

INVESTIGATION OF ECONOMIC PROBLEMS

HEARINGS

BEFORE THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

SEVENTY-SECOND CONGRESS

SECOND SESSION

PURSUANT TO

S. Res. 315

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

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Senator SHORTRIDGE. Now the final question. Certain nations owe us money. And they have agreed to pay us. And the agreement is evidenced in writing, clear, definite, nothing uncertain as to time, nothing uncertain as to principal or interest or time of payment. And those several agreements provide that these moneys shall be paid in gold as of the then standard value. These agreements are in force. They are valid agreements, legal agreements as between, for example, France and the United States, Italy and the United States, Czechoslovakia and the United States. Now if called upon to pay the contracts provide they shall pay in gold, as I said. Is there any reason why they should pay in gold at an exaggerated or an appreciated value now as compared to what it was when the contracts were entered into? You grasp my meaning?

Mr. FERRY. I do.

Senator SHORTRIDGE. What is your judgment, if you will have the goodness to give me your views?

Mr. FERRY. My judgment of the matter is that the commodity price level or the relationship between dollars and things must be stabilized at a point where there is more equity between debtor and creditor before the consideration of ability to pay can be properly made.

Senator SHORTRIDGE. If I understand you that would hold good as between two individuals?

Mr. FERRY. Absolutely.

Senator SHORTRIDGE. That is to say, if I owed you \$1,000 to be paid a year hence is it your view that we shall sit down together and a year hence consider whether I was to pay you \$1,000 or \$980?

Mr. FERRY. No; not that strong. My position is illustrated by the position on farm mortgages, where it takes 2 or 3 bushels of wheat to buy the dollar to pay the mortgage now, when it took 1 or 2 bushels, perhaps, to buy it when the dollar was borrowed; but now four or five years afterwards when that mortgage becomes due the farmer can not buy the dollar at the price he bought the dollar he borrowed. Of course there would be fluctuations, but not fluctuations to the extent of 60 per cent as our Commerce Department indicates in its reports.

Senator SHORTRIDGE. Then there is no such thing as certainty in the matter of contracts to pay money in the future?

Mr. FERRY. Oh, yes. I am not suggesting any violation of contracts, sir. I am suggesting the broad principle of reasonable stabilization between commodity price level and money.

Senator SHORTRIDGE. Thank you very much.

The CHAIRMAN. Mr. M. S. Eccles.

STATEMENT OF M. S. ECCLES, PRESIDENT FIRST SECURITY CORPORATION, OGDEN, UTAH

The CHAIRMAN. Mr. Eccles, give your name and your address for the record.

Mr. ECCLES. M. S. Eccles, Ogden, Utah.

The CHAIRMAN. You are interested in banking institutions in not only Utah, but Idaho?

Mr. ECCLES. Yes.

The CHAIRMAN. You may proceed, Mr. Eccles.

Mr. ECCLES. Let me say at the outset that I am not appearing here as a representative of any one class or section. Nor am I suggesting measures designed to help my section of the country at the expense of any other section. The ideas I shall present have not been gained through contact with or interests in any one line of private or public occupation. I happen to be interested in the following businesses:

President of First Security Corporation, owning and operating 26 banks and 1 trust company in the principal points of Utah and southern Idaho, all in the trade territory of the Salt Lake Federal reserve branch. Total resources of approximately \$50,000,000. None of these banks are borrowing money from the Reconstruction Finance Corporation. The organization has been through the effects of numerous, important bank failures in the same communities in which it operates.

Vice president and treasurer of the Amalgamated Sugar Co., one of the large beet sugar companies of the United States, producing the past year 2,000,000 bags of sugar.

President of Sego Milk Products Co., engaged in the production of evaporated milk, butter, cheese, and ice cream with plants in the States of Utah, Idaho, and California.

President of the Utah Construction Co., largely engaged in railroad, highway, and dam construction, and one of the six companies building Boulder Dam.

President of the Stoddard Lumber Co., a pine lumber manufacturing concern in eastern Oregon, normally producing 30,000,000 feet per year.

Director of 2 chain retail concerns—the Anderson Lumber Co., owning and operating 14 retail lumber yards in northern Utah and southern Idaho; the Mountain States Implement Co., owning and operating a wholesale house in Ogden and 10 retail stores in northern Utah and southern Idaho.

Member of governor's executive relief committee.

Director of Salt Lake branch of Reconstruction Finance Corporation. I mention these contacts merely to rebut any assumption that my views are founded upon theory alone. I am, however, without political experience, having never held a political office. Nor are my politics entirely free from blemish, as I am one of the many who last fall wandered from the Republican fold, although with some misgivings, because I felt that Republican leadership had failed to act with sufficient understanding and courage to remedy the ills from which we now suffer.

The measures proposed by me, while more far-reaching than have been used to date, are predicated upon sound Government finance. Nor do they involve any measure of inflation of the popular brand. I believe the adoption of any or all of them would not in any degree weaken our gold standard or cheapen the gold content of our dollar. Now, I am not so sure, since I prepared this paper a week ago, due to the developments of the last few days. They, of course, are changing the situation relative to our gold standard, I think very, very rapidly. I think there is a good deal of gold hoarding. And, of course, with the increased hoarding of currency it means 40 per cent of that amount must be set aside in gold and becomes worthless in so far as its value in our money system is concerned.

The CHAIRMAN. I suppose you know that there has been gold hoarding from your own experience.

Mr. ECCLES. Yes. But mostly from hearsay.

On the contrary, I am firmly convinced that these measures would protect and strengthen the sound money of this country and its gold standard. The propositions I offer are all intended to bring about, by Government action, an increase of purchasing power on the part of all the people, resulting in an immediate and increasing volume in all lines of business with consequent diminution of unemployment and distress and gradual restoration of our national income. When this is accomplished, and not before, can the Government hope to balance its Budget and our people regain the standard of living to which the material wealth of this country entitles them.

Before effective action can be taken to stop the devastating effects of the depression, it must be recognized that the breakdown of our present economic system is due to the failure of our political and financial leadership to intelligently deal with the money problem. In the real world there is no cause nor reason for the unemployment with its resultant destitution and suffering of fully one-third of our entire population. We have all and more of the material wealth which we had at the peak of our prosperity in the year 1929. Our people need and want everything which our abundant facilities and resources are able to provide for them. The problem of production has been solved, and we need no further capital accumulation for the present, which could only be utilized in further increasing our productive facilities or extending further foreign credits. We have a complete economic plant able to supply a superabundance of not only all of the necessities of our people, but the comforts and luxuries as well. Our problem, then, becomes one purely of distribution. This can only be brought about by providing purchasing power sufficiently adequate to enable the people to obtain the consumption goods which we, as a nation, are able to produce. The economic system can serve no other purpose and expect to survive.

If our problem is then the result of the failure of our money system to properly function, which to-day is generally recognized, we then must turn to the consideration of the necessary corrective measures to be brought about in that field; otherwise, we can only expect to sink deeper in our dilemma and distress, with possible revolution, with social disintegration, with the world in ruins, the network of its financial obligations in shreds, with the very basis of law and order shattered. Under such a condition nothing but a primitive society is possible. Difficult and slow would then be the process of rebuilding and it could only then be brought about on a basis of a new political, economic, and social system. Why risk such a catastrophe when it can be averted by aggressive measures in the right direction on the part of the Government?

Our leadership has delayed far too long in attempting to deal intelligently with our problems, which can be met only by the bold and courageous action of government, coupled with the unselfish, intelligent, and cooperative support of our business and financial leadership, the whole effort designed in the interest of our entire people. In the mad confusion and fear brought about by our present disordered economy, we need bold and courageous leadership more than at any other time in our history for the reason that our industrial

evolution has made necessary a new economic philosophy, a new business point of view and fundamental changes in our social system. The nineteenth century economics will no longer serve our purpose—an economic age 150 years old has come to an end. The orthodox capitalistic system of uncontrolled individualism, with its free competition, will no longer serve our purpose. We must think in terms of the scientific, technological, interdependent machine age, which can only survive and function under a modified capitalistic system controlled and regulated from the top by government.

What I have said could no doubt be considered academic unless the discussion of it reveals some specific constructive propositions for solution of our immediate problems, which now call for first-aid measures due to the failure of those in authority to act sooner. Before offering and considering in detail what I will term a "five-point program," it is pertinent to consider the operation of our money world, how it has failed to be a servant in our real world and instead is our tyrant and master.

Money has no utility or economic value except to serve as a medium of exchange. Inflation and deflation are expressed in the increased and decreased purchasing power of money, which we speak of as a cheap dollar or a dear dollar according to what it will buy. At present our dollar is too valuable measured in terms of goods and services, or, conversely, goods and services are too cheap measured in dollars. Were it not for our debt structure the fluctuating and unstable dollar would not raise such havoc with our economic system. Our debt and credit structure is the very foundation of our capitalistic society and our unstable dollar results in a large measure from the uncontrolled operation of this system.

We could do business on the basis of any dollar value as long as we have a reasonable balance between the value of all goods and services if it were not for the debt structure. The debt structure has obtained its present astronomical proportions due to an unbalanced distribution of wealth production as measured in buying power during our years of prosperity. Too much of the product of labor was diverted into capital goods, and as a result what seemed to be our prosperity was maintained on a basis of abnormal credit both at home and abroad. The time came when we seemed to reach a point of saturation in the credit structure where, generally speaking, additional credit was no longer available, with the result that debtors were forced to curtail their consumption in an effort to create a margin to apply on the reduction of debts. This naturally reduced the demand for goods of all kinds, bringing about what appeared to be overproduction, but what in reality was underconsumption measured in terms of the real world and not the money world. This naturally brought about a falling in prices and unemployment. Unemployment further decreased the consumption of goods, which further increased unemployment, thus bringing about a continuing decline in prices. Earnings began to disappear, requiring economies of all kinds—decreases in wages, salaries, and time of those employed.

And thus the vicious cycle of deflation was continued until after nearly the four years we find one-third of our entire working population unemployed, with prices of everything greatly reduced, raw products of all kinds selling at an unprecedentedly low level; our national income reduced by 50 per cent with the aggregate debt

burden greater than ever before, not in dollars but measured by present values which represents the ability to pay; fixed charges, such as taxes, railroad and utility rates, insurance and interest charges close to the 1929 level and requiring such a portion of the national income to meet them that the amount left for consumption goods is not sufficient to support the population.

Senator WALSH of Massachusetts. That is a good statement.

Mr. ECCLES. As a result of this pressure we hear demands for increased economies in every field, both public and private, which can only make for further distress and unemployment and less buying power. The debt structure, in spite of the great amount of liquidation during the past three years, is rapidly becoming unsupportable, with the result that foreclosures, receiverships and bankruptcies are increasing in every field; delinquent taxes are mounting and forcing the closing of schools, thus breaking down our educational system, and moratoriums of all kinds are being resorted to—all this resulting in a steady and gradual breaking down of our entire credit structure, which can only bring additional distress, fear, rebellion, and chaos. Individuals, corporations, cities, and States can not, of themselves, do anything except play according to the rules of the present money system and make their outgo balance their income, or ultimately "go broke." Most of them are unable, much as they may desire, to give consideration to helping the general situation except as they may influence the action of the Federal Government, which is in an entirely different category, it being able to make and change the rules of the game.

The Government controls the gold reserve, the power to issue money and credit, thus largely regulating the price structure. Through its power of taxation it can control the accumulation and distribution of wealth production. It can mobilize the resources of the Nation for the benefit of its people. As an example of Government control and operation of the economic system look to the period of the war, at which time, under Government direction, we were able to produce enough and support not only our entire civilian population on a standard of living far higher than at present, but an immense army of our most productive workers engaged in the business of war parasites on the economic system, consuming and destroying vast quantities produced by our civilian population; we also provided the allies with an endless stream of war materials and consumption goods of all kinds. It seemed as though we were enriched by the waste and destruction of war. Certainly we were not impoverished, because we did not consume and waste except that which we produced. As a matter of fact we consumed and wasted less than we produced as evidenced by the additions to our plant and facilities during the war and the goods which we furnished to our allies. The debt incurred by the Government during the war represents the profit which accrued to certain portions of our population through the operation of our economic system. No Government debt would have been necessary and no great price inflation would have resulted if we had drawn back into the Federal Treasury through taxation all of the profits and savings accumulated during the war.

Senator WALSH of Massachusetts. Another good statement.

Mr. ECCLES. No government debt would have been necessary and no great price inflation would have resulted if we had drawn back

into the Federal Treasury through taxation all of the profits and savings accumulated during the war; in which case, it would not have been necessary to use Government credit for the purpose of supplying our allies with the endless stream of goods which we furnished them and we now would not be concerned with the vexations interallied debt problem.

Why was it that during the war when there was no depression we did not insist upon balancing the Budget by sufficient taxation of our surplus income instead of using Government credit to the extent of \$27,000,000,000? Why was it that we heard nothing of the necessity of balancing the Federal Budget in order to maintain the Government credit when we had a deficit of \$9,000,000,000 in 1918 and \$13,000,000,000 in 1919? Why was it that there was no unemployment at that time and an insufficient amount of money as a medium of exchange? How was it that with one billion less gold than we now have we were not concerned about our gold standard?

Senator WALSH of Massachusetts. Because we drafted human lives and not money.

Mr. ECCLES. That is right. How was it that during the period of prosperity after the war we were able in spite of what is termed our extravagance—which was not extravagance at all; we saved too much and consumed too little—how was it we were able to balance a \$4,000,000,000 annual Budget, to pay off ten billion of the Government debt, to make four major reductions in our income tax rates (otherwise all of the Government debt would have been paid), to extend \$10,000,000,000 credit to foreign countries represented by our surplus production which we shipped abroad, and add approximately \$100,000,000,000 by capital accumulation to our national wealth, represented by plants, equipment, buildings, and construction of all kinds? In the light of this record, is it consistent for our political and financial leadership to demand at this time a balanced Budget by the inauguration of a general sales tax, further reducing the buying power of our people? Is it necessary to conserve Government credit to the point of providing a starvation existence for millions of our people in a land of superabundance? Is the universal demand for Government economy consistent at this time? Is the present lack of confidence due to an unbalanced Budget?

What the public and the business men of this country are interested in is a revival of employment and purchasing power. This would automatically restore confidence and increase profits to a point where the Budget would automatically be balanced in just the same manner as the individual, corporation, State, and city budget would be balanced.

Senator WALSH of Massachusetts. It would not be balanced immediately; it would be balanced in the future.

Mr. ECCLES. I am saying that when that is done it would automatically balance as with an individual or corporation, because you create the source of wealth by labor and employment, which is the only source of wealth.

Senator WALSH of Massachusetts. Would you increase the taxes or borrow the money necessary to cover the deficit now between the income and expenditures?

Mr. ECCLES. I answer that later.

Senator WALSH of Massachusetts. Thank you.

Mr. ECCLES. We must correct the causes of the depression rather than deal with the effects of it, if we expect recovery with its attendant confidence and budget balancing. This can only be accomplished by government action tending to raise the price level of raw products and increasing employment, thus bringing about an increased demand for consumers' goods.

Senator SHORTRIDGE. That is just the point that I would like you to get to.

Mr. ECCLES. I will get to that later.

Senator SHORTRIDGE. Very well.

Mr. ECCLES. Every effort has been used to bring this about by the Reconstruction Finance Corporation and the Federal reserve banks without result, demonstrating that extension of credit alone is not the solution. Credit is the secondary offensive when there is a basis of credit through the raising of the price level and an increase in the demand for goods requiring credit. Nor is the correction of our present difficulties to be found in a general scaling down of debts in an effort to bring them in relation to the present price levels. During the past three years there has been such tremendous liquidation and scaling down of debts that extraordinary measures have had to be taken to prevent a general collapse of the credit structure. If such a policy is continued what assurance is there that the influences radiating from a marking down of the claims of creditors will not result in a further decline of prices? In other words, after we have reduced all debts through a basis of scaling down 25 per cent to 50 per cent, what reason have we to expect that prices will not have a further decline by like amount? And then again, the practical difficulties of bringing about such an adjustment on a broad scale seem to be insurmountable.

The time element required would indefinitely prolong the depression; such a policy would necessitate the further liquidation of banks, insurance companies, and all credit institutions, for if the obligations of public bodies, corporations, and individuals were appreciably reduced the assets of such institutions would diminish correspondingly, forcing their liquidation on a large scale. Nothing would so hinder any possibility of recovery. Bank and insurance failures destroy confidence and spread disaster and fear throughout the economic world. The present volume of money would diminish with increased hoarding and decreased credit and velocity, making for further deflation and requiring increased Government support without beneficial results until we would be forced from the gold standard in spite of our 40 per cent of the world's gold, and, at that point, an undesirable and possibly an uncontrolled inflation with all its attendant evils would likely result, and thus the very action designed to preserve the gold standard and reestablish confidence would destroy both.

In my opinion, we can bring about and support a price level which will reestablish employment and credit on a sound money basis if action is not too long delayed on the part of our Government. The last 10 days have changed the thing. I am not as certain as I was a week or two ago whether we can do it on the gold basis or not.

Senator SHORTRIDGE. You say the action of Government. You will come to it, I suppose?

Mr. ECCLES. Yes. I have got the five points here.

Senator SHORTRIDGE. Of just what you would do?

Mr. ECCLES. Yes, sir.

Present low prices are not justified by the volume of our currency in circulation and bank deposits, the aggregate of the two making up our total volume of money. It is because of hoarding by both individuals and banks that there is an apparent shortage of money and consequently there is a great demand for the inflation of our currency, the remonetization of silver, or the reduction of the gold content of the dollar—

Senator WALSH of Massachusetts. Those are the two methods of deflation you suggest?

The CHAIRMAN. Yes; but he has reference to hoarding by the banks and individuals.

Mr. ECCLES. It is because of hoarding by both individuals and banks that there is an apparent shortage of money and consequently there is a great demand for the inflation of our currency, the remonetization of silver, or the reduction of the gold content of the dollar, with the idea that any one of the three methods would increase our volume of money and thus raise prices, relieving debtors and bringing about prosperity. None of these three, in my opinion, would accomplish the results desired unless a method would be provided for getting the increased supply of money to the ultimate consumer.

It does not make any difference what kind of inflation, if the inflation is adopted—you can print money, you can remonetize silver, you can reduce the gold content of the dollar and it is not going to raise your price level unless you start the purchasing power at the source with the consumer.

Senator WALSH of Massachusetts. Unless it is widely scattered and moves with rapidity.

Mr. ECCLES. Yes.

Why resort to inflation of the sort referred to when prices can be increased and business revived on the basis of our present money system? We have nearly one and a half billion currency more in circulation at the present time than we had at the peak of 1929, and under our present money system we are able to increase this by several billion more without resorting to any of the three inflationary measures popularly advocated. There is sufficient money available in our present system to adequately adjust our present price structure. Our price structure depends more upon the velocity of money than it does upon the volume. The velocity is measured by the annual turnover of bank deposits or what is termed "bank debits," representing checks issued. Ninety per cent of our business is done by the bank check; currency, augmented by silver, normally is largely used as pocket money and represents 10 per cent; gold is held in reserve banks to support our currency.

In 1929 the high level of prices was supported by a corresponding velocity of credit. The last Federal Reserve Bulletin gives an illuminating picture of this relationship as shown by figures of all member banks. From 1923 to 1925 the turnover of deposits fluctuated from 26 to 32 times per year. From the autumn of 1925 to 1929 the turnover rose to 45 times per year. In 1930, with deposits still increasing, the turnover declined at the year end to 26 times. During the last quarter of 1932 the turnover dropped to 16 times per year. Note that from the high price level of 1929 to the low level of the present this turnover has declined from 45 to 16, or 64 per cent. And,

mind you, 90 per cent of all business is done on bank checks, so that that represents your velocity.

Senator WALSH of Massachusetts. And the figures, if we could get them, for January and February would show a further decline.

Mr. ECCLES. Yes; would show a much further decline.

Senator GORE. And in 1929 the turnover was 45 times?

Mr. ECCLES. Yes.

Senator GORE. But in New York City the turnover was over 150 times.

Mr. ECCLES. I am taking the country as a whole. It varies with different parts of the country.

Senator GORE. Yes.

Mr. ECCLES. While during the same period the volume of money represented by total bank deposits and currency has declined approximately 22 per cent. It is clear, therefore, that the velocity, rather than the quantity of money, supports the price structure and that our problem to-day is not one of increasing the volume of money but its velocity.

Senator WALSH of Massachusetts. But, as a matter of fact, we have increased the volume or currency.

Mr. ECCLES. Yes; currency, but the total of currency and bank deposits is 22 per cent less than in 1929.

Senator GORE. But currency alone is about 25 or 30 per cent more.

Mr. ECCLES. Yes; but it is not working. Some of it is in hoarding.

Senator WALSH of Massachusetts. What figure did you give, Senator?

Senator GORE. Twenty-five per cent.

Mr. ECCLES. No; currency is more than that to-day. Currency to-day is close to 30 per cent more.

The CHAIRMAN. Then the bank deposits must be less.

Mr. ECCLES. The bank deposits are possibly 30 per cent less, or between 25 and 30 per cent. The 22 per cent represents the combination of the volume of currency and bank deposits. The deposits are more than 22 per cent less.

The CHAIRMAN. That is what I said.

Mr. ECCLES. And currency is 30 per cent more. Making the average 22 per cent.

Several factors to-day stand in the way of increasing our money velocity.

I repeat there is plenty of money to-day to bring about a restoration of prices, but the chief trouble is that it is in the wrong place; it is concentrated in the larger financial centers of the country, the creditor sections, leaving a great portion of the back country, or the debtor sections, drained dry and making it appear that there is a great shortage of money and that it is, therefore, necessary for the Government to print more. This maldistribution of our money supply is the result of the relationship between debtor and creditor sections—just the same as the relation between this as a creditor nation and another nation as a debtor nation—and the development of our industries into vast systems concentrated in the larger centers. During the period of the depression the creditor sections have acted on our system like a great suction pump, drawing a large portion of the available income and deposits in payment of interest, debts, insurance and dividends as well as in the transfer of balances by the larger

corporations normally carried throughout the country. This makes for a shortage of funds in the agricultural areas and an excess of funds in the cities.

During our period of prosperity funds were flowing from the creditor sections into the debtor sections in the extension of new credits and capital expansion as fast or faster than they were flowing out. There is no way of reviving the return flow through the operation of credit or investment until there is a basis for credit brought about through an increased price level and until there is an opportunity of profit through further investment of capital. The agricultural areas during the periods of prosperity did not share in their portion of the national income and this made for further concentration of money in the creditor sections, with too large a portion of our aggregate debts in the agricultural areas. This explains the reason for a greater financial collapse as shown by the bank failure record throughout the entire back country, represented largely in the agricultural areas.

The maladjustment referred to must be corrected before there can be the necessary velocity of money. I see no way of correcting this situation except through Government action.

It is estimated that one-third of our population is dependent upon agriculture in its varied forms and it is recognized that prosperity is impossible without a revival of the purchasing power of our agricultural population. To bring about the restoration of business to the average of the postwar period I have to suggest five points as first-aid measures designed to bring about recovery. Action with reference to these should be taken immediately. They are as follows:

First. Make available as gift to the States on a per capita basis \$500,000,000 to be used during the balance of this year in assisting to adequately take care of the destitute and unemployed, pending a revival in business which should result from the following program.

Senator WALSH of Massachusetts. Is that a gift or a loan?

Mr. ECCLES. I am covering it here. I am first outlining them and then I cover each point individually in detail.

Senator GORE. We passed a law the other day in which among other things we gave the District of Columbia \$600,000. Now they are asking for \$200,000 more. I was talking to the head of the community chest of this city and he said that the representatives who distribute this fund came here to Congress and lobbied and got that \$600,000 without ever asking him about it; without even getting an estimate from him. Yesterday two Senators advised the District Commissioners to turn in a request for \$250,000 more. And they will do it, and they will get it. There is not any end to that business.

Senator SHORTRIDGE. Did you suggest a fund of \$500,000,000?

Senator WALSH of Massachusetts. I wish you would read that first suggestion again.

Mr. ECCLES. First. Make available as gift to the States on a per capita basis \$500,000,000 to be used during the balance of this year in assisting to adequately take care of the destitute and unemployed, pending a revival in business which should result from the following program.

Second. Increase the amount of Government funds——

Senator WALSH of Massachusetts. You are coming back to a discussion of that first point when you finish giving the five points you referred to?

Mr. ECCLES. Yes.

Second. Increase the amount of Government funds to two and a half billion dollars, and more if necessary, for self-liquidating projects and loans to cities, counties, and States for public works on a liberal basis at a low rate of interest.

Senator WALSH of Massachusetts. How large is that amount?

Mr. ECCLES. Two and one-half billion dollars.

Senator GORE. We passed a bill the other day doing away with the self-liquidating feature. You know as you start this you do not stop. It gets worse and worse.

Mr. ECCLES. Third. The adoption of the domestic allotment plan, or a similar plan, designed to regulate production and raise prices.

Fourth. Refinancing farm mortgages on a long term basis at a low rate of interest.

Fifth. A permanent settlement of the interallied debts on a sound economic basis, cancellation being preferable.

Senator SHORTRIDGE. What! Cancel all those debts?

Mr. ECCLES. I will get to that in just a minute.

Senator SHORTRIDGE. Well, go on.

Mr. ECCLES. I will cover those points.

Point No. 1. Unemployment relief. Without going into any detail or figures, it is recognized by everyone that our most urgent and acute problem to-day is to immediately provide adequate relief to the millions of our people who are destitute and unemployed in every corner of our Nation. It is national disgrace that such suffering should be permitted in this, the wealthiest country in the world. The present condition is not the fault of the unemployed, but that of our business, financial, and political leadership. It is incomprehensible that the people of this country should very much longer stupidly continue to suffer the wastes, the bread lines, the suicides, and the despair, and be forced to die, steal, or accept a miserable pittance in the form of charity which they resent, and properly resent. We shall either adopt a plan which will meet this situation under capitalism, or a plan will be adopted for us which will operate without capitalism.

Private charity is almost entirely exhausted. It is impossible for most of our political subdivisions to provide additional funds through borrowing or taxation. Many of them are in default at the present time in the meeting of their obligations and are unable to provide funds necessary to pay the expense of their schools and local government. I am on the Governor's Executive Unemployment Relief Committee of my State and although I am sure the unemployed receive as much or more than in many sections of the country, available funds are entirely inadequate to meet the situation, which is daily becoming more difficult to control.

I advocate that the Government make available, as the most urgent of all emergency measures, at least \$500,000,000 to be distributed to the States as required, as a gift and not as a loan, on a per capita basis in such amounts as will enable the relief organizations of each State to take care of the needs of the unemployed in a more adequate manner than has heretofore been possible. For this reason, that when it is made as a loan there is a resistance to borrowing. There is a cutting down to a point of starvation. When a State has to borrow the money that is the attitude of the public officials of the State as a

result of the demands of business leaders and taxpayers generally for economy.

Senator WALSH of Massachusetts. When it is a gift the lid is off?

Senator GORE. Where does the Federal Government get this money to give to the States?

Mr. ECCLES. Where did it get \$27,000,000,000 during the war to waste?

Senator GORE. A very different situation.

Senator WALSH of Massachusetts. Let him finish his two sentences under No. 1 and then we will ask him some questions.

Mr. ECCLES. To do less would be to fail in the first duty of government, the protection of the lives of its citizens. This support of the unemployed by Government should rapidly decrease as appropriate action is taken by the Government to restore the proper functioning of our economic system.

Senator WALSH of Massachusetts. Now may I ask you a few questions?

Mr. ECCLES. I am just wondering if it is all right to continue with my statement, Senator. Maybe the questions will be answered during the course of my statement.

Senator WALSH of Massachusetts. I would like to discuss this thing with you.

Mr. ECCLES. Yes.

Senator WALSH of Massachusetts. Is it a fact that the greatest distress in this country to-day is in the large centers of population?

Mr. ECCLES. Well, I am not in a position to say what the distress is in the larger cities.

Senator WALSH of Massachusetts. Are there not many more million people in need and distress in the large centers of population rather than in the farming districts?

Mr. ECCLES. I believe that is true.

Senator WALSH of Massachusetts. You are asking the Federal Government to give money to New York State in large volume, to Massachusetts in large volume, to Ohio in large volume, and to Illinois in large volume, on the theory that they, the richest States in the Union, from whom the Federal Government must get its money, can not support this situation. How can you justify that?

Mr. ECCLES. On this ground—

Senator WALSH of Massachusetts. How can you justify giving money out of the Federal Treasury to the State of New York, whose per capita indebtedness is insignificant compared to the Federal Government, who is the great treasure house for the Federal Government to go to for its money, on the theory that it is so bankrupt, it is so helpless that it can not take care of its poor and starving people? We might as well confess bankruptcy if we ever reach that situation.

Mr. ECCLES. Well, there is this difference. A State, of course, is in the same financial category as corporations and individuals in that they do not have the power of issuing money or credit. The Federal Government is entirely in a different category because it controls the money system. It is true that the State of New York and the State of Pennsylvania and these other States are creditor sections, not debtor States. In other words, the wealth of the State is less than the wealth of the people living in the State.

Senator WALSH of Massachusetts. I do not follow you. The State has the same power of taxation as the Federal Government.

Mr. ECCLES. That is true. But to-day you have not the basis of taxation, for the reason that the production of wealth has largely stopped through unemployment. Now the credit of the Federal Government is in relation to the national income. If the national income is cut in two, then it goes a long way to destroying the credit of the Federal Government on a gold basis.

Senator GORE. You do not think there is any way to destroy the credit of the Federal Government, do you?

Senator WALSH of Massachusetts. Senator Gore, may I finish my inquiry?

Senator GORE. Senator, he said it might destroy the credit of the Federal Government. I did not think that it was possible to destroy the credit of the Federal Government; that it was just inexhaustible and infinite. Pardon me for interrupting, Senator.

Mr. ECCLES. The more unemployment there is the less production of wealth there is and the less ability to pay taxes and support Federal credit unless inflation without regard to the gold standard is resorted to.

Senator GORE. Is Congress going to tax somebody that these States can not tax? What is the resource, what is the reservoir that the Federal Government can tap except the pocketbooks of the people in Utah and New York?

Mr. ECCLES. Wealth is not distributed and ability to pay is not distributed according to population.

Senator GORE. Not entirely.

Mr. ECCLES. No. There is a great difference. In other words, the income tax paid by certain States is a far greater percentage of the total national income tax collected than their population.

Senator GORE. Yes; there is about half a dozen or such a matter. And yet they are coming here asking the Federal Government to supply them funds to feed the hungry, notwithstanding that when that money is repaid they will have to pay a disproportionate share of it.

Senator WALSH of Massachusetts. Exactly. I can understand, young man, and I will vote for any amount of money that is necessary for any State that confesses its inability to borrow money to take care of its poor, Utah, or whatever State—all that it needs. But I can not vote to give money to the State of Massachusetts and the State of New York and the State of Pennsylvania and the State of Ohio, which are the chief sources of wealth in this country, from which the wealth must come, when they have a credit equally as good as the Federal Government.

Mr. ECCLES. Well, their credit can not be as good as that of the Federal Government, for this reason. In the first place, Government bonds are eligible for rediscount with the Federal reserve banks, and that in itself creates the ability with which to get credit.

Senator WALSH of Massachusetts. Very well. Let us issue Government bonds and have the State at the same rate give the Federal Treasury its bonds in return, so that the interest rate in these rich States will be reduced to what the Government will borrow. That is a proposition that might well be given consideration.

Mr. ECCLES. You provide the means with the Government bonds of credit. A State in order to get credit must, of course, be able to sell its securities; and the market for its securities is not the same market, not as good a market, by any means, as the market for Federal Government securities for the reason that, of course, the Federal Government has all the resources of the Nation from which to draw, and, secondly, that the Federal Government bonds are eligible for rediscount, eligible to secure Government postal savings and all public deposits, and they always have a ready and favorable market, which, of course, makes them more desirable.

Senator WALSH of Massachusetts. Do you know any governor in the United States of America who is willing to make a public statement that he is not providing sufficient relief for those in want and need in his State?

Mr. ECCLES. Well, I think a governor would hesitate to do that.

Senator WALSH of Massachusetts. But you are indicting the governor and the legislature of your State and in my State in saying they have failed to appropriate the necessary money. Why, they ought to close schools rather than let people suffer. They ought to shut down the schools and save that money and turn it in to feed starving people. But to come in here and say that the local governments have allowed starvation to go on without taking care of it and the legislatures have failed to meet this emergency, but that the Federal Government, having more heart, having more soul, having more agencies than the local people, being more interested in these local people, must give them the money and send agents in there to take care of this problem seems to me to be preposterous.

Mr. ECCLES. I do not think agents should be sent in.

Senator WALSH of Massachusetts. Are you going to give Tammany Hall \$5,000,000 more to spend? How do you know it is going to the needy?

Mr. ECCLES. I do not think that actual starving has occurred. I mean there is a lot of suffering because the amount that these people get is entirely inadequate.

Senator WALSH of Massachusetts. And then after we give \$500,000,000 it will be inadequate upon the standards of some people, so you will be coming on and on indefinitely. It seems to me, young man, that what we have got to adhere to is the local authority, the local agents who know these people, who live with them, whose sympathies are with them, whose hearts are with them; they have got to take care of them and distribute these charities; and if the State has not got enough money to take care of them, then it is a confession that it is not solvent. It is a confession that it becomes a dependent of the Federal Government, and the Federal Government has to take care of it.

Mr. ECCLES. There is no question about that. The State has no power to make money. It is not a sovereign power. It can not call men to war and provide billions for that purpose. It can not end the depression all of which the Federal Government can do.

Senator WALSH of Massachusetts. Those States are to give up their statehood, and the Federal Government take over the management of their affairs, because once the State welfare is undertaken by the Federal Government for the feeding of its people the Federal Govern-

ment should take over everything, schools, churches, and everything, in my judgment.

Mr. ECCLES. I think that is largely what you may have to do. Unless the Government soon recognizes its position as the only stabilizer of our economic system and acts accordingly, unemployment relief required is due to Government failure to act sooner.

Senator SHORTRIDGE. Let me ask you this, and then I will not interrupt you until you finish your statement. Take Utah. Its credit is good, is it not?

Mr. ECCLES. Well, I think so. I do not think that a State should be required to——

Senator SHORTRIDGE. That is not the question.

Mr. ECCLES. I think its credit is good, yes.

Senator SHORTRIDGE. If there be suffering in Salt Lake City or in any of the cities of that fine State the credit of Utah, you tell me, is good?

Mr. ECCLES. Yes.

Senator SHORTRIDGE. Utah, as a State then, could raise money, could it not?

Mr. ECCLES. Yes; a limited amount.

Senator SHORTRIDGE. And with that money it could, through its proper agencies, relieve any present suffering of the people, could it not?

Mr. ECCLES. I think so.

Senator WALSH of Massachusetts. Why does it not do it?

Senator SHORTRIDGE. That would be my final question.

Senator WALSH of Massachusetts. Why does it not do it? Feeding the hungry is primary to everything else. They ought to close up even the health department, they ought to close up the schools, they ought to abandon their police force rather than let people be hungry.

Mr. ECCLES. States must preserve their credit so that will not be necessary. That is why unemployment relief is the responsibility of the Government. I do not think people are hungry, except people that do not report. I do not think generally people are hungry, but I do think that people are not being taken care of in anywhere near the relation or the ability that this country and the resources of this country enables them to be taken care of.

Senator SHORTRIDGE. Well, if they have enough to eat and a fair suit of clothes and can read the newspapers they are happy, are they not? That is all they want nowadays.

Senator GORE. If Utah raised money for this purpose through borrowing and taxation there would be some little sense of economy in administering it, would there not? You think too much economy?

Mr. ECCLES. I think if they had to borrow the money there would be.

Senator GORE. Yes; there would be too much economy. But if Uncle Sam will give them the money, then there will not be too much economy, will there?

Mr. ECCLES. No, I would hope not, but I think they should be limited to certain disbursements, and I think even under those circumstances there would be reasonable economy.

Senator GORE. I think you made the point a while ago that where the money was loaned to the State there would be too much economy, and if it were given there would not be too much. That is the point.

Senator KING. I suggest that Mr. Eccles be permitted to complete his statement so that we will get the continuity of it, and then we can question him as we desire.

Mr. ECCLES. 2. Financing of self-liquidating projects and public works.

I quote from Dr. W. T. Foster:

This much, in fairness, we must say for the Russian plan. If anywhere in Russia they had as many available trained carpenters and masons and bricklayers and engineers and architects and all the rest, and as much available steel and lumber and brick and all the other building materials as we have here, they would not sit around and stupidly hand out charity to the unemployed. They would use the surplus men and the surplus materials, and they would clean out these festering sores, and make decent dwelling places for the people. Incidentally, there would be no unemployment. Now, what can be done under communism or socialism, can be done under capitalism in the United States, if we have sense enough to set up an adequate flow of currency and credit in the right channels.

Senator WALSH of Massachusetts. What public works are there in Utah that can be undertaken?

Mr. ECCLES. Ogden needs a new water system and a high school.

Senator WALSH of Massachusetts. Are there any more highways you need, considering now the conditions in this country, considering that there is no man to-day can predict they will be any better 10 years from now? It is all in the hands of the gods. Considering the conditions in this country, considering that the money borrowed has to be paid for in taxation, what more public works are needed in your State than are there now?

Mr. ECCLES. Of course, the way I look at this matter is that we have the power to produce, just as in the period of prosperity after the war demonstrated when we had a standard of living for a period from 1921 to 1929 which, of course, was far in excess of what it is now. Yet in spite of that standard of living we saved too much as I have previously tried to show.

Senator GORE. You have got Foster in the back of your head?

Mr. ECCLES. I only wish there were more who had. We saved too much in this regard, that we added too much to our capital equipment. Creating overproduction in one case and underconsumption in the other because of an uneconomic distribution of wealth production.

Senator WALSH of Massachusetts. We can go to extremes of waste in the matter of public works if we are not very careful.

Mr. ECCLES. Of course we are losing \$2,000,000,000 per month in unemployment. I can conceive of no greater waste than the waste of reducing our national income about half of what it was. I can not conceive of any waste as great as that. Labor, after all, is our only source of wealth.

Senator WALSH of Massachusetts. Your suggestion is that we meet it by borrowing large sums of money in performing works. That the people have got to pay for it in taxation, and that in a time of distress like the present are not needed?

Mr. ECCLES. No; they would not pay for it now. There are times to borrow and there are times to pay. The Government borrowed during the war \$27,000,000,000. They did not collect the profits that were made during the war to pay for the war. They could have done it, but they did not. They borrowed \$27,000,000,000, and we got prosperity even though all they borrowed was wasted, every dollar

of it. There could be no waste in post offices or in roads or in schools. You would have something to show for it. With war all you have left is the expense of taking care of maimed and crippled and sick veterans. That is what is left from war. And it is all wastage.

Senator GORE. You have touched the point. The real cause of the existing trouble was the war, with destruction of over 300 billion dollars of wealth in four years. We are paying the price now. The boys paid the price in blood on the field. We are paying the economic price to-day. And you may just as well pass a resolution to raise the dead that fell in France as to try to pass laws to avert the inevitable consequences of that war.

Mr. ECCLES. It is true we are suffering the consequences of the war, but there is no reason why we should be suffering from the consequences of the war if it had not been for the international or the interallied debt that resulted from it. We are suffering from a debt structure. We are not suffering from the waste, because after all, we know to-day that we have the power and the facilities to produce certainly all that the people of this country need and want.

Senator GORE. You think you can destroy \$300,000,000,000 of wealth and its represented accumulation of centuries without disastrous economic consequences?

Mr. ECCLES. Senator Gore, in the United States we added \$100,000,000,000 to our capital accumulations since the war.

Senator GORE. A great deal of it paper additions.

Mr. ECCLES. No; buildings and factories and roads and actual physical wealth. Wealth in the real world and not the money world.

Senator GORE. On borrowed money credit, largely.

Mr. ECCLES. Well, it was the product of labor.

Senator GORE. On borrowed money, and we strained our credit to the snapping point and had this crash.

Senator SHORTRIDGE. Are you dealing with the second point?

Mr. ECCLES. Yes. Let me finish this, if I may.

Senator GORE. Yes. Pardon me.

We now see, after nearly four years of depression, that private capital will not go into public works or self-liquidating projects except through government and that if we leave our "rugged individual" to follow his own interest under these conditions he does precisely the wrong thing. Each corporation for its own protection discharges men, reduces pay rolls, curtails its orders for raw materials, postpones construction of new plants and pays off bank loans, adding to the surplus of unusable funds. Every single thing it does to reduce the flow of money makes the situation worse for business as a whole. The production of wealth and the consumer's ability to buy starts with the pay roll and the individual producers of raw material, the agriculturalist. To-day we are losing close to two billions per month of national income due to unemployment, resulting in the inability of our people to purchase the goods necessary to sustain our production. Is there any program of economy and Budget balancing on the part of our Government as important as to stop this great loss and all the attendant human suffering, devastation, and destruction?

I believe that an essential part of the program to end the cycle of deflation is by the Government supplying the credit for self-liquidating

projects and loans to the State for public works. I have the following program to propose:

Senator SHORTRIDGE. That is under your No. 2?

Mr. ECCLES. Yes.

That the Government make available \$1,000,000,000 to be added to the \$1,500,000,000 already made available through the Reconstruction Finance Corporation for self-liquidating projects, making a total of \$2,500,000,000. A separate agency should be set up to take over this division from the Reconstruction Finance Corporation and administer these funds. Emergency speed, such as was resorted to during the time of war, is necessary for the success of this plan. The self-liquidating plan to date has been utterly ineffective due to the failure to get the funds out; this is largely due to limitations of the law and red tape of administration. And, I might say, the high interest rates.

Senator SHORTRIDGE. What is the rate?

Mr. ECCLES. It is 5½ and 6 per cent on self-liquidating projects. Those are the rates that I have been familiar with or heard.

In order to obtain speed, I would recommend the appointment of a civilian nonpolitical commission of not to exceed five representative leaders in each State, to serve without compensation, whose duty it would be to encourage development of public works and liquidating projects in their respective States as rapidly as possible. Loans should be made on a very liberal basis as to terms of payment and security. The interest rate should not exceed the amount which the Government is required to pay for its funds, as the purpose is not to discourage the use of these funds and make a profit for the Government.

The Federal Government, as well as the financial and business leadership of this country, should get back of this program with the same enthusiasm and patriotic zeal as was developed during the war. The entire public psychology must be changed through the propaganda of the press. Every city, county, and State in the Union should be urged, as a patriotic duty, to avail itself of the Government credit with which to construct such projects as they would normally require during the next five years, thus putting men to work instead of providing them with charity.

In order to speed up this program a limit of three months from the time of the appointment of the commission in each State should be given in which to file and complete applications; this period of time to be extended, if necessary, by the approval of the President of the United States.

This plan would have the advantage of securing for each State and community public and self-liquidating works which will be necessary in the immediate future at an unprecedentedly low interest rate and construction cost, while at the same time providing emergency employment and stimulating business generally at a time when such expenditures render the greatest service to our entire people.

This program can be financed in one of two ways—either through a Government bond issue, or through the issuance of currency by the Treasury which would be put into circulation through the Federal reserve banks in payment of the projects proposed. This currency should be retired as fast as the income of the Federal Treasury permits.

Senator KING. Would that currency rest on bonds?

Mr. ECCLES. It would be a promise to pay on the part of the Government. It would be a noninterest paying obligation.

The Treasury, of course, would hold in lieu of this currency the obligations of the various States, counties, cities, and private corporations using these funds. I do not believe this currency could be kept in circulation, for with the restoration of confidence the present outstanding currency would likely be reduced by at least one and one-half billion dollars, the estimated amount now in hoarding.

Senator WALSH of Massachusetts. When do you think prosperity will come back?

Mr. ECCLES. It depends entirely on what the Government does. It will not come back unless action is taken by the Federal Government, in my judgment.

Senator WALSH of Massachusetts. Do you think there is anything to the claim that this period now is more or less a period of normalcy?

Mr. ECCLES. No; we can not stay at this level. If you can not raise the price structure you will go into a condition of collapse and you will get into a chaotic condition far worse than we are in to-day.

Senator WALSH of Massachusetts. We have been slipping for three and a half years. When is the slipping going to stop?

Mr. ECCLES. I have said when the Government takes the necessary action to stop it.

Senator WALSH of Massachusetts. In other words we have done nothing in the last three and a half years to stop this?

Mr. ECCLES. I think not.

Senator GORE. All our efforts have come to naught?

Mr. ECCLES. That is what I think. I think nothing has been done except to extend credit, and credit is the second line of defense and not a primary line of defense.

Senator GORE. Are you not relying upon that line of defense there pretty liberally, or do you distinguish Treasury notes from credit?

Mr. ECCLES. I am talking about private credit. If it is credit we need why do not say 200 of our great corporations controlling 40 per cent of our industrial output that are in such shape that they do not need credit—they have great amounts of surplus funds—if it is credit that is needed why do they not put men to work? Why do not those great institutions put men to work? For the very reason that there is not a demand for goods, that we have destroyed the ability to buy at the source through the operation of our capitalistic system, which has brought about such a maldistribution of wealth production that it has gravitated and gravitated into the hands of—well, comparatively few. Maybe several millions of people. We have still got the unemployment and have got no buying power as a result.

Senator GORE. The only thing not unemployed in the country, after all, is the printing press.

Senator SHORTRIDGE. You are still dealing with self-liquidating projects?

Senator KING. And governmental.

Senator WALSH of Massachusetts. We are interfering with the witness.

The CHAIRMAN. Yes; I think so too. Let us have the whole picture presented.

Mr. ECCLES. This new currency issue, plus the one and one-half billion dollars of hoarded currency, which is largely Federal reserve

notes, would automatically find its way into the banks and from there into the Federal reserve banks where the Federal reserve currency unnecessary for circulation would be retired and the new, or Treasury, currency would be held until the Treasury Department is able to retire it out of the payments received from borrowers or from other sources.

Senator SHORTRIDGE. You mean these self-liquidating projects?

Mr. ECCLES. Yes; would pay themselves.

Senator SHORTRIDGE. Some of them, though, look forward 25 or 30 years before they will ever be able to start to repay.

Mr. ECCLES. Then I would not support such a project if it looks forward such a length of time.

Senator SHORTRIDGE. What is the self-liquidating project? Is the big bridge we are building across the Golden Gate? We term that a self-liquidating project. The bringing of water from the Colorado River into our metropolitan districts the center of which is Los Angeles calls for a vast sum. We term it a self-liquidating project. But manifestly it will be many, many years before it will be able to begin to repay the money to the Government, assuming that the Government loans us the money.

The CHAIRMAN. Let us get the whole picture and then we will discuss the question.

Senator SHORTRIDGE. Yes.

Mr. ECCLES. It would likely be necessary to pay to the Federal reserve banks such portion of interest collected by the Treasury on the money loaned as would enable the Federal reserve banks to carry the noninterest bearing currency, otherwise it may result in an operating loss to the Federal reserve bank.

The latter plan would have the advantage of protecting the bond market from the pressure of new Government bond offerings at a time when it is desirable to preserve that market for the necessary Government financing required to meet its present operating deficit and provide for unemployment relief until the beneficial effects of the proposed emergency measures are realized.

As an alternate to the proposed self-liquidating public-works program that would more quickly meet the emergency, I offer for consideration, without recommendation, the suggestion of Mr. J. M. Daiger, appearing in the February issue of Harper's Magazine under the title of "Confidence, Credit and Cash." Quoting from his article, he says—

We should be prepared to pay a political price for prompt action in order to restore cash, credit, and confidence in our banks. The suggestion is that we offer an inducement that banking politics could not successfully resist; namely, that the Federal Government pay the "trifling price" of all the bank failures, State and National, of this last 13-year epidemic—pay to the depositors of the chartered banks that failed the net amount of the deposits they lost, and thus restore this money to active circulation. The total amount of deposits involved in the failures was approximately \$5,000,000,000. The recovery by depositors has been, or will be, probably half this sum. Most of this they have already received, either through the receivers of the closed banks, or through advances from other banks, or, more recently, through the Reconstruction Finance Corporation. We should require, then, a bond issue of approximately two and a half billion dollars to cover the net losses.

This plan could be financed by an issue of currency as above suggested as an alternative to a bond issue, any loss to the Federal reserve banks while holding this currency to be made up by the Treasury Department.

The plan of Mr. Daiger referred to I would amend to cover only those losses covered by bank failures during the depression, that is, during the years 1930, 1931, and 1932 and the necessary part of 1933, until this legislation is effective, which would substantially reduce the cost to the government. If such a plan is adopted, the liquidation of all assets, including claims against officers, directors, and stockholders, of closed banks should be turned over to the Comptroller of the Currency for liquidation through a special department set up for this purpose.

The plan would have the merit of being politically popular. It would very quickly get a large sum of money out into circulation and into the hands of those people and communities which are, generally speaking, the greater sufferers from the effects of bank failures. It would completely establish confidence, bring money out of hoarding, tend to raise prices and thus start the necessary flow of credit. All this in turn would greatly increase the value of the assets taken over from the closed banks and facilitate their liquidation, thus reducing the loss in such a venture.

A bank deposit guaranty law would likely have to be incorporated in such a bill, and such a law would have to be made to cover all banks for the reason that if any were excluded because of inability to meet certain requirements they would have to close. The stronger banks of the country, which do not need the benefit of such a law but which get the benefit of the wealth production from the country as a whole, should be required to share their proportionate cost, thus tending to equalize the burden of loss due to bank failures over the entire financial structure. Each bank should be assessed a necessary percentage of its deposits to provide and maintain an adequate fund to meet losses to depositors. In order not to put a premium on bad banking practice, rules and regulations required for the continuation of the benefits of the fund should be gradually promulgated and enforced over the next few years as business recovers, so that in time a stronger banking structure would be developed as a bulward in future depressions. If banks failed to meet the requirements of eligibility after six months notice they would be suspended, which would mean their liquidation and the fund being drawn on to prevent any loss to depositors. In this connection it is my opinion that the banking structure would be greatly strengthened with the passage of the Glass bill providing for branch banking, thus reducing the cost on the banking structure of maintaining the deposit guaranty fund.

An important advantage of the banking legislation proposed, besides preventing hoarding and the maldistribution of deposits with the larger banks, would be the elimination of the cost of surety bonds now required to secure various forms of public funds and the release of Government bonds, municipal securities, and land-bank bonds, which are now used to secure postal savings and Government funds. The release of these securities would be helpful to many banks; postal savings would disappear and these funds would return to the banks where they are most needed to support the financial requirements of the various communities. The Postal Savings have been increasing at an astonishing rate, this increase being largely in the sections of the country having the greatest banking difficulties, which in most cases are those sections least able to lose deposits to the Postal Savings System.

Senator KING. Does your bank plan guarantee all the bank deposits, which to-day are \$45,000,000,000?

Mr. ECCLES. Under certain conditions only. If a bank guarantee of deposits, is used—and it may be that we will be forced to it whether we like it or not the way things have developed, in order to save the situation—

Senator SHORTRIDGE. That is, the Federal Government guaranteeing deposits?

Mr. ECCLES. Or sponsor a law that would create an agency for that purpose. However, there is always this danger about that class of thing. It encourages bad practices and bad management. It may put a premium on them, which of course we do not want to do, and if it is done there must be rules and regulations for the proper conduct of banks requiring eligibility, and if they fail to meet the eligibility they would be suspended after so much notice, and the fund would be drawn upon to take care of any loss.

Senator GORE. Do you think that any member bank could be excluded from a guaranty system?

Mr. ECCLES. No; I do not. I do not think any State or national bank should be excluded because if you exclude any you bring their collapse.

Senator GORE. You have made a point there, and the point that always puzzles me is how to distinguish and treat honest and competent bankers in one fashion and dishonest and incompetent bankers in another. It seems to me that any scheme to guarantee deposits ignores that difference, and that is a fundamental and vital error. You just can not get around it.

Senator SHORTRIDGE. Is it one of the functions of the Federal Government to do that thing?

The CHAIRMAN. I would like the witness to finish his statement. The witness should be permitted to give the whole picture so that we will have it before us, and that we then ask any questions we wish to ask him.

Mr. ECCLES. No. 3 is the allotment plan.

The allotment plan, at least for the present, should be confined to our three major crops—wheat, cotton, and hogs. Now, I would like to eliminate hogs. I am not clear in my mind of the practicability of it. I think it involves complications in carrying it out that may defeat the whole plan. So I would suggest the wheat and the cotton as being far more practicable. Its purpose would be to raise the prices of these products by the amount of the tariff, which at present is ineffective due to the exportable surplus, the domestic price being, therefore, determined by the world price. To accomplish this, Government control, regulation, and sponsorship is necessary. However, the operation of the plan should be decentralized as much as possible, working through the State farm organizations which in turn would work through the county farm organizations, thus placing the responsibility of the success of the plan as much as possible on the local units, which are better able to control the determined reduction in acreage and production. This plan in no way would put a financial burden on the Government except the comparatively small cost required for a proper central regulation and control. And I believe that there is already plenty being spent by the Government through its Department of Agriculture and other

agencies to take care of the necessary supervision by some sort of a reorganization.

The increase in prices brought about by this plan would, of course, be paid for by the consumers, but in this respect it would be no different than the effect of the tariff on the prices of those manufactured and agricultural products where the tariff is now effective in maintaining a domestic price higher than the world price. In other words, the domestic allotment plan, in its operation, might be termed an inverted tariff. If the domestic price level is going to be maintained by a tariff on some of our agricultural products and most of our manufactured products, then the prices of our major agricultural products must be raised to a domestic level by making a tariff effective through an allotment or similar plan; otherwise, the balance and equilibrium necessary to the operation of our economic system and, I might say, the velocity of our money can not be maintained, and the whole price structure will be kept out of adjustment as a result.

Objection is raised to the allotment plan on the ground that it will increase the cost of those products covered by it to the consumer, whose purchasing power is already close to the vanishing point. It will not only do that, but it will tend to increase the price structure generally, if it accomplishes the results desired.

An increase in the price of cotton will cause some increase in the price of wool, silk and rayon; an increase in the price of hogs—and of course I am eliminating hogs here—will tend to increase the price of all other meat products; and likewise, an increase in the price of wheat will tend to increase the price of other grain products, as all competitive products are influenced by the price of the product which is the cheapest.

Senator GORE. Any increased purchasing power that you gave the farmer through this would be taken away in taxes, would it not?

Mr. ECCLES. No. Through velocity a billion dollars increase in the price of cotton and wheat at the source would amount to from ten to at least fifteen billion dollars in purchasing power.

Senator GORE. If it did.

Mr. ECCLES. Well it would, based upon the record of your turnover.

Senator GORE. But that is in different times than these.

Mr. ECCLES. Well, of course, but you put this money into the hands of the farmer through this increased purchasing power, and you are getting at the source of wealth production where buying power and where consumer demand starts. And with that consumer demand started you get your velocity, you raise your prices, you start the creating of income which will balance your Government Budget through creating of income on the part of corporations and individuals.

Senator GORE. It is estimated this domestic plan will take a billion dollars out of the pockets of the consumer and turn them over to the farmer. You have already proposed to give a half a billion dollars to the cities to buy that with. I can follow you if you raise the price of cotton cloth and food and then tax the people and give money to the people to buy it with; I can see how you can get things going that way.

Mr. ECCLES. That is right.

Senator SHORTRIDGE. Let me interrupt to ask a question, Mr. Chairman.

The CHAIRMAN. Yes.

Senator SHORTRIDGE. When you speak of the farmer, you seem to limit the word "farmer" to the raiser of two products—what and cotton?

Senator KING. No; only for the allotment plan, but not for the benefits to be derived from this increased productivity and the circulation of money, and purchasing power.

Mr. ECCLES. I cover that here.

The effect of raising agricultural prices generally will bring about an increased purchasing power to those engaged in agriculture, which would serve to increase the demand for all kinds of manufactured products, thus increasing employment, wages, and general income to a far greater degree than the increased cost of the agricultural products consumed. And I just explained the velocity. Dairy, and poultry products, fruits, rice, vegetables, and all other agricultural products, which it would be impractical to cover by the allotment plan, would increase in price with the increase in consumption brought about through the improved buying power of our entire agricultural, as well as our industrial population.

Senator SHORTRIDGE. I see the theory.

Mr. ECCLES. The cost of manufactured goods at present is slightly above the 4-year pre-war average, while the cost of all agricultural products is approximately one-half of the 4-year pre-war average. The domestic allotment plan would tend to bring these two important economic factors in balance. Which is absolutely necessary to have prosperity.

Senator SHORTRIDGE. No government on earth though, has ever undertaken any such a plan, has it? No recognized government from Pharaoh's time?

Mr. ECCLES. The small countries of Europe, Denmark, Holland, I think Belgium—they operate on a similar plan.

Senator SHORTRIDGE. On an allotment plan?

Mr. ECCLES. Yes.

Senator SHORTRIDGE. All right, if you say so.

Mr. ECCLES. The allotment plan may be a long way from a perfect solution of the farm problem, but something must be tried. Our progress up to date in every field is the result of experimentation, trial, and error. The allotment plan may need to be changed or modified from time to time, but that can be done as experience determines. I believe that some form of the allotment plan is necessary as a permanent measure as long as a tariff policy is in effect in this country. The allotment plan is no more artificial than the tariff, the money system and all the regulatory operations of the Government. Our whole economic system, in the same sense, is artificial and must of necessity continue so unless we revert to a primitive society.

4. REFINANCING FARM MORTGAGES

The allotment plan, to be effective, should be followed immediately by a refunding of farm mortgages on an immense scale and on a long-term basis at a low rate of interest. The seriousness of the farm-mortgage problem is evidenced by the farm strike in all parts of the country, the moratoriums being forcibly granted and the legislation

designed to relieve debtors being proposed in every agricultural State. As a means of meeting this problem, I have the following to suggest:

Enlarge the scope and size of the Federal land banks so as to enable them to take over mortgages up to an amount of, say, \$5,000,000,000; this amount can be increased if conditions warrant.

Senator SHORTRIDGE. Do you mean refinancing existing mortgages, or making new loans?

Mr. ECCLES. Existing mortgages only.

I understand that at present the total farm mortgage debt of the United States is somewhere between \$8,000,000,000 and \$9,000,000,000; of this amount approximately one and a half billion dollars is now held by the Federal land banks, one-half billion dollars by the joint stock land banks, one and three-fourths billion dollars by the insurance companies, and the balance by private mortgage companies, banks, and individuals.

The present mortgages held by the land banks should be refunded on an amortized basis over a period of 40 years. An annual payment of 5 per cent of the principal amount of the refunded mortgage would allow 3 per cent for interest, seven-tenths of 1 per cent for expenses and losses, and would retire the mortgage in 40 years. In order to accomplish this, existing Federal land bank bonds, which now bear an interest rate of from 4 to 5 per cent, should be refunded on a basis of a 3 per cent bond and, as a consideration of the reduced interest rate, these bonds should be guaranteed by the Federal Government and should be made eligible on a bills payable basis at the Federal reserve banks.

Mortgages held outside of the Federal land banks by other agencies should be taken over in exchange for Federal land bank bonds as above described. In taking over these mortgages, all delinquent interest should be waived up to and including the time when this proposed legislation could be made operative, which I would suggest be July 1, 1933. It would also be necessary for the present mortgage holders to write down the principal amount of their mortgages in those cases where the amount is excessive based upon a normal agricultural commodity price structure, or where it is on marginal land which can not be operated profitably. In the latter case the loan should not be taken over at all, but such property should be leased by some agency of the Federal Government and taken out of production.

Present prices of agricultural commodities should not be a basis for refunding farm mortgages because on such a basis the entire scheme would fail to give either the desired relief to the farmers or those holding the mortgages. The aggregate discount taken on existing mortgages must be limited, otherwise financial institutions now holding them could not absorb the loss without disaster and consequently would not make the exchange for Federal land bank bonds, in which case the agricultural borrowers would not receive the necessary relief and the entire plan would fail to accomplish the results desired.

In the proposed refunding operation by the Federal land bank, all delinquent taxes and delinquent principal payments should be included in the principal amount of the refunded mortgage, the first payment to be made in the fall of 1934. This is very necessary in order that the agricultural interests may have the benefits from the proceeds of their 1933 production with which to purchase the vast amount of

consumers goods of all kinds which they so desperately need. With the increase in prices through the effects of the allotment plan, this buying power would be a tremendous factor in reviving every type of industry and would go a long way toward restoring business in general and increasing employment in every field.

Farm mortgages at present are possibly the most undesirable and frozen of all loans, and frozen loans are preventing, to some extent, the necessary expansion of credit. The plan I have proposed will very effectively and immediately make liquid billions of dollars of assets for which there is no market to-day, while at the same time it will bring about a reduction of at least one-third of the average annual payments on the farm debt now required to be made by farm mortgage debtors without requiring any financing or loss by the Federal Government, thus bringing about the necessary relief in the farm-mortgage field. This plan has the advantage, as a result of the Government guarantee of the Federal land bank bonds, of diverting surplus funds carried in the great creditor sections into the indirect financing of farm mortgages where it is impossible even at a high rate of interest, which farmers can not pay, to attract those funds directly.

The combination of the allotment plan and the farm mortgage refinancing plan will provide, in an effective manner, a sound farm relief program, thus saving our entire agricultural industry from what otherwise would likely be a general collapse, and at the same time greatly expanding the purchasing power of our entire agricultural population, thus helping to bring about a revival of industry.

5. INTERALLIE DEBTS

No program designed to bring this country out of the depression can be considered apart from the relations of this country to the rest of the world unless a policy of complete isolation is adopted and an embargo put on gold exports and our domestic economy adjusted to meet such a condition.

Our international problems are far more difficult and will be slower to work out because of our inability to control the action of other nations. These problems can be met only through international conferences over a period of time. The most important of these problems and the one which must be settled before any progress can be made in the meeting of our domestic or other foreign problems is the problem of interallied debts.

There is a great demand on the part of the public and most of the press of this country that these debts be paid. It seems to me that our political leaders have lacked the courage to face this problem in a realistic manner. This has greatly contributed to prolonging the depression. The public, generally speaking, is not fully informed as to the impossibility of our foreign debtors complying with these demands, which can only be complied with at the expense of our own people.

Senator SHORTRIDGE. Right there. I know of one country that defaulted in a certain payment and the very day, almost, that it defaulted it loaned an equal amount to another country.

Mr. ECCLES. That is true.

Senator KING. May I say right there, Senator, that the League of Nations urged that country to which you referred, France, and

Great Britain, and several other countries, in order to save the other country from bankruptcy and from chaos which would have spread to other countries, to extend credit to save not only the country in question, but really to aid Europe, and France patriotically and, I think, properly, joined in the consortium and made her part of the loan. We do not talk about the other nations that joined in making the loan.

Senator SHORTRIDGE. Well then I could cite another nation that defrauded and expended a sum far in excess of the amount due us as of a certain date—expended it unnecessarily on war preparations.

Senator KING. There will be a difference of opinion there, and it will do no good for us to discuss it now, at this point.

Mr. ECCLES. I cover it in the next point I am making.

Senator GORE. There was another country ready to pay and it was discouraged from paying, and the representatives that signified willingness to pay was recalled. They did not want it to pay because it set a bad precedent for these other countries.

Senator SHORTRIDGE. They did not want to pay.

Mr. ECCLES. It is elementary that debts between nations can ultimately be paid only in goods, gold, or services, or a combination of the three. We already have over 40 per cent of the gold supply of the world—that is not true; it is between 35 and 40 per cent—and as a result most of the former gold standard countries have been forced to leave that standard and currency inflation has been the result. This has greatly reduced the cost of producing foreign goods in terms of our dollar and has made it almost impossible for foreign countries to buy American goods because of the high price of our dollar measured in the depreciated value of their money. This naturally has resulted in debtors trying to meet their obligations by producing and selling more than they buy, thus enabling them to have a favorable balance of trade necessary to meet their obligations to us. If this country is to receive payment of foreign debts, it must buy and consume more than it produces, thus creating a trade balance favorable to our debtors.

In order to prevent this and reduce the pressure of foreign goods on the American market a high tariff wall has been built and we now hear demands on all sides for a further increase in this tariff due to the effects of depreciated currencies on our price structure. It is, therefore, evident that this pressure on our markets by goods from foreign countries would be greatly reduced if the burden of debt were lifted from our foreign debtors, thus allowing our prices, as well as their own, to rise.

We must either choose between accepting sufficient foreign goods to pay the foreign debts owing to this country, or cancel the debts. This is not a moral problem, but a mathematical one. Foreign debtors, no doubt, would be delighted to pay their debts to this country if we would make it possible for them to do so by reducing our tariff and accepting the goods which they have to offer.

No one would be as greatly benefited by the cancellation of these foreign debts owing to our Government as American agriculture and American labor. A comparatively small portion of our population would make up this loss to the Treasury through the payment of income and inheritance tax which would be made productive by the revival of business.

Cancellation, or a settlement of the debts on a basis which would practically amount to cancellation, in exchange for stabilization of the currency of the debtors, together with certain trade concessions and an agreement to reduce armaments would be a small price for this country to pay as compared with the great benefits which the entire world, including ourselves, would derive therefrom. Without a stabilization of foreign currencies it will be difficult, if not impossible in my opinion, to substantially raise the price level in this country as long as we stay on a gold basis. Our debtors will default and we will likely be forced to abandon gold and depreciate our currency in relation to that of other countries in order to raise our price level in this country and to meet foreign competition unless we are instrumental in inducing foreign countries to stabilize their currencies on a gold basis, or gold and silver basis if action is taken internationally to remonetize silver. I am not in disagreement with Mr. Ferry there.

Senator SHORTRIDGE. Permit me to interrupt there. We have outstanding obligations, interest bearing obligations amounting to about how much now?

Senator KING. About \$21,000,000,000.

Senator SHORTRIDGE. Do you know of any way in which we can cancel or get rid of paying what we owe?

Mr. ECCLES. Well, how are you going to collect what the foreign countries owe?

Senator SHORTRIDGE. Oh, I grant you that we have no police force.

Mr. ECCLES. They are willing to pay if we take goods.

Senator KING. And services.

Mr. ECCLES. Goods or services are the way you can get your debts paid.

Senator SHORTRIDGE. Then I take it you would have the tariffs reduced?

Mr. ECCLES. No. Debts canceled. Then I think with the prosperity that you would get in this country you can collect more than that in income and inheritance taxes when you stop this loss of \$2,000,000,000 a month through unemployment. You start the process of wealth, and even a capitalist is far better off. I am a capitalist.

Senator SHORTRIDGE. Well, I am a capitalist. But I am on the gold basis.

Mr. ECCLES. We could, as an alternative, further raise our tariff wall, put an embargo on gold and live entirely within ourselves.

The program which I have proposed is largely of an emergency nature designed to bring rapid economic recovery. However, when recovery is restored, I believe that in order to avoid future disastrous depressions and sustain a balanced prosperity, it will be necessary during the next few years for the Government to assume a greater control and regulation of our entire economic system. There must be a more equitable distribution of wealth production in order to keep purchasing power in a more even balance with production.

If this is to be accomplished there should be a unification of our banking system under the supervision of the Federal reserve bank in order to more effectively control our entire money and credit system; a high income and inheritance tax is essential in order to control capital accumulations (this division of taxes should be left solely to the central government—the real property and sales tax left to the States); there should be national child labor, minimum wage, unem-

ployment insurance and old age pension laws (such laws left up to the States only create confusion and can not meet the situation nationally unless similar and uniform laws are passed by all States at the same time, which is improbable); all new capital issues offered to the public and all foreign financing should receive the approval of an agency of the Federal Government; this control should also extend to all means of transportation and communication so as to insure their operation in the public interest. A national planning board, similar to the industries board during the war, is necessary to the proper coordination of public and private activities of the economic world.

Such measures as I have proposed may frighten those of our people who possess wealth. However, they should feel reassured in reflecting upon the following quotation from one of our leading economists:

It is utterly impossible, as this country has demonstrated again and again, for the rich to save as much as they have been trying to save, and save anything that is worth saving. They can save idle factories and useless railroad coaches; they can save empty office buildings and closed banks; they can save paper evidences of foreign loans; but as a class they can not save anything that is worth saving, above and beyond the amount that is made profitable by the increase of consumer buying. It is for the interests of the well to do—to protect them from the results of their own folly—that we should take from them a sufficient amount of their surplus to enable consumers to consume and business to operate at a profit.

I am speaking of business during normal times.

Senator SHORTRIDGE. Who said that?

Mr. ECCLES. Stuart Chase, I think. He is an economist. Or Foster. I am not sure which.

This is not "soaking the rich"; it is saving the rich. Incidentally, it is the only way to assure them the serenity and security which they do not have at the present moment.

Senator KING. That is a fine statement.

Senator SHORTRIDGE. I would like to ask one question, Mr. Chairman, for my own information, and that is in respect of the so-called allotment plan. Does that contemplate retiring all arable wheat land from cultivation?

Mr. ECCLES. The allotment plan, as I understand it, is to do two things: Control acreage which controls production and establish a price on the basis of a domestic level rather than on the basis of a foreign level.

Senator SHORTRIDGE. This allotment plan contemplates the retiring from cultivation of arable wheat land? That is so, is it not?

Mr. ECCLES. I do not think so. At least that is not what I had in mind here.

Senator SHORTRIDGE. The miners, the blacksmiths, the carpenters, the painters, the gas fitters, the skilled labor in a hundred branches have organized into unions and their purpose is altogether worthy. They seek to control their wages and the hours of labor. Query: Has there been any effort made among the wheat men of a given State to organize and to regulate, and, if it be so, retire arable wheat land from cultivation, reducing thereby the output with the end in view of preventing a surplus of wheat, and hence a better price for that which is raised and put into the market? I am wondering whether the wheat farmers or the cotton raisers themselves have not organized along the line, if you please, similarly?

The CHAIRMAN. It has been talked of for 50 years, and they have never been able to do it, so I do not know whether they can do it now or not.

Senator GORE. I read a poem not long ago written in the early seventies on that point.

Senator KING. Thank you very much for your statement.

Senator GORE. I want to ask you a question or two for the record, which illustrates my view and I think illustrates the tendency of your philosophy. You say that you think the domestic allotment plan ought to be limited to wheat and cotton?

Mr. ECCLES. Because of the difficulty of making it practically apply to vegetables, we will say, and fruits and the like.

Senator GORE. You would take account of practical difficulties?

Mr. ECCLES. Yes.

Senator GORE. Wheat and cotton are the pillars of our whole agricultural structure; that is the reason, is it not?

Mr. ECCLES. That is one of the reasons. Of course, livestock is a very important factor.

Senator GORE. As the bill was originally projected in the House it was limited to wheat and cotton, but when they came to consider it they needed votes. And other interests brought pressure to bear on the committee. They added, I believe, in the committee tobacco. They added in the committee butterfat, because the dairy industry in this country is strongly organized among the farmers. They had to yield to that whether it was practical to yield or not. They took the bill to the House and peanuts went in by 1 majority in the House. These peanut fellows want peanuts in that scheme. They do not want to be left out.

You say that our best efforts to relieve have been a failure, and I think you are right. But has it ever occurred to you that in view of these past failures and in line with that, that perhaps all these governmental schemes are narcotic and that the more you take the more you have got to take in the future to get the same reaction and the same results?

Mr. ECCLES. I feel that one of two things is inevitable: That either we have got to take a chance on meeting this unemployment problem and this low-price problem or we are going to get a collapse of our credit structure, which means a collapse of our capitalistic system, and we will then start over. And I therefore would like to see us attempt to regulate and operate our economy which to-day requires more action from the top due to our entire interdependency than it did in our earlier days. We have drifted in this country into a form of collectivism in many lines of business, when you consider our great corporations and farm organizations.

Senator GORE. Let me ask you this. I do not mean for you to dilate on it. But you say our credit structure is in danger. And I think it is. I think our mischief results largely from overstraining of credit. Your proposal seems to be that for the excessive use of credit we use more credit. Is that not true?

Mr. ECCLES. No; that is not true.

Senator GORE. It seems like every scheme you suggested was for the Government to advance money to somebody.

Mr. ECCLES. You have got to take care of the unemployed or you are going to have revolution in this country. Out in Salt Lake City the other day you had an illustration of what occurs.

Senator GORE. You noticed that out in Seattle the boys struck and they wanted gasoline. They need gasoline.

Mr. ECCLES. When you get enough unemployed they will control the Government and change our present political, social, and economic system.

Senator GORE. There is the trouble. And that is the danger here. They brought pressure to bear in the House to get tobacco, butter-fat, and goobers included in this domestic allotment. You get enough unemployed in this country organized and there are no brakes you can put on your scheme. That is the history of Rome. The dole destroyed Rome. It is going to destroy England and France and Germany and this country.

The CHAIRMAN. We thank you for your statement, Mr. Eccles.

The committee will stand in adjournment until 2 o'clock, when we will meet in executive session, after which we will have an open session.

(Thereupon, at 1.20 o'clock p. m., the committee adjourned to meet in open session at 3 o'clock p. m. the same day, Friday, February 24, 1933.)

AFTER RECESS

The subcommittee resumed the hearing of witnesses in public session at 3 o'clock p. m.

STATEMENT OF LAWRENCE DENNIS, NEW YORK CITY

The CHAIRMAN. Will you give your name and address to the reporter?

Mr. DENNIS. Lawrence Dennis, 27 West Forty-fourth Street, New York.

The CHAIRMAN. What is your business?

Mr. DENNIS. I am an independent financial writer.

The CHAIRMAN. For any particular publication?

Mr. DENNIS. No; independent.

The CHAIRMAN. You may proceed. Have you a copy of your statement?

Mr. DENNIS. I have two articles which I intend to use as a basis for what I have to say.

The CHAIRMAN. You may proceed.

Mr. DENNIS. There are two theories about the present depression, and I think that practically everyone holds, in some form, one of those two theories.

The one is that this is another of a series of seven or eight cyclical depressions which have occurred in the history of the modern industrial-capitalist system; and the second theory is that this depression is or may be, very likely, a phase of transition from the existing system of private capitalism, to some form of economic organization which we can not definitely foretell at the present time.

Those two theories do not classify people into socialists or capitalists. A great many socialists and communists think the present