. There would be losses and gains. A money exchange is like any other commodity. If one should want to buy francs on the British exchange the price he would have to pay would be determined by the demand for francs on that exchange at the time he wanted to buy. The demand governs the price, as usual. Again, if we ship 3,000,000 or 4,000,000 bales of cotton to European and get paid for them in francs, we shall have to sell those francs for dollars. Our people cannot spend francs; those francs have to be converted into dollars. And to dump that many francs upon the British exchange would cause the price of the franc to go down some at least. On the other hand, if a big load of goods should come here, the reverse would be true. There would be a reverse effect on the dollar.

Mr. ELTSE. Referring to the matter of the Federal Reserve banks holding the gold and turning the profits over to the Federal Government, what advantage is there to the Federal Reserve banks in holding the gold and not turning it over to the Treasury?

Senator CONNALLY. I cannot see any advantage. You will be told that the gold is used for issuance of notes.

I want to say something about the Federal Reserve banks, and I want everybody to get it. I especially want the newspaper men here to get it.

If the Federal Reserve banking system sets itself up in opposition to the Government of the United States and undertakes to play the game of the old United States Bank and the Biddles in the time of Andrew Jackson, somebody will destroy the Federal Reserve System just as Jackson destroyed the United States Bank in the thirties.

Every dollar the Federal Reserve banks have in their vaults was deposited there by somebody. They owe their depositors. On the other side they have assets, notes from banks and notes from different other concerns. All they own consists of assets or dollars. It is all in terms of dollars. They have no horses or cattle in their vaults. They owe debts and debts are owed to them. When this money is taken from them and they are given new dollars, they can pay their debts with new dollars, and they will be just as well off as they are now.

Mr. ELTSE. They are certificates.

Senator CONNALLY. They are entitled to the gold for them after the dollar has been revalued.

Mr. FIESINGER. I thank you on behalf of the committee for this illuminating talk, Senator.

Senator CONNALLY. I am glad to be with you, and I thank you for hearing me.

Mr. FIESINGER. Gentlemen of the committees, we are fortunate in having with us this afternoon Gov. George W. Norris, governor of the Federal Reserve Bank of Philadelphia. He has shown his interest in this matter by consenting to come before this committee and give us his views of this bill. You may proceed, Governor Norris.

STATEMENT OF GEORGE W. NORRIS, GOVERNOR OF THE FEDERAL RESERVE BANK OF PHILADELPHIA, PA.

Mr. NORRIS. Mr. Chairman, may I ask whether you would like me to get through in 10 or 15 minutes?

Mr. FIESINGER. I think that will be just as you like. If you wish to make a statement and go along with that statement uninterrupted, I think the committee will respect your wishes.

Mr. NORRIS. If you want me to get through in 10 or 15 minutes I will confine myself absolutely to this bill; if you will give me a few minutes more than that, there are a few preliminary observations that I would like to make.

May I say, first, gentlemen, that I received the chairman's invitation to come here today only late yesterday afternoon, so that I have had no time to prepare any statement or material, and I want it understood that I am not speaking for the Federal Reserve Board or for any other Federal Reserve bank, but am merely speaking here as an individual.

I would like first to make a very short and simple statement on the gold situation. It is very commonly alleged that there is not enough gold in the world, that the increase in the stocks of monetary gold has not kept pace with the demand. That argument has been specially pressed by Professor Cassell, of Sweden. In 1927 or 1928 what they called the "Gold Delegation" of the League of Nations made an estimate of the probable production of gold during a series of years following—I think they ran it 10 or 15 years. All their calculations of the probable production of gold have been greatly exceeded.

In addition to the increase in the production of gold, that is, of gold from the mines, there has been a very great reduction in the amount of gold used in the arts, so that a very much larger proportion, of a larger output has gone into monetary gold, with the result that at the end of 1928 the gold reserves of the central banks and treasuries of the world were 10 billion dollars; at the end of 1929, in round figures, 10½ billion; at the end of 1930, 11 billion; at the end of 1931, eleven billion seven hundred million, and at the end of 1932, eleven billion nine hundred million. That is an increase in 4 years of over \$1,800,000,000, or 18.64 percent, or an average increase in the world's stock of monetary gold of 4.66 percent a year.

The calculation that statisticians and economists have substantially agreed upon is that the world increase in production, which indicates the demand upon gold, averages over a long period of years about 3½ percent, and that therefore to keep pace with the growth of population

and business, the stock of monetary gold must increase at least 3½ percent annually.

In those 4 years that I have indicated, as the result of the increased production, the diminished absorption in the arts, and the outflow of gold from India, which had previously been known as the "world's sink for gold", the increase in the stock of monetary gold has averaged 4.66 percent, and world production of basic commodities, instead of having gone up in those years, has gone down. So that we have an infinitely larger proportion of gold today in proportion to the demand for gold—the load that gold is expected to carry—than we have had at any time in recent history.

Next I want to say a word as to the currency in circulation. A great many gentlemen speak of the necessity for increasing the circulating medium. The currency in circulation today in this country is 18 percent larger than it was in 1926, and larger than it was in 1929, when wages were high, pay rolls large, prices high, and the demand for currency was very much greater than it is now. So that I cannot see any sound argument that can be made that there is any shortage of gold in the world, and certainly not in this country, where we have the largest stock of any nation in the world, nor is there any shortage of the circulating medium.

Of course, the currency in circulation represents only a small part, less than 10 percent, of the total circulating medium because over 90 percent of our transactions are settled by check.

There has been a very considerable shrinkage in the deposits, what the statisticians—and I am neither a statistician nor an economist—what they call the "bank deposit currency." The reduction in the net demand deposits of the banks, I think, has been, since 1929, in the neighborhood of 20 percent, but production has gone off, prices have gone off, pay rolls have gone off. So that whether we take actual currency or whether we take bank credit currency, there is an ample supply of both.

Now as to credit—and, of course, I realize that what I say as to currency and as to credit will seem incorrect to gentlemen from particular localities where, as the result of bank failures or crop failures or something else, the people are very poor and there is a lack of credit and of currency. I know that exists in some sections of the country, very unfortunately. I regret it deeply but of course it is impossible to go into those local details. I am giving you simply the national figure. Within the last year the Federal Reserve banks, in an effort to aid the situation, have bought over 600 million of Government bonds. Those bonds, of course, have been bought largely from the banks, that are now the principal holders of Government bonds, and the result of those purchases has been to create over \$900,000,000 of excess reserves in the banks of this country. I forget whether that is all banks—no, I think it is member banks—but at all events whatever criterion is taken for the excess reserves, when we originally started out on the bond buying program we thought that it would be advisable to give the banks \$250,000,000 or \$300,000,000 of excess reserves; and if they had that amount they would want to use them, they would loosen up in their credit policies, and that the result on business would be beneficial; but we have gone on to the point where we have brought

those excess reserves up to not only \$250,000,000 or \$300,000,000, but on to over \$900,000,000.

I am not going into any extended discussion of the devaluation of the dollar.

Senator Connally has spoken very interestingly about that. I think we are all resigned to the dollar being devalued. Personally, I think that 60 percent is too low. The dollar was driven down at one time to a fraction under 60; then it rallied to 64 or 65, and has since been fluctuating between 62 and 64. That very low valuation of the dollar is due to several causes. It is due in the first place to the fact that American exporters, who have been nervous for the last 8 or 10 months about the future of the dollar, have left their balances abroad instead of bringing them back here. There has been a considerable flight of capital from this country, and there has been the operation—I don't know what that has been exactly—but there has been the operation of this gold buying abroad and talk of the possible devaluation of the dollar to 50 cents. So I think that a great many things have conspired to drive the dollar down below natural or proper levels. I believe that if it were to be announced tomorrow that dollar devaluation had been abandoned, the dollar would at once rise to 100. Probably it is not desirable that it should. The devalued dollar gives us an advantage in foreign trade, and I agree in the main substantially with what Senator Connally has said about the great volume of debt in this country, and that we are faced with a choice between a long period of individual deflation and liquidation, and some arbitrary measures of this sort that will clean the situation up at one stroke. So I am not opposed, and I do not think many of the officers or directors of the Reserve banks are opposed to the devaluation of the dollar, nor do they assume to say how great that devaluation should be.

Senator Connally referred to the gold that has been turned in, the large amount of gold that the Federal Reserve banks hold that was turned in by individuals in obedience to the President's order last March. I do not know what that amounts to in the system. I know that in Philadelphia we have about \$14,000,000 of gold that has been turned in in that way. We have never regarded that as our gold. We have at all times been ready to turn it over to the Treasury at any time they call for it. We only received it as agents for the Treasury, and we never have for a moment considered that it was our gold or that it was anybody else's gold than the Treasury's, and there never has been a time since last March when, if the Secretary of the Treasury had said, "Send me the gold that you have received from the public", we would not have sent it.

That brings me to the gold that is the property of the Reserve banks. We are all agreed that the increment or profit developing from devaluation, being the result not of any ordinary business operations, but purely the result of a governmental act, that that increment or profit should properly go to the Government, and we have never taken any position in opposition to that nor has there been any friction or contest or opposition between the Federal Reserve System and the administration. So that it all boils down to the question of when and how the thing shall be done.

Our gold, part of it, was deposited by member banks; part of it has come in in various ways. Under the Federal Reserve Act as it

stands we are obliged to maintain a reserve of 35 percent, which may be in either gold or lawful money, against deposits. That may be entirely in lawful money, so that as to our deposits which come from the banks we are not concerned. We are not concerned with the protection of our member banks and we realize that that 35 percent reserve against deposits we can maintain in lawful money. We need not have any gold at all against them. The only thing that we are interested in, and deeply interested in, is our \$3,000,000,000 of Federal Reserve currency, Federal Reserve notes that are outstanding. Those notes nominally are the obligations of the United States Government.

The Federal Reserve notes read: "The United States of America will pay"—but I take it you gentlemen are all familiar with the difference of opinion between President Wilson and Mr. Glass on one side and Mr. Bryan on the other, at the time the Federal Reserve Act was under discussion in Congress, and the compromise which was finally effected, by which Mr. Bryan was satisfied through making the Federal Reserve notes obligations of the United States, he holding strongly to the view that the note-issuing function should be an exclusive prerogative of the Government. President Wilson and Mr. Glass felt that it was better that notes should be issued by a bank that was under Government supervision and on the board of which the Government was represented. So that the compromise that was made was to say that the United States of America would pay, but the Federal Reserve banks were required to maintain a 40-percent reserve in gold, not in gold or lawful money but in gold, and the notes were made, in the language of the act, the first and paramount lien on all the assets of the issuing banks. So that while the obligation on the face of the notes is an obligation of the United States Government, there never has been a day when it was any real or practical obligation. There never has been a time when any Federal Reserve bank had less than that 40-percent gold reserve against them; there never has been a time when the assets of any Federal Reserve bank were not amply sufficient to retire all of the notes that were issued; and as a matter of fact, over a period of years the gold reserve against those notes ran 80 or 90 percent, and in a number of instances the gold reserve against notes was over 100 percent.

As I say, we are not seeking any advantage here or seeking to be relieved of any duty or obligation that we owe the United States Government or to anyone else, but we are very much interested in the American people who have taken \$3,000,000,000 of those notes from us and hold them today. All through the war, from the day when they were first issued in 1915, I suppose, up to the present time, there never has been a time when a Federal Reserve note was not accepted at par, was not equal to any other currency issued in this country; and not only that, for a great many years in Cuba, in Mexico, and in southeastern Europe, Federal Reserve notes were accepted and regarded and sought by the people of those countries as superior to any other form of currency in the world.

Under those circumstances, with that obligation of the Federal Reserve Act upon us, which of course, is modified by the act which is now before you, we have always felt that we were trustees of a very sacred and important public trust, the beneficiaries of which were all the people of the United States, and if this gold is to be turned over

to the Government, we are resigned to the Government taking the profit on it. There is no conflict or difference of opinion on that. While we are resigned to that, we do not want to affect the security of these notes; we do not want at any time to be deprived of the gold that we now hold, and if it has to be done, if the administration view is that in order to insure profit on the devaluation of the dollar, it is necessary that the Government should have both title to and physical possession of our gold, if that is the view, then I think we should be told very specifically what we are going to get in return for that gold we turn in. The act that is before you is very far from explicit on that point. Section 2 reads:

SEC. 2. (a) Upon the approval of this Act, all right, title, and interest, and every claim of the Federal Reserve Board, of every Federal Reserve bank, and of every Federal Reserve agent, in and to any and all gold coin and gold bullion shall pass to and are hereby vested in the United States; and in payment therefor credits in equivalent amounts in dollars are hereby established in the Treasury in the accounts authorized under the sixteenth paragraph of section 16 of the Federal Reserve Act, as heretofore and by this Act amended (U.S.C., title 12, sec. 467). Balances in such accounts shall be payable in gold certificates, which shall be in such form and in such denominations as the Secretary of the Treasury may determine. All gold so transferred, not in the possession of the United States, shall be held in custody for the United States and delivered upon the order of the Secretary of the Treasury; and the Federal Reserve Board, the Federal Reserve banks, and the Federal Reserve agents shall give such instructions and shall take such action as may be necessary to assure that such gold shall be so held and delivered.

(b) Section 16 of the Federal Reserve Act, as amended, is further amended in the following respects:

(1) The third sentence of the first paragraph is amended to read as follows: "They shall be redeemed in lawful money on demand at the Treasury Department of the United States, in the city of Washington, District of Columbia, or at any Federal Reserve bank."

(2) So much of the third sentence of the second paragraph as precedes the proviso is amended to read as follows: "The collateral security thus offered shall be notes, drafts, bills of exchange, or acceptances acquired under the provisions of section 13 of this Act, or bills of exchange endorsed by a member bank of any Federal Reserve district and purchased under the provisions of section 14 of this Act, or bankers' acceptances purchased under the provisions of said section 14, or gold certificates:"

(3) The first sentence of the third paragraph is amended to read as follows: "Every Federal Reserve bank shall maintain reserves in gold certificates or lawful money of not less than 35 per centum against its deposits and reserves in gold certificates of not less than 40 per centum against its Federal Reserve notes in actual circulation: *Provided, however,* That when the Federal Reserve agent holds gold certificates as collateral for Federal Reserve notes issued to the bank such gold certificates shall be counted as part of the reserve which such bank is required to maintain against its Federal Reserve notes in actual circulation."

(4) The fifth and sixth sentences of the third paragraph are amended to read as follows: "Notes presented for redemption at the Treasury of the United States shall be paid out of the redemption fund and returned to the Federal Reserve banks through which they were originally issued, and thereupon such Federal Reserve bank shall, upon demand of the Secretary of the Treasury, reimburse such redemption fund in lawful money or, if such Federal Reserve notes have been redeemed by the Treasurer in gold certificates, then such funds shall be reimbursed to the extent deemed necessary by the Secretary of the Treasury in gold certificates, and such Federal Reserve bank shall, so long as any of its Federal Reserve notes remain outstanding, maintain with the Treasurer in gold certificates an amount sufficient in the judgment of the Secretary to provide for all redemptions to be made by the Treasurer. Federal Reserve notes received by the Treasurer otherwise than for redemption may be exchanged for gold certificates out of the redemption fund hereinafter provided and returned to the Reserve bank through which they were originally issued, or they may be returned to such bank for the credit of the United States."

(5) The fourth, fifth, and sixth paragraphs are amended to read as follows:

"The Federal Reserve Board shall require each Federal Reserve bank to maintain on deposit in the Treasury of the United States a sum in gold certificates sufficient in the judgment of the Secretary of the Treasury for the redemption of the Federal Reserve notes issued to such bank, but in no event less than 5 per centum of the total amount of notes issued less the amount of gold certificates held by the Federal Reserve agent as collateral security; but such deposit of gold certificates shall be counted and included as part of the 40 per centum reserve hereinbefore required. The Board shall have the right, acting through the Federal Reserve agent, to grant in whole or in part, or to reject entirely the application of any Federal Reserve bank for Federal Reserve notes; but to the extent that such application may be granted the Federal Reserve Board shall, through its local Federal Reserve agent, supply Federal Reserve notes to the banks so applying, and such bank shall be charged with the amount of notes issued to it and shall pay such rate of interest as may be established by the Federal Reserve Board on only that amount of such notes which equals the total amount of its outstanding Federal Reserve notes less the amount of gold certificates held by the Federal Reserve agent as collateral security. Federal Reserve notes issued to any such bank shall, upon delivery, together with such notes of such Federal Reserve bank as may be issued under section 18 of this Act upon security of United States 2 per centum Government bonds, become a first and paramount lien on all the assets of such bank.

"Any Federal Reserve bank may at any time reduce its liability for outstanding Federal Reserve notes by depositing with the Federal Reserve agent its Federal Reserve notes, gold certificates, or lawful money of the United States. Federal Reserve notes so deposited shall not be reissued, except upon compliance with the conditions of an original issue.

"The Federal Reserve agent shall hold such gold certificates or lawful money available exclusively for exchange for the outstanding Federal Reserve notes when offered by the reserve bank of which he is a director. Upon the request of the Secretary of the Treasury the Federal Reserve Board shall require the Federal Reserve agent to transmit to the Treasurer of the United States so much of the gold certificates held by him as collateral security for Federal Reserve notes as may be required for the exclusive purpose of the redemption of such Federal Reserve notes, but such gold certificates when deposited with the Treasurer shall be counted and considered as if collateral security on deposit with the Federal Reserve agent."

(6) The eighth paragraph is amended to read as follows:

"All Federal Reserve notes and all gold certificates and lawful money issued to or deposited with any Federal Reserve agent under the provisions of the Federal Reserve Act shall hereafter be held for such agent, under such rules and regulations as the Federal Reserve Board may prescribe, in the joint custody of himself and the Federal Reserve bank to which he is accredited. Such agent and such Federal Reserve bank shall be jointly liable for the safe-keeping of such Federal Reserve notes, gold certificates, and lawful money. Nothing herein contained, however, shall be construed to prohibit a Federal Reserve agent from depositing gold certificates with the Federal Reserve Board, to be held by such Board subject to his order, or with the Treasurer of the United States for the purposes authorized by law."

(7) The sixteenth paragraph is amended to read as follows:

"The Secretary of the Treasury is hereby authorized and directed to receive deposits of gold or of gold certificates with the Treasurer or any Assistant Treasurer of the United States when tendered by any Federal Reserve bank or Federal Reserve agent for credit to its or his account with the Federal Reserve Board. The Secretary shall prescribe by regulation the form of receipt to be issued by the Treasurer or Assistant Treasurer to the Federal Reserve bank or Federal Reserve agent making the deposit, and a duplicate of such receipt shall be delivered to the Federal Reserve Board by the Treasurer at Washington upon proper advices from any Assistant Treasurer that such deposit has been made. Deposits so made shall be held subject to the orders of the Federal Reserve Board and shall be payable in gold certificates on the order of the Federal Reserve Board to any Federal Reserve bank or Federal Reserve agent at the Treasury or at the Subtreasury of the United States nearest the place of business of such Federal Reserve bank or such Federal Reserve agent. The order used by the Federal Reserve Board in making such payments shall be signed by the Governor or Vice Governor, or such other officers or members as the Board may by regulation prescribe. The form of such order shall be approved by the Secretary of the Treasury."

(8) The eighteenth paragraph is amended to read as follows:

"Deposits made under this section standing to the credit of any Federal Reserve bank with the Federal Reserve Board shall, at the option of said bank, be counted as part of the lawful reserve which it is required to maintain against outstanding Federal Reserve notes, or as a part of the reserve it is required to maintain against deposits."

It does not state at whose option such balances shall be paid, or when they shall be payable, but only says, "shall be payable in gold certificates, which certificates shall be in such form as the Secretary of the Treasury may determine."

In other words, we have to turn over all our gold and we will get credit for it, and that credit is to be payable in gold certificates. Senator Connally assumed that those gold certificates will be issued to us at once. I hope they will, but I think that it should not be left open to argument or discussion or doubt; that it should be provided that that credit should be immediately payable to us in gold certificates, and I think that we ought to have some assurance that those gold certificates shall be in some reasonable form. Of course, they will not be made redeemable in gold. Up to this time a gold certificate has always been regarded as a warehouse receipt for gold, the holder of which could go to the warehouse and get gold for it at any time. That time has passed, so that if you do get gold certificates they will not be redeemable in gold for some time, if ever.

I think the wording of that should be clarified, and if we have to surrender the gold that we have held as a 40-percent reserve for the protection of noteholders, it should be made very plain that that 40-percent gold reserve will be maintained somewhere, if not by us then in the United States Treasury.

The CHAIRMAN. May I interrupt to ask a question? What would be the advantage to the American people if you could actually redeem in gold?

Mr. NORRIS. None at all.

The CHAIRMAN. Then why bother with it?

Mr. NORRIS. I said that, of course, they would not be redeemable in gold, but I think there should be evidence of the existence of that gold somewhere.

The CHAIRMAN. Is it not evidence when they give you a warehouse receipt?

Mr. NORRIS. I was just coming to that, the latter part of section 6, at the foot of page 5, of this bill, says:

The reserves for Federal Reserve notes shall be maintained in gold certificates or in credits payable in gold certificates maintained with the Treasurer of the United States.

Now, if we turn in our gold and get certificates for it—I am speaking now of our gold coin and bullion—if we turn in our gold, part of it is in coin and bullion and part of it is in gold certificates. As to the coin and bullion that we turn in, I think that a like number of dollars of that coin and bullion should be maintained in gold, not in gold certificates or in credits, but in bullion with the Treasury of the United States.

Now, I think I have covered the few points that I wanted to make, in less than half an hour—it is only 20 minutes. If there are any questions I will be glad to answer them if I can.

Mr. WHITE. You speak of the Federal Reserve notes outstanding from your bank being based on 40-percent gold. These notes were issued on rediscounted paper, were they not?

Mr. NORRIS. To the extent of 60 percent, 40-percent gold.

Mr. WHITE. And which was secured by ample collateral?

Mr. NORRIS. Oh, yes; under the Federal Reserve Act the other 60 percent has to be in self-liquidating commercial paper, having maturity of not more than 90 days.

Mr. WHITE. There is no paper that you think of that is not amply secured by collateral for the banks of issue.

The CHAIRMAN. What is collateral today?

Mr. NORRIS. Well, most of the notes that we get are not secured by collateral; they are notes of a merchant or business man or farmer or whatnot, and he discounts his note with the member bank, and then they rediscount with us. Very few of those notes have any stock or bond collateral attached to them, but we have the obligation of the maker of the note, of the endorser, if there is one on it, and of the bank that discounts it with us.

Mr. WHITE. Does the eligibility of the note that you rediscount—it is based on the worth of what the man owns that issued the paper, is it not?

Mr. NORRIS. On all notes over originally \$5,000, and we have reduced that now to \$2,500, we require a statement from the maker showing not only that he has assets but that he has current assets; that he has an excess of quick assets over current liabilities which justifies his borrowing that amount of money. Then, as I say, we have the endorsement of the bank that originally discounted that note and then rediscounted it with us.

Mr. WHITE. Then the security is considered ample, is it not?

Mr. NORRIS. Yes; we think so. Of course, we make mistakes sometimes. We do not take any where we do not think so.

The CHAIRMAN. There is the possibility of another objection in appraising security however, appraising paper during this depression.

Mr. NORRIS. Very grave; yes.

The CHAIRMAN. One or two other questions, if you will permit. The Federal Reserve System in this country is purely a private banking system?

Mr. NORRIS. I would call it semipublic.

The CHAIRMAN. Owned entirely by private interests?

Mr. NORRIS. Yes.

The CHAIRMAN. It is governed, however, by the Federal Reserve Board that is responsible to the President of the United States.

Mr. NORRIS. It is not governed by the Federal Reserve Board; our operations are supervised by the Federal Reserve Board.

The CHAIRMAN. Now tell me this, as I listened to your argument I got the impression that you feared that you might lose the right to issue currency under this measure?

Mr. NORRIS. No; I do not fear that we will lose the right to issue it, but I do not want to see the security that we have always had for our noteholders diminished. I want to see them protected.

The CHAIRMAN. How much does it cost the American public per year to maintain the currency of the Federal Reserve System? What interest does it cost the American people?

Mr. NORRIS. It does not cost the American people anything.

The CHAIRMAN. Whom would you say it does cost? Somebody pays interest to you for carrying it. Who pays that interest?

Mr. NORRIS. We pay it out of the interest on the notes that we rediscount, or the Government bonds that we hold.

The CHAIRMAN. And your profit comes from your charges for services?

Mr. NORRIS. We do not make any charges for service. We simply get the discount on the notes that we discount, and the interest on the securities that we hold.

The CHAIRMAN. You charge for the service of discounting?

Mr. NORRIS. I mentioned that we do not make any special charge to the banks for special service.

The CHAIRMAN. I cannot compete with you on technical questions because I do not know—

Mr. NORRIS (interposing). I do not want to answer questions technically.

The CHAIRMAN. What I am trying to get is for somebody from your board to admit to me that there is no particular advantage or security for the banks now carrying Federal Reserve notes as against Treasury notes, except that you have a thoroughly splendid record of integrity.

Mr. NORRIS. I do not know whether you gentlemen will agree with me, but I think that world experience has demonstrated that banking is better done by people who are not connected with government than by people who are.

The CHAIRMAN. That is a very good point, and I am glad you brought it to the attention of this committee. The Bank of England today is in a very peculiar relationship to its government. It is not directly owned by its government, and yet it is responsible to the government; much more so than any central bank or bank in the Federal Reserve System that we have, and it might be a good thing if this committee carried in its mind in the future the possibility of the American people once more getting control of their money and taking it away from private interests, I do not know whether or not we are better off since the existence of the Federal Reserve Board than we were before. I submit that as a thought for this committee to think about and comment on. I know you do not agree with me, and I do not intend to engage in argument, but that is just what I have been thinking for the last 2 or 3 years, and I will appreciate it very much if you can demonstrate by any economic proof in the world where the banker sees the people or where the people have benefited by the control of money being in the private hands of banking individuals.

Mr. NORRIS. Of course, banking is an essential function. It has got to be done by somebody and expressing the question broadly that you raise, it is whether it can better be done by individuals or by the Government. The Federal Reserve System was a very carefully considered effort to answer that question and it was thought by the framers of that act that the best results would be secured if the commercial banks were left alone as they then existed, but that 12 Federal Reserve banks should be created, 12 instead of 1 being decided upon on account of the great area of this country and the diversity of interests, and that those banks should afford an elastic

currency and should give member banks in times of seasonal demand or emergency an opportunity to rediscount their portfolio notes. The public interest was recognized, and the selection of directors of the Federal Reserve banks was very carefully safeguarded. It was provided that there should be three directors who would be bankers, three who would be business men, and three who would be appointed by the Federal Reserve Board to represent the public interests. And in order to prevent the possibility of the 6 elected directors being selected by large banks who would control the thing, it was provided that the largest banks would only vote for 2 directors, the medium sized banks for 2, and the small banks for 2, and that over the whole system there should be what President Wilson described as an altruistic reserve board in Washington, composed of 6, 7, or 8 members appointed by the President; and to guard against the intrusion of politics there it was provided that their terms should be staggered so that no President would have an opportunity during his term of office of 4 years of appointing more than 2 members of the Board.

Now, maybe you do not feel that that was a wise solution of it, but it was a solution that was studied with the utmost care. The committee that framed the bill had before them all the investigations of the Monetary Commission; they had Senator Aldrich's bill, and that was the result that they finally worked out. And I do not think there has ever been any criticism, unless perhaps you would say that there is at the present time. I do not think I have ever heard any serious objection to the working out of that plan, or any serious criticism of it.

Mr. BURKE. Could not the Federal Reserve bank carry on a rediscount function with other functions even if it retired from the note-issuing?

Mr. NORRIS. It would be possible.

Mr. BURKE. Would you think that advisable?

Mr. NORRIS. I do not think anything would be gained by it.

The CHAIRMAN. One more question, and then I shall turn the witness over to the committee. Suppose we left this gold in your vaults; suppose the gold therein was revalued, would you want to have any profit? Would you want to keep it all?

Mr. NORRIS. No, I would not want either.

The CHAIRMAN. Then I do not see how we can leave the gold in your possession.

Mr. PERKINS. What was that question?

The CHAIRMAN. I said if the gold was left in his possession rather than taking it away and putting it in the Treasury and giving them warehouse receipts for that gold, if eventually they revalue the gold, revalue the gold dollar, would the bank be willing to assume the losses, if there was a loss, or would they accept the profit if there was a profit—would they or would they not? He said he did not think they would.

Mr. NORRIS. If you ask me as a business proposition, whether if you give us a profit of 40 or 50 percent right away would we be willing to stand any loss on revaluation upward, I would say "Yes," but I do not think we are entitled to any profit, and if we are not entitled to any profit, I think it is hardly fair for anyone to ask us to stand the loss.

The CHAIRMAN. You might eventually take a loss on that gold?

Mr. NORRIS. We might.

The CHAIRMAN. For any ordinary temporary profit. Do you not think the Government is treating you pretty well when it does not insist on your holding that gold?

Mr. NORRIS. I am not concerned in the question of profits at all. We have never made any claims to that profit, and are perfectly willing to yield it.

The CHAIRMAN. Would not warehouse receipts for a quantity of gold be much better than to hold the gold with the possibility of revaluing it?

Mr. NORRIS. If you will carefully impound or segregate or earmark that gold in the Treasury as being the reserve against Federal Reserve notes so that it cannot be used for any other purpose.

The CHAIRMAN. I think that is accomplished in a practical way through the provisions of this bill. The only way you can get gold out of the United States Treasury under this bill is on trade balances.

Mr. NORRIS. Are you sure that the Government could not use it for any other purpose?

The CHAIRMAN. Yes.

Mr. McGUGIN. Even if we turn the printing presses loose and make Government currency worthless, you are carrying the Federal Reserve currency along the same level.

The CHAIRMAN. Yes.

Mr. McGUGIN. That is the real purpose of taking Federal Reserve gold, is it not, to make sure that if we do have printing-press inflation, Federal Reserve notes will not be worth any more than any other paper?

Mr. FIESINGER. Can you answer the question?

Mr. NORRIS. I did not understand that you were asking me.

Mr. FIESINGER. I want to ask you a couple of questions when Mr. McGugin has finished. Were you through, Mr. McGugin?

Mr. McGUGIN. I will just ask one other question, if you will let me. As I read this bill it provides for taking over Federal Reserve gold into the hands of the Treasury. Then following out the terms of the bill it provides that the Secretary of the Treasury shall sustain an equal parity of all currency issued in the United States. Is not the one real and only practical purpose of taking this gold into the Treasury, outside of taking a profit that you are willing to give up, to see to it that in case we do have a paper inflation, we will not have Treasury currency floating around over the country at one value, and Federal Reserve currency being good currency and retaining its value? Is not that the purpose?

Mr. NORRIS. I do not know. You will have to have the Administration officials to answer that.

Mr. McGUGIN. Is not that the practical purpose that you read in the bill?

Mr. NORRIS. No. I suppose that the principal purpose would be to assure the Government the increment or profit.

Mr. McGUGIN. They could easily, if they reduced it 40 percent, just say: "Turn in 40 percent of your gold." That would handle that.

Mr. NORRIS. There are various ways of doing it, or they could take it from us as they took half of our surplus for the insurance fund, or they could impose a franchise tax.

Mr. McGUGIN. But if the Government started inflation of Treasury notes, and that began to cheapen the value of Government currency, that would not affect Federal Reserve notes outstanding as long as those notes were sustained by the gold now in the hands of the Federal Reserve System, would it?

Mr. NORRIS. No; it would not affect them as much.

Mr. McGUGIN. It would not affect Federal Reserve notes?

Mr. NORRIS. They would be worth 40 cents anyhow.

Mr. McGUGIN. In other words, the one principal purpose of this thing is that if we are going into a tailspin of inflation we are going to drag Federal Reserve currency down to whatever the level may be of any other currency.

Mr. FIESINGER. Have you any fears about these Federal Reserve notes if the Government should take this gold into the Treasury?

Mr. NORRIS. I feel, as I said, that the people of this country and other countries have taken those notes on the assurance that the banks that issued them would always have in their possession not less than 40 percent gold against them; and as a matter of fact they have had 60 percent, 80 percent, or even 100 percent of gold. Now, the handling of that thing has been in the hands of the directors and officers of the Federal Reserve banks. They feel that they are in the position of trustees for those notes, and they are very reluctant to agree voluntarily to anything that is to the prejudice of the beneficiaries of that trust. They have avoided and will avoid any conflict with the administration, and we are simply presenting arguments on one side and the other.

Mr. FIESINGER. Then you would have some fears—at least you think the people would have some fears about that note if the gold were taken into the Treasury?

Mr. NORRIS. I am quite apprehensive as to what would be the effect of publication of one of the weekly reports, consolidated reports, of the Federal Reserve System, that would show the Federal Reserve banks stripped of their gold.

Mr. FIESINGER. Now, Governor, what would happen—suppose we revalue the dollar and we retake the profits of the revaluation into the Treasury, as you have said, you would not object to; suppose that after we did that the gold should come back again in price to where it is now, \$20.67, what would happen in that event, especially—put it this way, if the Government had used that windfall, so to speak, and had lost it so that it could not restore, could not make restoration to the Federal Reserve, what would happen in that event?

Mr. NORRIS. Well, I suppose the Government would just owe us something that they could not pay and that we could not collect. But there is a provision in section 7 that in the event of the weight of the gold dollar, being increased, the resulting decrease in value of the gold held as reserve shall be compensated by transfers of gold bullion from the general fund. I imagine that contemplates that if—of course, I had nothing to do with the framing of this bill, and I do not want to go into an explanation of what the authors of the bill intended by it. They are the people to explain that, but I take it that that means that if the Government makes this 4 billion dollar profit now and then revalues upward, then somebody is going to get some benefit from it.

Mr. FIESINGER. Well, if we decrease the gold content of the dollar down to, say, 15 grains, and then the value of gold should fall again back to \$20.67, we would have a dollar worth about 60 cents, would we not?

Mr. NORRIS. I expect that would be about the calculation, yes.

Mr. FIESINGER. Senator Connally made a suggestion when he was here. He said, if I understood his statement correctly, why not have these dollars payable in gold of value, say, at the price level that the President wants to fix it at, the 1926 price level, rather than in a specific number of grains of gold? What would you say about that kind of a proposal? He said here that that would be his way of doing it, if I remember his statement correctly.

Mr. NORRIS. That the gold or unit of value should be payable in what?

Mr. FIESINGER. That the certificate should be payable in gold of the value of the 1926 price level of commodities rather than a fixed number of grains of gold.

Mr. NORRIS. That is the commodity dollar that Prof. Irving Fisher is advocating.

Mr. FIESINGER. It would be a gold dollar, would it not?

Mr. NORRIS. Yes; and I suppose the amount of gold in that dollar would depend upon the price level?

Mr. FIESINGER. Yes.

Mr. ELTSE. The dollar would constantly fluctuate?

Mr. NORRIS. Yes.

Mr. FIESINGER. Well, by putting in a certain number of grains of gold, you are fixing the dollar rather than regulating the dollar, are you not? As I understand Senator Connally, he said that the duty of Congress was to regulate the value of the dollar rather than to fix the gold content of the dollar. That was my understanding of his testimony.

Mr. NORRIS. Under the Thomas amendment the President is given authority to reduce by 50 percent. That was the minimum fixed. Now, this act fixes 60 as a maximum. That is one step in the direction of stabilization, and I think all of us in the Federal Reserve System believe that early stabilization would be one of the most helpful things toward economic recovery.

To give you an illustration, one of our directors, who is in the wholesale hide and leather business, and buys his skins in China and Argentina and so forth, said to me the other day that he make a great deal of money on paper this year but now he was afraid to do any business at all. From the time he buys his raw materials to the time he gets them here and gets them worked up and sold, there is an interval of 6 or 8 months, and he does not know what in the world is going to happen to American currency in that time.

Mr. FIESINGER. If the American Government could control the value of gold, that man would be pretty well taken care of, would he not?

Mr. NORRIS. If they could control the value of gold, but is it possible to hope that the American Government can control the value of gold?

Mr. FIESINGER. Well, there have been some proposals here to that effect.

Mr. NORRIS. There is just about 12 billion of monetary gold in the world today, and several hundred million being produced every year. I would not like to take the contract to control the price or value of that.

Mr. FIESINGER. You could if you relieved the demand for it throughout the world. The value of gold would diminish, would it not?

Mr. NORRIS. Naturally, under the law of supply and demand. I do not know whether any of you gentlemen saw reports of an address that Mr. Vanderlip made along that line. There are a good many things about Mr. Vanderlip's views that I do not agree with, but I think he is entirely correct in this, that the real function of the gold standard is to balance the excess of exports or imports; that if a country exports \$100,000,000 worth of goods in a year, and imports \$110,000,000, then it has got to pay out \$10,000,000 of gold to balance, we will say, and that system for a great many years, for generations, has worked satisfactorily, and the reason that it has not worked satisfactorily in recent years is because in addition to those exchanges of goods there has come into existence large transfers of liquid funds and investment by nationals of one country in the securities of another country.

So, as he expressed it, a single cable coming across the Atlantic Ocean may have more influence on the gold situation than the arrival of 10 ships filled with goods. Now, if a means can be found of restraining or controlling those international movements of credits and securities, I cannot see any reason why the gold standard should not perform the functions that it always has before, and perform them satisfactorily.

Mr. FIESINGER. Would you say that even in the face of the value of gold being where it is today, that is, about \$34 in this country and around \$32 in London?

Mr. NORRIS. Well, I think that is largely artificial.

Mr. FIESINGER. You think it would drop down again to where it was if we get stabilization?

Mr. NORRIS. I think it would.

Mr. FIESINGER. Then if that is so, is there not quite a good deal of danger if the Government should take this profit, so to speak, with reference to these Federal Reserve notes? If they take that profit and lose it and they do not have it to turn back to the Federal Reserve to cover the notes, there would be a good deal of danger about those notes, would there not?

Mr. NORRIS. Yes; there would. I have not been defending the action of the Government. They are looking out for themselves, and I am looking out for the holders of the notes.

Mr. FIESINGER. But after all the Government must look out for the people, and the people own this money.

Mr. NORRIS. Yes.

Mr. FIESINGER. The duty is just as much on the Government to see that there is no loss to the people as it is for the Federal reserve bank.

Mr. NORRIS. Yes.

Mr. FIESINGER. And if the Government takes the gold or the profit, the responsibility then is upon the Government rather than upon the Federal Reserve bank.

Mr. NORRIS. Of course, this whole subject is very important and very complicated and has all sorts of ramifications, and it is very easy to say that a certain theory will produce a certain result, but the question that always arises is, what unexpected results will it produce? It is very easy to say that you add one chemical to another chemical, and there will be a certain reaction, but in business and finance what are the collateral reactions going to be? What are the byproducts? What is going to be the psychological effect of the thing? And I am sorry that this was not brought up earlier so that it might have been very carefully studied by experts. You see, I am no expert. I do not pretend to be.

Mr. FIESINGER. You are not an expert on money? You are an expert on banking? Is that it?

Mr. NORRIS. I would not say that I was an expert. I know a little about banking.

Mr. FIESINGER. Do you not think that the very fact that there is that possibility, that there will be that possibility in the minds of the people about this money that the Government may lose this windfall and that the Government might not be able to make it good, and therefore our money might be greatly depreciated—I think Mr. McGugin rather hinted that proposition—we then go to the period of inflation, that we get into rather extreme inflation, I thought was his point. What do you think about that? Do you think that is a likelihood? I mean just from the very fact, not that it might happen, not that it has happened, not that it is going to happen, but the very fact that it might happen.

Mr. NORRIS. Of course, a great many people have that idea.

Mr. FIESINGER. What would you do about it, Mr. Governor? What would you do to overcome that proposition?

Mr. NORRIS. I do not know how that could be overcome. Of course, some people in this country have welcomed the idea of inflation, as it would increase the price of merchandise, of real estate, of equities in stocks, and so on. Other people, people living on fixed income, people having limited interest bonds, annuities, pensions, salaries, they all look upon it with great fear and dread, because, of course, an advance in the price of commodities is bound to be followed by a rise in the cost of living.

Mr. FIESINGER. Would not that also, if the Government had to go out and get that gold some way, would not that create another stain upon gold and increase further the value of gold?

Mr. NORRIS. Well, the Government, if it gets the increment on our gold and on what it has, assuming 50-percent valuation, it will have 8 billion dollars of gold, 8 billion gold dollars, and I cannot imagine their needing any more than that, even without any devaluation. We have the largest stock of gold in the world today.

Mr. FIESINGER. I am just talking about if we should lose the windfall and go into speculation with this stabilization fund and lose it, would they not be in pretty hot water with reference to our notes that we have got out?

Mr. NORRIS. If they would have used it. Of course, take any government at any time, if it has large expenditures to meet, whether it is for war or any other purpose, they are apt to use what is nearest at hand.

Mr. PERKINS. May I ask a question or two? What is the total amount of gold now in the Federal Reserve banks that they would like to retain?

Mr. NORRIS. \$3,500,000,000 in round figures.

Mr. PERKINS. What is the total amount of gold in the Treasury?

Mr. NORRIS. The total gold in the Treasury and in the Federal Reserve banks is \$4,013,000,000.

Mr. PERKINS. So that the Federal Reserve bank now has about \$3,000,000,000 and the Treasury has about \$1,300,000,000?

Mr. NORRIS. No; I was going over these figures, and they are extremely difficult to analyze—I was going over them this morning. We have 3½ billion, so apparently the Government only has half a billion.

Mr. PERKINS. So that at the present time the Federal Reserve bank has seven times as much gold as the Federal Treasury has?

Mr. NORRIS. Yes.

Mr. PERKINS. What is the amount of Federal Reserve notes outstanding?

Mr. NORRIS. About 3 billion.

Mr. PERKINS. So that you have now more than 100 percent gold as against your notes?

Mr. NORRIS. No—well, if we do not use any part of the gold as part of the 35 percent reserve against deposits. As a matter of fact in the weekly statements we always deduct 35 percent of our gold as the reserve against deposits, and then the figure that is given as the reserve against Federal Reserve notes is after deducting that 35 percent.

Mr. PERKINS. Are Federal Reserve notes payable in gold?

Mr. NORRIS. A Federal Reserve note at the present time reads:

Payable in gold on demand at the United States Treasury, or in gold or lawful money at any Federal Reserve bank.

In other words, the holder of that note—of course, now he cannot do it, but prior to March, if he had presented it at a Federal Reserve bank, we always had, up to the end of February, on demand redeemed them in gold, if anyone wanted it. His legal right was only to have it redeemed in either gold or lawful money at the Federal Reserve bank, but if he presented it at the Treasury he was entitled to have it paid in gold, and we always have kept a gold redemption fund with the Treasury, and when I speak of the Treasury only having half a billion, of course, physically they have a great deal more than that, because they have a great deal of our gold that is deposited in the gold settlement fund or in the gold redemption fund. There are three funds, the bulk of which is deposited with the Treasury, in custody of the Treasury.

Mr. PERKINS. The Government owns about half a billion in gold?

Mr. NORRIS. Yes.

Mr. PERKINS. And the Federal Reserve banks own about three and a half billion in gold?

Mr. NORRIS. Yes.

Mr. PERKINS. So that they own about seven times as much gold as the Government now owns?

Mr. NORRIS. Yes.

Mr. PERKINS. Is it your idea that your banks should retain this gold to pay it out to meet your obligations?

Mr. NORRIS. No.

Mr. PERKINS. Now then, if you are going to retain it in your coffers, what difference does it make to the Federal Reserve banks whether it is in your vaults or in the vaults of the Treasury?

Mr. NORRIS. As a mere question of custody it does not make a bit of difference, but as long as it is with us, it is specifically pledged and jealously guarded, and if it gets into the Treasury of the United States I would like to be sure that it is just as carefully guarded and earmarked as it is with us.

Mr. PERKINS. The only purpose of ear-marking it is so that you might use it if you need to?

Mr. NORRIS. So that it might remain with the same protection to the noteholder that they have always had in the past.

Mr. PERKINS. How can there be protection if you cannot pay it to meet the notes?

Mr. NORRIS. Because everyone anticipates that sooner or later, on some basis, we will get back on at least a gold bullion standard.

Mr. PERKINS. The only purpose, then, in the Federal Reserve bank retaining this gold is that in the future it may pay it out upon certain legal demands?

Mr. NORRIS. Whenever the payment of gold is authorized.

Mr. PERKINS. Then would not the retention of \$3,500,000,000 in gold in the Federal Reserve banks, with only half a billion in the United States Treasury defeat the entire purpose of the administration?

Mr. NORRIS. I do not see that it would.

Mr. PERKINS. Is it not the purpose of the administration to corral all the Government gold and use that gold merely for the purpose of the purchase of exchange?

Mr. NORRIS. I do not know what they propose to do. I do not think they want to pay it out. Apparently they just want to have it in there. They are building a new vault at the Treasury. Apparently they want to keep it there. The only reason that has been given to me for their having it has been that they wanted to be sure of getting the increment or profit. Now, what other reasons they have in addition to that I do not know. That is the only reason I know.

Mr. PERKINS. It could not be the mere satisfaction of holding it in the Treasury?

Mr. FIESINGER. Will you yield just a minute? I am going to let you go ahead, but I just want to make this announcement to the committee, that the chairman wants to hold an executive session just as soon as we get certain word here, and I do not want to shut off questions, but when that word comes we will have to suspend. Now you may proceed.

Mr. ELTSE. In that connection, Mr. Chairman, I would like the opportunity of asking 3 or 4 questions.

Mr. FIESINGER. I will be glad to give you that time.

The CHAIRMAN. I will say that my executive session is not in a hurry. I just wanted to let you know so you will not go away until after we have held the executive session.

Mr. FIESINGER. That is a little different. I did not get it quite that way. I thought you had something that you wanted to take up with the committee.

The CHAIRMAN. No; I do not want to hurry the committee in its deliberations. Stay as long as you want to.

Mr. FIESINGER. Go ahead, Mr. Perkins.

Mr. PERKINS. Governor, the only purpose that the Federal Reserve bank could have in retaining actual possession of this \$3,500,000,000 in gold is that sometime in the future, when we get back, say, on a gold-bullion basis, if we do, that they may pay it out?

Mr. NORRIS. Yes. But in the meantime the holders of the notes would know that that gold could always be relied upon as part of the security of their notes; that it was in the same place, in the same custody of the same trustees that it always has been.

Mr. ELTSE. The maintenance of confidence?

Mr. NORRIS. Yes.

Mr. PERKINS. Now, Governor, the Federal Reserve banks did not make any outcry when the President issued his Executive order requiring all individuals to turn over their gold?

Mr. NORRIS. No. We are not making any outcry now.

Mr. PERKINS. Do you see any reason why individuals should be required to turn over their gold and not the banks turn over their gold?

Mr. NORRIS. The commercial banks, of course, have turned theirs over. You mean the Federal Reserve banks?

Mr. PERKINS. I am talking about all banks or any banks.

Mr. NORRIS. The commercial banks all have. I see quite a distinction between the individual and the Federal Reserve bank. The individual holds his gold, or holds his gold or gold certificates as his individual property, not subject to any trust or pledge. The Federal Reserve banks hold theirs not as individual property but subject to a lien and a pledge.

Mr. PERKINS. But many individual holders of gold have obligations to their creditors to pay in gold of a specific weight and fineness, and notwithstanding that fact they have had to yield up their gold.

Mr. NORRIS. Yes, but as—I forget whether it was Senator Connally or someone else—said, while contracts to the amount of millions of dollars had been made with that gold clause in them, an old gentleman brought me a few weeks ago a book published in Philadelphia back in the early 1850's in which the author discussed that question, and he said that while contracts were made in that form, that as a matter of fact, almost every man was both a debtor and a creditor; that gold was unhandy to use, and was intended merely as a measure of value; and he would not ask his debtor to pay him in a medium that he could not pay to his creditors, and the whole thing was more or less of a myth, which is perfectly true. Of course, there is this case in England now, that you are no doubt familiar with, where the lower courts decided that a Belgian company could pay in depreciated sterling, and the House of Lords has reversed that and they hold that a gold contract is a gold contract.

Mr. PERKINS. The Federal Reserve notes are really the obligation of the Federal Government, are they not?

Mr. NORRIS. In form. I would say only in form.

Mr. PERKINS. Is it not the idea of the Federal Reserve banks that they would rather have the \$3,500,000,000 in gold in their vaults to meet those notes than to have it—that they would rather have the

gold against their notes than the promise of the Government to pay against those notes?

Mr. NORRIS. Yes.

Mr. PERKINS. So they have a little more faith in gold than they have in the Government?

Mr. NORRIS. You will excuse me from answering that question, will you not?

Mr. PERKINS. I will excuse you. On cross-examination we will let you off on that.

Mr. ELTSE. Mr. Norris, you stated that you thought that a 60-cent dollar was too low. Would you be prepared to say what you think ought to be the low?

Mr. NORRIS. From what information I have on the subject today, if it were up to me to name, without regard to political or other considerations, a fair amount of depreciation, I would put it about one third of the value, somewhere between 65 and 70.

Mr. ELTSE. And what do you think, speaking of uncertainties, what do you think of the Thomas amendment, that particular provision of it, which authorizes the issuance of \$3,000,000,000 in greenbacks?

Mr. NORRIS. Do you want to press that question?

Mr. ELTSE. No, I will not press it.

Mr. NORRIS. I think you can guess what the answer is.

Mr. ELTSE. That is all I have.

Mr. FIESINGER. Mr. Burke, have you any questions?

Mr. BURKE. No, sir.

Mr. FIESINGER. Mr. Murdock?

Mr. MURDOCK. Mr. Governor, do you not think that the reason the Federal Reserve notes have been desired by all classes of people is not only the gold behind them, but also because, in form at least, they were a Government obligation?

Mr. NORRIS. I think that is right.

Mr. MURDOCK. Suppose that they had been governmental obligations, do you not think that during this crisis from since 1929, the people understood that the only thing behind them was the Federal Reserve bank or the gold that you might have, that they would not have circulated nearly as freely as they have?

Mr. NORRIS. No, while I grant—I am not one to belittle the value of the Government stamp on coins or notes, but I think that they would have circulated just the same because of their not only being secured by the gold but being a first lien on all the assets of the bank. "First and paramount lien" I think is the language of the act, and while I grant you that it is a desirable thing to have the impress of the Government on anything, I think they would have circulated just the same.

Mr. CARPENTER. Governor, do you not think that it is the wish of the banking interests of this country to fix the value of our money at some particular figure?

Mr. NORRIS. I think that all the banks and almost every man engaged in any business of any size is very anxious to have stabilization.

Mr. CARPENTER. They are not so much particularly interested in the figure, as long as they do establish some figure that will be more or less stable?

Mr. NORRIS. Yes.

Mr. CARPENTER. Do you feel that the President of the United States has had the benefit of the best minds in this country in creating this bill, and that those minds are equally intelligent as compared to the minds of England, France, and other countries of the world, so that we are not in any great disadvantage in entering into this situation?

Mr. NORRIS. Of course, I would not like to make any reflection on any of the President's advisers that he has consulted. I think that the large nations of western Europe have had more experience with this thing and are more familiar with world trade and so on than we are. We gave a demonstration of that when we loaned billions of dollars to South America, most of which is now worth 10 or 20 cents on the dollar. The English and French stepped out of it.

Mr. CARPENTER. You said you thought that this country would be in a better position if we left the banking interests of the country in private hands rather than Government hands. Do not the last 8 years to a certain extent disprove that statement? We might have been better off if we had the banking interests of the country in Government hands rather than private hands?

Mr. NORRIS. I do not think it does. You refer, for instance, to the statement I just made with reference to South America?

Mr. CARPENTER. Yes.

Mr. NORRIS. There was a carnival or orgy of investment at that time. I was for a number of years in the private investment-banking business, and there is an old saying there that sometimes you can sell chromos for the price of oil paintings, and that was the condition that existed in this country between 1927 and 1929, and some investment bankers took advantage of it and sold chromos for the price of oil paintings.

Mr. CARPENTER. Both the investment and commercial banks were pushing and putting forth this program, were they not?

Mr. NORRIS. Not many of the commercial banks. Only a very few.

Mr. CARPENTER. But those banks represented the leaders of the banking interests, such as the Chase National and Morgan interests and concerns of that type that the average bank usually follows in leadership?

Mr. NORRIS. Yes, that is true, but as I said a little while ago that was very effectively guarded against in the establishment of the Federal Reserve System. The control of the member bank is very limited, and a rather interesting thing that I mentioned incidentally the other day in the 13 years that I have been in the Philadelphia bank there never has been a time when there has been any particular disagreement between the three directors appointed by the Reserve Board and the six elected by the banks. Of course, there have been differences of opinion on various subjects in the Board, but they never divided on those lines.

Mr. CARPENTER. Mr. Warburg, who testified here yesterday, gave as his opinion that he thought that the American people were at least on a par with foreign countries in having at their command men of equal intelligence and ability in these lines that we are talking about.

Mr. NORRIS. Probably. You might get a small group of men whose experience and knowledge of the subject is equal to the foreigners. Whether those who have been around the President are of that class or not I do not know.

Mr. CARPENTER. Do you not assume that that class of men that are competent along that line of thought will, to a very great extent, force their views to at least have a hearing with this Administration, due to the fact that they are more particularly interested in this legislation than any other group?

Mr. NORRIS. Well, they are interested, but I know President Roosevelt personally, admire him very much, supported him, but I have the thought that perhaps he has been to a certain extent affected by the disclosures of the grossly unethical and immoral and in some cases criminal things that bankers have done, and that he has been a little disposed to look for his advice to people who are not connected with banking interests. I may be wrong in that.

Mr. CARPENTER. My sole thought is if we are going along in his leadership we should have confidence in the President of the United States and confidence in his ability to surround himself with men of high intelligence in these matters, so that we would have faith not only to follow behind his leadership but the leadership of the advisers that he has.

Mr. NORRIS. Well, I think that feeling is very general.

Mr. ADAIR. There were many investors in this country, of course, who invested in securities payable in gold, which was denied them when we went off the gold standard. Now, would those people who have invested in notes of your institutions, be any worse off if the deposit of gold was taken away from them than would those classes of people who were denied the privilege of receiving gold under individual indebtedness? Would not your trust protect to a greater extent? I mean by that, if you were given this gold to hold for their special advantage, would not that be an advantage to that class of investors rather than the ones who had invested in equally sound securities payable in gold which has been taken from them?

Mr. NORRIS. I think it would. But I consider that we have all of us, a higher duty to the man, the people of this country, the working-man, everybody else who has taken Federal Reserve notes than to an investor who has exercised his judgment, a presumably more or less intelligent one, in purchasing an obligation which has a gold clause in it. He is presumed to be capable of taking care of himself. I think we owe a higher moral trust to the depositor in a savings bank than we do to a corporation that has \$100,000 deposited in a New York bank. Those folks are able to take care of themselves.

Mr. ADAIR. Your institution is private. You have a private institution, have you not?

Mr. NORRIS. We have a charter as a private institution, but we are fiscal agents of the Government. We perform a great many services for the Government, and I find constantly that the general public has a very general idea that we are a Government institution.

Mr. ADAIR. Unfortunately, I think that is true. I know that is true, but should that man without any further investigation of it, believing it to be a Government institution—is he not an investor just the same as the man who invests in any other corporation?

Mr. NORRIS. Well, perhaps you do not relize the distinction as I do, but I always have recognized the distinction between a man who is supposedly able to take care of himself and a man who is utterly unfamiliar with finance and who relies absolutely upon other people, without much knowledge on his own part.

Mr. ADAIR. We have a great many investors who invested in the Federal land bank, which of course, was not a Federal institution, and a great many losses have occurred therefrom. Now, why would he not be subject to the same protection that you would ask that we protect the investor in your interest?

Mr. NORRIS. Now you have touched me on a tender spot. I was the first Farm Loan Commissioner on the first Farm Loan Board.

Mr. ADAIR. I happened to own some stock. That is the reason I am mad. [Laughter.]

Mr. NORRIS. Outside of the direct obligation to the Government there is no security that has stood up as well as those.

Mr. ADAIR. I agree with you, but there is a loss in them, is there not, to many of the farm loan banks?

Mr. NORRIS. Yes; to the investors in the bonds.

Mr. ADAIR. Yes.

Mr. NORRIS. Well, the only issues that were put out when I was there were 5 percent issues, and they are 98 today.

Mr. ADAIR. What bank was that in? What Federal farm bank?

Mr. NORRIS. I was Commissioner of the Farm Loan Board, and I made the first sale of farm loan bonds. I could tell you some stories about that if time permitted.

Mr. ADAIR. In that particular case now that was known perhaps as generally as a Federal proposition as is the Federal Reserve.

Mr. NORRIS. Yes.

Mr. ADAIR. But there was no protection to the depositor there, was there?

Mr. NORRIS. To the investor?

Mr. ADAIR. To the investor; yes.

Mr. FIESINGER. It has been suggested that we are getting out of the realm of this investigation by going into these other things.

Mr. ADAIR. If I am out of order, all right.

Mr. FIESINGER. Have you any questions, Dr. Larrabee?

Mr. LARRABEE. I have none.

Mr. PERKINS. I have asked all I care to.

Mr. FIESINGER. I want to ask one or two more questions of the Governor, then we will be through.

I was interested in your statement—you said, I believe, that after all it was only a myth about these notes being payable in gold. I think that was expressed by some British economist when he said that after all the redemption is suspicion asleep. I think, that conveys the same idea. Why would it not be just as well to make these notes payable—they cannot be paid in gold—make them payable in a gold equivalent or a value equivalent to gold? Why would not that be better? Then if we did not have the gold we could pay them in the equivalent of gold.

Mr. NORRIS. Then if you had a serious depreciation you would have to pay 120 or 140 or 160 for each hundred.

Mr. FIESINGER. No; I say if they are payable in gold, why could we not pay them, rather than say that we will pay them in gold, which

is more or less of a myth, you say, why would it not be better to pay them in the equivalent of gold?

Mr. NORRIS. That would be equivalent—take a hundred-dollar note, if you pay it in the equivalent, in something that was equivalent in value to it, it would be \$100 in gold. Then, as I say, if you wanted to pay them in United States notes, for instance, and they were at a 50-percent discount, you would have to pay \$200 for that \$100 note. You could not afford to do that.

Mr. FIESINGER. Would the banks be willing to accept the notes of the Government backed by the equivalent of the gold? Would you think that the Federal Reserve banks would be willing to accept the notes of the Government backed by the equivalent of gold?

Mr. NORRIS. I think that would introduce an element of confusion and it would be difficult for people to understand. You would have everybody guessing what that meant and how it would work out. I think it would be an unfortunate thing to do.

Mr. FIESINGER. It would? Then it really was not a myth? If it was a myth there is nothing to it.

Mr. NORRIS. There is not much to it in actual practice.

Mr. FIESINGER. Would you think that there would be a disturbing element there if these notes of the Government were paid in gold or the equivalent of gold in value?

Mr. NORRIS. I think it would be a dangerous thing for the Government to undertake to do, in view of the enormous expenditures, to which the Government is pledged, and the uncertainty as to how they are going to finance their operations during the next year. I think it would be a dangerous thing for the Government to do.

Mr. FIESINGER. If they have not got the gold, though, it would be better to pay the equivalent in values, would it not? There would not be any loss then, would there?

Mr. NORRIS. No, but if they agree to pay the equivalent of gold and have a depreciation in paper currency they would be agreeing to pay a great deal more than the face value of the currency at the time.

Mr. FIESINGER. I am talking about the gold equivalent, the equivalent value of the gold, not depreciated currency but the equivalent of the value of the gold.

Mr. NORRIS. What would you pay it in?

Mr. FIESINGER. Well, you might pay it in silver, for instance, at the equivalent value of gold—anything that has a world market.

Mr. NORRIS. Then of course you would have the question of what is the value of gold? Is it foreign value or domestic value?

Mr. FIESINGER. The world market. I am talking about the world market.

Mr. NORRIS. I should think that might be fairly satisfactory, although I do not imagine the Government would ever accept that.

Mr. PERKINS. Just one other question. Would it make a difference whether it was the equivalent in gold at the time of making the contract or the equivalent in gold at the time of paying under the contract? If you made it the equivalent of gold at the time of paying you might have to pay two or three times the amount agreed upon.

Mr. NORRIS. Yes.

Mr. CARPENTER. In the final analysis is is not so much the value of the gold or anything else as it is the amount of confidence the American people have in their Government. Is not that true?

Mr. NORRIS. Of course, some people regard gold and the gold standard with superstition. Let me read you two or three sentences from an annual report of the bank of France, published in January 1932. They speak of the tendency in times of stress to seek exceptional remedies. Then they go on to say:

We have always refused to support these easy solutions, for we realize their great danger. More than ever we are convinced that it is our duty to secure the metallic basis of the franc, which is the only stable foundation on which a currency can be supported. We regard convertibility into gold not as an antiquated form of salvery, but as a necessary discipline. We see in it the only effective guaranty of the security of contracts and business ethics.

Mr. FIESINGER. Governor, there is just one more question I want to ask you. Why do you say that you do not think the Government would do that? It seems to be all right in your mind. Why do you say the Government would not do it if you think it is all right?

Mr. NORRIS. I think they would feel that they were assuming a very uncertain obligation that might prove onerous.

Mr. FIESINGER. They would be buying the equivalent of gold and paying the equivalent out. That would not be any worse than buying the gold or paying the gold.

Mr. NORRIS. They are perfectly willing to buy the gold and pay for it in lawful money, dollar for dollar, cent for cent. Whether they would be willing to assume the responsibility of doing anything else, I do not know.

Mr. FIESINGER. You think it would be all right, do you not?

Mr. NORRIS. Yes; I think it would be fairly satisfactory, although I think it would be puzzling to the people, and what the people want now more than anything else is a clear understanding of the situation and something stable.

Mr. FIESINGER. We have got to go through a lot of clarification, however. We are in a disturbing field right now. We have got to have a lot of clarification before we get through.

I think that is all, Governor. I certainly want to thank you on behalf of the committee for making this long trip to come here and give us your enlightening statement. I appreciate it very much.

Mr. NORRIS. I want to thank you and the other members of the committee, Mr. Chairman, for your courtesy and attention.

Mr. FIESINGER. Before we go into executive session I will say this to the committee: I talked to Mr. Somers a little while ago, and we are coming back at 9:30 in the morning to hear Mr. Janney.

(Whereupon, at 4:30 p.m., the committee went into executive session, at the conclusion of which the committee adjourned.)

STATEMENT OF JAMES P. WARBURG, VICE CHAIRMAN OF THE BANK OF MANHATTAN, NEW YORK CITY

FRIDAY JANUARY 19, 1934.

The CHAIRMAN. The committee will be in order. This afternoon we have called Mr. James P. Warburg. He too has been a witness before the committee on a previous occasion.

I have submitted the bill to Mr. Warburg and he has agreed to give us his comments on it. However, he is desirous of making a state-

ment before he proceeds to discuss this bill, which statement we shall be very glad to have at this time.

Mr. WARBURG. Gentlemen of the committee, your chairman has asked me to prepare for you a discussion of the best move that the United States could make to end dislocations in the monetary systems. I understand that there have appeared before you during the last few days Dr. Sprague, Dr. James, Mr. Vanderlip, Father Coughlin, and Professor Fisher. I am, I think, fairly familiar with the views of all of these gentlemen.

In five published documents, dated November 22, 1933, November 27, 1933, December 1, 1933, December 20, 1933, and January 11, 1934, I have set forth rather fully my own views in regard to the money question. I have sent printed copies of each of these documents to every member of both Houses of Congress. Not knowing how many of you gentlemen have done me the honor to peruse these papers, and being desirous of wasting as little of the committee's time as possible, I am somewhat at a loss whether to repeat briefly what I have previously said or to proceed from the assumption that the gentlemen of this committee have been good enough to examine the documents I have sent them. I have therefore prepared a condensed version for the committee, which, if it is your wish, I shall read to you, or which, if you prefer, I shall place on the record so that you can proceed at once to ask me any questions you may desire.

I have not included in this condensation such statements as I have made concerning the banking and investment business, because I assume that those two problems lie outside the scope of your present inquiry. I must stress, however, that as the greatest part of our money is deposit money—that is, check money—the banking problem is closely related to this discussion.

Similarly, I have not touched upon the question of the Budget and the present program of Government expenditure, but I desire to emphasize that the soundest monetary policy can and will be rendered void by an unsound Budget policy. I am not prepared to say how much we can afford to spend. A great deal depends upon the manner of spending it. I am prepared to say, however, that if we spend more than we can ultimately pay for out of taxation, we shall have paper money, in spite of any present resolve to the contrary. Whether we can accomplish our purpose without paper money depends upon whether we can sell a huge amount of Government bonds now, and later retire them; and whether we can sell Government bonds now depends in large measure on the removal of uncertainty in regard to the currency.

I present herewith the condensed statement, to which I have referred, and await your pleasure. Before proceeding to deal with it as you may direct, may I make the following general statement?

It seems to me that we have 2 major problems, and in regard to each of these 2 major problems we have, generally speaking, 2 major schools of thought.

The two problems are, first, the relation of a monetary system to the general economic system, which means the relation of a monetary system to a depression, or to the recovery from a depression; and, second, the kind of a monetary system that seems most desirable and adaptable to our needs.

In regard to the first problem, there is one school which says that the break-down of the monetary system lies at the root of the whole economic depression. This school, to which Professor Fisher and Professor Warren belong, and to which Mr. Vanderlip belongs also—in a slightly modified degree—contends that since money was the primary cause of the depression, money must also be the primary means to recovery. The other school, to which Professor Sprague and Dr. James belong, and to which I also subscribe, holds that a depression is a complicated economic phenomenon and that recovery cannot be sought by anything so simple as a change in the monetary system. Furthermore, this school holds that whereas the break-down of the monetary system undoubtedly added to the severity of the depression, the break-down of the monetary system was in itself a result of the depression and not its primary cause.

My own reason for adhering to this belief is that I am convinced that the present depression arose primary from the enormous expenditures for nonproductive purposes which were brought about by the war. I believe that the dislocation of production, consumption, labor, and working capital was the consequence of millions of people changing over from their normal peace-time occupations into war-time occupations and, after the war, changing back. I believe that all this placed a strain upon the monetary system which that system was unable to support, and that when the monetary system gave way it added to the existing confusion. It does not follow from this statement that I believe the monetary system which we had before the war should be the system to which we now seek a return. On the contrary, I believe that from the lessons of the last 20 years we can learn much which will help us to improve our money mechanism, and I have set forth in the documents to which I have referred what I believe some of these improvements might be.

When Professor Fisher says that there are only a handful of people who understand the mystery of money and that all our troubles have been due to the misunderstood "money illusion", he means, in effect, as you will doubtless have seen from his testimony, that prices expressed in money are the fundamental factor, and that cyclical booms and depressions could be avoided if we had a money with stable purchasing power, or, inversely expressed, if we had a stable price level. Neither Professor Fisher nor Professor Warren, nor any of the small select group that profess to understand the mystery of money, offer any real proof of this contention.

They do not, for instance, explain how we were able to store up such a vast quantity of trouble for ourselves in the period of 1923-29, in spite of the fact that during that period we had, practically speaking, a stable price level. It is not pleasant to attack so eminent an authority as Professor Fisher by the means which I used in my address before the American Academy of Political Science, but, when an eminent authority makes a series of categorical assertions without offering proof, and merely states that those who disagree are ignorant and uninitiated into the mysteries, it is necessary to examine how true previous similar assertions of such an authority have shown themselves to be. I therefore felt justified in quoting a series of assertions made by Professor Fisher in 1929, which, in the light of subsequent developments, do not lead one to take his present-day pronouncements too seriously.

I am not an economist and I do not hold myself out as an authority on these matters. If the gentlemen of this committee desire authentic refutation of the Fisher-Warren-Vanderlip school of thought, I would refer them to some very excellent short articles written by Prof. Rufus Tucker, Prof. Walter Spahr, Prof. Edwin Kemmerer and Dr. George Roberts.

Now, as to the second problem, namely, what kind of a monetary standard we should seek to establish. It follows quite naturally that the two schools of thought would seek a different mechanism, because they each have a different conception of what that mechanism is trying to accomplish. The Fisher-Warren school, to which Mr. Vanderlip formerly belonged but which he has recently more or less deserted in favor of a position considerably nearer to my own, desires a dollar of variable gold content, while Professor Sprague, Professor James, and I can see neither the necessity for, nor the practicability of such a suggestion.

Your other witness, Rev. Charles E. Coughlin, belongs, so far as I can ascertain, to neither school. I have carefully studied his monetary proposal in a recent magazine article as well as the printed copies of his broadcasts. This study recently led me to address an open letter to Father Coughlin, which is the last of the five documents to which I have previously referred. After hearing him answer this letter over the radio last Sunday, I still believe that Father Coughlin's proposal is based upon a number of fundamental misconceptions.

Apart from the theoretical merits or demerits of the Fisher-Warren commodity dollar idea, I do not believe in its practical value, because it presupposes that the same human beings, who failed to manage the comparatively simple mechanism of the gold standard, will be able successfully to manage a very much more complicated mechanism. Furthermore, no one knows better than the gentlemen of this committee what happens to a highly technical and precise proposal when it is put through the congressional machinery and turned into legislation, and none know better than the gentlemen of this committee the pressure to which Governmental authorities are always subject from vociferous groups and special-interest minorities.

It is always difficult for a government or a central bank to apply the brakes in time of over expansion. It is always unpopular to attempt to check a boom, and as long as booms are unchecked we shall always have depressions to follow them. Think of the additional pressure that can be put upon those who would have to regulate, under the Fisher-Warren plan, not only the increase or decrease of the gold content of the dollar, but the selection of the commodities that are to compose the index, and the relative weighting of these commodities.

I have set forth in detail, in the documents to which I have referred, the concrete suggestions that I should like to make to the committee in regard to the type of modernized gold standard that I think would best suit our requirements. With some of these proposals Mr. Vanderlip agrees. He has recently publicly expressed adherence to the reestablishment of a modernized gold standard, as opposed to the adoption of a dollar of variable gold content, which is advocated by his former associates on the committee for the Nation.

Whereas the phrase used by the President last summer, "a dollar of constant purchasing and debt-paying power," seemed to imply a

dollar of variable gold content, I think it is important to note that in his message in opening the Congress he used words which do not necessarily imply any such thing. These words were, "a medium of exchange which will have over the years less variable purchasing and debt-paying power for our people than that of the past." These words represent a purpose with which I can and do declare myself in thorough sympathy. A modernized gold standard such as I have proposed would, I believe, give us a medium of exchange whose purchasing power would vary less over a period of years—considerably less—than under the old pre-war gold standard.

In his monetary message to the Congress 4 days ago the President made three major recommendations; that all monetary gold be taken over by the Treasury; that the limits of revaluation be fixed between 50 percent and 60 percent of the old dollar; and that a large part of the profit due to revaluation be set aside as a fund to stabilize the dollar and the national credit.

I advocated an equalization fund as early as last March. I have always felt that any profit from devaluation should go to the Government.

When I returned from London at the end of July, I made a written report in which I stated:

The entire recovery program is jeopardized by uncertainty and doubt in the monetary field—

And recommended, among other things—

that the United States Government should desire not later than October 1 to fix the amount of devaluation desired, in order to bring about the necessary adjustment of the price level, allowing for a subsequent variation of not over 10 percent.

That is exactly what is now proposed. In July the range would have been 65 percent to 75 percent, instead of 50 percent to 60 percent. I thought then that a 30 percent devaluation would be sufficient, and I still think that a devaluation of from 40 percent to 50 percent may work some injustice, and may store up future trouble; but I bow to the judgment of the President. He has listened to all sides, and weighed his decision with the greatest care. In any case I welcome the removal of the two extremes of uncertainty.

I am still in some doubt, after reading the message, whether the President intends ultimately to return to a fixed gold content or not. He has again used language which may easily, though not necessarily, mean a modernized gold standard, rather than a dollar of variable gold content. I deeply hope that it does.

There are still many dangers that beset our course. Some of them I have indicated. Others I prefer not to indicate, because I do not believe in looking for trouble, or in raising doubts, when I do not know all the factors that have been considered.

I feel, however, that we are now started in the right direction, away from uncertainty and toward a goal which will in time become definite, where today it is still somewhat enshrouded in mist. And I am profoundly convinced that, if you gentlemen will carefully analyze the experience of the past, if you will build upon that experience a monetary mechanism to carry out the President's high purpose, rather than starting out upon an entirely new conception of what money is, what money means, and what money can reasonably be expected to do, you will perform a service for which future genera-

tions will thank you, as I thank you now for this opportunity to present my views.

The CHAIRMAN. We thank you very much for your interesting statement, Mr. Warburg.

THE MONETARY PROBLEM (II)

SUPPLEMENT COMPILED FOR THE COMMITTEE ON COINAGE, WEIGHTS AND MEASURES OF THE HOUSE OF REPRESENTATIVES

Excerpts from (1) Address, delivered November 22, 1933, in Philadelphia, before American Academy of Political and Social Science; (2) open letter to Senator Borah, November 27, 1933; (3) open letter to Senator Borah, December 1, 1933; (4) address, delivered December 20, 1933, in New York, before the Economic Club; and (5) open letter to the Rev. Charles E. Coughlin, January 11, 1934, by James P. Warburg.

- A. Modernized gold standard versus commodity dollar.
- B. Silver (including a special note for the committee).
- C. "Inflation."

A. MODERNIZED GOLD STANDARD VERSUS COMMODITY DOLLAR

I. (FROM SPEECH OF NOVEMBER 22, 1933)

It seems to me that the subject of discussion tonight falls into two natural divisions: (1) The broad question of whether raising prices by monetary means, that is, by controlled inflation, is a proper and desirable policy, and (2) whether we can profitably adopt in the future a new kind of money, that is, the dollar of constant purchasing and debt paying power, instead of the gold standard dollar that we have known in the past.

Put another way, one is the problem of what constitutes our ultimate monetary goal; the other is the immediate problem of what to do to get ourselves out of the depression.

Let me take first the problem of the ultimate monetary goal. You have heard Professor Fisher expound his well-known theory. It might be well to mention that what is being considered by Washington today, as far as I understand it, is not an automatic index dollar in which the changes in gold content are made automatically as the commodity index rises or falls, but rather a Warren version, in which the gold content is changed from time to time by governmental action to offset exaggerated tendencies of the price level to rise or fall—in other words, a managed commodity dollar.

I am not an economist, and for that reason I should hesitate in any case to embark upon a learned discussion of whether or not the underlying theory upon which Professor Fisher and Professor Warren base their recommendations is correct or not, although I am not afraid to say that I doubt it very much. As a practical banker, and one of the much condemned international bankers at that, I merely venture to register my opinion that the theory cannot be dogmatically accepted as correct. For the purpose of this discussion, however, I shall limit myself as befits a practical banker to an attempt to show very briefly that even if the theory is correct, it cannot work in practice. I say this primarily for two separate and distinct reasons.

First, given the elements of the human equation, and given the political influences to which a democratic form of government will always be subject, I do not believe that as a practical matter there can be any such thing as a dollar of constant purchasing power. If human intelligence and human integrity were unable in the past to manage the comparatively simple mechanism of the gold standard, I can see no reason to suppose that that same human intelligence and same human integrity will be able to cope with the vastly more complicated mechanism of the managed commodity dollar. This is equally true, in the last analysis, of the automatic dollar but more obviously true of the managed form.

Second, I do not believe that any national currency system can work satisfactorily if it is not adopted by a majority of other important nations. I can see absolutely no reason for supposing that other nations would be willing to accept any of the various forms of new-fangled money that have been proposed. If for no other reason, I say this because in every nation there is at least one prominent

professor who has invented a monetary system of his own, and even assuming that the governments of these nations would each endorse their star inventor, I cannot picture a conference of these star inventors agreeing on any one plan. Each one of them is reasonably sure that he is on the track of the one perfect money, and yet some of their ideas are so different as to be completely irreconcilable.

On the other hand, we have had ample evidence at the London Monetary and Economic Conference that a majority of the nations of the world are willing and anxious to reestablish an improved and modernized international gold standard. The gold committee of the conference had made considerable progress in working out economies in the use of gold and safeguarding a future gold standard against the threat of hoarding and violent movements of capital between countries. These are the two chief defects in the gold standard against which criticism has been directed. There is no doubt in my mind that they can be overcome without resorting to any experimentation with untried theories.

For these reasons, even if I assume that Professor Warren or someone else is capable of inventing in theory a money better than that developed by centuries of experience, I do not believe that as a practical matter anything other than a gold standard will work satisfactorily. I believe in a reform of the gold standard, a reform based upon a careful study of the past by those best qualified to make such a study.

Furthermore, no currency system will work satisfactorily except in conjunction with a smoothly functioning banking and investment system. I cannot picture the savings of the people flowing through normal channels, through the banks into credit for the short-term requirements of business, or through the investment market into long-term investment to supply the capital needs of business on the basis of a currency which it will take generations to understand. And you cannot trust what you cannot understand.

It is frequently said that the gold standard got us into our recent trouble. It is rarely if ever said that we have had all the periods of prosperity that we have had under the gold standard, and it would be more proper to say that a failure to modernize the gold standard by intelligent reform contributed to the recent breakdown of our entire credit machinery.

II. (FROM LETTER TO SENATOR BORAH, NOV. 27, 1933)

Permit me now to state as briefly as I can, the immediate monetary actions that I think would be more conducive to recovery than our present policy, and permit me thereafter to amplify what I meant when I advocated the earliest possible return to a modernized gold standard. With regard to the latter, I think I can convince you that I am not simply urging a return to what we have had in the past.

Immediate policy.—I believe that no single action of our Government could contribute more effectively to recovery than the announcement of its intention to abandon further willful depreciation, to abandon the commodity-dollar experiment, and to seek to bring about the early revaluation of the dollar in terms of a modernized gold standard. Such revaluation should not, in my judgment, be undertaken at once, and I do not pretend to know at what point between the present rate and the old par it should finally be. I do say, however, that an intelligent revaluation can best be undertaken in conjunction with similar action by Great Britain, which would, of course, involve the entire so-called "Sterling bloc." And I further venture the opinion that the best approach to such joint action would be an immediate arrangement for cooperative action by the Federal Reserve System and the Bank of England to limit excessive fluctuations of the two currencies in terms of each other. Without going into the mechanical details of such an arrangement, although I shall be glad to do so if you so desire, I should hope in this way, by trial and error, to find the point of natural equilibrium between these two currencies, which should then enable both nations to undertake final revaluation in terms of gold. The period of trial and error may take months or years, depending upon how rapidly order will come out of chaos on both sides of the Atlantic.

During this intermediate period I should expect that our people would be untroubled by fear as to the future of our monetary unit, because they would have, on the one hand, the assurance that our Government did not intend to seek any further depreciation, and on the other hand, the assurance that our currency would eventually be the kind of gold currency they could understand and trust. They would further be assured that, whatever point between the present rate of depreciation and the old par value of the dollar is ultimately to be chosen for

revaluation, this point would be carefully determined and only fixed as a finality after it had shown itself to be consistent with the desired price level and other conditions of living.

Ultimate objective.—That brings me to the last question; namely, what do I mean by a modernized gold standard? I am sorry that some of our monetary theorists did not have the opportunity that I had to take part in the discussions of the "gold committee" of the London Conference, because I feel certain that they would have come away with the inescapable conclusion that international agreement on anything other than a modernized gold standard was quite out of the question. And I repeat what I said in Philadelphia, that it is inconceivable to me that any national currency system that we might adopt could work satisfactorily in the long run unless it were likewise accepted by a majority of other nations.

The two major criticisms leveled at the gold standard are, first, that a shortage or superabundance of gold may at any time upset economic conditions by causing an exaggerated rise or fall of prices; and, second, that the fiction of currencies redeemable in gold, to say nothing of bank deposits and securities indirectly redeemable in gold, is dangerous because it will always produce gold panics in times of depression. With this second criticism I thoroughly agree.

As to the first, I have found practically no one who fears a superabundance of gold and the consequent exaggerated rise of prices. The critics of the gold standard who attack it on these lines are almost uniform in their expression that what they fear is a shortage of gold and a consequent exaggerated fall in prices. No one has been able to prove to me that there is really a danger of gold shortage, but I am prepared to admit that so long as the fear exists, the mere existence of that fear constitutes a defect in the gold standard. How then meet it without resorting to untried currency schemes? Various things have been suggested. The basis of the propaganda for bimetallism, the basis of the theory of symmetalism, and likewise the basis of Professor Warren's theory, is a desire to emancipate prices from the influence of a possible gold shortage.

Insofar as it is possible to make specific suggestions without knowing what will happen between the present time and the time when it will be feasible to reach international agreement for the reestablishment of an international gold standard, the following thoughts are suggested:

- (1) Gold coin should be entirely withdrawn from circulation.
- (2) The holding of monetary gold should be confined to central banks or banks of issue, who would use it for the settlement of international balances of payment resulting from temporary disequilibria in the foreign account, and who would likewise hold it as cover for their note issues.
- (3) Note issues should be redeemable in gold bullion for export only, and shipments arising from such redemption should be made only between central banks or banks of issue. This suggestion involves overcoming French opposition toward giving up internal redemption in gold bullion. So long as any nation permits such redemption, hoarding of gold will be possible because anyone anywhere can buy exchange on that nation and then present currency and obtain gold.
- (4) Gold miners should be compelled to offer their output to their respective monetary authorities and should only sell to others for use in the industries, arts, and professions when permitted to do so by their respective monetary authorities and when the purchasers are duly licensed to buy.

It would seem further that under such a system, the legal minimum ratio of metal cover against note circulation might well be reduced to about 25 percent. This applies only to countries like ours where there is such a ratio. Other countries, such as England, Sweden, or Japan, might agree to accomplish the same thing as a matter of practice, although no change in the law would be necessary.

These ideas were, as I have said, discussed in a preliminary way at the London Conference. They would require further discussion and proper modification before international agreement could or should be reached. I state them merely to illustrate how it would be perfectly possible to free the world from the spectre of gold scarcity and to free the central banks from the disturbing influence of a loss of gold due to hoarding. This is what I mean by modernization of the gold standard, which would meet the justifiable criticisms leveled against it without embarking upon new forms of money which, no matter how theoretically perfect they might be—could not possibly command universal confidence because they could not command universal understanding.

This brief statement would be incomplete if I did not add two further things:

First, that steps must be taken, no matter what international monetary standard is adopted, to provide for closer and more effective cooperation between the central banks or banks of issue of the various countries. This means that they must make more uniform and complete the statistical material and indices upon which they base their judgment. If they do this, and if they cooperate, there is no reason to assume that the familiar methods of contraction and expansion through central bank discount rates and open market operations will not prove amply effective in their control upon the short-term movements of capital. It should be stressed in this connection that central banks must use their powers of contraction in times of inordinate business expansion and not only their powers of expansion in times of depression. This is particularly true, if by economizing in the use of gold, we broaden the basis for a possible over-expansion of credit.

Second, apart from central bank control of normal domestic contraction and expansion, there must be an adequate and intelligent control of both long- and short-term foreign lending. It has been clearly shown that this cannot be left to the discretion of private bankers. Such control has been very effectively exercised by the Bank of England, through guidance rather than law or regulation. And such control must not, under any circumstances, take the form of exchange restrictions, which experience has shown serve only to stimulate the flow through illicit channels of the very transactions that they are designed to prohibit. No artificial barriers will prevent money from fleeing when it is afraid to remain, or from going where it hopes to find profitable employment. There is only one way to prevent an undesirable movement of capital, and that is to eliminate the reason for it. Remove fear, provide the reasonable hope of profitable employment, and capital will always show itself the most timorous of wanderers, the most comfortable and lazy of home bodies.

As to the gold-buying program which we are now pursuing in our approach to a commodity dollar, let me say first, that I believe neither in the theory nor the practical method. Perhaps I am wrong. Perhaps the Warren theory, so ardently and so dogmatically proclaimed by the committee for the Nation and others, has solved the problem that has puzzled economists for generations.

If, over a period of years, a superabundance of gold or a scarcity of gold should make itself manifest by exaggerating price trends, in spite of the precautionary reform that I have outlined (which I venture to doubt, because I for one do not believe that the quantity of gold plays any such direct and important part in a money structure such as ours).

Then I should be quite prepared to allow an international body endowed with supreme authority to alter the world price of gold, that is, the gold content of all the gold currencies, upwards or downwards from time to time, in order to offset the effect of gold shortage or superabundance, provided:

1. That I could see the remotest possibility of creating such an international body, not subject to political influence, and endowed with supreme power over the monetary authorities of the various countries, and

2. That I could assume that such a body would be furnished with complete and accurate information by all the various markets, and would use such information intelligently and impartially in reaching its conclusions.

I can see no reason to consider the creation and successful operation of such a body anything more than a Utopian dream, and I believe that to give the power of changing the gold content of the currency in each country to its own monetary authorities, is fraught with the gravest danger. Furthermore, to do so, would be to imply that the price level within any given country depends, not upon the world supply of gold, but upon the supply of gold within that country. That, to my mind, was the first implication of our present gold-buying policy, when our purchases were confined to operations within this country. The second implication, when we extended our purchases of gold to the world markets, was that we were setting out to raise the world price of gold, that is, to reduce the gold content, not only of our own currency, but of the currencies of other nations. If that is a correct interpretation, it implies acceptance of the belief in a gold shortage, acceptance of the underlying theory that the price level can be raised by counteracting a gold shortage through devaluation of all currencies, and it would seem to me that it implies the entirely unwarranted assumption that other nations will let us perform our experiment on their currencies. If that is not a correct interpretation, then the meaning of our present policy can only be that we consider the foreign exchange value of the dollar, particularly the sterling value, the important factor in determining our price level. That is not Professor Warren's view. It is, I think, the view of Professor Rogers. But here again, one is constrained to ask, why should other nations, particularly England, let us arrange things to suit ourselves? Professor Rogers, I feel sure, would agree that

we can only accomplish our purpose—if that is our purpose—by international agreement and cooperation. And, I repeat, I can see no basis for expecting such agreement or cooperation along any other lines than an intelligent modernization of the gold standard. To this end I should like to see the labors of the London Gold Committee taken up where they were interrupted, at the earliest possible date.

III. (FROM SECOND LETTER TO SENATOR BORAH, DECEMBER 1, 1933)

You raise four points of criticism against my letter of November 27:

(1) That I say revaluation can only be intelligently undertaken in cooperation with Great Britain, that such cooperation is unlikely, and that, therefore, the whole proposal becomes too remote.

(2) That I do not remove the much criticized uncertainty in monetary policy, largely because of the reason stated in (1).

(3) That nothing in my proposal would remedy the maldistribution of gold; and

(4) That in my proposal I left out the silver question entirely.

I shall give you briefly the best answers that I can to these four points.

(1) I venture to disagree with you as to the willingness of Great Britain and the sterling bloc to cooperate. I do not deny that there is a conflict of interest between them and us in many respects, but I believe that they realize that we have a mutual interest in establishing international monetary stability which far outweighs national considerations. I believe that the same is true of us, although we may not realize it. My reason for believing that such a willingness on the part of Great Britain exists is that I gathered this very distinct impression from direct contact with the various elements of the British Government; otherwise, I should not venture to take issue with you on this question.

It is, in any case, not difficult to ascertain whether my assumption is correct or not. I am quite prepared to say that if my assumption should prove wrong, and the British should be unwilling to cooperate upon a reasonable basis, I should then not advocate delaying our return to a modernized gold standard until their cooperation could be secured. I should then be in favor of doing the best job we could, either by ourselves or with the cooperation of such nations as might wish to cooperate. It may be that my training as an international banker leads me to exaggerate the necessity of international acceptance of a monetary standard in order that such a standard may be practically workable. I have subjected myself on this score to the severest self-criticism of which I am capable, but I still cannot escape the conclusion that if we revalue alone, we shall be subject to having our revaluation upset by the subsequent action of others. It is precisely for this reason that I think Great Britain would likewise be unwilling to revalue alone, but would be willing to revalue in cooperation with us.

(2) You say that my proposal does not eliminate uncertainty and you stress that you make this as an observation rather than a criticism. In part I admit the truth of this observation, but not in whole. We are suffering today from two kinds of uncertainty—uncertainty as to our ultimate monetary goal, and uncertainty as to the method by which we shall reach it and the time it will take to get there. By recommending abandonment of the present policy of willful depreciation and the ultimate aim of the commodity dollar, my proposal seeks to eliminate entirely the uncertainty as to what kind of money we are ultimately to have; it seeks further to eliminate much of the uncertainty as to how we are to reach this goal; but it quite frankly does not eliminate the uncertainty as to how long it will take us to get there or at what actual ratio we shall eventually stabilize. This residue of uncertainty, which I admit, is to my mind not only necessary but probably desirable, because I believe that hasty action might easily deny us the fruits of our long and painful quest.

(3) I admit without reservation that there was nothing in my proposal of the 27th which would in itself redistribute the world's holdings of monetary gold. I agree with you that the present maldistribution must be corrected. In my opinion, the establishment of international monetary stability is a condition precedent to the redistribution of gold, but monetary stability will not by itself cause such redistribution. What then will cause it? The reduction and at least partial elimination of the present artificial barriers and restrictions to the free flow of trade between nations. If gold is to be redistributed, this can only be accomplished by international payment for goods and services, which is now rendered impossible by the network of tariffs, embargoes, import quotas, exchange restrictions and other artificialities. I realize that this is highly controversial ground, but I must give you the only honest answer that I can give to an

honest question. To avoid misunderstanding, let me add that this does not involve the necessity of removing all tariffs and other barriers of trade, but it does involve removing the superstructure of excessive restrictions, which have been superimposed upon what we had come to regard as the normal structure, by the various nations as a matter of national self-defense. I believe that here again the cure lies in international agreement rather than in the individual policy of any one nation, and I must stress that I cannot picture such international agreement unless there is first a more or less stable international monetary standard, because a depreciated currency will climb over the walls of any tariff except an outright embargo.

B. SILVER

I. (FROM LETTER TO SENATOR BORAH, DEC. 1, 1933)

(4) In my first draft of my letter of November 27 to you, I had included a paragraph on silver. I subsequently took it out because I was afraid that the mere mention of silver in a proposal to modernize the gold standard would lead to an exaggerated stress being laid upon that feature of it. I agree with you that the stabilization in terms of gold of a metal that is used for money by more than half of the world's population is a most important element in achieving international monetary stability. I do not go so far as to say that doubling the price of silver will double the purchasing power of the Chinese, because I believe that the purchasing power of the Chinese depends in the last analysis upon the goods and services that China can export. I do not know what level for silver is best for the development of the Chinese economy, but I do know that it cannot be good for the Chinese economy to have excessive fluctuations in the gold price of silver.

I know also that the gold price of silver has been depressed below what is probably its proper level by two arbitrary factors: The debasement of subsidiary coinages by many of the so-called "gold countries" and the decision to put India on a gold basis. I am in thorough sympathy with the projected international agreement between the major silver-producing countries and the major silver-using countries, particularly India, which would provide against excessive sales of silver on the world market during any given year, and which should also provide against the further debasement of subsidiary coinages and, if possible, for the ultimate remonetization of subsidiary coinages.

If such an agreement becomes an accomplished fact, I should be prepared to go even further in studying the possibilities of dignifying silver as a monetary metal by including it in some form in the gold family. This is not to be construed as opening the door to a consideration of bimetallism. It is not even to be considered as a suggestion that silver be used along with gold for the settlement of international balances of payment. What I have in mind is merely this: That some small part, let us say one fifth, of the metal cover required as legal minimum reserve against note issue, might be allowed to consist optionally of gold or silver provided that a central bank, electing so to hold silver for a fifth of its metal cover, would carry it at or below a price to be agreed upon. In terms of my suggestion of November 27, this would mean that if central banks must have a minimum of 25 percent metal cover against their note circulations, four fifths of this metal cover must be in gold and one fifth may be in gold or optionally in silver if obtainable below the agreed price.

This proposal is very limited in value, its chief merit consisting in the creation of a stabilizing factor in that presumably central banks would be tempted to buy, if silver fell below the agreed price, and to sell if it rose above. I put forward the suggestion very tentatively in my testimony before the House Committee on Coinage, Weights, and Measures in March 1932. I still put it forward in a purely tentative way because, frankly, I am apprehensive of saying anything that might be construed as support of those who would like to go much further in "doing something for silver."

II. (FROM LETTER TO REV. CHARLES E. COUGHLIN, JAN. 11, 1934)

I refer particularly to two proposals you have made:

In your broadcasts you have frequently attacked the outstanding bonds of our Government, which were sold to finance the cost of the war, as "bloody bonds", sold to finance a war engineered by banks and special interests. You picture these bonds as now being held by the "mighty banks", drawing interest at the expense of the innocent taxpayers, and further enriching the bankers. You have

proposed that, in the interest of justice, these bonds should be paid off in currency, so the banks would cease to draw interest from the taxpayer.

In your article in *Today* you advocate symmetalism, "which means", in your own words, "using gold and silver together—not separate—in one coin. In this coin, which we call a dollar, there will be 25 cents worth of gold and 75 cents worth of silver. Of course, this coin will not be meant for circulation. Paper money will be printed against it. But the paper will be backed by real gold to the value of 25 cents, and by real silver to the value of 75 cents.

I should like to draw your attention to the three major points which present themselves to me:

First. There is not enough gold and silver obtainable in the world to carry out your two proposals.

Second. Irrespective of your currency proposal, there is no way, barring confiscation, in which a government can retire its funded debt by issuing currency, unless the currency so issued is unsecured printing-press money.

Third. Irrespective of your bond proposal, your currency proposal is incomplete and not clear; therefore, I believe, it is not a useful suggestion to launch upon the public in its present form.

As to the first of these three points, according to your own figures there are in the world today 550,000,000 ounces of gold, and 8,800,000,000 ounces of silver. You proposed that our currency should be backed, 25 percent by gold and 75 percent by silver. We have outstanding about 5 billions of paper currency. This you would retire and presumably replace with the new gold-and-silver-backed currency. In addition, you would issue this new currency to retire the "bloody bonds." The amount you would retire is not clear, because in your speech of October 22, 1933, you spoke of 20 billions of these bonds, while on January 7, 1934, you spoke of 14 billions. Let us take the more recent figure.

You propose, then, to issue at least 19 billions of currency, which means that you need in round numbers nearly 5 billions of gold and from 14 to 15 billions of silver!

Now, if the Treasury takes over the gold from the Reserve banks, as you suggest, we will have about 4 billions of gold against the 5 billions you require. You meet this by suggesting the revaluation of gold. Very well, at the maximum revaluation possible under the law, you can make over these 4 billions into 8 billions. You will then have 3 billions more than you need. You will then also have accomplished the desire of those who want a 50 percent devaluation of the dollar.

But, what about silver? The Treasury owns, so far as I know, less than half a billion dollars of silver at market value, so you must acquire about 14 billion dollars more. Where? The world's total stock of silver, 8,800,000,000 ounces, is worth less than four and a half billions of dollars at today's market. Probably you wish to revalue silver also. At what price? In one of your broadcasts you have indicated 75 cents to a dollar. At \$1 an ounce the world's stock is not enough to cover what you would require for this country alone. At \$2, which is higher than any figure I have ever heard advocated, you would require for the United States all but about 3½ billions of the total of \$17,600,000,000. Do you believe the rest of the world will sit by and let us take nearly all the silver, particularly if your plan were adopted here and seemed to work successfully, which you must be convinced it would?

Assuming the maximum revaluation of gold, we have just seen that under your proposal the Treasury might have three billions more gold than it would need. It would then have to buy fourteen billions of silver.

How is the Treasury going to buy \$14,000,000,000 worth of silver with \$3,000,000,000 worth of gold?

This brings me to my second point which has nothing to do with your currency proposal. Apart from the profit in revaluing gold—a profit which cannot be taken again—is it not true that the Treasury's funds available for retirement of the "bloody bonds" can come only from the excess over expenditure of revenue raised by taxation—an excess which does not exist?

Is there any other way it can obtain funds except, possibly, by confiscating private property?

If that is true, is there any way in which the Government can redeem its funded debt by issuing currency, except by printing a currency which has no value other than that of an unsecured promise? And does it not follow that your proposal to retire "bloody bonds" by issuing currency necessarily involves the issuance of that real printing-press money, which you rightly recognize as the most cruel and unjust act of which a government is capable?

Does not that prove my second point? And, if by chance you do not agree with my conclusion, why, if the currency is good currency, does it punish a holder of "bloody bonds" to be paid off in full?

Finally, I say that your proposal of symmettalism is incomplete and not clear. This is why.

You do not state at what prices gold and silver are to be figured in making up the dollar. This is important, because upon these prices will depend how many ounces of gold and silver you need to carry out your proposal. Upon these prices will depend also whether enough metal is anywhere obtainable, and how much it will cost the Government to obtain it.

You do not state whether these prices are to be fixed or whether they are to be variable. This too is important, for it determines whether you are advocating a rigid currency—more rigid than that which we had under the recently abandoned gold standard—or whether you are advocating a dollar of variable metal content, such as the so-called "commodity dollar." The two ideas are basically different, but your proposal might mean either.

If your gold and silver alloy coin "will not be meant for circulation", why do you propose going to the expense of coining it? Why not let the Treasury hold bar gold and bar silver in the proportions you have in mind?

There are many other questions I could raise, but I will give you just one more example to show why I do not think you have fully realized the complexities of the money problem. You have frequently expressed antipathy to the gold standard, and have characterized it as a device by which bankers keep the control of money away from the people. In your article you state: "Under the single gold standard system the paper dollar was backed by only 40 cents of gold. In one sense it was a real printing-press dollar—at least 60 cents of it was."

May I point out that under the gold standard as we had it in this country, 40 cents of gold was the legal minimum reserve, but that, as you yourself have pointed out in your speeches, the actual gold behind the dollar has averaged very much higher—so high in fact as to cause you to complain, on October 22, 1933, "actually we have 110 gold dollars for every 100 paper dollars in this country".

May I point out further, that the other 60 cents were not, as you imply, unsecured, but were compulsorily backed by at least 60 cents worth of commercial paper and Government bonds, and that a currency issued against such collateral, which may or may not be good practice, is not what is commonly meant by a "printing-press dollar."

In conclusion, I do not wish to imply that the whole idea of symmettalism is to be dismissed as "unsound." It is an idea meriting the most careful study. It may have practical value in the future in a somewhat different form, provided the details can be properly worked out, and provided the best minds agree there is a need for it.

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III. ADDITIONAL NOTE ON SILVER FOR THE COMMITTEE

It seems to me that silver has three aspects. It is a commodity. It is a medium of exchange. It is a basic monetary metal.

As a commodity it has been depressed by arbitrary curtailment of demand by governmental actions. The proposed international agreement will seek to offset this by curtailing supply, and possibly will increase the demand, if subsidiary coinages are gradually remonetized.¹

As a medium of exchange it has the same relative importance as any foreign exchange unit, that is, its stability or instability affect the world economy much as the stability or instability of the pound or dollar or florin affect it. In the silver countries it affects the internal economies of those countries, much as the dollar affects our economy, although some economies are much more sensitive than others.

As a basic monetary metal it takes the place of gold in some countries, is used alongside of gold in others, and in still others is used only in subsidiary coinage or not at all.

From the point of view of this inquiry—

1. As a commodity, it would seem that silver has recently received all the Government help it can reasonably expect, as compared to other commodities.

2. As a medium of exchange, it would seem desirable that silver should be

¹ Debasement of subsidiary coinages and putting India on a gold basis, thereby releasing her treasury stocks of silver.

prevented from fluctuating excessively, just as it is desirable to prevent excessive fluctuations of the pound or franc, or dollar.

3. It is claimed that silver should be stabilized at a considerably higher price than it enjoys at present, "because this would increase the purchasing power of the silver countries." Why should it be good for China to raise her unit's value, if it is good for the United States to depreciate its dollar? If the gold countries want higher price levels, why should the silver countries want lower price levels (assuming that price levels can be raised or lowered in that way)? I have no opinion on what the right price would be.

4. As a basic monetary metal:

(a) It seems desirable to remonetize subsidiary coinages, provided the respective countries can make funds available under their budgets to buy the necessary silver.

(b) There is only one real argument for bimetallism or symmetallism, and that is based upon a shortage of monetary gold. If the economies in the use of gold which I have suggested, are adopted, I do not believe there would be any shortage of gold.

5. Those who argue for silver money because they want cheaper money, might just as well argue for copper money, or iron money, or paper money.

C. "INFLATION"

I. (FROM SPEECH OF NOVEMBER 22, 1933)

Now, as to "controlled inflation". No one, so far as I know, is in favor of "uncontrolled inflation", nor has there been anyone in favor of "uncontrolled inflation" in any of the various countries where "uncontrolled inflation" has taken place, but there are a lot of people who are in favor of what they call "controlled inflation". There have always been such people in all countries in periods of widespread distress. Senator Thomas has no doubt that inflation can be controlled and will be controlled in this country. He is indeed the "Undoubting Thomas". Frankly, I am a very "Doubting Thomas".

Apart from the fact that I am opposed to "controlled inflation", because I do not believe that there is any such thing, I am also opposed to it even if, contrary to history, it does not become uncontrolled. To raise the price level alone is, to my mind, not a proper aim of a recovery program. Unless a rise in prices is accompanied by a rise in incomes, I cannot see that it does anyone any good. There is only one way that I know of to bring about a rise in prices together with a rise in National income, and that is by increasing the amount of business done in the expectation of a reasonable profit. There can be no increase in business activity so long as there is any uncertainty as to the future of the monetary unit or as to the future of Government credit.

The advocates of "controlled inflation" base their argument largely on the debtor-creditor relationship, particularly in regard to the agricultural debtor. To my mind this is no different than a man who has a damaging letter in his house and, because he wants to destroy it, sets fire to the whole house.

Depreciation of the currency, and I am speaking now about "controlled depreciation", hurts everyone who is more creditor than debtor, and aids only those who are preponderantly debtors. If inflation breaks away from control, it ruins all alike.

Who are the debtors that would be aided, and who are the creditors who would be hurt? And please remember, there is a creditor for every debtor. All wage earners would be hurt because the purchasing power of their wages is reduced faster than their wages are increased. Every savings bank depositor or holder of a life insurance policy is hurt. These two categories alone probably comprise the great majority of the American people.

Now, take the farmer. I am told on good authority that 50 percent of the farmers in this country have no mortgage debt at all; that another 25 percent have a mortgage debt of less than 25 percent of the value of their property; and it is by no means true that every farmer who has a heavy mortgage is preponderantly a debtor. To the extent that he has cash, receivables, savings accounts, or insurance policies, he is a creditor.

What troubles the farmer is not the general fall in prices, but the fact that farm prices have fallen further than the general price level. To the extent that prices fall evenly, only the farmer who is more debtor than creditor has suffered, but all farmers have suffered from the excessive fall in farm prices.

Depreciating the currency means raising all prices by making things sell for more dollars. To do that cannot possibly eliminate the discrepancy between farm prices and other prices. That is why I say that the policy of raising prices by depreciating the currency is an action of doubtful value to a very small minority of the population, and an action which does definite harm to a large majority of the population. That is why I say that it is like burning down the house to burn the letter.

II. (FROM SPEECH OF DEC. 20, 1933)

In closing let me say that during recent days it would seem to me that the fundamental issues have become considerably clarified. It is clear that we are in for a real fight. In his speech tonight Senator Thomas has not made his position very plain. Perhaps I can make it a little clearer. Last week Senator Thomas called at the White House and, after his visit, was reported to have said, "I will support the President, because I think he knows what is best for the country." Later in the same day he received a statement from James H. Rand, chairman of the Committee for the Nation, stating that "ugly and discouraging rumors" (note these adjectives) "are finding increasing acceptance in New York and London" to the effect that the administration is negotiating with the Bank of England and the Banque de France for stabilization of the dollar at about 62 cents. According to the "Times," the Senator then made the following statement: "If the dollar is to be stabilized at the figure these reports indicate, it will bring on a fight in Congress that will be terrible. The monetary group in Congress or those that have a majority are against any such mild inflationary move. I repeat that if the dollar is to be stabilized at this figure there will be a warfare in Congress that may disrupt the Democratic Party and lead to making inflation the outstanding issue in the next congressional campaign."

Mind you, this statement came from the same man who earlier in the same day had said that he would support the President "because I think he knows what is best for the country." That statement came from the same Senator who, on April 24, 1933, in advocating the Thomas amendment, said, among other things, "Mr. President, it will be my task to show that if the amendment shall prevail it has potentialities as follows: It may transfer from one class to another class in these United States value to the extent of almost \$200,000,000,000. This value will be transferred first from those who own the bank deposits; secondly, this value will be transferred from those who own bonds and fixed investments. If the amendment carries and the powers are exercised in a reasonable degree, it must transfer that \$200,000,000,000 in the hands of persons who now have it, who did not buy it, who did not earn it, who do not deserve it, who must not retain it, back to the other side, the debtor class of the Republic, the people who owe the mass debts of the nation." That, ladies and gentlemen, is what Senator Thomas stands for—the use of the Government's power arbitrarily to redistribute wealth by the most haphazard and unjust of methods. And again, to use his own words, this issue "is the most important proposition that has ever come before the American Congress. It is the most important proposition that has ever come before any parliamentary body of any nation of the world. Saving the single issue of the World War, there has been no issue joined in 6,000 years of recorded history as important as this issue pending here today." Some of us may not agree that in 6,000 years—which I need not remind you covers not only our own entire history but the entire history of civilization as we know it, and takes us back into the age of prehistoric monsters—some of us may not agree that the Senator's amendment occupies a place of quite such preeminent importance; nevertheless, we have his word for it that this is the issue on which "there will be a terrible fight in Congress" if the President should not happen to agree with the Senator that \$200,000,000,000 must be taken away from 67,000,000 holders of life insurance policies, 44,000,000 savings depositors, and from every thrifty and prudent living person in the United States, because "they did not buy it, they did not earn it, they do not deserve it, and they must not retain it."

That seems to me a fairly clear issue. That seems to me an issue on which every thoughtful citizen should wake up and realize that apart from justice he is probably not one of that class to whom Senator Thomas would give the \$200,000,000,000, but that he is one of those, who "did not buy it, did not earn it, do not deserve it, and must not retain it." Only a small percentage of what the Senator calls the mass debts of the Nation are debts of individuals. By far the greater part are debts of governmental authorities and large corporations. If the Senator has his way—if the inflationists win their threatened fight in this Congress—it will not be the rich that suffer most. The reckoning will be paid

by the very masses of honest workers who may be misled into thinking that they are helping themselves by supporting debasement of the currency, and it makes no difference whether this is done by printing greenbacks, or through a continued unbalanced budget, or by exhuming the ancient silver heresies of William Jennings Bryan.

The CHAIRMAN. Since issuing our invitation to you, Mr. Warburg, there have developed certain events that have somewhat changed the course of this committee. We have received a bill embodying the recommendation of the President, that bill being H.R. 6976, a copy of which, I believe, is now before you.

Mr. WARBURG. I have only just received it; and I am very sorry that I did not have an opportunity to review it before appearing here.

The CHAIRMAN. I think that, in the main, it covers the three points you mention and approves the transfer of gold from the Federal Reserve Board to the Treasury of the United States.

Mr. WARBURG. I said that I approve of the Government taking over the profit, if any, from devaluation. If we devalue and a profit arises, I think the Government is entitled to that profit. I did not say that I approved the Government's taking over the gold from the Federal Reserve banks.

The CHAIRMAN. Can you say definitely that you do not approve of that; that you believe it should remain with the Federal Reserve?

Mr. WARBURG. I do not know. I do not know all the considerations that led to that recommendation.

Mr. BURKE. How could the Government acquire that profit without taking over the gold? Is there a feasible way to do that?

Mr. WARBURG. If the Federal Reserve banks hold their own gold and the Government revalues it, it would be possible to have them declare the book profit they make on revaluation on to the Government. I do not want to say that I disapprove of it. I do not know what caused the suggestion to be made. The reason I do not like it is that it implies other things, and, without knowing the full facts, I do not like to venture an opinion. It implies the possibility of Treasury notes being issued as currency against Treasury gold, which would be a removal from the Federal Reserve banks of the note-issuing power; and, secondly, it seems to me, it is doubtful what the Federal Reserve System has when it has gold certificates, which are warehouse receipts for an unknown amount of gold. I imagine, however, that this has been gone into from the legal side. The Federal Reserve issues its notes against gold, and it now has warehouse receipts for an unknown amount of gold.

The CHAIRMAN. These warehouse receipts under this bill are permitted to be used by the Federal Reserve Board as a basis for its currency. Possibly the variation in value would not alter the quantity of currency issued.

Mr. WARBURG. I do not know about that, because I have not had an opportunity to study the bill in question.

Mr. DIES. I should like to ask one question, and no doubt it involves many questions. In your opinion, is the devaluation of the gold dollar necessary; and what, in your opinion, would be its effect upon commodity prices; and would devaluation, unaccompanied by the issuance of more currency, affect the price level?

Mr. WARBURG. I may suggest that the answer to the first part of your question, concerning devaluation, is in the supplement I shall leave with you.

Mr. DIES. What would be the effect upon commodity prices?

Mr. WARBURG. That is a long subject. I believe, in the first place, that devaluation can only be the legal crystallization of an antecedent fact. In other words, I do not think you can depreciate a currency by reducing its gold content. Devaluation is the legal recognition of depreciation.

Mr. DIES. Could you accomplish that after you devaluated by issuing new currency? Suppose the Government seizes or gets the Federal Reserve gold and revalues it at 40 cents or 50 cents, and then issues additional currency based upon that revalued gold dollar; would not the fact that you double the amount of currency money in circulation effectuate a depreciation of the gold dollar?

Mr. WARBURG. Who would issue the currency, the Treasury?

Mr. DIES. Yes; and base it upon the price of the gold.

Mr. WARBURG. You have asked several questions in one. I do not believe that the issuance of additional currency puts that currency into circulation. It may go into excess reserves.

Mr. DIES. But assume that it is put into circulation, like the public works of today.

Mr. WARBURG. That does not put the currency into circulation. It may come back into reserves.

Mr. DIES. Let us take for example money spent in the C.W.A. activities.

Mr. WARBURG. Yes; that is putting the money into circulation, for a time.

Mr. DIES. Assume that the Government would have the right after revaluing the dollar on the basis of 50 percent, it would then have the right to issue twice as much currency as it now has in circulation, would it not?

Mr. WARBURG. The Federal Government would not have, as I understand, the right to issue any currency until you started having the Treasury issue currency, which it does not do today.

Mr. DIES. Assuming that the Government does issue currency. What then?

Mr. WARBURG. Do you mean what effect would that have on prices.

Mr. DIES. If the additional money should be put into circulation in the manner I have mentioned.

Mr. WARBURG. It would raise prices for several reasons. It would actually raise them because people would be afraid of money and would therefore buy commodities. It would also raise prices from a purely psychological point of view, because of the announced intention of raising prices. Every such move has raised prices because people——

Mr. DIES. You understand that, under the Thomas amendment, the President has discretionary power to issue 3 billions of new currency.

Mr. WARBURG. Yes.

Mr. DIES. Let us assume that the Government does not have the right to issue any additional currency, would the mere act of Congress in saying that a 50-cent dollar shall be called a dollar double the prices of commodities?

Mr. WARBURG. No; it certainly would not.

Mr. DIES. Would it effect a rise in the prices of commodities?

Mr. WARBURG. Let us assume, for instance, that the dollar is selling in foreign exchange markets at 60 cents. If you then devalue ultimately and finally at 60 cents, the effect of that action on raising prices would probably be nil, because you are legally recognizing an existing fact. The fact that you say you are going to devalue to a point between 50 and 60, when in reality it is somewhere about 60 at the present time, will only raise prices to the extent of—

Mr. DIES. (interposing). Let me ask this: Wherein is there any benefit to be derived from the revaluation of the dollar?

Mr. WARBURG. I must not be placed in the position of defending devaluation, because I have never believed in it. Depreciation of currency has an initial energizing effect upon the price level in that it starts a certain amount of speculative buying. That is exactly what happened last March and April. I have never observed any advantage in going beyond that; and I do not believe in the theory of raising prices by depreciating the currency. I do not believe that raising prices alone does anybody any good. A rise in prices that is not accompanied by a corresponding rise in incomes and wages is not a benefit.

Mr. MCGUGIN. As I understand your statement, your theory is that the currency is already depreciated to the extent of between 30 and 40 percent.

Mr. WARBURG. Yes.

Mr. MCGUGIN. What, in your judgment, is the amount of depreciation at the present time? What is your estimate?

Mr. WARBURG. The only yardstick is the foreign exchange rate in connection with external depreciation; and as to internal depreciation the yardstick is the index of prices.

Mr. MCGUGIN. If we depreciate to 60 cents, which would be a 40-percent depreciation, as I understand, the difference between you and Mr. Dies is that he thinks that if we depreciate the gold dollar 40 percent, we shall have to issue some more currency in order to bring the currency down to the level of the gold dollar. Your theory is that the depreciation at 40 is only offsetting the present depreciation of the currency; is that right?

Mr. WARBURG. No; there is not that much difference. We have not had an internal depreciation of 40 percent, but we have had an external one. As I see it, our main problem if this program is to succeed is one of financing an enormous governmental-expenditure program. That breaks up into two major questions. First, is the expenditure provided in the program of such a nature that in itself it is nonrecurring? Are we spending money in such a way that it does not make it necessary to spend more money in the future? If the answer is yes, then you can balance your budget, because you are doing the things you want to do without facing the necessity, say, in 1936 of spending more money. But before we get to the question of balancing or not balancing the Budget in 1936, we have the question of disposing of bonds necessary to provide the money for these expenditures.

I see two elements of doubt that make the disposal of those bonds more difficult than it would be if those two elements of doubt were not present. First, there is the possibility under the Thomas amendment of printing notes or greenbacks; and so long as that possibility exists there will be a doubt in the minds of potential bond buyers as

to what money is going to be worth when the bonds are paid. Secondly, are we going back to a fixed ratio to gold, within a 10-percent range, or are we going so have a variable gold content within that 10-percent range?

Mr. McGUGIN. Speaking about money being put into circulation, what constitutes money being placed in circulation? Do we start in such a way that we do not after three or four or five steps finally become stalled? Let us consider the C.W.A. work, which has a laudable purpose from a humanitarian standpoint, but from an economic standpoint of putting money into circulation, it is not necessarily true.

Mr. WARBURG. No; it may come back.

Mr. McGUGIN. The employee gets it today; it is in circulation between him and the merchant, and between the merchant and the wholesaler, and between the wholesaler and the manufacturer. It may be in circulation and there it may stop, because the C.W.A. worker, unlike the maker of a pair of shoes, has not produced something to sell.

Mr. WARBURG. That is right. One must analyze the expenditure carefully.

Mr. McGUGIN. Money going into circulation does not mean passing from one man's hand to another man's hand.

Mr. WARBURG. No.

Mr. McGUGIN. The question is whether the money keeps going all the while.

Mr. WARBURG. Yes.

Mr. McGUGIN. Coming back to the bill under consideration, I understand you to say that you feel that the equalization fund is absolutely necessary.

Mr. WARBURG. I feel that an equalization fund has been desirable ever since last March.

Mr. McGUGIN. I am talking about page 13 of the bill. As I understand, you feel that an equalization fund is not necessary as a permanent arrangement, but it is necessary as an emergency measure.

Mr. WARBURG. Yes.

Mr. McGUGIN. You feel that we have been in need of such a fund since last March. You would not say there was actual need for such fund in 1926, 1928, or 1929.

Mr. WARBURG. I think we would have been better off at any time after England went off gold if we had possessed an equalization fund.

Mr. McGUGIN. Pending an emergency you feel that such a fund is advisable, but once there is a stabilization of the moneys of the world, you would not believe in it.

Mr. WARBURG. No; it should then be removed. It is an artificiality.

Mr. McGUGIN. Not only as a matter of practical legislation, but of practical finance, is it not your opinion that any legislation setting up such a fund should be limited to a certain period rather than putting the matter in the hands of the Secretary of the Treasury for an unlimited time?

Mr. WARBURG. I would say that the life of such a fund should be coincidental with the period during which the currency is not tied at a fixed ratio to gold.

Mr. MCGUGIN. Following that out, do you not think it would be better for this Congress to limit the life of this fund to, say, 2 years, and, if there is a necessity, extend it another year as we did the Reconstruction Finance Corporation only recently?

Mr. WARBURG. That would be one way of doing it. Another way would be to create the fund and give the President power to use it until such a time as he is prepared to recommend to the Congress the establishment of a fixed ratio of the currency to gold.

Mr. MCGUGIN. And when there is a fixed ratio, the thing should cease to exist.

Mr. WARBURG. Yes.

Mr. MCGUGIN. I do deeply appreciate that valuable suggestion from the witness. It is a most enlightening thought. I have been skeptical about setting up a fund and placing such great powers in the hands of the Secretary of the Treasury, which power would be in the nature, as in this bill, of definite legislation that any Secretary of the Treasury, even 20 years from now, could use.

Mr. WARBURG. The reason I make an alternative suggestion is that you are arming the President to protect this country against the operations of similar funds in other nations. I do not think it would be advisable to put a time limit on that any more than I think it would be advisable to create a navy and say it shall not exist after, say, 2 years.

Mr. MCGUGIN. We are giving the President power to stabilize between 50 and 60. When he stabilizes, and coincidental with that, there is no excuse for this fund, in your opinion?

Mr. WARBURG. That is right.

The CHAIRMAN. Would that fund exist if in fact there were no excuse for it?

Mr. WARBURG. That is pure conjecture. I do not know.

The CHAIRMAN. We should have to possess a very selfish motive to continue that fund after its need should pass if it were a defensive arm.

Mr. WARBURG. It is always bad practice to establish something that is in the nature of an emergency measure without clearly defining it as such, because not to do so would be to form bad habits. I think that to support Government bonds is defensible in an acute emergency, but I do not think it is a good custom in normal times. We might find that such a fund as we have in mind would be used to unduly support Government bonds, rather than do the work for which it was created. I think that the suggestion to limit the fund to the purpose for which it was created is a good one. I would make the limitation one of conditions rather than of time.

The CHAIRMAN. It is like the bombs we placed in the English Channel; when the war was over there was no need for them.

Mr. WARBURG. But some of them went off after the war!

Mr. THURSTON. Would you please give us your opinion as to why the American exchange has depreciated? Is it because of the stabilization fund of Great Britain or our own unfavorable financial condition?

Mr. WARBURG. I do not think it is either. The American exchange has depreciated because we have willfully depreciated it.

Mr. THURSTON. You made a reference to balancing the Budget. Will the condition of our Budget or the failure to balance our Budget

continue to play an important part whether or not a bill of the character of the one before us is passed?

Mr. WARBURG. Decidedly yes. Assume that this bill went further than it does; assume that this bill fixed a ratio to gold, and devalued the dollar at, let us say, 50 cents on the dollar, establishing a new parity; suppose that all uncertainty in regard to the currency so far as theory is concerned were removed; suppose that we have a series of tremendous Budget deficits for, say, 5 years. Those deficits would inevitably force us to go off gold again and would depreciate our currency below the point at which we now would revalue it, in spite of any monetary theory we might be working on or the enactment of a measure of this character.

Mr. THURSTON. Is the foundation of all of this the solvency of our Government?

Mr. WARBURG. Certainly. The two things go hand in hand. The national credit is the keystone of the arch, and impairing national credit will render void any action you may take in whatsoever field to bring about recovery. Vice versa, national credit can only be maintained on the basis of a sound currency.

Mr. THURSTON. That theory applies to individuals as it applies to nations—one must live within his income.

Mr. WARBURG. Yes; except that the individual has not a currency. The budget part applies to an individual, of course.

Mr. THURSTON. One of the most important, if not the most important, consideration in this matter is the solvency of the Government?

Mr. WARBURG. Yes.

Mr. PERKINS. You have spoken about external currency being depreciated, and our internal currency not being depreciated.

Mr. WARBURG. I said that our currency had depreciated externally more than it had depreciated internally.

Mr. PERKINS. Have we, then, two values for our dollar?

Mr. WARBURG. Yes.

Mr. PERKINS. The external or foreign value of the dollar is entirely different from the value we have to pay here?

Mr. WARBURG. Yes; I do not know whether Professor Fisher or Mr. Vanderlip cited the example of Sweden. It is a favorite example of the "mystery of money" boys. It is said that Sweden has attained a stable price level by monetary manipulation; but when one looks at the level he finds this: That the average curve of all prices has been fairly stable, but if one breaks that up one finds that the prices of goods produced in Sweden have fallen in about the same proportion as the prices of goods imported into Sweden have risen. That means that the Swedish pay more for what they import and receive less for what they export; which is not good for Sweden. That is the external and internal value of money.

Mr. PERKINS. When you spoke of stabilizing the dollar to some fixed ratio to gold did you mean to have a variable space between 50 and 60 or something absolutely definite?

Mr. WARBURG. I meant something absolutely definite.

Mr. PERKINS. The stabilization fund should exist when we authorize the President to devalue the dollar to a point anywhere between 50 and 60?

Mr. WARBURG. Yes.

Mr. PERKINS. And as soon as currency is fixed to some definite value of gold the stabilization fund ought not to be used.

Mr. WARBURG. That is my idea. There is this possibility: We might return to a fixed ratio to gold and Great Britain might not have returned. In that event Great Britain would use her equalization fund to manipulate her exchange or our exchange to our disadvantage, or she might so use it. In that event we would be the bar upon which Great Britain would chin herself or let herself down.

It is not necessary to tie the lip of the fund to our return, but it is necessary or desirable to tie it to a return to a fixed ratio of gold on the part of the major nations.

Mr. PERKINS. Is this stabilization fund to defend ourselves against economic attack?

Mr. WARBURG. Yes.

Mr. PERKINS. Should we tie to the pound—tie the dollar to the pound?

Mr. WARBURG. What do you mean by "tie to the pound"?

Mr. PERKINS. To have an international agreement whereby the dollar and the pound would have a fixed ratio.

Mr. WARBURG. I have indicated in my open letter of November 27, 1933, to Senator Borah that I think the best way to approach international stability is by a process of trial and error with the British, the joint operation of two equalization funds that would tend to do nothing more or less than eliminate excessive fluctuations in the dollar-pound rate, with the idea that we would gradually find an equilibrium between those two currencies, and when we reach the equilibrium we could proceed to revalue both currencies in a fixed relation to gold, and not until then. That program, however, is jeopardized somewhat by the fact that we are picking a range of 50 to 60, which is below actuality. If the range were from 55 to 65, and the rate of today were 60, we would stand a good chance of finding a natural balance. If we start with a range below reality, our equalization fund will have to swim upstream, which is likely to prove expensive.

Mr. PERKINS. Is the problem one of stabilizing the two currencies, the British currency and ours?

Mr. WARBURG. I do not think we can stabilize our currency intelligently without knowing what the British will do, and I do not believe the British could do so without knowing what we are doing. They want to know what we are going to do, and, I think, by way of exchange, they would tell us what they are going to do.

Mr. PERKINS. They would like to know what is in our hands, but they want to keep what they have in their hands.

Mr. WARBURG. I think we know each other's hands pretty well.

Mr. CARPENTER. It has been asserted here that the American people do not have the necessary qualified persons to carry on this stabilization with Great Britain because of the inferiority of experience and intelligence of these in our country. It is alleged that we would be at a great disadvantage with Great Britain due to the fact that she controls more or less the banking of the whole world, which works to the disadvantage of this country. Do you think this country has sufficient brains in the financial field to keep the American Nation on a level with Great Britain?

Mr. WARBURG. I do not think there is lack of talent in the actual technical operation of such a fund in this country. Our problem, our handicap, in dealing with such an equalization fund is that we are trying to attain an end that is doing violence to nature, more so than are the British. Therefore we have to fight not only the British but natural equilibrium, because we are trying violently to put our currency below where it wants to go. The British have used their fund to keep their money from fluctuating too far from the middle point. Our problem is to hold currency down when it wants to go up, and that is difficult.

Mr. CARPENTER. If it were within your power to devise some way to regulate our monetary situation for the best advantage, what would you do?

Mr. WARBURG. Starting here or last March?

Mr. CARPENTER. Starting from here.

Mr. WARBURG. I am then starting on an established theory in which I do not believe—the benefit to be derived from depreciating the currency. Starting with that, I should first say that the range is too low.

Mr. MCGUGIN. You think the 50–60 is too low?

Mr. WARBURG. Yes.

Mr. MCGUGIN. What do you think of Mr. Kemmerer's suggestion that it should not be below 66.33?

Mr. WARBURG. I have no means of picking a figure, and I do not believe that anybody else has.

Mr. MCGUGIN. In this particular bill it ranges from 50 to 60. Where would you fix it?

Mr. WARBURG. I would not suggest to the Congress that the range be amended, because I do not know what factors the President had considered in reaching that ratio. I am acquainted only with the factors that I know. It seems to me that such a range will require force so that we will not go over the top of the range. Therefore, if you should ask what I would do, I would say that I would fix the bottom at 50 cents or 60 cents—not believing in depreciating currency, I would fix it at 60 cents—I would then leave the top open.

Mr. MCGUGIN. As it is under the so-called "Thomas amendment"?

Mr. WARBURG. I would kill the greenback part of that amendment.

Mr. MCGUGIN. Insofar as it applies to gold, I mean. This bill would amend the Thomas amendment insofar as it applies to gold.

Mr. WARBURG. Then I would proceed by joint operations to find the natural point of equilibrium. I do not make that as a recommendation to the committee, because doubtless the President has fully considered that point, and he has not adopted it. He has chosen this, and with good reason, no doubt, but I do not know the reason. I do not want to recommend that you change his recommendation, because I do not believe I have all the related facts. There must be many reasons why he has gone the other way.

Mr. CARPENTER. Do you assume that this is one of the many steps that will be taken before this difficulty is over? This is not final, is it?

Mr. WARBURG. I think there will be several steps in the process.

Mr. CARPENTER. In your estimation, if the Government continues its rate of expenditures for the things upon which it is spending, what is the limit of credit of the United States without disrupting the Nation?

Mr. WARBURG. I do not know how large a national debt we can run up. I know we can run up a great deal larger national debt without going bankrupt on the basis of confidence in the currency than we can without such confidence.

Mr. CARPENTER. Do you think it would simplify our present situation if we should disregard to some extent the item of international trade? Do you think it is possible to reestablish those relations to any great extent?

Mr. WARBURG. If we disregard them, what would it lead to?

Mr. CARPENTER. It is my understanding that the exchange of international commerce is diminishing due to the fact that other peoples are rapidly becoming self-contained and taking care of their own needs. They do not import as they once did. Obviously, our foreign markets with Europe are rapidly becoming a thing of the past.

Mr. WARBURG. That may be and probably is true. In its relation to this bill I can only say that I cannot visualize international monetary stability without a free flow of goods and services between nations. That free flow may be less in volume than it has been in the past for reasons of national self-sufficiency that you have indicated. Whether it is more or less does not matter so long as the flow is free. Gold cannot be redistributed, which redistribution is necessary to international stability on any other basis, except by making it possible for countries without gold to sell to countries with gold more than they buy from those countries.

Mr. CARPENTER. If our trade were equally divided, it would take care of the situation?

Mr. WARBURG. Yes; if you include invisibles.

Mr. WHITE. The tariff retards foreign trade, does it not?

Mr. WARBURG. Yes.

Mr. WHITE. And a stringency in money metal is also a barrier, is it not—the shortage or stringency of gold?

Mr. WARBURG. There is a shortage of gold in some nations, but I do not think there is a world stringency of gold. There is a maldistribution of gold.

Mr. WHITE. There is and has been a shortage of gold in the nations of central Europe, and if a sale is made to those countries by this country it is difficult for them to pay.

Mr. WARBURG. There is a shortage of gold in those particular countries.

Mr. WHITE. And that shortage is a barrier to commerce with those nations?

Mr. WARBURG. Yes.

Mr. WHITE. I think Dr. Rogers pointed to that as one of the chief barriers to foreign trade.

Mr. WARBURG. Yes.

Mr. WHITE. Something was said about stabilizing the currency of the several countries. Under the plan of the Latin Union, adopted by France, Italy, Greece, and Belgium in or about 1867, I think it was, there were two standards of money, gold and silver, as to fineness, value, and size. Do you think that an ideal arrangement, if it could be effected between the several nations?

Mr. WARBURG. That arrangement pertained to metallic coin only.

Mr. WHITE. It concerned all currency that have a metallic basis.

Mr. WARBURG. I think the best arrangement for today is one in which there is no gold coin. That subject is discussed in the supplementary excerpts I shall leave with the committee.

Mr. WHITE. That is really a barrier to redemption, is it not? The individual cannot have his currency redeemed in gold coin, and he is barred from redemption.

Mr. WARBURG. There are various phases of it. In France one may have a limited amount of gold bullion, but one cannot get \$10 in gold. He can get only bars worth about \$10,000.

Mr. WHITE. In case of threatened war or extreme distress depreciation of the credit of the National Government would act as a factor in shaking confidence, would it not?

Mr. WARBURG. The fact that one could not get gold?

Mr. WHITE. It would further depreciate our currency, would it not?

Mr. WARBURG. If there are 10 pies and 10 men, each man knows there is a pie for him; if there are 10 men and 5 pies, there will be a scramble; but if there are no pies, nobody will try to get a pie.

Mr. WHITE. You think that in time of threatened war or national distress the people would not scramble for gold?

Mr. WARBURG. They will not scramble for it if they know there is no use in scrambling.

Mr. WHITE. That would bring about a depreciation in our currency, would it not, the fact that one could not get gold?

Mr. WARBURG. No, sir; I do not think it would.

Mr. WHITE. You are in favor of basing currency upon a metallic, are you not?

Mr. WARBURG. That is set forth in detail in the supplementary excerpts I shall leave with the committee. I am in favor of limiting the holding of gold to central banks and having the central banks use such gold only for the settlement of temporary disequilibria in the foreign account and to back their note issues.

Mr. WHITE. Still you believe in basing the currency upon a metallic?

Mr. WARBURG. Yes; but I would have it redeemable in gold for export only, and then in bullion.

Mr. WHITE. What is the fundamental reason for basing currency upon a metallic? It is to limit its quantity, is it not?

Mr. WARBURG. Yes; that is true.

Mr. WHITE. And to keep it without control of any group to limit the quantity of primary money.

Mr. WARBURG. I would say that it prevents the unlimited issuance of currency.

Mr. WHITE. It automatically controls the limitation of money?

Mr. WARBURG. Yes.

Mr. WHITE. And so long as we are tied to a metallic base, do you not believe it should be adequate in volume, adequate for the needs of business?

Mr. WARBURG. The metallic base?

Mr. WHITE. Yes.

Mr. WARBURG. The use of the word adequate makes it difficult to answer. I do not think that specie redemption of currency in gold is at all necessary to maintain confidence in currency, so long as the currency is redeemable in gold for the settlement of international balances.

Mr. FIESINGER. May I ask a few questions, Mr. Warburg?

Mr. WARBURG. Surely.

Mr. FIESINGER. You have had a lot of experience in foreign exchange and in money and so on.

Mr. WARBURG. I have had some.

Mr. FIESINGER. I will say you have had a lot more than I have. Now, we are going to be called upon to vote for this bill in a couple of days.

Mr. PERKINS. Vote for or against it?

Mr. FIESINGER. Well, for or against the bill. I am just a poor Congressman from out in the sticks, and I would like to have you advise me, if you will, how you would vote on this bill if you were in my place.

Mr. WARBURG. Not having read the bill, it is hard to say. I would make a speech before I voted, in which I stated that I would support any bill at this time that the President recommended as being necessary in the emergency, but that in my opinion it would be very much better if the range picked with a top limit of 60 were higher. I would like, if there were time, to be told why that top limit of 60 should be there, why it should not be a higher range; that I would like the bill very much better, if somewhere in it there were an avowed intention at the proper time to return to a fixed ratio of gold; that I did not like voting for a bill which might be a bill ultimately to establish a commodity dollar, that is a dollar of variable gold content, and that equally might be a bill to establish a fixed ratio of gold somewhere between 50 and 60 cents; that furthermore I did not like passing any currency legislation at the present time which did not once and for all remove the possibility of issuing greenbacks.

Mr. FIESINGER. With those things you have stated, excepting those things you have stated, would you be for the bill if you were a Congressman?

Mr. WARBURG. I would take the view today, that the President has had a better opportunity to study all of the angles of it than I have had.

Mr. FIESINGER. Yes, but would you answer the question I asked you?

Mr. WARBURG. I would be for the bill purely on the ground of supporting the President on something I assumed he had carefully studied, but I do not know whether I would be for the bill as it is worded.

Mr. FIESINGER. Now, you said in your testimony, I believe, that the nations use their currencies to establish price levels. Did you not say that?

Mr. WARBURG. I don't believe I did; no, sir.

Mr. FIESINGER. Do you remember what you said on that point?

Mr. WARBURG. I don't remember the text. I implied that some people believe—and I am not one of them—that you can establish a price level to suit yourselves by arranging a currency to suit yourselves.

Mr. FIESINGER. You can so use a currency if you wish?

Mr. WARBURG. I don't think you can, but some people do think you can.

Mr. FIESINGER. You don't believe you can, but some people think you can?

Mr. WARBURG. Yes, that you can arrange the price level to suit yourself by arranging the currency.

Mr. FIESINGER. Do you think the value of the pound sterling has any effect on the price levels?

Mr. WARBURG. Yes, sir. However, I don't think it is the determining factor.

Mr. FIESINGER. It has some effect?

Mr. WARBURG. It has some effect; yes. May I make it clear in this way. Professor Warren, who is the arch deacon of the gold theory, produces a chart in which he shows a relationship between the commodity prices and the price of gold.

Professor Warren and I went to Hyde Park together last August to discuss this thing before the President. I said then, and I say now, that his chart makes out just as good a case for the foreign exchange rate as it does for the gold price. The two have been inseparable until we started in to buy gold.

I said to the President in August: "If you will do what Professor Warren wants you to do, that is, start buying gold internally only and raise the price of domestic gold, on the theory that will raise the domestic price level, you will give me the evidence I now lack—that it is not only gold, it is not only the exchange rate, but a lot of things that make the price level, because you will have two dollars; you will have the foreign exchange dollar and you will have the domestic (Warren) dollar."

Mr. FIESINGER. It does have an influence on the price level?

Mr. WARBURG. I don't deny it has some influence.

Mr. FIESINGER. Wouldn't the British use that influence, whatever it may be, to get a price level in their own interest?

Mr. WARBURG. Yes, there are a great number of British who believe just as Professor Warren does, that you can do that, and therefore they are trying to do it.

Mr. FIESINGER. I am talking about the predominant opinion in Europe; wouldn't they use that to get the price level they want?

Mr. WARBURG. The problems here and in Great Britain are not the same, because prices in Great Britain depend a great deal more on foreign trade than ours do.

Mr. FIESINGER. Foreign trade is a very important thing for the United States just now.

Mr. WARBURG. Yes; but not relatively with Great Britain.

Mr. FIESINGER. Not relatively, perhaps, but it is an important thing.

Mr. WARBURG. It is an important thing.

Mr. FIESINGER. If the British can use their currency to depress the price level, they will get more of the trade of the world than we will, won't they?

Mr. WARBURG. If the British can use their currency to depress what price level, their own?

Mr. FIESINGER. Let us see, if they can depress the world price level through their currency, won't they get more of the trade of the world than we will? If their currency is high and we have to have a high price level, won't they get more of the trade of the world?

Mr. WARBURG. I don't see how the British can depress the world price level by their currency, but they might raise or lower their own price level.

Mr. FIESINGER. In the economic conferences they wanted a pound in relation to the dollar of about \$3.50 or \$4, didn't they?

Mr. WARBURG. In view of the presence of the press, I can't answer that question as accurately as I could otherwise, because I think that if confidential information—I mean, the actual figure.

Mr. FIESINGER. Assuming that they did—and I am not saying you said so—wouldn't that give them an advantage in the markets of the world, if they could establish a ratio of that kind?

Mr. WARBURG. If the British establish—let's take for argument's sake, a rate of \$3.50, it would give them an advantage in the markets of the world as against us, as against the dollar, but that does not mean that you raise or lower the gold-price level.

Mr. FIESINGER. They would have an advantage in world trade as against the American dollar and against the business of the United States?

Mr. WARBURG. Surely.

Mr. FIESINGER. Now, if that is so, this is going to be a competitive race, is it not, when we get these two stabilization funds in operation?

Mr. WARBURG. It can very easily become one.

Mr. FIESINGER. Isn't it human nature for them to struggle to get the pound tied to the dollar at as low a price as they can for the pound?

Mr. WARBURG. Just as it is human nature for us to struggle to get it tied to as high a rate as possible.

Mr. FIESINGER. Therefore, human nature being what it is, we are probably where there is going to be a titantic struggle between these two nations on account of the prize of foreign trade throughout the world?

Mr. WARBURG. I don't view that with such alarm as you apparently do, because both nations have more to lose by a race for the bottom by currency depreciation than they have to gain in advantage over each other in foreign trade.

Mr. FIESINGER. There is an interest, as you can see, between the two Nations, England wants and requires a lower price level than we have to have in the United States, having labor at the average rate we had in the United States 2 years ago, \$26, whereas theirs was \$12.

Mr. WARBURG. I am not familiar with the figures, but the English have a lower level of wages; yes.

Mr. FIESINGER. In order to keep her people satisfied, and in order to keep that wage level, won't she struggle to keep the pound down, and make prices cheap for the commodities she buys in the world for her manufacturing industries and for her business?

Mr. WARBURG. No; I think there are two contradictory elements. If she depresses the pound in terms of the dollar, it costs her more pounds to buy cotton, for instance, and that would be offset by the fact that she can undersell us in selling textiles to the Orient.

Mr. WHITE. Wouldn't it be the same, whatever she depreciates?

Mr. WARBURG. Whatever she imports costs more due to the depreciation of currency, and whatever she sells she can sell for less.

Mr. WHITE. In other words, she would want to keep the pound up so far as imports are concerned?

Mr. WARBURG. That is why I don't view it with as much alarm as you do, because no nation will cut its own throat to gain advantage over another nation.

Mr. MCGUGIN. That is not true where she practically controls the market for that commodity?

Mr. WARBURG. No; it is only true where she has to buy herself.

Mr. MCGUGIN. If she ran the price of cotton down, she would have to pay more in pounds?

Mr. WARBURG. If she ran the price of the pound down, she would have to pay more in pounds.

Mr. WHITE. Didn't she lower the price of cotton in dollars when she enhanced our dollar?

Mr. WARBURG. When who enhanced it?

Mr. WHITE. When the English stabilization fund enhances the gold dollar and lowered the pound, didn't it decrease the price of cotton in this country, lower the cost of production and set her idle cotton factories to work and took our trade in manufactured products?

Mr. WARBURG. Are you talking about the time when England was off of the gold standard and we were on gold?

Mr. WHITE. Yes.

Mr. WARBURG. England did not raise the price of the dollar, she depreciated the pound.

Mr. WHITE. It depreciated the price of the pound and the dollar had greater purchasing power, the people in this country got less for cotton, and cotton became cheaper in England, and supplied her raw material that was manufactured at a cheaper cost, which was supplied to the markets in competition with our goods.

Mr. WARBURG. When we were on a fixed ratio of gold and the pound was depreciated, by the amount that the pound depreciated cotton became more expensive to the English. That did not raise or lower the price of cotton here, except insofar as there were fewer people in England who could afford to pay the higher number of pounds for cotton, therefore they took less cotton, therefore the demand for cotton went off, and therefore the price of cotton dropped.

Mr. WHITE. At that time the English cotton manufacturers experienced quite a boom in their business?

Mr. WARBURG. For an entirely different reason, not because of the price of cotton.

Mr. FIESINGER. When we went off of gold, cotton did rise in price, and did you say it rose since that time?

Mr. WARBURG. I was talking about when we were on gold. When we went off of gold, cotton, wheat, and everything else went up, for precisely the same reason as the reverse picture in England.

Mr. FIESINGER. I want to pursue that a little further. England, you concede, wants a low price for commodities that she imports?

Mr. WARBURG. Yes.

Mr. FIESINGER. She wants to buy as cheap as she can?

Mr. WARBURG. Yes.

Mr. FIESINGER. She wants to sell for as high a price as she can?

Mr. WARBURG. Surely.

Mr. FIESINGER. And you think those two things operating there would bring them into somewhat of an equilibrium?

Mr. WARBURG. Yes, and there is a somewhat similar thing. England owes a lot of money in dollars, and to the extent the dollar gets cheaper and the pound gets more expensive, it is easier to pay.

Mr. FIESINGER. Aren't we in the position where we want to get a high price for the things England buys, and we also want to get a

good price for the things we sell, so there is a difference in the interests between the two nations?

Mr. WARBURG. There certainly is a difference of interest between the two nations, but it is not a difference of interest which will drive those two nations, in my judgment, to a race for suicide.

Mr. FIESINGER. If they drive the pound down, they are going to get the business of the world, aren't they?

Mr. WARBURG. Are you asking if they will drive the pound down and everybody else sits still?

Mr. FIESINGER. I don't meant down to nothing, but I mean down to below where we ought to have the pound.

Mr. WARBURG. The minute they do that we will drive the dollar down, then they will drive the pound down some more, and we will drive the dollar down some more.

Mr. FIESINGER. You mean to say that is a likelihood even when they have the interest to buy as cheaply as they can, and to sell as high as they can?

Mr. WARBURG. I can say it is a possibility, but not a likelihood.

Mr. FIESINGER. Why do you say then, that if they drive the pound down we will drive the dollar down, and then they will drive the pound down some more?

Mr. WARBURG. I say that anybody who seeks advantage by depreciating his currency must know that the other fellow can do the same thing. Therefore, they will not do it very much, because they will say, if I do this, then he will drop and I will have to drop some more, and the only result will be that it will prostitute labor.

Mr. FIESINGER. They can afford to have some prostitution of their labor, because they only pay \$12, while we pay \$26.

Mr. WARBURG. I don't know that this comes before the Committee on Coinage, Weights, and Measures.

The CHAIRMAN. Gentlemen: Mr. Warburg has been answering questions for something more than an hour, an hour and a half, as a matter of fact, and I think we have been able to get his reaction to this bill, and if we haven't it is our fault.

Mr. DIES. Mr. Chairman, I would like to ask a question to clear my understanding of the testimony. As I understand, Mr. Warburg, if we fix the dollar at 60 percent, there is no devaluation, it stands on what already exists?

Mr. WARBURG. I don't say there is no devaluation. There is devaluation the moment you reduce the gold content of the dollar, but there is no depreciation involved in devaluing at this point.

Mr. DIES. But down to 60 or below 60, and to the point of 50, you regard that as depreciation?

Mr. WARBURG. Yes; but you are not bringing about depreciation by devaluation. Devaluation cannot precede depreciation.

Mr. DIES. If you went from 60 to 50, you regard that 10 percent to be depreciation?

Mr. WARBURG. Yes; I would.

The CHAIRMAN. The hearing is now adjourned, subject to the call of the chairman.

AN ACT To protect the currency system of the United States, to provide for the better use of the monetary gold stock of the United States, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the short title of this Act shall be the "Gold Reserve Act of 1934."

SEC. 2. (a) Upon the approval of this Act all right, title, and interest, and every claim of the Federal Reserve Board, of every Federal Reserve bank, and of every Federal Reserve agent, in and to any and all gold coin and gold bullion shall pass to and are hereby vested in the United States; and in payment therefor credits in equivalent amounts in dollars are hereby established in the Treasury in the accounts authorized under the sixteenth paragraph of section 16 of the Federal Reserve Act, as heretofore and by this Act amended (U.S.C., title 12, sec. 467). Balances in such accounts shall be payable in gold certificates, which shall be in such form and in such denominations as the Secretary of the Treasury may determine. All gold so transferred, not in the possession of the United States, shall be held in custody for the United States and delivered upon the order of the Secretary of the Treasury; and the Federal Reserve Board, the Federal Reserve banks, and the Federal Reserve agents shall give such instructions and shall take such action as may be necessary to assure that such gold shall be so held and delivered.

(1) [(b) Section 16 of the Federal Reserve Act, as amended, is further amended by striking out the word "gold" where it first appears in the last sentence of the first paragraph (U.S.C., title 12, sec. 411) of said section 16, and inserting in lieu thereof the words "lawful money"; and by striking out the phrase "in gold or lawful money", where it appears in said sentence; by striking out the word "gold" and the ensuing comma, and the words "gold or" wherever in section 16 they are immediately followed by the words "gold certificates"; by striking out the word "gold" in the first sentence of the third paragraph (U.S.C., title 12, sec. 413) of said section 16 where it follows the words "shall be counted as part of the", by inserting after the word "gold" the word "certificates" wherever it now appears in said section 16, not immediately followed by the word "certificates", except in the sixteenth paragraph (U.S.C., title 12, sec. 467) of said section 16 and except where the same is stricken out by this section; by striking out the word "coin" where it appears after the phrase "deposits of gold" in the first sentence of the sixteenth paragraph; by striking out the words "gold coin or" where they appear after the words "shall be payable in" in the third sentence of the sixteenth paragraph, and by striking out all of the third sentence of the sixteenth paragraph after the words "such Federal Reserve agent" and inserting in lieu thereof a period; and by striking out the words "Gold deposits" in the eighteenth paragraph and inserting in lieu thereof the words "Deposits made under this section."]

(b) Section 16 of the Federal Reserve Act, as amended, is further amended in the following respects:

(1) The third sentence of the first paragraph is amended to read as follows: "They shall be redeemed in lawful money on demand at the Treasury Department of the United States, in the city of Washington, District of Columbia, or at any Federal Reserve bank."

(2) So much of the third sentence of the second paragraph as precedes the proviso is amended to read as follows: "The collateral security thus offered shall be notes, drafts, bills of exchange, or acceptances acquired under the provisions of section 13 of this Act, or bills of exchange endorsed by a member bank of any Federal Reserve district and purchased under the provisions of section 14 of this Act, or bankers' acceptances purchased under the provisions of said section 14, or gold certificates:".

(3) The first sentence of the third paragraph is amended to read as follows: "Every Federal Reserve bank shall maintain reserves in gold certificates or lawful money of not less than 35 per centum against its deposits and reserves in gold certificates of not less than 40 per centum against its Federal Reserve notes in actual circulation: Provided, however, That when the Federal Reserve agent holds gold certificates as

collateral for Federal Reserve notes issued to the bank such gold certificates shall be counted as part of the reserve which such bank is required to maintain against its Federal Reserve notes in actual circulation."

(4) The fifth and sixth sentences of the third paragraph are amended to read as follows: "Notes presented for redemption at the Treasury of the United States shall be paid out of the redemption fund and returned to the Federal Reserve banks through which they were originally issued, and thereupon such Federal Reserve bank shall, upon demand of the Secretary of the Treasury, reimburse such redemption fund in lawful money or, if such Federal Reserve notes have been redeemed by the Treasurer in gold certificates, then such funds shall be reimbursed to the extent deemed necessary by the Secretary of the Treasury in gold certificates, and such Federal Reserve bank shall, so long as any of its Federal Reserve notes remain outstanding, maintain with the Treasurer in gold certificates an amount sufficient in the judgment of the Secretary to provide for all redemptions to be made by the Treasurer. Federal Reserve notes received by the Treasurer otherwise than for redemption may be exchanged for gold certificates out of the redemption fund hereinafter provided and returned to the Reserve bank through which they were originally issued, or they may be returned to such bank for the credit of the United States."

(5) The fourth, fifth, and sixth paragraphs are amended to read as follows:

"The Federal Reserve Board shall require each Federal Reserve Bank to maintain on deposit in the Treasury of the United States a sum in gold certificates sufficient in the judgment of the Secretary of the Treasury for the redemption of the Federal Reserve notes issued to such bank, but in no event less than 5 per centum of the total amount of notes issued less the amount of gold certificates held by the Federal Reserve agent as collateral security; but such deposit of gold certificates shall be counted and included as part of the 40 per centum reserve hereinbefore required. The Board shall have the right, acting through the Federal Reserve agent, to grant in whole or in part, or to reject entirely the application of any Federal Reserve bank for Federal Reserve notes; but to the extent that such application may be granted the Federal Reserve Board shall, through its local Federal Reserve agent, supply Federal Reserve notes to the banks so applying, and such bank shall be charged with the amount of notes issued to it and shall pay such rate of interest as may be established by the Federal Reserve Board on only that amount of such notes which equals the total amount of its outstanding Federal Reserve notes less the amount of gold certificates held by the Federal Reserve agent as collateral security. Federal Reserve notes issued to any such bank shall, upon delivery, together with such notes of such Federal Reserve bank as may be issued under section 18 of this Act upon security of United States 2 per centum Government bonds, become a first and paramount lien on all the assets of such bank.

"Any Federal Reserve bank may at any time reduce its liability for outstanding Federal Reserve notes by depositing with the Federal Reserve agent its Federal Reserve notes, gold certificates, or lawful money of the United States. Federal Reserve notes so deposited shall not be reissued, except upon compliance with the conditions of an original issue.

"The Federal Reserve agent shall hold such gold certificates or lawful money available exclusively for exchange for the outstanding Federal Reserve notes when offered by the Reserve bank of which he is a director. Upon the request of the Secretary of the Treasury the Federal Reserve Board shall require the Federal Reserve agent to transmit to the Treasurer of the United States so much of the gold certificates held by him as collateral security for Federal Reserve notes as may be required for the exclusive purpose of the redemption of such Federal Reserve notes, but such gold certificates when deposited with the Treasurer shall be counted and considered as if collateral security on deposit with the Federal Reserve agent."

(6) The eighth paragraph is amended to read as follows:

"All Federal Reserve notes and all gold certificates and lawful money issued to or deposited with any Federal Reserve agent under the provisions of the Federal Reserve Act shall hereafter be held for such agent, under such rules and regulations as the Federal Reserve Board may prescribe, in the joint custody of himself and the Federal Reserve bank to which he is accredited. Such agent and such Federal Reserve bank shall be jointly liable for the safe-keeping of such Federal Reserve notes, gold certificates, and lawful money. Nothing herein contained, however, shall be construed to prohibit a Federal Reserve agent from depositing gold certificates with the Federal Reserve Board, to be held by such Board subject to his order, or with the Treasurer of the United States for the purposes authorized by law."

(7) The sixteenth paragraph is amended to read as follows:

"The Secretary of the Treasury is hereby authorized and directed to receive deposits of gold or of gold certificates with the Treasurer or any Assistant Treasurer of the

United States when tendered by any Federal Reserve bank or Federal Reserve agent for credit to its or his account with the Federal Reserve Board. The Secretary shall prescribe by regulation the form of receipt to be issued by the Treasurer or Assistant Treasurer to the Federal Reserve bank or Federal Reserve agent making the deposit and a duplicate of such receipt shall be delivered to the Federal Reserve Board by the Treasurer at Washington upon proper advices from any Assistant Treasurer that such deposit has been made. Deposits so made shall be held subject to the orders of the Federal Reserve Board and shall be payable in gold certificates on the order of the Federal Reserve Board to any Federal Reserve bank or Federal Reserve agent at the Treasury or at the Subtreasury of the United States nearest the place of business of such Federal Reserve bank or such Federal Reserve agent. The order used by the Federal Reserve Board in making such payments shall be signed by the governor or vice governor, or such other officers or members as the Board may by regulation prescribe. The form of such order shall be approved by the Secretary of the Treasury."

(8) The eighteenth paragraph is amended to read as follows:

"Deposits made under this section standing to the credit of any Federal Reserve bank with the Federal Reserve Board shall, at the option of said bank, be counted as part of the lawful reserve which it is required to maintain against outstanding Federal Reserve notes, or as a part of the reserve it is required to maintain against deposits."

SEC. 3. The Secretary of the Treasury shall, by regulations issued hereunder, with the approval of the President, prescribe the conditions under which gold may be acquired and held, transported, melted or treated, imported, exported, or earmarked: (a) for industrial, professional, and artistic use; (b) by the Federal Reserve banks for the purpose of settling international balances; and, (c) for such other purposes as in his judgment are not inconsistent with the purposes of this Act. Gold in any form may be acquired, transported, melted or treated, imported, exported, or earmarked or held in custody for foreign or domestic account (except on behalf of the United States) only to the extent permitted by, and subject to the conditions prescribed in, or pursuant to, such regulations. Such regulations may exempt from the provisions of this section, in whole or in part, gold situated in the Philippine Islands or other places beyond the limits of the continental United States.

SEC. 4. Any gold withheld, acquired, transported, melted or treated, imported, exported, or earmarked or held in custody, in violation of this Act or of any regulations issued hereunder, or licenses issued pursuant thereto, shall be forfeited to the United States, and may be seized and condemned by like proceedings as those provided by law for the forfeiture, seizure, and condemnation of property imported into the United States contrary to law; and in addition any person failing to comply with the provisions of this Act or of any such regulations or licenses, shall be subject to a penalty equal to twice the value of the gold in respect of which such failure occurred.

SEC. 5. No gold shall hereafter be coined, and no gold coin shall hereafter be paid out or delivered by the United States: *Provided, however,* That coinage may continue to be executed by the mints of the United States for foreign countries in accordance with the Act of January 29, 1874 (U.S.C., title 31, sec. 367). All gold coin of the United States shall be withdrawn from circulation, and, together with all other gold owned by the United States, shall be formed into bars of such weights and degrees of fineness as the Secretary of the Treasury may direct.

SEC. 6. Except to the extent permitted in regulations which may be issued hereunder by the Secretary of the Treasury with the approval of the President, no currency of the United States shall be redeemed in gold: *Provided, however,* That gold certificates owned by the Federal Reserve banks shall be redeemed at such times and in such amounts as, in the judgment of the Secretary of the Treasury, are necessary to maintain the equal purchasing power of every kind of currency of the United States: *And provided further,* That the reserve for United States notes and for Treasury notes of 1890, and the security for gold certificates (including the gold certificates held in the Treasury for credits payable therein) shall be maintained in gold bullion equal to the dollar amounts required by law, and the reserve for Federal Reserve notes shall be maintained in gold certificates, or in credits payable in gold certificates maintained with the Treasurer of the United States under section 16 of the Federal Reserve Act, as heretofore and by this Act amended.

No redemptions in gold shall be made except in gold bullion bearing the stamp of a United States mint or assay office in an amount equivalent at the time of redemption to the currency surrendered for such purpose.

SEC. 7. In the event that the weight of the gold dollar shall at any time be reduced, the resulting increase in value of the gold held by the United States

(including the gold held as security for gold certificates and as a reserve for any United States notes and for Treasury notes of 1890) shall be covered into the Treasury as a miscellaneous receipt; and, in the event that the weight of the gold dollar shall at any time be increased, the resulting decrease in value of the gold held as a reserve for any United States notes and for Treasury notes of 1890, and as security for gold certificates shall be compensated by transfers of gold bullion from the general fund, and there is hereby appropriated an amount sufficient to provide for such transfers and to cover the decrease in value of the gold in the general fund.

SEC. 8. Section 3700 of the Revised Statutes (U.S.C., title 31, sec. 734) is amended to read as follows:

"SEC. 3700. With the approval of the President, the Secretary of the Treasury may purchase gold in any amounts, at home or abroad, with any direct obligations, coin, or currency of the United States, authorized by law, or with any funds in the Treasury not otherwise appropriated, at such rates and upon such terms and conditions as he may deem most advantageous to the public interest; any provision of law relating to the maintenance of parity, or limiting the purposes for which any of such obligations, coin, or currency, may be issued, or requiring any such obligations to be offered as a popular loan or on a competitive basis, or to be offered or issued at not less than par, to the contrary notwithstanding. All gold so purchased shall be included as an asset of the general fund of the Treasury."

SEC. 9. Section 3699 of the Revised Statutes (U.S.C., title 31, sec. 733) is amended to read as follows:

"SEC. 3699. The Secretary of the Treasury may anticipate the payment of interest on the public debt, by a period not exceeding one year, from time to time, either with or without a rebate of interest upon the coupons, as to him may seem expedient; and he may sell gold in any amounts, at home or abroad, in such manner and at such rates and upon such terms and conditions as he may deem most advantageous to the public interest, and the proceeds of any gold so sold shall be covered into the general fund of the Treasury: *Provided, however,* That the Secretary of the Treasury may sell the gold which is required to be maintained as a reserve or as security for currency issued by the United States, only to the extent necessary to maintain such currency at a parity with the gold dollar."

SEC. 10. (a) For the purpose of stabilizing the exchange value of the dollar, the Secretary of the Treasury, (2) *with the approval of the President*, directly or through such agencies as he may designate, is authorized, for the account of the fund established in this section, to deal in gold and foreign exchange and such other instruments of credit and securities as he may deem necessary to carry out the purpose of this section. An annual audit of such fund shall be made and a report thereof submitted to the President (3) and a general report on the operation of the fund shall be made by the President to the Congress within the period beginning ninety days before and ending ninety days after the expiration of three years from the date of enactment of this Act.

(b) To enable the Secretary of the Treasury to carry out the provisions of this section there is hereby appropriated, out of the receipts which are directed to be covered into the Treasury under section 7 hereof, the sum of \$2,000,000,000, which sum when available shall be deposited with the Treasurer of the United States in a stabilization fund (hereinafter called the "fund") under the exclusive control of the Secretary of the Treasury, (4) *with the approval of the President*, whose decisions shall be final and not be subject to review by any other officer of the United States. The fund shall be available for expenditure, under the direction of the Secretary of the Treasury and in his discretion, for any purpose in connection with carrying out the provisions of this section, including the investment and reinvestment in direct obligations of the United States of any portions of the fund which the Secretary of the Treasury, with the approval of the President, may from time to time determine are not currently required for stabilizing the exchange value of the dollar. The proceeds of all sales and investments and all earnings and interest accruing under the operations of this section shall be paid into the fund and shall be available for the purposes of the fund.

(5)(c) *All the powers conferred by this section shall expire two years after the date of enactment of this Act, unless the President shall sooner declare the existing emergency ended and the operation of the stabilization fund terminated; but the President may extend such period for not more than one additional year after such date by proclamation recognizing the continuance of such emergency.*

SEC. 11. The Secretary of the Treasury is hereby authorized to issue, with the approval of the President, such rules and regulations as the Secretary may deem necessary or proper to carry out the purposes of this Act.

SEC. 12. Paragraph (b) (2), of section 43, title III, of the Act approved May 12, 1933 (Public, Numbered 10, Seventy-third Congress), is amended by adding two new sentences at the end thereof, reading as follows:

"Nor shall the weight of the gold dollar be fixed in any event at more than 60 per centum of its present weight. The powers of the President specified in this paragraph shall be deemed to be separate, distinct, and continuing powers, and may be exercised by him, from time to time, severally or together, whenever and as the expressed objects of this section in his judgment may require (6); *except that such powers shall expire two years after the date of enactment of the Gold Reserve Act of 1934 unless the President shall sooner declare the existing emergency ended, but the President may extend such period for not more than one additional year after such date by proclamation recognizing the continuance of such emergency.*"

(7) Paragraph (2) of subsection (b) of section 43, title III, of an Act entitled "An Act to relieve the existing national economic emergency by increasing agricultural purchasing power, to raise revenue for extraordinary expenses incurred by reason of such emergency, to provide emergency relief with respect to agricultural indebtedness, to provide for the orderly liquidation of joint-stock land banks, and for other purposes", approved May 12, 1933, is amended by adding at the end of said paragraph (2) the following:

"The President, in addition to the authority to provide for the unlimited coinage of silver at the ratio so fixed, under such terms and conditions as he may prescribe, is further authorized to cause to be issued and delivered to the tenderer of silver for coinage, silver certificates in lieu of the standard silver dollars to which the tenderer would be entitled and in an amount in dollars equal to the number of coined standard silver dollars that the tenderer of such silver for coinage would receive in standard silver dollars.

"The President is further authorized to issue silver certificates in such denominations as he may prescribe against any silver bullion, silver, or standard silver dollars in the Treasury not then held for redemption of any outstanding silver certificates, and to coin standard silver dollars or subsidiary currency for the redemption of such silver certificates.

"The President is authorized, in his discretion, to prescribe different terms and conditions and to make different charges, or to collect different seigniorage, for the coinage of silver of foreign production than for the coinage of silver produced in the United States or its dependencies. The silver certificates herein referred to shall be issued, delivered, and circulated substantially in conformity with the law now governing existing silver certificates, except as may herein be expressly provided to the contrary, and shall have and possess all of the privileges and the legal tender characteristics of existing silver certificates now in the Treasury of the United States, or in circulation.

"The President is authorized, in addition to other powers, to reduce the weight of the standard silver dollar in the same percentage that he reduces the weight of the gold dollar.

"The President is further authorized to reduce and fix the weight of subsidiary coins so as to maintain the parity of such coins with the standard silver dollar and with the gold dollar."

SEC. 13. All actions, regulations, rules, orders, and proclamations heretofore taken, promulgated, made or issued by the President of the United States or the Secretary of the Treasury, under the Act of March 9, 1933, or under section 43 or section 45 of title III of the Act of May 12, 1933, are hereby approved, ratified, and confirmed.

SEC. 14. (a) The Second Liberty Bond Act, as amended, is further amended as follows:

(1) By adding at the end of section 1 (U.S.C., title 31, sec. 752; Supp. VII, title 31, sec. 752), a new paragraph as follows:

"Notwithstanding the provisions of the foregoing paragraph, the Secretary of the Treasury may from time to time, when he deems it to be in the public interest, offer such bonds otherwise than as a popular loan and he may make allotments in full, or reject or reduce allotments upon any applications whether or not the offering was made as a popular loan."

(2) By inserting in section 8 (U.S.C., title 31, sec. 771), after the words "certificates of indebtedness", a comma and the words "Treasury bills".

(3) By striking out the figures "\$7,500,000,000" where they appear in section 18 (U.S.C., title 31, sec. 753) and inserting in lieu thereof the figures "\$10,000,000,000."

(4) By adding thereto two new sections, as follows:

"SEC. 19. Notwithstanding any other provisions of law, any obligations authorized by this Act may be issued for the purchase, redemption, or refunding, at or before maturity, of any outstanding bonds, notes, certificates of indebtedness, or Treasury bills, of the United States, or to obtain funds for such purchase, redemption, or refunding, under such rules, regulations, terms, and conditions as the Secretary of the Treasury may prescribe.

"SEC. 20. The Secretary of the Treasury may issue any obligations authorized by this Act and maturing not more than one year from the date of their issue on a discount basis and payable at maturity without interest. Any such obligations may also be offered for sale on a competitive basis under such regulations and upon such terms and conditions as the Secretary of the Treasury may prescribe, and the decisions of the Secretary in respect of any issue shall be final."

(b) Section 6 of the Victory Liberty Loan Act (U.S.C., title 31, sec. 767; Supp. VII, title 31, secs. 767-767a) is amended by striking out the words "for refunding purposes", together with the preceding comma, at the end of the first sentence of subsection (a).

(c) The Secretary of the Treasury is authorized to issue gold certificates in such form and in such denominations as he may determine, against any gold held by the Treasurer of the United States, except the gold fund held as a reserve for any United States notes and Treasury notes of 1890. The amount of gold certificates issued and outstanding shall at no time exceed the value, at the legal standard, of the gold so held against gold certificates.

(8) [DEFINITIONS]

SEC. 15. As used in this act the term "United States" means the Government of the United States; the term "the continental United States" means the States of the United States, the District of Columbia, and the Territory of Alaska; the term "currency of the United States" means currency which is legal tender in the United States, and includes United States notes, Treasury notes of 1890, gold certificates, silver certificates, Federal Reserve notes, and circulating notes of Federal Reserve banks and national banking associations; and the term "person" means any individual, partnership, association, or corporation, including the Federal Reserve Board, Federal Reserve banks, and Federal Reserve agents. Wherever reference is made in this act to equivalent as between dollars or currency of the United States and gold, one dollar or one dollar face amount of any currency of the United States equals such a number of grains of gold, nine tenths fine, as, at the time referred to, are contained in the standard unit of value, that is, so long as the President shall not have altered by proclamation the weight of the gold dollar under the authority of section 43, title III, of the Act approved May 12, 1933, as heretofore and by this act amended, twenty-five and eight tenths grains of gold, nine tenths fine, and thereafter such a number of grains of gold, nine tenths fine, as the President shall have fixed under such authority.

SEC. 16. The right to alter, amend, or repeal this act is hereby expressly reserved. If any provision of this act, or the application thereof to any person or circumstances, is held invalid, the remainder of the Act, and the application of such provision to other persons or circumstances, shall not be affected thereby.

SEC. 17. All acts and parts of acts inconsistent with any of the provisions of this Act are hereby repealed.

Passed the House of Representatives January 20, 1934.

Attest:

SOUTH TRIMBLE,
Clerk.

Passed the Senate January 27, 1934.

Attest:

EDWIN A. HALSEY,
Secretary.

TO PROTECT THE CURRENCY SYSTEMS OF THE UNITED STATES AND TO PROVIDE FOR THE BETTER USE OF THE MONETARY GOLD STOCK

JANUARY 18, 1934.—Committed to the Committee of the Whole House on the state of the Union and ordered to be printed

Mr. SOMERS of New York, from the Committee on Coinage, Weights, and Measures, submitted the following

REPORT

[To accompany H.R. 6976]

The Committee on Coinage, Weights, and Measures to which was referred the bill (H.R. 6976) to protect the currency systems of the United States, to provide for the better use of the monetary gold stock of the United States, and for other purposes, having had the same under consideration, reports it back to the House with amendments and recommends that the bill do pass as amended.

This bill carries out the recommendation of the President of the United States in his message to the Congress of January 15, 1934, in which he urged additional legislation to improve the country's financial and monetary system by establishing, for currency purposes, permanent metallic reserves under the control and in the possession of the Federal Government.

The committee has been unable to conduct extensive hearings on this particular bill, due to the necessity of immediate action. However, during the first and second sessions of the Seventy second Congress, this committee, under H.Res. 72, conducted exhaustive hearings on the monetary situation which involved much of the subject matter of this bill. At that time, the committee invited and received the opinions of the leading monetary experts of the world on the subject matter now presented to the House. At a later period, this committee conducted a hearing on H.R. 14374, a bill which had as its purpose the revaluation of the gold dollar by reducing its content 33⅓ percent. At the time, the bill was referred to the committee, it was conducting hearings on this subject, and a number of eminent authorities have discussed the question of gold dollar revaluation, the creation of a stabilization fund, the transfer of gold from the

Federal Reserve banks to the Treasury of the United States, and the purchase of gold on the markets of the world.

GENERAL PURPOSES OF THE BILL

This bill is designed to enable the administration to restore a fairer price level, to arrive eventually at a less variable dollar and to improve our financial and monetary system. It gives the United States Treasury possession of all the monetary gold stock in the United States, part of which now rests in private or quasi-private control. In this way the Government gains complete control over this metal and at the same time provides a permanent metallic reserve upon which to build a currency system which will be both sound and adequate in the future. The import of this may be appraised in the realization that all authorities seem to agree that the salvation of the country lies in our ability to control our price level. All commodities are measured in gold, hence the first step in our control must be the acquisition of gold stocks. The bill, therefore, transfers to the United States all gold now held by the Federal Reserve bank and pays for it in gold certificates. These gold certificates are to be used by the Federal Reserve bank as a substitute for their present gold stocks in issuing currency. In order to protect the Government's power over gold, the bill gives it the right to regulate the acquisition, transportation, etc., of the metal, and to further the Government's position, provisions are made for the forfeiture of gold withheld or acquired in violation of this act. In addition the gold supply is further protected by alterations in the former method of redemption. The gold coin which was a part of the older system will now be withdrawn from circulation and melted into bars for use in adjusting the balance of foreign trade.

The bill specifically states that the future currency of the United States shall not be redeemed in gold, except as authorized by the Secretary of the Treasury and the President of the United States, but the parity of the gold certificates which now come into possession of the Federal Reserve bank will be maintained by redeeming them at such time and in such amounts as the Secretary of the Treasury deems necessary. Section 7 of the bill simply establishes a method of handling the gain or loss attending any future alterations in the value of Treasury gold. Sections 8 and 9 are amendments to existing laws so that the operations of the stabilization fund establishes in section 10 will become more flexible than if operated under the present regulations. This stabilization fund is a new and most interesting development. It is new in this country, although it has operated very successfully for many months in the monetary systems of our principal competitor in international trade. The sum set aside for maintenance of this fund amounts to \$2,000,000,000. This sum is appropriated from the profits accruing to the Government upon acquiring the gold now held by the Federal Reserve bank. It is interesting because it is the most ingenious instrument ever developed in the monetary systems. It is equally effective in attack and defense. The reason for its establishment in this case is to defend the American dollar and our gold stocks against the invasion of similar funds operated by competitor nations. To understand its operation we must realize that since the world depression nearly all nations have

been forced off gold and swollen budgets along with disturbing internal conditions have depreciated their currencies; consequently, they could deal to better advantage with other low currency nations rather than with the high currency nations. Great Britain whose existence depends upon world trade found this trade dissipated because her currency had a high tendency and in order to check this tendency she set aside the equivalent of \$175,000,000 with which to purchase American dollars and other gold-redemption currencies. She sold pounds and bought dollars. When you sell large quantities of a thing you cheapen it but when you buy large quantities the tendency is to enhance the value of the article purchased.

The equilization fund was so effective in driving our dollar up that we were forced off the gold standard. It is to prevent a repetition of this experience that we create the stabilization fund preparatory to the return to gold redemption.

DOLLAR REVALUATION

The upward flight of the American dollar meant a correspondent decline in commodity prices, the debtor was at a distinct disadvantage. Commodities were his only source of income. If he borrowed in high commodities and had to pay in low commodities his task became exceedingly difficult. This led to repudiation on the part of the debtor and bankruptcy for the creditor. To meet this situation the Congress, through the medium of what is commonly called the "Thomas amendment", impowered the President to save the debtor and creditor alike by vesting in him the authorization to cut the gold content of our monetary unit providing he did not exceed a 50 percent limitation. The succeeding events now make it advisable to once more make the American dollar a constant unit. One can not definitely say what that value should be at the moment. It is the opinion of the administration however that its proper value lies somewhere between 50 and 60 percent of its former value.

If the gold dollar is revalued at 50 percent, this will double the statutory value of our monetary gold and broaden the basis for our currency and credit system. It will raise the price level and restore the normal purchasing power of the dollar. The salutary effect of this must be appreciated by everyone who has considered that we are staggering under an enormous public and private indebtedness, aggregating approximately \$200,000,000,000, incurred principally when the purchasing power of the dollar was much less than now prevails.

The purpose of this bill is not to depreciate the dollar below the normal purchasing power that prevailed when these debts were contracted, but to merely restore the dollar from its enhanced and appreciated purchasing power to normalcy. This bill will not only lighten and make bearable our public and private debts, but it will stimulate domestic and foreign trade by permitting the dollar to seek a level that will more nearly approximate the purchasing power of foreign currencies. Due to our appreciated dollar and the depreciated currencies of other nations, we have suffered a tremendous disadvantage in the markets of the world. As a consequence, our export trade, like Great Britain's, prior to the past few months, has fallen off steadily. Other nations with depreciated currencies have captured our markets. The same is true of domestic trade. Low

commodity prices and heavy fixed charges have curtailed production, accumulated surpluses, and produced widespread distress and suffering. It is believed that the restoration of the normal purchasing power of the dollar will contribute to the rise in price level and to the restoration of normal business, commercial, agricultural, and industrial activities. It is interesting to note that other nations have gone much further than this bill contemplates. France, Italy, Germany, and Great Britain also have depreciated their currencies below their normal purchasing power, and what we seek to accomplish by this bill is to a certain extent necessary on account of such action on the part of foreign powers.

It cannot be insisted that we are seeking to inflate when it is borne in mind that we are merely restoring the normal purchasing power of the dollar. Neither can it be said that we are seeking to repudiate honest debts, because the creditor will receive a dollar which will have approximately the same purchasing power as the one he loaned.

But if these reasons were not sufficient for the enactment of this bill, there is another one which should silence opposition. It must be admitted by everyone that we have a right to defend ourselves and protect the interests of our own people against the depreciated currencies of other nations, and when other nations realize that we are determined to do this and to make it impossible for them to enjoy the advantages of a depreciated currency, this will hasten the stabilization of all currencies upon a permanent basis. It is not contended that this bill will miraculously and automatically restore the necessary price level and normal business and industrial activity, but it is believed that it will greatly contribute to this end.

Section 13 is simply a ratification of the action taken by the President and the Secretary of the Treasury under the act of March 9, 1933, and sections 43 and 45 of the act of May 12, 1933.

AMENDMENTS TO THE BILL

The amendments to the bill consist of inserting a new section 14 and renumbering sections 14, 15, and 16 as sections 15, 16, and 17. The new section 14 is as follows:

SEC. 14. (a) The Second Liberty Bond Act, as amended, is further amended as follows:

(1) By adding at the end of section 1 (U.S.C., title 31, sec. 752; Sup. VII, title 31, sec. 752) a new paragraph as follows:

"Notwithstanding the provisions of the foregoing paragraph, the Secretary of the Treasury may from time to time, when he deems it to be in the public interest, offer such bonds otherwise than as a popular loan and he may make allotments in full, or reject or reduce allotments upon any applications whether or not the offering was made as a popular loan."

(2) By inserting in section 8 (U.S.C., title 31, sec. 771), after the words "certificates of indebtedness", a comma and the words "Treasury bills."

(3) By striking out the figures "\$7,500,000,000" where they appear in section 18 (U.S.C., title 31, sec. 753), and inserting in lieu thereof the figures "\$10,000,000,000".

(4) By adding thereto two new sections, as follows:

"SEC. 19. Notwithstanding any other provisions of law, any obligations authorized by this act may be issued for the purchase, redemption, or refunding, at or before maturity, of any outstanding bonds, notes, certificates of indebtedness, or Treasury bills, of the United States, or to obtain funds for such purchase, redemption, or refunding, under such rules, regulations, terms, and conditions as the Secretary of the Treasury may prescribe.

"SEC. 20. The Secretary of the Treasury may issue any obligations authorized by this act and maturing not more than one year from the date of their issue on a discount basis and payable at maturity without interest. Any such obligations may also be offered for sale on a competitive basis under such regulations and upon such terms and conditions as the Secretary of the Treasury may prescribe, and the decisions of the Secretary in respect of any issue shall be final."

(b) Section 6 of the Victory Liberty Loan Act (U.S. Code, title 31, sec. 767; Sup. VII, title 31, secs. 767 and 767 (a)) is amended by striking out the words "for refunding purposes", together with the preceding comma, at the end of the first sentence of subsection (a).

(c) The Secretary of the Treasury is authorized to issue gold certificates in such form and in such denominations as he may determine, against any gold held by the Treasurer of the United States, except the gold fund held as a reserve for any United States notes and Treasury notes of 1890. The amount of gold certificates issued and outstanding shall at no time exceed the value, at the legal standard, of the gold so held against gold certificates.

CHANGES IN EXISTING LAW

In compliance with paragraph 2a of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill are shown as follows: Existing law proposed to be omitted is enclosed in black brackets; new matter is printed in italics; existing law in which no change is proposed is shown in roman.

NOTE ISSUES

[Federal Reserve Act]

SEC. 16. Federal Reserve notes, to be issued at the discretion of the Federal Reserve Board for the purpose of making advances to Federal Reserve banks through the Federal Reserve agents as hereinafter set forth and for no other purpose, are hereby authorized. The said notes shall be obligations of the United States and shall be receivable by all national and member banks and Federal Reserve banks and for all taxes, customs, and other public dues. They shall be redeemed in [gold] *lawful money* on demand at the Treasury Department of the United States, in the city of Washington, District of Columbia, or [in gold or lawful money] at any Federal Reserve bank.

Any Federal Reserve bank may make application to the local Federal Reserve agent for such amount of the Federal Reserve notes hereinbefore provided for as it may require. Such application shall be accompanied with a tender to the local Federal Reserve agent of collateral in amount equal to the sum of the Federal Reserve notes thus applied for and issued pursuant to such application. The collateral security thus offered shall be notes, drafts, bills of exchange, or acceptances acquired under the provisions of section 13 of this Act, or bills of exchange indorsed by a member bank of any Federal Reserve district and purchased under the provisions of section 14 of this Act, or bankers' acceptances purchased under the provisions of said section 14, or [gold or] gold certificates: *Provided, however,* That until March 3, 1934, should the Federal Reserve Board deem it in the public interest, it may, upon the affirmative vote of not less than a majority of its members, authorize the Federal Reserve banks to offer, and the Federal Reserve agents to accept, as such collateral security, direct obligations of the United States. On March 3, 1934, or sooner should the Federal Reserve Board so decide, such authorization shall terminate and such obligations of the United States be retired as security for Federal Reserve notes. In no event shall such collateral security be less than the amount of Federal Reserve notes applied for. The Federal Reserve agent shall each day notify the Federal Reserve Board of all issues and withdrawals of Federal Reserve notes to and by the Federal Reserve bank to which he is accredited. The said Federal Reserve Board may at any time call upon a Federal Reserve bank for additional security to protect the Federal Reserve notes issued to it.

Every Federal Reserve bank shall maintain reserves in gold or lawful money of not less than thirty-five per centum against its deposits and reserves in gold *certificates* of not less than forty per centum against its Federal Reserve notes in actual circulation: *Provided, however,* That when the Federal Reserve agent holds [gold or] gold certificates as collateral for Federal Reserve notes issued to the

bank such [gold or] gold certificates shall be counted as part of the [gold] reserve which such bank is required to maintain against its Federal Reserve notes in actual circulation. Notes so paid out shall bear upon their faces a distinctive letter and serial number which shall be assigned by the Federal Reserve Board to each Federal Reserve bank. Whenever Federal Reserve notes issued through one Federal Reserve bank shall be received by another Federal Reserve bank, they shall be promptly returned for credit or redemption to the Federal Reserve bank through which they were originally issued or, upon direction of such Federal Reserve bank, they shall be forwarded direct to the Treasurer of the United States to be retired. No Federal Reserve bank shall pay out notes issued through another under penalty of a tax of ten per centum upon the face value of notes so paid out. Notes presented for redemption at the Treasury of the United States shall be paid out of the redemption fund and returned to the Federal Reserve banks through which they were originally issued, and thereupon such Federal Reserve bank shall, upon demand of the Secretary of the Treasury, reimburse such redemption fund in lawful money or, if such Federal Reserve notes have been redeemed by the Treasurer in [gold or] gold certificates, then such funds shall be reimbursed to the extent deemed necessary by the Secretary of the Treasury in [gold or] gold certificates, and such Federal Reserve bank shall, so long as any of its Federal Reserve notes remain outstanding, maintain with the Treasurer in gold certificates an amount sufficient in the judgment of the Secretary to provide for all redemptions to be made by the Treasurer. Federal Reserve notes received by the Treasurer otherwise than for redemption may be exchanged for gold certificates out of the redemption fund hereinafter provided and returned to the Reserve bank through which they were originally issued, or they may be returned to such bank for the credit of the United States. Federal Reserve notes unfit for circulation shall be returned by the Federal Reserve agents to the Comptroller of the Currency for cancellation and destruction.

The Federal Reserve Board shall require each Federal Reserve bank to maintain on deposit in the Treasury of the United States a sum in gold certificates sufficient in the judgment of the Secretary of the Treasury for the redemption of the Federal Reserve notes issued to such bank, but in no event less than five per centum of the total amount of notes issued less the amount of [gold or] gold certificates held by the Federal Reserve agent as collateral security; but such deposit of gold certificates shall be counted and included as part of the forty per centum reserve hereinbefore required. The board shall have the right, acting through the Federal Reserve agent, to grant in whole or in part, or to reject entirely the application of any Federal Reserve bank for Federal Reserve notes; but to the extent that such application may be granted the Federal Reserve Board shall, through its local Federal Reserve agent, supply Federal Reserve notes to the banks so applying, and such bank shall be charged with the amount of notes issued to it and shall pay such rate of interest as may be established by the Federal Reserve Board on only that amount of such notes which equals the total amount of its outstanding Federal Reserve notes less the amount of [gold or] gold certificates held by the Federal Reserve agent as collateral security. Federal Reserve notes issued to any such bank shall, upon delivery, together with such notes of such Federal Reserve bank as may be issued under section eighteen of this act upon security of United States two per centum Government bonds, become a first and paramount lien on all the assets of such bank.

Any Federal Reserve bank may at any time reduce its liability for outstanding Federal Reserve notes by depositing with the Federal Reserve agent its Federal Reserve notes, [gold,] gold certificates, or lawful money of the United States. Federal Reserve notes so deposited shall not be reissued, except upon compliance with the conditions of an original issue.

The Federal Reserve agent shall hold such [gold,] gold certificates, or lawful money available exclusively for exchange for the outstanding Federal Reserve notes when offered by the reserve bank of which he is a director. Upon the request of the Secretary of the Treasury the Federal Reserve Board shall require the Federal Reserve agent to transmit to the Treasurer of the United States so much of the gold certificates held by him as collateral security for Federal Reserve notes as may be required for the exclusive purpose of the redemption of such Federal Reserve notes, but such gold certificates when deposited with the Treasurer shall be counted and considered as if collateral security on deposit with the Federal Reserve agent.

Any Federal Reserve bank may at its discretion withdraw collateral deposited with the local Federal Reserve agent for the protection of its Federal Reserve notes issued to it and shall at the same time substitute therefor other collateral.

of equal amount with the approval of the Federal Reserve agent under regulations to be prescribed by the Federal Reserve Board. Any Federal Reserve bank may retire any of its Federal Reserve notes by depositing them with the Federal Reserve agent or with the Treasurer of the United States, and such Federal Reserve bank shall thereupon be entitled to receive back the collateral deposited with the Federal Reserve agent for the security of such notes. Federal Reserve banks shall not be required to maintain the reserve or the redemption fund heretofore provided for against Federal Reserve notes which have been retired. Federal Reserve notes so deposited shall not be reissued except upon compliance with the conditions of an original issue.

All Federal Reserve notes and all [gold,] gold certificates, and lawful money issued to or deposited with any Federal Reserve agent under the provisions of the Federal Reserve Act shall hereafter be held for such agent, under such rules and regulations as the Federal Reserve Board may prescribe, in the joint custody of himself and the Federal Reserve bank to which he is accredited. Such agent and such Federal Reserve bank shall be jointly liable for the safe-keeping of such Federal Reserve notes, [gold,] gold certificates, and lawful money. Nothing herein contained, however, shall be construed to prohibit a Federal Reserve agent from depositing [gold or] gold certificates with the Federal Reserve Board, to be held by such board subject to his order, or with the Treasurer of the United States for the purposes authorized by law.

In order to furnish suitable notes for circulation as Federal Reserve notes, the Comptroller of the Currency shall, under the direction of the Secretary of the Treasury, cause plates and dies to be engraved in the best manner to guard against counterfeits and fraudulent alterations, and shall have printed therefrom and numbered such quantities of such notes of the denominations of \$5, \$10, \$20, \$50, \$100, \$500, \$1,000, \$5,000, \$10,000 as may be required to supply the Federal Reserve banks. Such notes shall be in form and tenor as directed by the Secretary of the Treasury under the provisions of this Act and shall bear the distinctive numbers of the several Federal Reserve banks through which they are issued.

When such notes have been prepared, they shall be deposited in the Treasury or in the subtreasury or mint of the United States nearest the place of business of each Federal Reserve bank and shall be held for the use of such bank subject to the order of the Comptroller of the Currency for their delivery, as provided by this Act.

The plates and dies to be procured by the Comptroller of the Currency for the printing of such circulating notes shall remain under his control and direction, and the expenses necessarily incurred in executing the laws relating to the procuring of such notes, and all other expenses incidental to their issue and retirement, shall be paid by the Federal Reserve banks, and the Federal Reserve Board shall include in its estimate of expenses levied against the Federal Reserve banks a sufficient amount to cover the expenses herein provided for.

The examination of plates, dies, and pieces, and so forth, and regulations relating to such examination of plates, dies, and so forth, of national-bank notes provided for in section fifty-one hundred and seventy-four Revised Statutes, is hereby extended to include notes herein provided for.

Any appropriation heretofore made out of the general funds of the Treasury for engraving plates and dies, the purchase of distinctive paper, or to cover any other expense in connection with the printing of national-bank notes or notes provided for by the Act of May thirtieth, nineteen hundred and eight, and any distinctive paper that may be on hand at the time of the passage of this Act may be used in the discretion of the Secretary for the purposes of this Act, and should the appropriations heretofore made be insufficient to meet the requirements of this Act in addition to circulating notes provided for by existing law, the Secretary is hereby authorized to use so much of any funds in the Treasury not otherwise appropriated for the purpose of furnishing the notes aforesaid: *Provided, however,* That nothing in this section contained shall be construed as exempting national banks or Federal Reserve banks from their liability to reimburse the United States for any expenses incurred in printing and issuing circulating notes.

Every Federal Reserve bank shall receive on deposit at par from member banks or from Federal Reserve banks checks and drafts drawn upon any of its depositors, and when remitted by a Federal Reserve bank, checks and drafts drawn by any depositor in any other Federal Reserve bank or member bank upon funds to the credit of said depositor in said reserve bank or member bank. Nothing herein contained shall be construed as prohibiting a member bank from charging its actual expense incurred in collecting and remitting funds, or for exchange sold to its patrons. The Federal Reserve Board shall, by rule, fix the charges

to be collected by the member banks from its patrons whose checks are cleared through the Federal Reserve bank and the charge which may be imposed for the service of clearing or collection rendered by the Federal Reserve bank.

The Federal Reserve Board shall make and promulgate from time to time regulations governing the transfer of funds and charges therefor among Federal Reserve banks and their branches, and may at its discretion exercise the functions of a clearing house for such Federal Reserve banks, or may designate a Federal Reserve bank to exercise such functions, and may also require each such bank to exercise the functions of a clearing house for its member banks.

That the Secretary of the Treasury is hereby authorized and directed to receive deposits of gold [coin] or of gold certificates with the Treasurer or any assistant treasurer of the United States when tendered by any Federal Reserve bank or Federal Reserve agent for credit to its or his account with the Federal Reserve Board. The Secretary shall prescribe by regulation the form of receipt to be issued by the Treasurer or Assistant Treasurer to the Federal Reserve bank or Federal Reserve agent making the deposit, and a duplicate of such receipt shall be delivered to the Federal Reserve Board by the Treasurer at Washington upon proper advices from any assistant treasurer that such deposit has been made. Deposits so made shall be held subject to the orders of the Federal Reserve Board and shall be payable in [gold coin or] gold certificates on the order of the Federal Reserve Board to any Federal Reserve bank or Federal Reserve agent at the Treasury or at the Subtreasury of the United States nearest the place of business of such Federal Reserve bank or such Federal Reserve agent: *Provided, however,* That any expense incurred in shipping gold to or from the Treasury or subtreasuries in order to make such payments, or as a result of making such payments, shall be paid by the Federal Reserve Board and assessed against the Federal Reserve banks. The order used by the Federal Reserve Board in making such payments shall be signed by the governor or vice governor, or such other officers or members as the board may by regulation prescribe. The form of such order shall be approved by the Secretary of the Treasury.

The expenses necessarily incurred in carrying out these provisions, including the cost of the certificates or receipts issued for deposits received, and all expenses incident to the handling of such deposits shall be paid by the Federal Reserve Board and included in its assessments against the several Federal Reserve banks.

[Gold deposits] *Deposits made under this section standing to the credit of any Federal Reserve bank with the Federal Reserve Board shall, at the option of said bank, be counted as part of the lawful reserve which it is required to maintain against outstanding Federal Reserve notes, or as a part of the reserve it is required to maintain against deposits.*

Nothing in this section shall be construed as amending section six of the act of March fourteenth, nineteen hundred, as amended by the acts of March fourth, nineteen hundred and seven, March second, nineteen hundred and eleven, and June twelfth, nineteen hundred and sixteen, nor shall the provisions of this section be construed to apply to the deposits made or to the receipts or certificates issued under those acts.

[Revised Statutes, sec. 3700]

The Secretary of the Treasury may purchase coin with any of the bonds or notes of the United States, authorized by law, at such rates and upon such terms as he may deem most advantageous to the public interest.

With the approval of the President, the Secretary of the Treasury may purchase gold in any amounts, at home or abroad, with any direct obligations, coin, or currency of the United States, authorized by law, or with any funds in the Treasury not otherwise appropriated, at such rates and upon such terms and conditions as he may deem most advantageous to the public interest; any provision of law relating to the maintenance of parity, or limiting the purposes for which any of such obligations, coin, or currency may be issued, or requiring any such obligations to be offered as a popular loan or on a competitive basis, or to be offered or issued at not less than par, to the contrary notwithstanding. All gold so purchased shall be included as an asset of the general fund of the Treasury.

[Revised Statutes, sec. 3699]

The Secretary of the Treasury may anticipate the payment of interest on the public debt, by a period not exceeding one year, from time to time, either with or without a rebate of interest upon the coupons, as to him may seem expedient; [and he is authorized to dispose of any gold in the Treasury of the United States, not necessary for the payment of interest of the public debt. The obligation to

create the sinking fund shall not, however, be impaired thereby; and he may sell gold in any amounts, at home or abroad, in such manner and at such rates and upon such terms and conditions as he may deem most advantageous to the public interest, and the proceeds of any gold so sold shall be covered into the general fund of the Treasury: *Provided, however, That the Secretary of the Treasury may sell the gold which is required to be maintained as a reserve or as security for currency issued by the United States, only to the extent necessary to maintain such currency at a parity with the gold dollar.*

[Sec. 43 of title III of the act approved May 12, 1933]

SEC. 43. Whenever the President finds, upon investigation, that (1) the foreign commerce of the United States is adversely affected by reason of the depreciation in the value of the currency of any other government or governments in relation to the present standard value of gold, or (2) action under this section is necessary in order to regulate and maintain the parity of currency issues of the United States, or (3) an economic emergency requires an expansion of credit, or (4) an expansion of credit is necessary to secure by international agreement a stabilization at proper levels of the currencies of various governments, the President is authorized, in his discretion—

(a) To direct the Secretary of the Treasury to enter into agreements with the several Federal Reserve banks and with the Federal Reserve Board whereby the Federal Reserve Board will, and it is hereby authorized to, notwithstanding any provisions of law or rules and regulations to the contrary, permit such reserve banks to agree that they will (1) conduct, pursuant to existing law, throughout specified periods, open market operations in obligations of the United States Government or corporations in which the United States is the majority stockholder, and (2) purchase directly and hold in portfolio for an agreed period or periods of time Treasury bills or other obligations of the United States Government in an aggregate sum of \$3,000,000,000 in addition to those they may then hold, unless prior to the termination of such period or periods the Secretary shall consent to their sale. No suspension of reserve requirements of the Federal Reserve banks, under the terms of section 11 (c) of the Federal Reserve Act, necessitated by reason of operations under this section, shall require the imposition of the graduated tax upon any deficiency in reserves as provided in said section 11 (c). Nor shall it require any automatic increase in the rates of interest or discount charged by any Federal Reserve bank, as otherwise specified in that section. The Federal Reserve Board, with the approval of the Secretary of the Treasury, may require the Federal Reserve banks to take such action as may be necessary, in the judgment of the Board and of the Secretary of the Treasury, to prevent undue credit expansion.

(b) If the Secretary, when directed by the President, is unable to secure the assent of the several Federal Reserve banks and the Federal Reserve Board to the agreements authorized in this section, or if operations under the above provisions prove to be inadequate to meet the purposes of this section, or if for any other reason additional measures are required in the judgment of the President to meet such purposes, then the President is authorized—

(1) To direct the Secretary of the Treasury to cause to be issued in such amount or amounts as he may from time to time order, United States notes, as provided in the Act entitled "An Act to authorize the issue of United States notes and for the redemption of funding thereof and for funding the floating debt of the United States", approved February 25, 1862, and Acts supplementary thereto and amendatory thereof, in the same size and of similar color to the Federal Reserve notes heretofore issued and in denominations of \$1, \$5, \$10, \$20, \$50, \$100, \$500, \$1,000, and \$10,000; but notes issued under this subsection shall be issued only for the purpose of meeting maturing Federal obligations to repay sums borrowed by the United States and for purchasing United States bonds and other interest-bearing obligations of the United States: *Provided, That* when any such notes are used for such purpose the bond or other obligation so acquired or taken up shall be retired and canceled. Such notes shall be issued at such times and in such amounts as the President may approve, but the aggregate amount of such notes outstanding at any time shall not exceed \$3,000,000,000. There is hereby appropriated, out of any money in the Treasury not otherwise appropriated, an amount sufficient to enable the Secretary of the Treasury to retire and cancel 4 per centum annually of such outstanding notes, and the Secretary of the Treasury is hereby directed to retire and cancel annually 4 per centum of such outstanding notes. Such notes and all other coins and currencies heretofore or hereafter coined or issued by or under the authority of the United States shall be legal tender for all debts, public and private.

(2) By proclamation to fix the weight of the gold dollar in grains nine tenths fine and also to fix the weight of the silver dollar in grains nine tenths fine at a definite fixed ratio in relation to the gold dollar at such amounts as he finds necessary from his investigation to stabilize domestic prices or to protect the foreign commerce against the adverse effect of depreciated foreign currencies, and to provide for the unlimited coinage of such gold and silver at the ratio so fixed, or in case the Government of the United States enters into an agreement with any government or governments under the terms of which the ratio between the value of gold and other currency issued by the United States and by any such government or governments is established, the President may fix the weight of the gold dollar in accordance with the ratio so agreed upon, and such gold dollar, the weight of which is so fixed, shall be the standard unit of value, and all forms of money issued or coined by the United States shall be maintained at a parity with this standard and it shall be the duty of the Secretary of the Treasury to maintain such parity, but in no event shall the weight of the gold dollar be fixed so as to reduce its present weight by more than 50 percentum.

Nor shall the weight of the gold dollar be fixed in any event at more than 60 per centum of its present weight. The powers of the President specified in this paragraph shall be deemed to be separate and distinct powers, and may be exercised by him, from time to time, severally or together, whenever and as the expressed objects of this section, in his judgment, may require.

* * * * *

[Sec. 1 of Second Liberty Bond Act, as amended]

That the Secretary of the Treasury, with the approval of the President, is hereby authorized to borrow, from time to time, on the credit of the United States for the purposes of this Act, and to meet expenditures authorized for the national security and defense and other public purposes authorized by law, not exceeding in the aggregate \$20,000,000,000, and to issue therefor bonds of the United States, in addition to the \$2,000,000,000 bonds already issued or offered for subscription under authority of the Act approved April twenty-fourth, nineteen hundred and seventeen, entitled "An Act to authorize an issue of bonds to meet expenditures for the national security and defense, and, for the purpose of assisting in the prosecution of the war, to extend credit to foreign governments, and for other purposes": *Provided*, That of this sum \$3,063,945,460 shall be in lieu of that amount of the unissued bonds authorized by sections one and four of the Act approved April twenty-fourth, nineteen hundred and seventeen, \$225,000,000 shall be in lieu of that amount of the unissued bonds authorized by section thirty-nine of the Act approved August fifth, nineteen hundred and nine, \$150,000,000 shall be in lieu of the unissued bonds authorized by the joint resolution approved March fourth, nineteen hundred and seventeen, and \$100,000,000 shall be in lieu of unissued bonds authorized by section four hundred of the Act approved March third, nineteen hundred and seventeen.

The bonds herein authorized shall be in such form or forms and denomination or denominations and subject to such terms and conditions of issue, conversion, redemption, maturities, payment, and rate or rates of interest, not exceeding four and one-quarter per centum per annum, and time or times of payment of interest, as the Secretary of the Treasury from time to time at or before the issue thereof may prescribe. The principal and interest thereof shall be payable in United States gold coin of the present standard of value.

The bonds herein authorized shall from time to time first be offered at not less than par as a popular loan, under such regulations, prescribed by the Secretary of the Treasury from time to time, as will in his opinion, give the people of the United States, as nearly as may be, an equal opportunity to participate therein, but he may make allotment in full upon applications for smaller amounts of bonds in advance of any date which he may set for the closing of subscriptions and may reject or reduce allotments upon later applications and applications for larger amounts, and may reject or reduce allotments upon applications from incorporated banks and trust companies for their own account and make allotment in full or larger allotments to others, and may establish a graduated scale of allotments, and may from time to time adopt any or all of said methods, should any such action be deemed by him to be in the public interest: *Provided*, That such reduction or increase of allotments of such bonds shall be made under general rules to be prescribed by said Secretary and shall apply to all subscribers similarly situated. And any portion of the bonds so offered and not taken may be otherwise disposed of by the Secretary of the Treasury in such manner and at such price or prices, not less than par, as he may determine. The Secretary

may make special arrangements for subscriptions at not less than par from persons in the military or naval forces of the United States, but any bonds issued to such persons shall be in all respects the same as other bonds of the same issue.

Notwithstanding the provisions of the foregoing paragraph, the Secretary of the Treasury may from time to time, when he deems it to be in the public interest, offer such bonds otherwise than as a popular loan and he may make allotments in full, or reject or reduce allotments upon any applications whether or not the offering was made as a popular loan.

* * * * *

[Second Liberty Bond Act, as amended]

SEC. 8. That the Secretary of the Treasury, in his discretion, is hereby authorized to deposit, in such incorporated banks and trust companies as he may designate, the proceeds, or any part thereof, arising from the sale of the bonds and certificates of **indebtedness** *indebtedness, Treasury bills, and war-savings certificates* authorized by this Act, and arising from the payment of income and excess-profits taxes, and such deposits shall bear such rate or rates of interest, and shall be secured in such manner, and shall be made upon and subject to such terms and conditions as the Secretary of the Treasury may from time to time prescribe: *Provided, That the provisions of section fifty-one hundred and ninety-one of the Revised Statutes, as amended by the Federal reserve Act, and the amendments thereof, with reference to the reserves required to be kept by national banking associations and other member banks of the Federal Reserve System, shall not apply to deposits of public moneys by the United States in designated depositaries. The Secretary of the Treasury is hereby authorized to designate depositaries in foreign countries with which shall be deposited all public money which it may be necessary or desirable to have on deposit in such countries to provide for current disbursements to the military and naval forces of the United States and to the diplomatic and consular and other representatives of the United States in and about such countries until six months after the termination of the war between the United States and the Imperial German Government, and to prescribe the terms and conditions of such deposits.*

* * * * *

SEC. 18(a) That in addition to the bonds and certificates of indebtedness and war-savings certificates authorized by this Act and amendments thereto, the Secretary of the Treasury, with the approval of the President, is authorized to borrow from time to time on the credit of the United States for the purposes of this Act, to provide for the purchase or redemption of any notes issued hereunder, and to meet public expenditures authorized by law, not exceeding in the aggregate **[\$7,500,000,000]** *\$10,000,000,000* at any one time outstanding, and to issue therefor notes of the United States at not less than par in such form or forms and denomination or denominations, containing such terms and conditions, and at such rate or rates of interest, as the Secretary of the Treasury may prescribe, and each series of notes so issued shall be payable at such time not less than one year nor more than five years from the date of its issue as he may prescribe, and may be redeemable before maturity (at the option of the United States) in whole or in part, upon not more than one year's nor less than four months' notice, and under such rules and regulations and during such period as he may prescribe.

(b) The notes herein authorized may be issued in any one or more of the following series as the Secretary of the Treasury may prescribe in connection with the issue thereof:

(1) Exempt, both as to principal and interest, from all taxation (except estate or inheritance taxes) now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority;

(2) Exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, and (b) graduated additional income taxes, commonly known as surtaxes, and excess-profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, associations, or corporations;

(3) Exempt, both as to principal and interest, as provided in paragraph (2); and with an additional exemption from the taxes referred to in clause (b) of such paragraph, of the interest on an amount of such notes the principal of which does not exceed \$30,000, owned by any individual, partnership, association, or corporation; or

(4) Exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, and (b) all income, excess-profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, associations, or corporations.

(c) If the notes authorized under this section are offered in more than one series bearing the same date of issue, the holder of notes of any such series shall (under such rules and regulations as may be prescribed by the Secretary of the Treasury) have the option of having such notes held by him converted at par into notes of any other such series offered bearing the same date of issue.

(d) None of the notes authorized by this section shall bear the circulation privilege. The principal and interest thereof shall be payable in United States gold coin of the present standard of value. The word "bond" or "bonds" where it appears in sections 8, 9, 10, 14, and 15 of this Act as amended, and sections 3702, 3703, 3704, and 3705 of the Revised Statutes, and section 5200 of the Revised Statutes as amended, but in such sections only, shall be deemed to include notes issued under this section.

SEC. 19. Notwithstanding any other provisions of law, any obligations authorized by this Act may be issued for the purchase, redemption, or refunding, at or before maturity, of any outstanding bonds, notes, certificates of indebtedness, or Treasury bills, of the United States, or to obtain funds for such purchase, redemption, or refunding, under such rules, regulations, terms, and conditions as the Secretary of the Treasury may prescribe.

SEC. 20. The Secretary of the Treasury may issue any obligations authorized by this Act and maturing not more than one year from the date of their issue on a discount basis and payable at maturity without interest. Any such obligations may also be offered for sale on a competitive basis under such regulations and upon such terms and conditions as the Secretary of the Treasury may prescribe, and the decisions of the Secretary in respect of any issue shall be final.

* * * * *

[Victory Liberty Loan Act, as amended]

SEC. 6. (a) That there is hereby created in the Treasury a cumulative sinking fund for the retirement of bonds and notes issued under the First Liberty Bond Act, the Second Liberty Bond Act, the Third Liberty Bond Act, the Fourth Liberty Bond Act, or under this act, and outstanding on July 1, 1920, and of bonds and notes thereafter issued, under any of such acts or under any of such acts as amended [, for refunding purposes]. The sinking fund and all additions thereto are hereby appropriated for the payment of such bonds and notes at maturity, or for the redemption of purchase thereof before maturity by the Secretary of the Treasury at such prices and upon such terms and conditions as he shall prescribe, and shall be available until all such bonds and notes are retired. The average cost of the bonds and notes purchased shall not exceed par and accrued interest. Bonds and notes purchased, redeemed, or paid out of the sinking fund shall be canceled and retired and shall not be reissued. For the fiscal year beginning July 1, 1920, and for each fiscal year thereafter, until all such bonds and notes are retired there is hereby appropriated, out of any money in the Treasury not otherwise appropriated, for the purposes of such sinking fund, an amount equal to the sum of (1) 2½ per centum of the aggregate amount of such bonds and notes outstanding on July 1, 1920, less an amount equal to the par amount of any obligations of foreign governments held by the United States on July 1, 1920, and (2) the interest which would have been payable during the fiscal year for which the appropriation is made on the bonds and notes purchased, redeemed, or paid out of the sinking fund during such year or in previous years.

The Secretary of the Treasury shall submit to Congress at the beginning of each regular session a separate annual report of the action taken under the authority contained in this section.

(b) Sections 3688, 3694, 3695, and 3696 of the Revised Statutes, and so much of section 3689 of the Revised Statutes as provides a permanent annual appropriation of 1 per centum of the entire debt of the United States to be set apart as a sinking fund, are hereby repealed.

TO PROTECT THE CURRENCY SYSTEMS OF THE UNITED STATES
AND TO PROVIDE FOR THE BETTER USE OF THE MONETARY
GOLD STOCK

JANUARY 19, 1934.—Committed to the Committee of the Whole House on the
state of the Union and ordered to be printed

Mr. McGUGIN, from the Committee on Coinage, Weights, and
Measures, submitted the following

MINORITY REPORT

[To accompany H.R. 6976]

We, the undersigned members of the Committee on Coinage, Weights, and Measures, make the following report to the House of Representatives on H.R. 6976.

It is generally understood by the Congress and the country that the main part and purpose of this bill is to stabilize the American dollar at some fixed level. There is so much fear and apprehension as to the future value of the dollar that it is highly desirable that it be fixed at some established level. The Congress, the press, and the country in general are laboring under the impression that it is necessary to enact this bill in order to fix the value of the dollar. It is also the general impression that the mere enactment of this bill will stabilize the value of the dollar at not less than 50 percent and not more than 60 percent of its normal gold value. The enactment of this bill does nothing of the kind. The enactment of this bill is not necessary in order for the President to fix the value of the dollar.

All that there is in this bill pertaining to the actual fixing of the value of the dollar is in section 12. Under the Thomas amendment enacted in the special session of the Seventy-third Congress, the President has the authority by Executive order to fix and establish the gold content of the dollar at any point not to exceed a 50 percent reduction. When section 12 of this bill is considered in line with the Thomas amendment here is what this bill provides on the question of fixing the value of the dollar: It simply provides that in the event the President exercises the authority granted him under the Thomas amendment and devalues the dollar, he must do so at a point between

50 and 60 percent of its present established value. Even with this legislation enacted, there is no obligation on the part of the President to stabilize the dollar. The legislation does not stabilize the dollar. With the enactment of this legislation, it still remains within the power of the President to leave the gold dollar at its present content or reduce the gold content to any point between 50 and 60 percent of its present content. Without this legislation, the President can place the content of the gold dollar to any point between 50 and 100 percent of the present established gold content. If he wants to reduce it he can do it now by Executive order under the Thomas amendment and needs no additional legislation. This bill neither compels the President to fix the gold content of the dollar nor does the bill itself fix the gold content of the dollar.

The first nine sections of this bill pertain to the control and disposition of the gold now held by the Federal Reserve. The Federal Reserve obtained this gold from various sources. A part of this gold held by the Federal Reserve came from individuals who by the banking act of 1933 were forced to turn their gold into the Federal Reserve. We believe that such gold as was taken from the people and is now held by the Federal Reserve should be delivered over to the Treasury of the United States.

A part of the gold held by the Federal Reserve is the outright property of the Federal Reserve bank and is used as security for Federal Reserve notes which are outstanding as currency of the United States. We believe that such gold which actually belongs to the Federal Reserve banks and is held by the Federal Reserve banks as security back of outstanding Federal Reserve currency, which is in the possession of citizens of the United States, should be retained by the Federal Reserve, not so much for the particular interest of the Federal Reserve banks but in justice to the people who hold Federal Reserve notes as currency. We do believe that if and when the President, under the authority given to him under the so-called "Thomas amendment", depreciates the content of the gold dollar that whatever percent the depreciation may be a corresponding percent of the gold held by the Federal Reserve banks to secure outstanding currency should be delivered over on to the Treasury of the United States. In other words, we do not believe that either the Federal Reserve banks or any citizen of the United States should be able to make any profit on gold holdings as the direct result of Government depreciation in the gold content of the dollar. We believe that all profits measured in dollars that may be derived from the decreasing of the gold content of the dollar should revert to the Treasury of the United States for the benefit of the country as a whole. We do not believe that the Treasury Department should be directed to take over from the Federal Reserve bank the entire stock of gold held by the Federal Reserve bank, leaving no gold with the bank to protect the value of outstanding Federal Reserve currency.

As a substitute for the Federal Reserve holding gold as a security for its outstanding currency, the first nine sections of this bill provide that all the gold shall be taken over by the Treasury of the United States and that the Secretary of the Treasury shall use it to retain the equal value of all outstanding currency, whether it be Treasury currency or Federal Reserve currency. It is our judgment that it would be better to follow the provisions of the Federal Reserve Act

and permit the Federal Reserve banks to hold their own gold in support of their own currency, however, we realize that if the Treasury Department actually sustains the equal value of all outstanding currency, that there may be no serious wrong come to the country as a result of the Treasury Department's holding this gold rather than the Federal Reserve bank holding enough of it to support their own outstanding currency. We find that it is utterly impossible to obtain any amendments in the committee which would change the program outlined in the first nine sections of this bill. We also realize the futility in any hope of trying to obtain any amendments on the floor which would change the program outlined in the first nine sections of the bill, therefore, we are offering no amendments to change the provisions of these sections, yet, at the same time we are not endorsing the first nine sections in their entirety. We believe that part of the provisions set forth in the first nine sections are highly desirable and that a part of the provisions are establishing a policy which we believe that the country might well afford not to establish.

We are of the opinion that this legislation is going to pass the House of Representatives. We believe that it is wise and practical to level our most strenuous opposition toward provisions in this bill which we believe are most dangerous and are contrary to traditional American government and are economically unsound. The section which contains such provisions is section 10. Section 10 provides for a \$2,000,000,000 fund for the purpose of dealing in gold in foreign exchange and such other instruments of credit or security as the Secretary of the Treasury may deem to be advisable, to carry out the purpose of this act. The act specifically states:

The sum of 2 billion dollars which sum when available shall be deposited with the Treasury of the United States in a stabilization fund under the exclusive control of the Secretary of the Treasury whose decision shall be final and not be subject to review by any other officer of the United States.

The one direct purpose of providing that the decisions of the Secretary of the Treasury shall be final and not subject to review by any other officer of the United States is to excuse the Secretary of the Treasury in the handling of this fund from any obligation to the Comptroller General of the United States. This, in fact, means that the Secretary of the Treasury shall be under no obligation to comply with general laws of the United States in the handling of this fund.

Under the provisions of this act, the Secretary of the Treasury in handling this fund would even be independent of the President, and his act would be final. The only thing which the act requires him to do is merely to make an annual audit of the fund and submit it to the President.

We believe that such power placed in the hands of the Secretary of the Treasury over a \$2,000,000,000 fund places autocratic and dictatorial power in the hands of one man over directly the control of the value of money and credit and indirectly over prices. In short, it places the economic destiny of the American people in the hands of one man.

This section places in the Secretary of the Treasury the power to deal in foreign exchange with this \$2,000,000,000 fund. That places in his hands the power to run up or down the value of the currency of every other country of the world as well as to run up or down the value of American currency. We believe that this is too great a

power to place in the hands of any one man. We believe that it is contrary to every true principle of American Government. We believe that it is economically unwise to place this power in the hands of any one man thereby depending upon the judgment of one person.

We are told by the executive department that it is absolutely necessary that such a fund be established. We are further told that the fund must be had to meet a national and international emergency. We have no way of obtaining personal information as to whether or not such a fund is absolutely necessary to meet an existing emergency. Therefore, we cannot and do not personally recommend that such a fund be or not be established. We do believe that under such circumstances and under the statements presented to us by the executive department that we, the Congress and the country have no other alternative except to accept on faith the statements of those in high authority in the executive department, therefore, we are willing to support the creation of the fund.

We do upon our own responsibility state that placing the control of such a fund in the hands of one man is economically unwise and a repudiation of the true principles of American Government, therefore, we recommend and insist that before this bill be enacted into law that section 10 be amended so as to provide that the proposed \$2,000,000,000 equalization fund shall be under the control of a board of 5 men, 3 of whom shall be the President, the Secretary of the Treasury, and the Governor of the Federal Reserve Board, and 2 men to be named by the President, whose appointments shall be confirmed by the United States Senate. With this amendment then under all the circumstances, we are willing that the powers provided in section 10 entrusted into the Secretary of the Treasury shall be carried out by this board instead of the Secretary of the Treasury.

We also insist that the duties of this board shall terminate on March 15, 1935, except to liquidate in an orderly manner at the discretion of the board such assets as it may possess on March 15, 1935.

The extraordinary powers provided for in this act are being granted upon the insistence of the Executive department that they are necessary in order to meet an existing emergency. This being true there is no excuse for creating such legislation as permanent and lasting legislation. There is no excuse for such fund operating after the duration of the present emergency. No material harm can come from limiting the operating life of this fund to March 15, 1935. If at that time an emergency exists, the then Congress and President may very well in their wisdom continue the existence of the operation of such fund for such length of time as is needed.

Placing this fund in the hands of a board of 5 men instead of in the arbitrary power of 1 man is more in keeping with constitutional government and gives to the country the benefit of the wisdom and caution of 5 men instead of 1 man. It cannot be said that such an amendment unduly embarrasses or ties the hands of the President in meeting an emergency. The board will be of his making. The majority of the board will consist of the President and two appointees, which have heretofore been made by him. The remaining two members of the board will be of his appointment with no restriction other than confirmation by the Senate. Confirmation by the Senate cannot be accepted as any unreasonable restriction upon the President. It is in perfect keeping with the appointment of other Presidential appointees to important offices of the Government.

It is generally understood that the United States needs this equalization fund in order to compete with a similar fund which Great Britain has and is using. The British fund is not under the control of the chancellor of the exchequer. It is not under the control of one man. It is under the control of a board of three men, who operate with the utmost secrecy and caution. If the United States is to have such a fund, we concede as to the necessity of deviating from some of the principles of free and open government incident to democracy. We therefore recommend the utmost secrecy, care, and caution in the operation of such a fund. The amendment to section 10 permits this secrecy and caution. We concede to this secrecy with reluctance on the ground of constitutional government but accept it on the grounds of necessity. This fund in operation will largely be a gigantic struggle between the British fund and the American fund. When that great international game is played, England will have the advantage of the wisdom of three men highly qualified in the world of finance. We cannot press too seriously upon the House our sincere belief that it is highly important that in that great international currency struggle, the interests of the United States will be more wisely protected with the United States acting upon the wisdom of five men than merely acting upon the wisdom of the present Secretary of the Treasury or another Secretary of the Treasury who may hereafter follow him in this or any other administration.

We recommend that section 13 be stricken from the bill. This section simply provides that all actions, regulations, rules, orders, and proclamations heretofore taken, promulgated, made, or issued by the President of the United States or the Secretary of the Treasury, under the act of March 9, 1933, or under section 43 or section 45 of title III of the act of May 12, 1933, are hereby approved, ratified, and confirmed.

We have been wholly unable to find anyone who can give us any reason why the enactment of this section is necessary. Such orders as the President or the Secretary of the Treasury have made under these acts, if in keeping with the acts, require no confirmation to assure their validity. If such orders are not in keeping with the acts, it is our opinion that this confirmation by the Congress in this bill would give them no added validity. Further, we have been unable to find out what is the contents of all the actions, regulations, rules, orders, and proclamations heretofore taken, promulgated, made, or issued by the President or the Secretary of the Treasury of the United States. Therefore, we do not know what is being ratified in this section. None of the members of the committee knows what is being ratified. We make more bold the assertion, no Member of Congress actually knows what is being ratified if this section is left in the bill.

We recommend changing figures "60" in line 2, page 10, to the figures "66%".

CONCLUSION

With section 10 amended as outlined in this report and section 13 stricken from the bill, we recommend the passage of the bill.

Respectfully submitted,

HAROLD MCGUGIN.
RALPH R. ELTSE.

Calendar No. 227

73^d CONGRESS }
2^d Session }

SENATE

{ REPORT
{ No. 201

GOLD RESERVE ACT OF 1934

JANUARY 23, 1934.—Ordered to be printed

Mr. FLETCHER, from the Committee on Banking and Currency, submitted the following

R E P O R T

[To accompany H.R. 6976]

The Committee on Banking and Currency, to whom was referred the bill (H.R. 6976) to protect the currency system of the United States, to provide for the better use of the monetary gold stock of the United States, and for other purposes, having considered the same, report thereon with amendments, and recommend that the bill, as amended, do pass.

The bill which the committee is reporting corresponds in its general purposes to the bill (S. 2366) introduced by Senator Fletcher on January 17, 1934. The committee has made the following substantial changes in the text of the House bill, to wit:

First. Section 2 (b) of the House bill amends section 16 of the Federal Reserve Act in several respects, but the paragraphs which are amended are not set out. The committee feels that it would be preferable to show more clearly the changes that are made in the existing law and consequently it is proposing a substitute for section 2 (b) for that purpose.

Second. Section 10 of the House bill establishes a stabilization fund of \$2,000,000,000 to be used by the Secretary of the Treasury, under his exclusive control, for the purpose of stabilizing the exchange value of the dollar. It is required that an annual audit of the fund be made and submitted to the President and in addition that a general report on the operation of the fund be made by the President to the Congress within a period beginning 90 days before and ending 90 days after the expiration of 3 years from the date of enactment of the act. No time limit was included in the House bill in connection with the use of the stabilization fund.

The committee adopted an amendment providing, instead of having the Secretary of the Treasury administer the fund, that a Foreign Exchange Board be established for that purpose, consisting of the

Secretary of the Treasury, the Comptroller of the Currency, the Governor of the Federal Reserve Board, and two members appointed by the President, by and with the advice and consent of the Senate. The committee also eliminates the provision requiring a general report on the operation of the fund to be made to the Congress, and limits the use of the fund to a period of 2 years from the date of the enactment of the act, unless the President sooner declares by proclamation that the existing emergency has ended, but the President is given the authority to extend the use of the fund for 1 additional year if he declares that the emergency continues.

Third. Section 12 of the House bill amends section 43 of the act of May 12, 1933 (the so-called "Thomas amendment"), so as to authorize the President to fix the weight of the gold dollar from time to time between 50 and 60 percent of its present weight, but does not impose any time limitation upon the exercise of such authority.

The committee amends this section so that the power to so fix the weight of the gold dollar be limited to a period of 2 years from the date of enactment of the act unless the President sooner declares that the existing emergency is ended, but gives him the right to extend such use for an additional 1-year period if the emergency continues.

The following is an excerpt from the House Report (no. 292) explaining the general purposes of the bill:

GENERAL PURPOSES OF THE BILL

This bill is designed to enable the administration to restore a fairer price level, to arrive eventually at a less variable dollar, and to improve our financial and monetary system. It gives the United States Treasury possession of all the monetary gold stock in the United States, part of which now rests in private or quasi-private control. In this way the Government gains complete control over this metal and at the same time provides a permanent metallic reserve upon which to build a currency system which will be both sound and adequate in the future. The import of this may be appraised in the realization that all authorities seem to agree that the salvation of the country lies in our ability to control our price level. All commodities are measured in gold, hence the first step in our control must be the acquisition of gold stocks. The bill, therefore, transfers to the United States all gold now held by the Federal Reserve bank and pays for it in gold certificates. These gold certificates are to be used by the Federal Reserve bank as a substitute for their present gold stocks in issuing currency. In order to protect the Government's power over gold, the bill gives it the right to regulate the acquisition, transportation, etc., of the metal, and to further the Government's position, provisions are made for the forfeiture of gold withheld or acquired in violation of this act. In addition the gold supply is further protected by alterations in the former method of redemption. The gold coin which was a part of the older system will now be withdrawn from circulation and melted into bars for use in adjusting the balance of foreign trade.

The bill specifically states that the future currency of the United States shall not be redeemed in gold, except as authorized by the Secretary of the Treasury and the President of the United States, but the parity of the gold certificates which now come into possession of the Federal Reserve bank will be maintained by redeeming them at such time and in such amounts as the Secretary of the Treasury deems necessary. Section 7 of the bill simply establishes a method of handling the gain or loss attending any future alterations in the value of Treasury gold. Sections 8 and 9 are amendments to existing laws so that the operations of the stabilization fund established in section 10 will become more flexible than if operated under the present regulations. This stabilization fund is a new and most interesting development. It is new in this country, although it has operated very successfully for many months in the monetary systems of our principal competitor in international trade. The sum set aside for maintenance of this fund amounts to \$2,000,000,000. This sum is appropriated from the profits accruing to the Government upon acquiring the gold now held by the Federal Reserve bank. It is interesting because it is the most ingenious instrument ever

developed in the monetary systems. It is equally effective in attack and defense. The reason for its establishment in this case is to defend the American dollar and our gold stocks against the invasion of similar funds operated by competitor nations. To understand its operation we must realize that since the world depression nearly all nations have been forced off gold and swollen budgets along with disturbing internal conditions have depreciated their currencies; consequently, they could deal to better advantage with other low-currency nations rather than with the high-currency nations. Great Britain whose existence depends upon world trade found this trade dissipated because her currency had a high tendency and in order to check this tendency she set aside the equivalent of \$175,000,000 with which to purchase American dollars and other gold-redemption currencies. She sold pounds and bought dollars. When you sell large quantities of a thing you cheapen it, but when you buy large quantities the tendency is to enhance the value of the article purchased.

The equilization fund was so effective in driving our dollar up that we were forced off the gold standard. It is to prevent a repetition of this experience that we create the stabilization fund preparatory to the return to gold redemption.

DOLLAR REVALUATION

The upward flight of the American dollar meant a correspondent decline in commodity prices, the debtor was at a distinct disadvantage. Commodities were his only source of income. If he borrowed in high commodities and had to pay in low commodities his task became exceedingly difficult. This led to repudiation on the part of the debtor and bankruptcy for the creditor. To meet this situation the Congress, through the medium of what is commonly called the "Thomas amendment", empowered the President to save the debtor and creditor alike by vesting in him the authorization to cut the gold content of our monetary unit providing he did not exceed a 50 percent limitation. The succeeding events now make it advisable to once more make the American dollar a constant unit. One cannot definitely say what that value should be at the moment. It is the opinion of the administration, however, that its proper value lies somewhere between 50 and 60 percent of its former value.

If the gold dollar is revalued at 50 percent, this will double the statutory value of our monetary gold and broaden the basis for our currency and credit system. It will raise the price level and restore the normal purchasing power of the dollar. The salutary effect of this must be appreciated by everyone who has considered that we are staggering under an enormous public and private indebtedness, aggregating approximately \$200,000,000,000, incurred principally when the purchasing power of the dollar was much less than now prevails.

The purpose of this bill is not to depreciate the dollar below the normal purchasing power that prevailed when these debts were contracted, but to merely restore the dollar from its enhanced and appreciated purchasing power to normalcy. This bill will not only lighten and make bearable our public and private debts, but it will stimulate domestic and foreign trade by permitting the dollar to seek a level that will more nearly approximate the purchasing power of foreign currencies. Due to our depreciated dollar and the depreciated currencies of other nations, we have suffered a tremendous disadvantage in the markets of the world. As a consequence, our export trade, like Great Britain's, prior to the past few months, has fallen off steadily. Other nations with depreciated currencies have captured our markets. The same is true of domestic trade. Low commodity prices and heavy fixed charges have curtailed production, accumulated surpluses, and produced widespread distress and suffering. It is believed that the restoration of the normal purchasing power of the dollar will contribute to the rise in price level and to the restoration of normal business, commercial, agricultural, and industrial activities. It is interesting to note that other nations have gone much further than this bill contemplates. France, Italy, Germany, and Great Britain also have depreciated their currencies below their normal purchasing power, and what we seek to accomplish by this bill is to a certain extent necessary on account of such action on the part of foreign powers.

It cannot be insisted that we are seeking to inflate when it is borne in mind that we are merely restoring the normal purchasing power of the dollar. Neither can it be said that we are seeking to repudiate honest debts, because the creditor will receive a dollar which will have approximately the same purchasing power as the one he loaned.

But if these reasons were not sufficient for the enactment of this bill, there is another one which should silence opposition. It must be admitted by everyone that we have a right to defend ourselves and protect the interests of our own people against the depreciated currencies of other nations, and when other nations realize that we are determined to do this and to make it impossible for them to enjoy the advantages of a depreciated currency, this will hasten the stabilization of all currencies upon a permanent basis. It is not contended that this bill will miraculously and automatically restore the necessary price level and normal business and industrial activity, but it is believed that it will greatly contribute to this end.

Section 13 is simply a ratification of the action taken by the President and the Secretary of the Treasury under the act of March 9, 1933, and sections 43 and 45 of the act of May 12, 1933.

[PUBLIC—No. 87—73D CONGRESS]

[H.R. 6976]

AN ACT

To protect the currency system of the United States, to provide for the better use of the monetary gold stock of the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the short title of this Act shall be the "Gold Reserve Act of 1934."

SEC. 2. (a) Upon the approval of this Act all right, title, and interest, and every claim of the Federal Reserve Board, of every Federal Reserve bank, and of every Federal Reserve agent, in and to any and all gold coin and gold bullion shall pass to and are hereby vested in the United States; and in payment therefor credits in equivalent amounts in dollars are hereby established in the Treasury in the accounts authorized under the sixteenth paragraph of section 16 of the Federal Reserve Act, as heretofore and by this Act amended (U.S.C., title 12, sec. 467). Balances in such accounts shall be payable in gold certificates, which shall be in such form and in such denominations as the Secretary of the Treasury may determine. All gold so transferred, not in the possession of the United States, shall be held in custody for the United States and delivered upon the order of the Secretary of the Treasury; and the Federal Reserve Board, the Federal Reserve banks, and the Federal Reserve agents shall give such instructions and shall take such action as may be necessary to assure that such gold shall be so held and delivered.

(b) Section 16 of the Federal Reserve Act, as amended, is further amended in the following respects:

(1) The third sentence of the first paragraph is amended to read as follows: "They shall be redeemed in lawful money on demand at the Treasury Department of the United States, in the city of Washington, District of Columbia, or at any Federal Reserve bank."

(2) So much of the third sentence of the second paragraph as precedes the proviso is amended to read as follows: "The collateral security thus offered shall be notes, drafts, bills of exchange, or acceptances acquired under the provisions of section 13 of this Act, or bills of exchange endorsed by a member bank of any Federal Reserve district and purchased under the provisions of section 14 of this Act, or bankers' acceptances purchased under the provisions of said section 14, or gold certificates:"

(3) The first sentence of the third paragraph is amended to read as follows: "Every Federal Reserve bank shall maintain reserves in gold certificates or lawful money of not less than 35 per centum against its deposits and reserves in gold certificates of not less than 40 per centum against its Federal Reserve notes in actual circulation: *Provided, however,* That when the Federal Reserve agent holds gold certificates as collateral for Federal Reserve notes issued to the bank such gold certificates shall be counted as part of the reserve which such bank is required to maintain against its Federal Reserve notes in actual circulation."

(4) The fifth and sixth sentences of the third paragraph are amended to read as follows: "Notes presented for redemption at the Treasury of the United States shall be paid out of the redemption fund and returned to the Federal Reserve banks through which they were originally issued, and thereupon such Federal Reserve bank shall, upon demand of the Secretary of the Treasury, reimburse such redemption fund in lawful money or, if such Federal Reserve notes have been redeemed by the Treasurer in gold certificates, then such funds shall be reimbursed to the extent deemed necessary by the Secretary of the Treasury in gold certificates, and such Federal Reserve bank shall, so long as any of its Federal Reserve notes remain outstanding, maintain with the Treasurer in gold certificates an amount sufficient in the judgment of the Secretary to provide for all redemptions to be made by the Treasurer. Federal Reserve notes received by the Treasurer otherwise than for redemption may be exchanged for gold certificates out of the redemption fund hereinafter provided and returned to the Reserve bank through which they were originally issued, or they may be returned to such bank for the credit of the United States."

(5) The fourth, fifth, and sixth paragraphs are amended to read as follows:

"The Federal Reserve Board shall require each Federal Reserve bank to maintain on deposit in the Treasury of the United States a sum in gold certificates sufficient in the judgment of the Secretary of the Treasury for the redemption of the Federal Reserve notes issued to such bank, but in no event less than 5 per centum of the total amount of notes issued less the amount of gold certificates held by the Federal Reserve agent as collateral security; but such deposit of gold certificates shall be counted and included as part of the 40 per centum reserve hereinbefore required. The Board shall have the right, acting through the Federal Reserve agent, to grant in whole or in part, or to reject entirely the application of any Federal Reserve bank for Federal Reserve notes; but to the extent that such application may be granted the Federal Reserve Board shall, through its local Federal Reserve agent, supply Federal Reserve notes to the banks so applying, and such bank shall be charged with the amount of the notes issued to it and shall pay such rate of interest as may be established by the Federal Reserve Board on only that amount of such notes which equals the total amount of its outstanding Federal Reserve notes less the amount of gold certificates held by the Federal Reserve agent as collateral security. Federal Reserve notes issued to any such bank shall, upon delivery, together with such notes of such Federal Reserve bank as may be issued under section 18 of this Act upon security of United States 2 per centum Government bonds, become a first and paramount lien on all the assets of such bank.

"Any Federal Reserve bank may at any time reduce its liability for outstanding Federal Reserve notes by depositing with the Federal Reserve agent its Federal Reserve notes, gold certificates, or lawful money of the United States. Federal Reserve notes so deposited shall not be reissued, except upon compliance with the conditions of an original issue.

"The Federal Reserve agent shall hold such gold certificates or lawful money available exclusively for exchange for the outstanding

Federal Reserve notes when offered by the Reserve bank of which he is a director. Upon the request of the Secretary of the Treasury the Federal Reserve Board shall require the Federal Reserve agent to transmit to the Treasurer of the United States so much of the gold certificates held by him as collateral security for Federal Reserve notes as may be required for the exclusive purpose of the redemption of such Federal Reserve notes, but such gold certificates when deposited with the Treasurer shall be counted and considered as if collateral security on deposit with the Federal Reserve agent."

(6) The eighth paragraph is amended to read as follows:

"All Federal Reserve notes and all gold certificates and lawful money issued to or deposited with any Federal Reserve agent under the provisions of the Federal Reserve Act shall hereafter be held for such agent, under such rules and regulations as the Federal Reserve Board may prescribe, in the joint custody of himself and the Federal Reserve bank to which he is accredited. Such agent and such Federal Reserve bank shall be jointly liable for the safe-keeping of such Federal Reserve notes, gold certificates, and lawful money. Nothing herein contained, however, shall be construed to prohibit a Federal Reserve agent from depositing gold certificates with the Federal Reserve Board, to be held by such Board subject to his order, or with the Treasurer of the United States for the purposes authorized by law."

(7) The sixteenth paragraph is amended to read as follows:

"The Secretary of the Treasury is hereby authorized and directed to receive deposits of gold or of gold certificates with the Treasurer or any Assistant Treasurer of the United States when tendered by any Federal Reserve bank or Federal Reserve agent for credit to its or his account with the Federal Reserve Board. The Secretary shall prescribe by regulation the form of receipt to be issued by the Treasurer or Assistant Treasurer to the Federal Reserve bank or Federal Reserve agent making the deposit, and a duplicate of such receipt shall be delivered to the Federal Reserve Board by the Treasurer at Washington upon proper advices from any Assistant Treasurer that such deposit has been made. Deposits so made shall be held subject to the orders of the Federal Reserve Board and shall be payable in gold certificates on the order of the Federal Reserve Board to any Federal Reserve bank or Federal Reserve agent at the Treasury or at the Subtreasury of the United States nearest the place of business of such Federal Reserve bank or such Federal Reserve agent. The order used by the Federal Reserve Board in making such payments shall be signed by the governor or vice governor, or such other officers or members as the Board may by regulation prescribe. The form of such order shall be approved by the Secretary of the Treasury."

(8) The eighteenth paragraph is amended to read as follows:

"Deposits made under this section standing to the credit of any Federal Reserve bank with the Federal Reserve Board shall, at the option of said bank, be counted as part of the lawful reserve which it is required to maintain against outstanding Federal Reserve notes, or as a part of the reserve it is required to maintain against deposits."

SEC. 3. The Secretary of the Treasury shall, by regulations issued hereunder, with the approval of the President, prescribe the condi-

tions under which gold may be acquired and held, transported, melted or treated, imported, exported, or earmarked: (a) for industrial, professional, and artistic use; (b) by the Federal Reserve banks for the purpose of settling international balances; and, (c) for such other purposes as in his judgment are not inconsistent with the purposes of this Act. Gold in any form may be acquired, transported, melted or treated, imported, exported, or earmarked or held in custody for foreign or domestic account (except on behalf of the United States) only to the extent permitted by, and subject to the conditions prescribed in, or pursuant to, such regulations. Such regulations may exempt from the provisions of this section, in whole or in part, gold situated in the Philippine Islands or other places beyond the limits of the continental United States.

SEC. 4. Any gold withheld, acquired, transported, melted or treated, imported, exported, or earmarked or held in custody, in violation of this Act or of any regulations issued hereunder, or licenses issued pursuant thereto, shall be forfeited to the United States, and may be seized and condemned by like proceedings as those provided by law for the forfeiture, seizure, and condemnation of property imported into the United States contrary to law; and in addition any person failing to comply with the provisions of this Act or of any such regulations or licenses, shall be subject to a penalty equal to twice the value of the gold in respect of which such failure occurred.

SEC. 5. No gold shall hereafter be coined, and no gold coin shall hereafter be paid out or delivered by the United States: *Provided, however,* That coinage may continue to be executed by the mints of the United States for foreign countries in accordance with the Act of January 29, 1874 (U.S.C., title 31, sec. 367). All gold coin of the United States shall be withdrawn from circulation, and, together with all other gold owned by the United States, shall be formed into bars of such weights and degrees of fineness as the Secretary of the Treasury may direct.

SEC. 6. Except to the extent permitted in regulations which may be issued hereunder by the Secretary of the Treasury with the approval of the President, no currency of the United States shall be redeemed in gold: *Provided, however,* That gold certificates owned by the Federal Reserve banks shall be redeemed at such times and in such amounts as, in the judgment of the Secretary of the Treasury, are necessary to maintain the equal purchasing power of every kind of currency of the United States: *And provided further,* That the reserve for United States notes and for Treasury notes of 1890, and the security for gold certificates (including the gold certificates held in the Treasury for credits payable therein) shall be maintained in gold bullion equal to the dollar amounts required by law, and the reserve for Federal Reserve notes shall be maintained in gold certificates, or in credits payable in gold certificates maintained with the Treasurer of the United States under section 16 of the Federal Reserve Act, as heretofore and by this Act amended.

No redemptions in gold shall be made except in gold bullion bearing the stamp of a United States mint or assay office in an amount equivalent at the time of redemption to the currency surrendered for such purpose.

SEC. 7. In the event that the weight of the gold dollar shall at any time be reduced, the resulting increase in value of the gold held by the United States (including the gold held as security for gold certificates and as a reserve for any United States notes and for Treasury notes of 1890) shall be covered into the Treasury as a miscellaneous receipt; and, in the event that the weight of the gold dollar shall at any time be increased, the resulting decrease in value of the gold held as a reserve for any United States notes and for Treasury notes of 1890, and as security for gold certificates shall be compensated by transfers of gold bullion from the general fund, and there is hereby appropriated an amount sufficient to provide for such transfers and to cover the decrease in value of the gold in the general fund.

SEC. 8. Section 3700 of the Revised Statutes (U.S.C., title 31, sec. 734) is amended to read as follows:

"SEC. 3700. With the approval of the President, the Secretary of the Treasury may purchase gold in any amounts, at home or abroad, with any direct obligations, coin, or currency of the United States, authorized by law, or with any funds in the Treasury not otherwise appropriated, at such rates and upon such terms and conditions as he may deem most advantageous to the public interest; any provision of law relating to the maintenance of parity, or limiting the purposes for which any of such obligations, coin, or currency, may be issued, or requiring any such obligations to be offered as a popular loan or on a competitive basis, or to be offered or issued at not less than par, to the contrary notwithstanding. All gold so purchased shall be included as an asset of the general fund of the Treasury."

SEC. 9. Section 3699 of the Revised Statutes (U.S.C., title 31, sec. 733) is amended to read as follows:

"SEC. 3699. The Secretary of the Treasury may anticipate the payment of interest on the public debt, by a period not exceeding one year, from time to time, either with or without a rebate of interest upon the coupons, as to him may seem expedient; and he may sell gold in any amounts, at home or abroad, in such manner and at such rates and upon such terms and conditions as he may deem most advantageous to the public interest, and the proceeds of any gold so sold shall be covered into the general fund of the Treasury: *Provided, however,* That the Secretary of the Treasury may sell the gold which is required to be maintained as a reserve or as security for currency issued by the United States, only to the extent necessary to maintain such currency at a parity with the gold dollar."

SEC. 10. (a) For the purpose of stabilizing the exchange value of the dollar, the Secretary of the Treasury, with the approval of the President, directly or through such agencies as he may designate, is authorized, for the account of the fund established in this section, to deal in gold and foreign exchange and such other instruments of credit and securities as he may deem necessary to carry out the purpose of this section. An annual audit of such fund shall be made and a report thereof submitted to the President.

(b) To enable the Secretary of the Treasury to carry out the provisions of this section there is hereby appropriated, out of the receipts which are directed to be covered into the Treasury under section 7 hereof, the sum of \$2,000,000,000, which sum when available

shall be deposited with the Treasurer of the United States in a stabilization fund (hereinafter called the "fund") under the exclusive control of the Secretary of the Treasury, with the approval of the President, whose decisions shall be final and not be subject to review by any other officer of the United States. The fund shall be available for expenditure, under the direction of the Secretary of the Treasury and in his discretion, for any purpose in connection with carrying out the provisions of this section, including the investment and reinvestment in direct obligations of the United States of any portions of the fund which the Secretary of the Treasury, with the approval of the President, may from time to time determine are not currently required for stabilizing the exchange value of the dollar. The proceeds of all sales and investments and all earnings and interest accruing under the operations of this section shall be paid into the fund and shall be available for the purposes of the fund.

(c) All the powers conferred by this section shall expire two years after the date of enactment of this Act, unless the President shall sooner declare the existing emergency ended and the operation of the stabilization fund terminated; but the President may extend such period for not more than one additional year after such date by proclamation recognizing the continuance of such emergency.

SEC. 11. The Secretary of the Treasury is hereby authorized to issue, with the approval of the President, such rules and regulations as the Secretary may deem necessary or proper to carry out the purposes of this Act.

SEC. 12. Paragraph (b) (2), of section 43, title III, of the Act approved May 12, 1933 (Public. Numbered 10, Seventy-third Congress), is amended by adding two new sentences at the end thereof, reading as follows:

"Nor shall the weight of the gold dollar be fixed in any event at more than 60 per centum of its present weight. The powers of the President specified in this paragraph shall be deemed to be separate, distinct, and continuing powers, and may be exercised by him, from time to time, severally or together, whenever and as the expressed objects of this section in his judgment may require; except that such powers shall expire two years after the date of enactment of the Gold Reserve Act of 1934 unless the President shall sooner declare the existing emergency ended, but the President may extend such period for not more than one additional year after such date by proclamation recognizing the continuance of such emergency."

Paragraph (2) of subsection (b) of section 43, title III, of an Act entitled "An Act to relieve the existing national economic emergency by increasing agricultural purchasing power, to raise revenue for extraordinary expenses incurred by reason of such emergency, to provide emergency relief with respect to agricultural indebtedness, to provide for the orderly liquidation of joint-stock land banks, and for other purposes", approved May 12, 1933, is amended by adding at the end of said paragraph (2) the following:

"The President, in addition to the authority to provide for the unlimited coinage of silver at the ratio so fixed, under such terms and conditions as he may prescribe, is further authorized to cause to be issued and delivered to the tenderer of silver for coinage, silver certificates in lieu of the standard silver dollars to which the tend-

erer would be entitled and in an amount in dollars equal to the number of coined standard silver dollars that the tenderer of such silver for coinage would receive in standard silver dollars.

"The President is further authorized to issue silver certificates in such denominations as he may prescribe against any silver bullion, silver, or standard silver dollars in the Treasury not then held for redemption of any outstanding silver certificates, and to coin standard silver dollars or subsidiary currency for the redemption of such silver certificates.

"The President is authorized, in his discretion, to prescribe different terms and conditions and to make different charges, or to collect different seigniorage, for the coinage of silver of foreign production than for the coinage of silver produced in the United States or its dependencies. The silver certificates herein referred to shall be issued, delivered, and circulated substantially in conformity with the law now governing existing silver certificates, except as may herein be expressly provided to the contrary, and shall have and possess all of the privileges and the legal tender characteristics of existing silver certificates now in the Treasury of the United States, or in circulation.

"The President is authorized, in addition to other powers, to reduce the weight of the standard silver dollar in the same percentage that he reduces the weight of the gold dollar.

"The President is further authorized to reduce and fix the weight of subsidiary coins so as to maintain the parity of such coins with the standard silver dollar and with the gold dollar."

SEC. 13. All actions, regulations, rules, orders, and proclamations heretofore taken, promulgated, made or issued by the President of the United States or the Secretary of the Treasury, under the Act of March 9, 1933, or under section 43 or section 45 of title III of the Act of May 12, 1933, are hereby approved, ratified, and confirmed.

SEC. 14. (a) The Second Liberty Bond Act, as amended, is further amended as follows:

(1) By adding at the end of section 1 (U.S.C., title 31, sec. 752; Supp. VII, title 31, sec. 752), a new paragraph as follows:

"Notwithstanding the provisions of the foregoing paragraph, the Secretary of the Treasury may from time to time, when he deems it to be in the public interest, offer such bonds otherwise than as a popular loan and he may make allotments in full, or reject or reduce allotments upon any applications whether or not the offering was made as a popular loan."

(2) By inserting in section 8 (U.S.C., title 31, sec. 771), after the words "certificates of indebtedness", a comma and the words "Treasury bills".

(3) By striking out the figures "\$7,500,000,000" where they appear in section 18 (U.S.C., title 31, sec. 753) and inserting in lieu thereof the figures "\$10,000,000,000."

(4) By adding thereto two new sections, as follows:

"SEC. 19. Notwithstanding any other provisions of law, any obligations authorized by this Act may be issued for the purchase, redemption, or refunding, at or before maturity, of any outstanding bonds, notes, certificates of indebtedness, or Treasury bills, of the

United States, or to obtain funds for such purchase, redemption, or refunding, under such rules, regulations, terms, and conditions as the Secretary of the Treasury may prescribe.

"SEC. 20. The Secretary of the Treasury may issue any obligations authorized by this Act and maturing not more than one year from the date of their issue on a discount basis and payable at maturity without interest. Any such obligations may also be offered for sale on a competitive basis under such regulations and upon such terms and conditions as the Secretary of the Treasury may prescribe, and the decisions of the Secretary in respect of any issue shall be final."

(b) Section 6 of the Victory Liberty Loan Act (U.S.C., title 31, sec. 767; Supp. VII, title 31, secs. 767-767a) is amended by striking out the words "for refunding purposes", together with the preceding comma, at the end of the first sentence of subsection (a).

(c) The Secretary of the Treasury is authorized to issue gold certificates in such form and in such denominations as he may determine, against any gold held by the Treasurer of the United States, except the gold fund held as a reserve for any United States notes and Treasury notes of 1890. The amount of gold certificates issued and outstanding shall at no time exceed the value, at the legal standard, of the gold so held against gold certificates.

SEC. 15. As used in this Act the term "United States" means the Government of the United States; the term "the continental United States" means the States of the United States, the District of Columbia, and the Territory of Alaska; the term "currency of the United States" means currency which is legal tender in the United States, and includes United States notes, Treasury notes of 1890, gold certificates, silver certificates, Federal Reserve notes, and circulating notes of Federal Reserve banks and national banking associations; and the term "person" means any individual, partnership, association, or corporation, including the Federal Reserve Board, Federal Reserve banks, and Federal Reserve agents. Wherever reference is made in this Act to equivalents as between dollars or currency of the United States and gold, one dollar or one dollar face amount of any currency of the United States equals such a number of grains of gold, nine tenths fine, as, at the time referred to, are contained in the standard unit of value, that is, so long as the President shall not have altered by proclamation the weight of the gold dollar under the authority of section 43, title III, of the Act approved May 12, 1933, as heretofore and by this Act amended, twenty-five and eight tenths grains of gold, nine tenths fine, and thereafter such a number of grains of gold, nine tenths fine, as the President shall have fixed under such authority.

SEC. 16. The right to alter, amend, or repeal this Act is hereby expressly reserved. If any provision of this Act, or the application thereof to any person or circumstances, is held invalid, the remainder of the Act, and the application of such provision to other persons or circumstances, shall not be affected thereby.

SEC. 17. All Acts and parts of Acts inconsistent with any of the provisions of this Act are hereby repealed.

Approved, January 30, 1934.

JANUARY 17, 1934.

The honorable the SECRETARY OF THE TREASURY.

MY DEAR MR. SECRETARY: I am pleased to comply with your request for an expression of my views as to the constitutionality of section 2 (a) of the proposed gold reserve bill.

The section under consideration provides that all right, title, and interest, and every claim of the Federal Reserve Board, of every Federal Reserve bank, and every Federal Reserve agent, in and to any and all gold coin and gold bullion shall pass to and are hereby vested in the United States. Payment is to be made in gold certificates in equivalent amounts of dollars.

The monetary gold stock may be taken by the Government in the exercise of its right of eminent domain. Such power extends to every form of property required for public use.

The Supreme Court observed in *Kohl v. United States* (91 U.S. 367, 371) that the right of eminent domain "is inseparable from sovereignty"; and in *United States v. Jones* (109 U.S. 513, 518) that it "belongs to every independent government."

The manner in which the power is exercised is within the control of the legislature. This principle was formulated in *Secombe v. Railroad Co.* (23 Wall. 108, 117), in the following language:

"It is no longer an open question in this country that the mode of exercising the right of eminent domain, in the absence of any provision in the organic law prescribing a contrary course, is within the discretion of the legislature. There is no limitation upon the power of the legislature in this respect, if the purpose be a public one, and just compensation be paid or tendered to the owner for the property taken."

Likewise the necessity for the exercise of the power is a matter solely for legislative determination. *Monongahela Navigation Co. v. United States* (148 U.S. 312, 327).

Unquestionably, the taking of gold for monetary purposes is for a public use. The establishment and the regulation of a monetary system is one of the fundamental functions of Government. The power to coin money and regulate the value thereof is expressly reposed in Congress by article I, section 8, clause 5, of the Constitution. *Veazie Bank v. Fenno* (8 Wall. 533, 549). In fact monetary gold is a commodity affected with a public interest. *Ling Su Fan v. United States* (218 U.S. 302).

The requirement for just compensation is completely satisfied by the provision for payment in gold certificates in equivalent amounts of dollars. Since the decision in the *Legal Tender Cases* (12 Wall. 457), it may no longer be successfully disputed that Congress may make paper money legal tender for the payment of all debts, public or private, and that the Government may discharge its obligations in currency of that type.

The amount of just compensation is determined as of the time of taking, and not as of some subsequent date. The mere fact that at a later period the property may acquire an enhanced value, or that there may be an accretion to the thing taken, does not increase the compensation to which the owner is entitled. Thus, in this instance, the value of the gold must be determined as of the moment that title passes to the United States. The mere fact that, if thereafter the weight of the gold dollar should be reduced, the value of the gold would become proportionately greater, does not serve to give the prior owner any right to secure increased reimbursement. *Brooks Scanlon Corporation v. United States*, (265 U.S. 106).

The measure of compensation must be the prevailing price. *Vogelstein v. United States* (262 U.S. 337). The prevailing price of gold coin and gold bullion in the United States (other than newly mined gold) is fixed by statute. The act of March 14, 1900 (U.S. Code, title 31, sec. 314) prescribes that the weight of the gold dollar shall be 25 $\frac{8}{10}$ grains, nine tenths fine, which in turn makes gold worth \$20.67 an ounce. That is the price that the owner of gold would have received at the mint, if he had presented it for deposit, prior to March 4, 1933. That is likewise the price that he would have received at any subsequent time if he surrendered it in accordance with the requirements of the Executive orders or the orders of the Secretary of the Treasury issued under the act of March 9, 1933. This is also the price that it is proposed to pay for the gold to be taken under section 2 of the bill under consideration. The conclusion seems inescapable that this provision safeguards the owners in their right to receive as just compensation the value prevailing at the time of taking.

The fact that the market price of gold in foreign countries is greater than the statutory price in the United States, avails the owners nothing. An owner of gold in the United States has no way of shipping the gold abroad, in view of the

prohibition against the export of gold from this country, promulgated under the act of March 9, 1933. Consequently, an owner of gold in the United States is in no position to secure the so-called "world price", and, therefore, his gold is not worth more than the statutory price.

The prohibition of the export of gold is constitutional. Thus, in *Ling Su Fan v. United States*, (218 U.S. 302) the Supreme Court upheld the validity of an act placing an embargo on the export of silver coin from the Philippine Islands, in spite of the contention that the result was a taking of property, because of the fact that in China silver bullion had a higher market value than its nominal coinage value in the Philippines.

The question has been raised as to whether the member banks have any right, title, and interest in the gold coin or bullion held by the Federal Reserve banks. In my opinion, this inquiry should be answered in the negative. The member banks have no claim against the assets of the Federal Reserve banks except as stockholders, and, of course, it cannot be contended that in taking any of the assets of a corporation, any compensation should be paid directly to the stockholders thereof. Every Federal Reserve bank is now required to maintain a gold reserve against circulating notes and deposits (Federal Reserve Act, sec. 16, U.S. Code, title 12, sec. 413). Any part of such reserve may be used as part of the collateral for Federal Reserve notes, which is required to be deposited with Federal Reserve agents. The mere fact that the source of some or all of such gold may be deposits made by member banks with the Federal Reserve banks, is immaterial. As soon as the gold is deposited with the Federal Reserve bank, it loses its identity, and the relationship between the Federal Reserve bank and the member bank becomes that of debtor and creditor.

The gold reserves of the Federal Reserve banks must not be confused with the reserve balances which every member is required, by section 19 of the Federal Reserve Act, to maintain with its Federal Reserve bank. The reserve balances of the member banks need not be in gold.

In closing, I desire to call to your attention the following expressions of the Supreme Court in *Ling Su Fan v. United States* (218 U.S. 302, 310):

"Conceding the title of the owner of such coins, yet there is attached to such ownership those limitations which public policy may require by reason of their quality as a legal tender and as a medium of exchange. These limitations are due to the fact that public law gives to such coinage a value which does not attach as a mere consequence of intrinsic value. Their quality as a legal tender is an attribute of law aside from their bullion value. They bear, therefore, the impress of sovereign power which fixes value and authorizes their use in exchange."

The foregoing considerations lead me to the conclusion that section 2 (a) of the bill is constitutional.

Very truly yours,

HOMER CUMMINGS,
Attorney General.

The principal proclamations, Executive orders, and orders referred to in section 13 of H.R. 6976 are as follows:

The proclamation of March 9, 1933.—This proclamation continued the banking holiday until further order of the President.

Executive order of March 10, 1933.—This is the Executive order which authorized the Secretary of the Treasury to license banks to resume banking functions. This order provided that no license should authorize any bank to pay out gold coin or gold certificates or engage in foreign exchange transactions, except for normal business requirements, reasonable traveling requirements, and the fulfillment of contracts entered into prior to March 6.

Executive order of April 5, 1933.—This is the Executive order which required the delivery of gold coin, gold bullion, and gold certificates to the Federal Reserve banks. There were certain exceptions to permit the holding of gold for industrial purposes and for other proper transactions.

Executive order of April 20, 1933.—This order prohibited the export of gold coin, gold bullion, or gold certificates except under license. The order limited the cases in which licenses could be granted.

Executive order of August 28, 1933.—This order consolidated the provisions of the April 5 and April 20 Executive orders; required all holders of gold to file returns relative to their holdings; and prohibited the holding of gold except under a license issued pursuant thereto. The order enumerated the instances in which licenses should be issued.

Executive order of August 29, 1933.—This order authorized the mints and assay offices to receive under consignment for sale to industries, professions, and the

arts gold recovered from natural deposits in the United States. The order permitted the sale abroad of such an amount of this gold as was not purchased for domestic industrial, professional, and artistic uses.

Executive order of October 25, 1933.—This order revoked the Executive order of August 29, and provided that newly minted gold could be received by the mints and assay offices on consignment for sale to the Reconstruction Finance Corporation. The order further amended the Executive order of August 28 by permitting the export of fabricated gold under certain restrictions.

The order of the Secretary of the Treasury of December 28, 1933.—This order was issued under section 3 of the Emergency Banking Act of March 9, 1933. The order required all persons owning gold and gold certificates to deliver the same to the Treasurer of the United States by depositing to his account in the Federal Reserve bank or banks members of the Federal Reserve System. This order buttressed the Executive order of August 28, 1933.

Proclamation of December 30, 1933.—This proclamation referred back to the Executive order of March 10, 1933, and was designed to make clear to the banking authorities in the different States that responsibility for the supervision of State banking institutions not members of the Federal Reserve System rested with such authority.

Order of the Secretary of the Treasury of January 11, 1934.—This order contained a simple amendment to the Secretary's order of December 28 to clarify the exemption contained in that order with respect to rare coins.

Executive order of January 12, 1934.—This order amended the Executive order of August 28, 1933, with respect to the rare coin exemptions contained in that order.

Executive orders of January 15, 1934.—There were three of these: The first provided for the regulation of foreign exchange transactions and related matters; the second amended the foreign exchange provisions in the Executive order of March 10, and the third broadened the scope of the Executive order of October 25, 1933.

Order of the Secretary of the Treasury of January 15, 1934.—This order fixed midnight of January 17 as the expiration of the time within which gold and gold certificates could be delivered in compliance with the Secretary's order of December 28.

Where Federal Reserve bank gold came from.—Under the Federal Reserve Act there are six primary ways in which the Federal Reserve banks have acquired the gold they now have:

(a) Section 15 of the Federal Reserve Act allows the Secretary of the Treasury to deposit moneys held in the general funds of the Treasury, with the exception of funds held for the redemption of national bank notes. Under this authority the Government has placed large amounts of gold in the Federal Reserve banks.

(b) The recent Executive orders requiring all other persons and firms to surrender gold and gold certificates directed that this gold and these certificates be delivered to the Federal Reserve banks. A very substantial amount of gold and gold certificates has been acquired in this manner.

(c) Section 14 of the Federal Reserve Act give the Federal Reserve banks broad powers to acquire and otherwise deal in gold coin and bullion at home and abroad. The Federal Reserve banks at the present time own no gold abroad.

(d) Gold and gold certificates were acquired by the payment of subscription to the capital stock of the Federal Reserve banks. Subscriptions by both national banks and State banks had to be paid in gold or gold certificates and this accordingly furnished the Federal Reserve banks with a certain amount of gold. (Federal Reserve Act, secs. 2-9.) Banks hereafter becoming members of the Federal Reserve System can continue to acquire gold certificates to pay their subscription.

(e) Before the enactment of the Federal Reserve Act, national banks had to maintain a certain percentage of funds as reserves against their deposits. The reserve required did not have to consist entirely of gold, but gold was very largely held as a reserve. The United States, shortly after the Federal Reserve Act went into effect, found itself attracting a large amount of gold from abroad as a result of the European war, and the Federal Reserve authorities felt that not enough of this gold was finding its way into the Federal Reserve banks. Under the Federal Reserve Act as originally passed, a large portion of the reserves of member banks was permitted to be kept in their vaults and accordingly the supply of monetary gold was scattered throughout the country. For this reason the act of June 21, 1917, amended the Federal Reserve Act to require all member bank reserves to consist of credits on the books of the Federal Reserve bank.

(f) Under the original Federal Reserve Act, Federal Reserve notes could not be issued dollar for dollar against deposits of gold. The amendment of June 21, 1917, permitted this. In consequence large amounts of gold certificates and gold currency were retired from circulation to be used as the basis for the issuance of Federal Reserve notes (Federal Reserve Act, secs. 16-19).

Present value of gold held by Federal Reserve banks.—All of the gold now owned by the Federal Reserve banks is carried on their books at \$20.67. This is the value fixed by law and is what the Federal Reserve banks paid for it. After March 6, 1933, banks could pay out gold for export only under license, and, after April 20, nobody could export gold except with a license. As a result the dollar declined in the foreign exchange market, and, because of this decline, anybody purchasing gold outside of the United States had to use more dollars to get the currency with which to purchase the gold.

This does not mean that gold in the United States increased in value in terms of dollars. Such gold is not worth the world price because it does not have the privilege of being exported. This applies to gold owned by Federal Reserve banks as well as by other persons. A substantial amount of the gold now owned by Federal Reserve banks was acquired after the export embargo. The Federal Reserve banks paid \$20.67 for this gold because the gold did not have the privilege of export.

From April to the end of August the Federal Reserve banks sold millions of dollars of gold for use in industry, the professions, and arts. They sold this gold for \$20.67 and did not complain that they were not receiving just compensation. The Federal Reserve banks are still selling gold at \$20.67 to persons licensed to acquire gold under the August 28 Executive order.

Effect of devaluation on value of gold.—If the value of gold in the United States increases because of devaluation, it will not be the result of action by the Federal Reserve banks but of the action of the Government in regulating the value of the money of the United States. After the gold of the Federal Reserve banks is taken over by the Government, it will continue to be worth only \$20.67 so long as the Government does not devalue. If the President should lift the embargo on gold, gold could be purchased abroad with Federal Reserve notes or any other currency at \$20.67. The money the Federal Reserve banks receive for their gold will always be worth as many dollars as the gold they own is now worth to them.

Payment for the gold.—Because the Federal Reserve banks are, by act of Government, banks of issue they will be paid in money (gold certificates) which will always be secured 100 percent with gold. The Federal Reserve Act now provides that the reserve for Federal Reserve notes and for Federal Reserve deposits may be in gold certificates; approximately \$900,000,000 of these reserves is now in gold certificates. The Federal Reserve Act now provides that the collateral deposited with the Federal Reserve agents may be eligible paper, gold, or gold certificates and that the Federal Reserve banks may at any time exchange gold certificates for the gold with the Federal Reserve agents. The proposed bill continues this provision that gold certificates may be held as a reserve for Federal Reserve notes and deposits and may be deposited as collateral. The proposed bill eliminates the provision that gold may be held as a reserve for Federal Reserve notes and deposits and may be deposited as collateral. The proposed bill eliminates the provision that gold may be held as a part of the reserve or deposited as collateral with Federal Reserve notes, but provides that the Secretary of the Treasury shall redeem gold certificates owned by the Federal Reserve banks to the extent necessary to enable Federal Reserve banks to maintain their Federal Reserve notes along with other kinds of currency of the United States at a parity with one another. In other words, the Federal Reserve banks shall have a right to obtain as many dollars worth of gold as they now have to the extent needed for the purposes for which they now have gold.

Gold certificates will be redeemed in gold for Federal Reserve banks in all cases where there is any legitimate reason for redemption.—The bill expressly provides for redemption for such purposes and for the holding of gold for the settlement of international balances, for industry and the arts and if necessary to maintain parity of purchasing power of all forms of currency including, of course, Federal Reserve notes and Federal Reserve bank notes.

The gold certificates which the Federal Reserve banks now hold and will receive for their gold are, like other kinds of currency of the United States, legal tender.—True, because of the Executive orders issued under the act of March 9, 1933, for the purpose of protecting the reserves of the Federal Reserve banks, they may not now circulate except among the Federal Reserve banks, the Federal Reserve agents, and the Treasury. Should these orders be lifted, gold certificates may again circulate like all other kinds of currency. Federal Reserve banks may be

expected, however, to hold these certificates for use as a reserve or collateral for Federal Reserve notes.

Ownership of gold of Federal Reserve banks.—The Federal Reserve banks are corporations; and the corporations, not the stockholders, have title to the gold. Indeed the member banks as stockholders of the Federal Reserve banks have a more limited interest than do stockholders in most corporations. The Federal Reserve Act provided that, after payment of a 6 percent dividend and the establishment of a specified surplus, the profits should go to the United States (as an excise tax) and that likewise on dissolution, all surplus after paying stockholders and creditors should go to the National Government. Congress did away with the excise tax last year, but the dissolution provision remains. Nor do the member banks have a property interest in the gold by reason of their deposits. The Federal Reserve Act has, since its enactment, provided that the 35 percent reserve for deposits may be in gold, gold certificates, or lawful money.

The Federal Reserve Act provides that Federal Reserve notes "shall be obligations of the United States." This is the locus of the ultimate responsibility for maintaining Federal Reserve notes at a parity with other kinds of currency of the United States; and it is appropriate that the gold should be held by the Treasury.

SUMMARY OF PROVISIONS OF BILL NOW BEFORE THE CONGRESS TO GIVE EFFECT TO REQUESTS CONTAINED IN THE PRESIDENT'S MESSAGE OF JANUARY 15, 1934, ON THE SUBJECT OF THE NATIONAL MONETARY POLICY

1. Transfers to the United States the ownership and possession of all Federal Reserve bank gold (including that held by the Federal Reserve Board and Federal Reserve agents) and provides for payment therefor in gold certificates.
2. Authorizes the Federal Reserve banks to maintain reserves against Federal Reserve notes entirely in gold certificates.
3. Clarifies the Government's power to regulate the acquisition, transporting, melting or treating, import, export, or earmarking of gold.
3. Clarifies the Government's power to regulate the acquisition, transporting, melting or treating, import, export, or earmarking of gold.
4. Provides forfeiture of gold withheld, acquired, transported, melted or treated, imported, exported, or earmarked in violation of this bill or regulations of the Secretary of the Treasury, and also a penalty equal to twice the value of the gold.
5. Provides that no gold shall hereafter be coined, and that no gold coin shall hereafter be paid out or delivered by the United States, and that all gold coin of the United States shall be withdrawn from circulation and formed into bars. There is provision for releasing gold bars to pay foreign balances, and for industrial, professional, and artistic uses, and for other purposes not inconsistent with this bill.
6. Provides that no currency of the United States shall be redeemed in gold except to the extent permitted in regulations issued by the Secretary of the Treasury with the approval of the President but that gold certificates owned by Federal Reserve banks shall be redeemed at such times and in such amounts as in the judgment of the Secretary of the Treasury are necessary to maintain equal purchasing power of every kind of currency of the United States and that the reserve for United States notes and for Treasury notes of 1890 and the security for gold certificates shall be maintained in gold bullion equal to the dollar amounts required by present law.
7. Establishes a method of accounting for the gain or loss in value of Treasury gold occasioned by any change in the weight of the gold dollar.
8. Clarifies present laws which authorize the purchase and sale of gold by the Secretary of the Treasury.
9. Establishes a stabilization fund and appropriates \$2,000,000,000 for the purpose, but only out of the profits on devaluation, which are directed to be covered into the Treasury under this bill; and provides that the President shall cause an audit to be made of such fund and a full report thereof included in the next succeeding annual report of the Secretary of the Treasury.
10. Limits the President's power to fix the weight of the gold dollar to weights between 50 and 60 percent of the present weight and makes it clear that his various powers under paragraph (b) (2) of the Thomas amendment are continuing and distinct.
11. Approves and confirms action taken by the President and the Secretary of the Treasury under the act of March 9, 1933, and sections 43 and 45 of the act of May 12, 1933.

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