in the World War veterans' act; to the Committee on Economy.

7643. Also, petition of Association of Commerce, St. Paul, Minn., opposing the transfer of jurisdiction over river and harbor improvements from the Corps of Army Engineers to the proposed department of public works; to the Committee on Rivers and Harbors.

7644. Also, petition of Association of Manufacturers' Representatives, Minneapolis, Minn., urging reductions in public expenditures; to the Committee on Economy.

7645. Also, petition of Association of Manufacturers' Representatives, Minneapolis, Minn., opposing payment of adjusted-service certificates; to the Committee on Ways and Means.

7646. By Mr. LAMBERTSON: Resolution adopted by the Topeka Central Woman's Christian Temperance Union, Topeka, Kans., signed by the president, Anna B. Fisher, and the secretary, Marion Wiede, urging support of the prohibition law and its enforcement and against modification, resubmission, or repeal; to the Committee on the Judiciary.

7647. By Mr. LINDSAY: Petition of the American Banker, opposing the Glass Banking Act of 1932; to the Committee on Banking and Currency.

7648. Also, petition of the New York Florists' Club, New York City, favoring the modification of the Volstead Act and also its repeal; to the Committee on the Judiciary.

7649. Also, petition of United States Building and Loan League, Chicago, Ill., favoring the home land bill; to the Committee on Banking and Currency.

7650. Also, petition of the Ohio Chamber of Commerce, Columbus, Ohio, favoring the balancing of the Budget; to the Committee on Appropriations.

7651. Also, petition of Eastern Association for Selection of Football Officials, Bethlehem, Pa., protesting against the 10 per cent tax on admissions to intercollegiate athletic games; to the Committee on Ways and Means.

7652. By Mr. LUCE: Petition of Wellesley College Christian Association, Wellesley, Mass., relating to the reduction of War Department expenditures; to the Committee on Appropriations.

7653. By Mr. NOLAN: Petition from various organizations in Minneapolis, favoring Federal supervision of motion pictures; to the Committee on Interstate and Foreign Commerce.

7654. Also, petition of organizations in Minneapolis, favoring Federal supervision of motion pictures; to the Committee on Interstate and Foreign Commerce.

7655. By Mr. ROGERS: Petition of Polish-American Citizens Club, of Manchester, N. H., signed by Frank Bialon, W. L. Bigos, and W. S. Kijez, memorializing Congress to enact House Joint Resolution 144, General Pulaski's Memorial Day; to the Committee on the Judiciary.

7656. Also, resolution by the mayor and board of aldermen of Manchester, N. H., signed by Mayor Damase Caron, regarding the curtailment of Federal expenditures and a decrease in taxation; to the Committee on Economy.

7657. By Mr. RUDD: Petition of C. B. Axford, editor American Banker, opposing the Glass banking legislation; to the Committee on Banking and Currency.

7658. Also, petition of the New York Florists' Club, New York City, favoring the modification or repeal of the Volstead Act; to the Committee on the Judiciary.

7659. Also, petition of United States Building and Loan League, Chicago, Ill., favoring the passage of the home-loan bank legislation; to the Committee on Banking and Currency.

7660. Also, petition of the Ohio Chamber of Commerce, Columbus, Ohio, favoring the balancing of the Budget; to the Committee on Appropriations.

7661. By Mr. SNOW: Petition of William E. Fish, jr., and many other citizens of Bangor, Me., favoring passage of House bill 9891; to the Committee on Interstate and Foreign Commerce.

7662. Also, petition of George T. McCarthy and many other citizens of Bangor, Me., favoring passage of House bill 9891; to the Committee on Interstate and Foreign Commerce.

7663. By Mr. TIERNEY: Petition protesting against reduction of benefits to disabled veterans; to the Committee on Pensions.

7664. By Mr. WEST: Petition of 210 members of the Ohio Railroad Employees and Citizens League, protesting against the unjust, unreasonable, and discriminatory operation of inadequately regulated and taxed busses and trucks engaged in transportation, the subsidizing with public funds of water and other forms of transportation competitive with railroads; to the Committee on Interstate and Foreign Commerce.

7665. Also, resolution of the Licking County Rural Letter Carriers' Association, protesting against Senate bill 2490; to the Committee on the Post Office and Post Roads.

SENATE

TUESDAY, MAY 10, 1932

(Legislative day of Monday, May 9, 1932)

The Senate met at 12 o'clock meridian, on the expiration of the recess.

The VICE PRESIDENT. The Senate will receive a message from the House of Representatives.

MESSAGE FROM THE HOUSE

A message from the House of Representatives by Mr. Chaffee, one of its clerks, announced that the House had passed without amendment the following bill and joint resolution of the Senate:

S. 2775. An act to amend an act entitled "An act to incorporate the Masonic Mutual Relief Association of the District of Columbia," approved March 3, 1869, as amended; and

S. J. Res. 50. Joint resolution to authorize the Commissioners of the District of Columbia to close upper Water Street between Twenty-second and Twenty-third Streets.

The message also announced that the House had agreed to the concurrent resolution (S. Con. Res. 27) providing for the correction of an error in the enrollment of Senate bill 3584, relating to insurance corporations in the District of Columbia, with amendments, in which it requested the concurrence of the Senate.

The message further announced that the House had passed the following bill and joint resolution, in which it requested the concurrence of the Senate:

H. R. 7305. An act to permit construction, maintenance, and use of certain pipe lines for petroleum and petroleum products; and

H. J. Res. 154. Joint resolution to authorize the merger of street-railway corporations operating in the District of Columbia, and for other purposes.

MINERAL RESOURCES AS RELATED TO FARM LANDS (S. DOC. NO. 93)

The VICE PRESIDENT laid before the Senate a letter from the Secretary of Agriculture, submitting, pursuant to Senate Resolution No. 377, of the Seventy-first Congress, a report pertaining to the mineral resources of the country as related to farm lands, prepared in the Bureau of Agricultural Economics of the department, which was ordered to lie on the table and to be printed with an illustration.

DISPOSITION OF USELESS PAPERS

The VICE PRESIDENT laid before the Senate a letter from the Assistant Secretary of Labor, transmitting, pursuant to law, a list of papers and documents on the files of the Bureau of Labor Statistics and the Children's Bureau, which are not needed in the conduct of business and possess no historical interest, and asking for action looking to their disposition, which was referred to a Joint Select Committee on the Disposition of Useless Papers in the Executive Departments.

The VICE PRESIDENT appointed Mr. METCALF and Mr. COPELAND members of the committee on the part of the Senate.

AMENDMENT OF REVENUE BILL—TAX ON BEER

Mr. BINGHAM. Mr. President, I ask unanimous consent to introduce at this time an amendment to the revenue bill, which I ask to have printed and lie on the table. The amendment is a little difficult to understand because of some of the blind references to figures in it. I may say in explanation of it that it provides for the elimination of a number of nuisance taxes and the substitution therefor of a tax on beer in order to provide the necessary revenue.

As a matter of fact, the present revenue laws now on the statute books provide for a tax of $6 a barrel on beer. Therefore all that would be necessary to be done in order to take advantage of this tax would be to amend the Volstead Act by striking out the words "one-half of 1 per cent" wherever they appear in such act and insert in lieu thereof the words "4 per cent."

A conservative estimate of the amount of revenue which could easily be raised by this change is $375,000,000. Some persons estimate it to be as high as $500,000,000. Adopting the more conservative figure, it would provide sufficient revenue to meet the elimination of the taxes in the new bill which I propose to strike out. The amendment provides for eliminating all postal increases, including the 3-cent charge on first-class mail matter and the increases in second-class mail matter, the estimated returns from which amount to $160,000,000. I also propose to strike out the tax on admissions to movie theaters and other forms of entertainment, which are calculated to raise $110,000,000. The amendment provides for an elimination of the tax on telegrams and telephones, which is calculated to raise $24,000,000. It eliminates the tax on radios and phonographs, a loss of $11,000,000. A reduction is proposed in the tax on automobiles, putting the tax back to the House figure of 3–2–1 in lieu of the increase substituted by the Senate committee, amounting to $17,000,000. The amendment proposes to reduce the normal income-tax rates from the 3–6–9 rates as proposed in the Senate bill to the House rates of 2–4–7, a reduction of $29,000,000; and also to reduce the tax on lubricating oil from 4 cents to 2 cents a gallon, a loss of $22,000,000.

In short, the amendment would strike from the bill revenue-producing features totaling $373,000,000. By eliminating increased postage rates, increased taxes on admissions, new taxes on telephones and telegrams, new taxes on radios and phonographs, reducing increases in normal income-tax rates, reducing the tax on automobiles and on lubricating oil, and substituting therefor the legalizing of the manufacture and sale of good, wholesome beer, it is conservatively estimated to raise $375,000,000, or $2,000,000 more than the estimates for all the eliminated items. This is in line with the recommendations of the majority of the subcommittee which held hearings on the beer bills.

The amendment would not only eliminate the worst of the nuisance taxes but would immediately restore work to hundreds of thousands of unemployed and provide a new market for grain, coal, transportation, and numerous other articles for which there is now no demand.

The VICE PRESIDENT. The amendment will be printed and lie on the table.

PETITIONS AND MEMORIALS

The VICE PRESIDENT laid before the Senate a letter in the nature of a memorial from Eugene Jackson Koop, of New York City, N. Y., remonstrating against certain special payments to war veterans and their relatives, which was referred to the Committee on Finance.

He also laid before the Senate a letter in the nature of a memorial from the Lockport (N. Y.) Board of Commerce, remonstrating against the principle of Members of Congress answering certain communications by telegram instead of by letter, which was referred to the Committee on Post Offices and Post Roads.

He also laid before the Senate a communication from Everett G. Glidden, of Schenectady, N. Y., submitting a plan for the relief of economic conditions and unemployment, which was referred to the Committee on Education and Labor.

He also laid before the Senate a resolution adopted at the annual convention of the American Newspaper Publishers Association, of New York City, N. Y., favoring the passage of legislation providing for the retroactive repeal of the recapture provision of the transportation act of 1920, which was referred to the Committee on Interstate Commerce.

He also laid before the Senate a resolution adopted at the annual convention of the American Newspaper Publishers Association at New York City, N. Y., favoring the passage of legislation applying to radio advertising the same provisions of law as are imposed upon newspapers by the postal laws and regulations, which was ordered to lie on the table.

He also laid before the Senate a resolution adopted by the Thomas Nelson, Jr., Chapter, Sons of the American Revolution, Newport News, Va., favoring the passage of legislation providing for the building up of the Navy to the Washington and London treaties strength, which was ordered to lie on the table.

He also laid before the Senate a letter from W. A. Denson, of Birmingham, Ala., relative to the alleged duty of Congress in connection with regulating the value of money, which was ordered to lie on the table.

He also laid before the Senate a resolution adopted by the faculty of the Pennsylvania Military College, of Chester, Pa., favoring the adoption of the sales tax in the pending tax bill for the purpose of balancing the Budget, which was ordered to lie on the table.

Mr. ASHURST presented a telegram in the nature of a petition from H. M. Purcell, M. D., of Phoenix, Ariz., praying for the passage of the bill (S. 4436) to amend sections 305 (a) of the tariff act of 1930, and sections 211, 245, and 312 of the Criminal Code, as amended, which was referred to the Committee on the Judiciary.

He also presented a telegram in the nature of a memorial from Mrs. David W. Russell, State regent, Arizona Society, Daughters of the American Revolution, of Prescott, Ariz., remonstrating against cuts in appropriations affecting the national defense, which was referred to the Committee on Appropriations.

He also presented a telegram in the nature of a memorial from F. L. J. Carroll, department commander, Veterans of Foreign Wars, of Phoenix, Ariz., remonstrating against cuts in the appropriations affecting the national defense and military activities, which was referred to the Committee on Appropriations.

He also presented a telegram in the nature of a memorial from John J. Durkin, editor Southwestern Labor Record, Tucson, Ariz., remonstrating against inclusion of a manufacturers' sales tax in the pending tax bill, which was ordered to lie on the table.

He also presented telegrams in the nature of memorials from the Liberty Theater, by Adah Cadwell, of Holbrook; the Chamber of Commerce of Winslow; Charles Born, of the Elks' Theater, of Prescott; Sultana Theater Co., by Charles M. Proctor, of Williams; A. R. Cavaness & Sons, of the Plaza Theater, and Oscar Irvin, both of Phoenix, all in the State of Arizona, remonstrating against the imposition of a tax on admissions to amusements, which were ordered to lie on the table.

Mr. WALCOTT presented the petition of the Connecticut State Association of Letter Carriers, praying for the passage of the so-called Sweeney bill, being House bill 6183, to promote substitute postal clerks and carriers, etc., which was referred to the Committee on Post Offices and Post Roads.

He also presented the memorial of members of the congregation of the First Methodist Episcopal Church of Stamford, Conn., remonstrating against a referendum in connection with the repeal of the eighteenth amendment of the Constitution, which was referred to the Committee on the Judiciary.

He also presented memorials and papers in the nature of memorials of William H. Gordon Post, No. 50, of Ansonia; Bolton-Kasica Post, No. 68, of Berlin; Dilworth-Cornell Post, No. 102, of South Manchester; Campilio-Holmes Post, No. 123, of Rockyhill; Westville Post, No. 39, of New Haven; and Carlson-Sjovall Post, No. 105, of Cromwell, all American Le-

gion posts, in the State of Connecticut, remonstrating against the passage of legislation curtailing the benefits accorded to World War veterans, which were referred to the Committee on Finance.

He also presented petitions and papers in the nature of petitions of New Haven Post, No. 47, of New Haven; Kiltonic Post, No. 72, of Southington, both of the American Legion, and Frank Badstuebner Post, No. 2090, Veterans of Foreign Wars, of Rockville, all in the State of Connecticut, praying for the immediate payment of adjusted-compensation certificates (bonus) of World War veterans, which were referred to the Committee on Finance.

He also presented memorials and papers in the nature of memorials of the Master Builders' Association and the Association of Insurance Agents, both of New Haven; the State Exchange Club and the Putnam Chamber of Commerce, both of Putnam, in the State of Connecticut, remonstrating against the immediate payment of adjusted-compensation certificates (bonus) of World War veterans, which were referred to the Committee on Finance.

He also presented a letter from the Broadway Parent-Teacher Association, of Mystic, Conn., indorsing the so-called Brookhart bill, relative to the block booking of motion pictures, which was ordered to lie on the table.

He also presented a telegram in the nature of a memorial of the Bridgeport Metal Goody Manufacturing Co., of Bridgeport, Conn., remonstrating against the imposition of a tax on containers used in the perfume and cosmetic industry, which was ordered to lie on the table.

He also presented the memorial of the Woman's Club of Winsted, Conn., remonstrating against the imposition of a tax on clocks, which was ordered to lie on the table.

He also presented memorials of the Association of Cashiers of Hartford Investment Bankers and employees of Shaw & Co., both of Hartford, Conn., remonstrating against the imposition of a tax on sales of securities, which were ordered to lie on the table.

He also presented memorials of Plainfield Granges, Nos. 54 and 140, of Plainfield, and Tolland Grange, No. 51, of Tolland, all of the Patrons of Husbandry, and sundry citizens of Willimantic, all in the State of Connecticut, remonstrating against the imposition of taxes on the automobile industry, which were ordered to lie on the table.

He also presented a telegram in the nature of a memorial of sundry citizens, being jewelers, of Danbury, Conn., remonstrating against the imposition of a tax on jewelry, which was ordered to lie on the table.

Mr. COPELAND presented a resolution adopted by the Niagara County (N. Y.) Board of Supervisors, remonstrating against any discontinuance or reduction in size of the United States Naval Reserve unit stationed at Niagara Falls, N. Y., which was referred to the Committee on Naval Affairs.

He also presented a petition of employees of the Erie Railroad, residing in Nyack, N. Y., praying for the enactment of legislation providing for the establishment of a pension system for railroad employees, which was referred to the Committee on Interstate Commerce.

He also presented a communication from the New York Chapter, Knights of Columbus, of the city of New York, indorsing House bill 8686, concerning recognition of the military status of persons who honorably served with the American Red Cross and kindred American organizations of the United States forces during the World War, which was referred to the Committee on Military Affairs.

He also presented a resolution adopted by members of the United Bowling Clubs of New York (Inc.), of New York City, favoring the repeal of the eighteenth amendment to the Constitution, which was referred to the Committee on the Judiciary.

He also presented a resolution adopted by the New York Florists' Club, of New York City, favoring the modification or repeal of the Volstead Act, which was referred to the Committee on the Judiciary.

He also presented a resolution adopted by the board of directors of the Albany Chamber of Commerce, of Albany, N. Y., protesting against the removal of customs facilities in the city of Albany, which was referred to the Committee on Finance.

He also presented petitions of the Westchester County Council, Veterans of Foreign Wars, of Westchester County, N. Y., and of Joshua Earl Sipes Post, No. 505, American Legion, of Curwensville, Pa., praying for the enactment of legislation providing for the immediate cash payment of World War adjusted-compensation certificates (bonus), which were referred to the Committee on Finance.

He also presented a resolution adopted by Woodhaven Post, No. 118 (Inc.), American Legion, of Woodhaven, N. Y., protesting against the enactment of legislation proposing to reduce the benefits for disabled World War veterans, which was referred to the Committee on Appropriations.

He also presented a communication from the National Economy Committee of New York City, N. Y., transmitting a petition of citizens of the State of New York for a redress of grievances, praying the elimination of appropriations for veterans of wars whose disabilities were not incurred in service, which was referred to the Committee on Appropriations.

He also presented a resolution adopted by the American Society of Landscape Architects (Inc.), of Boston, Mass., favoring the elimination from the District of Columbia appropriation bill of the provision withdrawing authority from the National Capital Park and Planning Commission to incur obligations for preservation of the Great Falls of the Potomac in the establishment of the George Washington memorial parkway and other park projects for the Washington region, which was referred to the Committee on Appropriations.

He also presented a memorial of the Radio Association of Western New York, of Buffalo, N. Y., and of members of the Rochester (N. Y.) Amateur Radio Association, remonstrating against the inclusion of fees in House bill 7716 imposed on amateur radio stations, which were ordered to lie on the table.

He also presented a resolution of the directors of the Eastern Intercollegiate Association, remonstrating against a 10 per cent tax on admissions to intercollegiate athletic games, which was ordered to lie on the table.

He also presented a resolution of the Northern Federation of Chambers of Commerce, Messena, N. Y., favoring a duty on ground wood and chemical pulp and imports of other products which are sold below the cost of production in the United States, which was ordered to lie on the table.

ACTION IN THE ECONOMIC SITUATION

Mr. BARBOUR presented a telegram from the Manufacturers' Association of New Jersey, signed by J. Philip Bird, its president, embodying a resolution adopted by that organization, which was ordered to lie on the table and to be printed in the RECORD, as follows:

ATLANTIC CITY, N. J., *May 7, 1932.*

Hon. W. WARREN BARBOUR,
Senate Office Building, Washington, D. C.:

The following resolution was unanimously adopted this morning:

"*Be it resolved by the Manufacturers Association of New Jersey, in convention assembled,* That they greet with thankfulness and elation the nonpartisan effort and leadership of the President of the United States to bring to an end the petty posturing of special groups and individuals seeking their own personal agrandizement at the cost of the continued suffering of the people of this country in this time of business depression and unemployment; that this association, constituted of over 3,900 members, whose employees number even in these times more than 460,000, and constitute 85 per cent of the manufacturing industries of the State of New Jersey, pledge their whole-hearted support of the President in this nonpartisan action looking to a prompt and financially sound solution of the problems of governmental revenue and expenditure. The members of this association have been thoroughly disgusted with the inefficiency, selfishness, and lack of even ordinary common sense exhibited by certain elements of the Government of the United States, and this association demands that the nonpartisan leadership of the President be accepted without question, that the political posturing by groups in Congress cease, and that constructive action be taken without fear or favor for the interests of this Nation as a whole and not for the interest of any class or party or faction, no matter how vociferous or unreasonable. The members of this organization have reached the limit of patience. They refuse to see employees standing idle waiting for work and kept in that condition while a few men and groups in this country disport themselves at the expense of the suffering of the idle. This association further

"*Resolved*, That copies of this resolution be immediately telegraphed to the President of the United States and to each Member from New Jersey of the Congress of the United States in order that there shall be no lingering doubt in the mind of anyone as to the attitude of this association and of its members and of their demand for immediate action."

MANUFACTURERS ASSOCIATION OF NEW JERSEY,
By J. PHILIP BIRD, *President*.

TAX ON AUTOMOBILES AND TRUCKS

Mr. VANDENBERG. Mr. President, the considered business judgment of leaders in industry can not be ignored by the Senate in respect to the results of prospective new taxation. Even under the pressure of need to complete the tax bill in the shortest possible time we dare not neglect frank study of the economic effects of our tax action. The Senate committee's report not only retains but increases the special and discriminatory levies upon automobiles, trucks, and parts. I shall discuss this matter in detail when the tax bill is before us. It can not be pushed through without full hearings. The implications are too serious. The livelihood of 4,000,000 men is involved. At this immediate moment I am simply warning the Senate that these motor taxes, in the view of experienced men who know whereof they speak, are calculated to stunt employment and thus increase rather than diminish the national emergency. I content myself to-day with a request that there be printed in the RECORD a telegram filed yesterday with the Finance Committee by eight American business executives, whose judgment can not be ignored in perfecting rational and safe tax legislation.

There being no objection, the telegram was ordered to lie on the table and to be printed in the RECORD, as follows:

News that the Finance Committee has voted heavy taxes against automobiles, trucks, parts, accessories, and rubber is a distinct shock to those in the automobile business in every State. Coming at this time, when practically all of us in the automotive business are operating at a loss, this burden placed upon our industry and its users is certain to make itself felt in increased unemployment and additional hardships upon the 4,000,000 workers dependent upon the automotive trade. Such a heavy portion of the new tax bill should not be at the expense of the revival of the largest business in this country. As representatives of our industry we urge you to reconsider the piling up of burdens upon the automotive and all its related business and to give us a chance to bring back employment everywhere.

ALFRED P. SLOAN, Jr.,
President General Motors Corporation.
EDSEL B. FORD,
President Ford Motor Co.
ALVAN MACAULEY,
President Packard Motor Car Co.
A. R. ERSKINE,
President Studebaker Corporation.
C. W. NASH,
President Nash Motor Co.
ROY D. CHAPIN,
Chairman of the Board, Hudson Motor Car Co.
R. P. PAGE, Jr.,
President Autocar Co.
WALTER P. CHRYSLER,
President Chrysler Corporation.

CREDIT EXPANSION BY USE OF TRADE ACCEPTANCES

Mr. VANDENBERG. Mr. President, the chairman of the Westinghouse Electric & Manufacturing Co., Mr. A. W. Robertson, made an interesting suggestion in a recent address before the University of Pittsburgh bearing upon commercial credit expansion through the use of trade acceptances. From such a source, the suggestion is worthy of serious attention. Its importance lies in the fact that it is addressed to ways and means and methods within complete control of business itself and in no degree dependent upon governmental action. After pointing out that our annual national income has been cut in half, although the total cost of government up and down the country remains almost static, and although interest charges are just as heavy upon the debtor as ever, and after commenting that this means 45 per cent of the national income instead of 20 per cent is consumed in these fixed charges, Mr. Robertson goes ahead with the suggestions, which deserve attention. I ask that his subsequent comments be published in the RECORD and referred to the Committee on Banking and Currency.

There being no objection, the matter was referred to the Committee on Banking and Currency and ordered to be printed in the RECORD, as follows:

Intelligent students of the problem and people whose judgment I respect and trust all agree that there are two ways out of the mess we are in.

The first is to follow along the bankruptcy road on which we are going and foreclose every mortgage and wipe out enough of the debts by bankruptcy and default to bring them down to some unknown level and start afresh from there. This would mean frightful losses. Following such a course, we could not expect to return to the prosperity of the past for a long time.

The other road is a happier one. It is to bring our income back to the $90,000,000,000 level, where it was when we started to deflate everything and everyone except governmental expenses and debts. These two items now take approximately 45 per cent of all we make. Double our income and these items will take less than one-fourth of our income, which will still be too much of it. This would avoid foreclosures and receivership and would make possible the orderly discharge of our obligations. Our incomes can be increased by increasing the price level, which can be done by increasing the amount of monetary exchange or credit available for business. The supply of monetary exchange or credit has dropped to two-thirds of what it was in 1929. It can be brought back to what it was and without danger. In addition to what can be done through the operations of the Federal reserve system—and you are doubtless aware of the new open-market policy of the Federal Reserve Board, under which the system is buying Government securities at the rate of about $100,000,000 a week, thereby forcing money on the banks and driving the yield on Government securities down to such unattractive levels that banks will eventually be forced to seek other investment channels or opportunities for commercial lending—in addition to this, I say, the supply of credit can be increased by the use of trade acceptances in ordinary productive, commercial transactions; i. e., to pay our current bills for goods purchased for resale or materials bought for manufacture by accepting 90-day drafts, which can be discounted at commercial banks and rediscounted, where necessary, at a Federal reserve bank, thus affording commercial paper collateral for Federal reserve note issue. It has been done before and is always done in good times, and if done now would help materially to improve conditions and stimulate business generally. This practice can do no harm and can not in any sense be called fiat-money inflation. It would simply help to restore the price level and the normal relation between income and debt burden. The stimulation due to this increase in credit would not perform a miracle, but it would go far toward reviving business and restoring prosperity.

ENROLLED BILL PRESENTED

Mr. VANDENBERG (for Mr. WATERMAN), from the Committee on Enrolled Bills, reported that on the 9th instant that committee presented to the President of the United States the enrolled bill (S. 283) to provide for conveyance of a certain strip of land on Fenwick Island, Sussex County, State of Delaware, for roadway purposes.

REPORTS OF COMMITTEES

Mr. TYDINGS, from the Committee on the District of Columbia, to which was referred the bill (S. 3792) to amend sections 5 and 6 of the act of June 30, 1906, entitled "An act to prohibit the killing of wild birds and wild animals in the District of Columbia," and thereby to establish a game and bird sanctuary of the Potomac River and its tributaries in the said District, reported it without amendment and submitted a report (No. 672) thereon.

Mr. KEAN, from the Committee on the District of Columbia, to which was referred the bill (S. 3053) to promote safety on the streets and highways of the District of Columbia by providing for the financial responsibility of owners and operators of motor vehicles for damages caused by motor vehicles on the public highways in the District of Columbia; to prescribe penalties for the violation of the provisions of this act, and for other purposes, reported it with amendments and submitted a report (No. 673) thereon.

Mr. REED, from the Committee on Finance, to which was referred the bill (S. 3543) for the relief of Robert Emil Taylor, reported it without amendment and submitted a report (No. 674) thereon.

Mr. TOWNSEND, from the Committee to Audit and Control the Contingent Expenses of the Senate, to which was referred the resolution (S. Res. 208) authorizing the employment of a clerk in the disbursing office of the Senate, reported it without amendment.

BILLS AND JOINT RESOLUTION INTRODUCED

Bills and a joint resolution were introduced, read the first time, and, by unanimous consent, the second time, and referred as follows:

By Mr. GEORGE:

A bill (S. 4617) granting a pension to Julia Bush; to the Committee on Pensions.

By Mr. WALSH of Massachusetts:

A bill (S. 4618) for the relief of P. F. Gormley Co.; to the Committee on Claims.

By Mr. COUZENS:

A bill (S. 4619) granting an increase of pension to Sarah F. Carpenter (with accompanying papers); to the Committee on Pensions.

By Mr. SHIPSTEAD:

A bill (S. 4620) granting an increase of pension to Nora Mitchell (with accompanying papers); to the Committee on Pensions.

By Mr. ROBINSON of Indiana:

A bill (S. 4621) granting a pension to Annie B. Schubert (with accompanying papers);

A bill (S. 4622) granting an increase of pension to Charlotte A. David (with accompanying papers); and

A bill (S. 4623) granting an increase of pension to Lucy S. Kemp (with accompanying papers); to the Committee on Pensions.

By Mr. THOMAS of Oklahoma:

A bill (S. 4624) for the conservation of oil and gas and protection of American sources thereof from injury, correlation of domestic and foreign production, and consenting to an interstate compact for such purposes; to the Committee on the Judiciary.

By Mr. HAYDEN:

A bill (S. 4625) for the relief of W. L. Johnson; to the Committee on Public Lands and Surveys.

By Mr. JONES:

A bill (S. 4626) placing postmasters under the civil service, and for other purposes; to the Committee on Post Offices and Post Roads.

A bill (S. 4627) to authorize an appropriation for the construction of a road on the Makah Indian Reservation, Wash.; to the Committee on Indian Affairs.

By Mr. WATSON:

A bill (S. 4628) granting an increase of pension to Viola Smith (with accompanying papers); to the Committee on Pensions.

By Mr. COPELAND:

A joint resolution (S. J. Res. 156) authorizing the Reconstruction Finance Corporation to make loans to a municipality for the relief of unemployment; to the Committee on Banking and Currency.

HOUSE BILL AND JOINT RESOLUTION REFERRED

The following bill and joint resolution were each read twice by their titles and referred to the Committee on the District of Columbia:

H. R. 7305. An act to permit construction, maintenance, and use of certain pipe lines for petroleum and petroleum products; and

H. J. Res. 154. Joint resolution to authorize the merger of street-railway corporations operating in the District of Columbia, and for other purposes.

INCREASE OF BANKING FACILITIES—AMENDMENTS

Mr. BLAINE, Mr. NORBECK, and Mr. DICKINSON each submitted an amendment; Mr. COPELAND submitted 3 amendments; Mr. METCALF submitted 5 amendments; and mr KEAN submitted 17 amendments, intended to be proposed by them, respectively, to the bill (S. 4412) to provide for the safer and more effective use of the assets of Federal reserve banks and of national banking associations, to regulate interbank control, to prevent the undue diversion of funds into speculative operations, and for other purposes, which were severally ordered to lie on the table and to be printed.

FEDERAL RESERVE AUTHORITIES AND GOVERNMENT SECURITIES

Mr. HOWELL submitted a resolution (S. Res. 211), which was read, considered by unanimous consent, and agreed to, as follows:

Resolved, That the Federal Reserve Board is hereby requested to report to the Senate as soon as practicable the amount of Government securities purchased, sold, and held by the Federal reserve authorities for each calendar month beginning with the month of January, 1919, and ending with the month of April, 1932.

CREDIT EXPANSION—ARTICLE BY CLARENCE POE

Mr. GEORGE. Mr. President, I desire to have inserted in the RECORD an article by Clarence Poe, president of the Progressive Farmer-Ruralist Co., dealing with the question of credits. Without approving the remedies suggested in full, the article is worthy of careful consideration.

The VICE PRESIDENT. Without objection, leave is granted.

The article is as follows:

[From the Progressive Farmer-Ruralist, May 1–14, 1932]

THE FIGHT FOR "HONEST MONEY" NOW FEATURES THE WORLD'S NEWS

(By Clarence Poe, president the Progressive Farmer-Ruralist Co.)

If the average well-informed American citizen could speak to our average Senator or Representative in Washington, we believe he would say something like this:

"The plain people of America are pleased with the seriousness with which you are going about your work.

"You did well in passing the Reconstruction Finance Corporation act.

"You did well in passing the Glass-Steagall Currency Expansion Act.

"You did well in killing the sales tax and substituting higher income and inheritance taxes, etc.

"You are doing well in promoting governmental economy.

"You will render all America a magnificent service if you pass the proposed plan for guaranteeing bank deposits.

"Yet no one of these things, nor all of them combined, can restore prosperity until you provide for two other things:

"1. Either so increase prices of cotton, wheat, tobacco, and other commodities or so deflate the dollar that our colossal debt burden can be paid off with dollars of the same value that dollars possessed when these debts were created, and

"2. Provide for a genuinely stable system of money from now on."

Since this issue will definitely present itself to Congress this month, we wish briefly to review the outstanding facts involved.

I. HOW DEFLATION HAS DOUBLED FARM DEBTS

Every Congressman and Senator knows how tremendously all forms of debt have increased in the last 15 years—Federal debts, State, county, municipal, and private debts; debts to commercial banks, land banks, mortgage companies, and all financial institutions. And all these debts, public and private, have practically doubled because of the increased value of money. As National Master L. J. Taber of the National Grange has pointed out, if a farmer made a debt so recently as 1930 it now takes 77 per cent more farm products to pay the principal of the debt than then; and Mr. Taber has compiled the following table showing in terms of what the farmer has to sell, just how much he now has to pay in the form of farm products for each $100 borrowed (or each $100 of debt incurred) in any of the years indicated in the table—in principal alone besides increased interest:

Year $100 borrowed:	Present amount
1930	$177
1929	202
1928	208
1927	209
1926	196
1925	217
1924	215
1923	200
1922	197
1921	180
1920	230
1919	333
1918	308
1917	291
1916	225

There can be no economic recovery that ignores this fundamental situation. As James C. Stone, of the Federal Farm Board, said recently:

"The fellow who is in debt and whose debt was created when commodity values were much higher than now has only three ways to get out. He can repudiate his debt because he can not hope to pay it when the commodity upon which he based the debt was then selling it for four times what it is now. For example, if a cotton grower borrowed money on his land when cotton was 25 cents a pound, it now takes five bales to pay the debt where it took only one when the debt was created—and it is impossible for him to produce five bales where he produced one then. The second way out for the farmer is for the price of the commodity to rise within a reasonable distance of where it was when that debt was created. The third alternative is in some way to provide cheaper money for him to pay his obligation. One of these three things is going to happen. We are going through the repudiation stage now and have been for several years. If that continues, it will be a long-drawn-out process and it will keep business and finances upset. A great many people think that is the natural normal way for it to adjust itself, but personally I do not. One of the other ways should be adopted, and I do not believe it will be necessary for us to go off the gold standard to do it."

II. BUSINESS MEN SUFFER EQUALLY WITH FARMERS

And not only is it impossible for agriculture to recover without either increased commodity prices or deflated debts, but the same thing is true of all business. From no farm leader, from no

spokesman of agrarian opinion, has Congress had any warning more emphatic or clear-cut than this voiced by the ablest organ of American business, the Business Week, of New York City:

"The only remaining road to recovery for ourselves and the world is by concerted and courageous action, through governments and central banks, to raise the commodity price level and reduce the value of gold to the level at which it was when the bulk of the world's public and private debt burdens were contracted. Otherwise universal bankruptcy, default, and repudiation are unavoidable."

III. THE FUNDAMENTAL DISHONESTY AND IMMORALITY OF OUR PRESENT MONEY SYSTEM

If "universal bankruptcy, default, and repudiation" were necessary as a result of following rigid rules of honesty and fair dealing, that would be one thing. But when all this disaster is the result rather of a fundamentally immoral and dishonest standard of values (or absence of standards), the situation becomes entirely different. When we reflect that all debts must really be paid in commodities, and when we find the financial committee of the League of Nations reporting that whereas in 1928 it took 100 units of commodities to pay a debt of 100 gold units, to-day it requires 170 units of commodities, we must agree that this is not only "the crux of the crisis," but presents a ghastly and flagrant perversion of essential morality. As C. V. Gregory says: "If Congress had passed a law in 1926 requiring every debtor to pay back $1.50 for every $1 he had borrowed, besides interest, we would have had a revolution. Yet that is what deflation has done. Suppose Congress had passed a law in 1926 doubling the size of the bushel basket or the number of pounds in a bushel, and had told us that in measuring our products to pay our debts, we must give the same number of bushels of grain, but measure it out in these new and enlarged bushel baskets! By failing to take action to stabilize the value of money, Congress has done what amounts to the same thing."

When such conditions prevail and when a man may pay and pay on the principal of a debt and still find himself owing the creditor more in goods and commodity values than at first, then the Government is simply permitting robbery under the sanction of law. As Dr. Irving Fisher, of Yale University, said in substance before a Congressional committee recently:

"Not only are we having a tragic liquidation of debts through foreclosures, etc., but it is a liquidation that does not liquidate. You may pay $300 on a $1,000 debt, only to find that you have increased your indebtedness to $1,100 in terms of commodities. So in spite of all that America has paid on its debts there has been no real liquidation since 1929. We are now in debt more than we were then in terms of what we have to pay with. We are told that the national debt has been reduced by 28 per cent, but that is an illusion. The remainder must be paid by taxes paid by the farmer and factory, in commodities. Instead of our debt being reduced from twenty-five billions to nineteen billions, it now stands at thirty-five billions in market-basket dollars—ten billions more than it was in 1924. Of America's gross debt we have liquidated fifty billions of two hundred billions indebtedness, but now find ourselves with a debt of two hundred and thirty billions in market-basket dollars. Some think that we are working our way out but we are working ourselves in."

IV. WHAT CAN CONGRESS DO ABOUT THE SITUATION?

If the commodity price level of 1920–1930 can be restored and thereafter steadily maintained wholly by Federal reserve action, good and well. But millions believe that it is going to be necessary to provide that hereafter the quantity of gold in our standard dollar shall be increased or decreased so as to equal the average 1920–1930 purchasing power of a dollar. This could be done by storing gold bullion in the United States Treasury and issuing not coin but certificates against it—just as is now done with our silver certificates.

After the tragic experiences America has just been through, all enterprises will lag, all business will halt, all enterprise will be frightened, all development will be checked if every man on the farms and in business must make future plans with no assurance as to whether the dollar at pay time will be worth 50 cents, $1, $1.50, or $2 in commodity values. On the contrary, if as a result of this depression Congress will for all future time provide two such measures as are now under consideration—(1) Government guaranty of bank deposits and (2) a stable currency system based on average 1920–1930 commodity prices—then both American agriculture and American business can at once go forward to an assured and permanent prosperity.

PRESENTATION OF BUST OF GEORGE WASHINGTON TO ARIZONA

Mr. ASHURST. Mr. President, I ask leave to print in the RECORD the dedicatory address of Hon. C. O. Case, superintendent of public instruction of Arizona, and the response thereto of Gov. George W. P. Hunt upon the presentation to the State of Arizona of a bust of General Washington by the United States Commission for the Celebration of the Two Hundredth Anniversary of the Birth of George Washington, on April 30 last.

The VICE PRESIDENT. Without objection, it is so ordered.

The addresses are as follows:

ADDRESS OF C. O. CASE, SUPERINTENDENT OF PUBLIC INSTRUCTION FOR ARIZONA

Firesides endangered, human rights imperiled—the intensity of intangibles—stir armies to victory.

In the Revolutionary War, Americans, inadequately armed, suffered from want of food and clothing; but, fighting for a principle, surprised and captured the hired Hessians, who, with nothing to fight for, were celebrating their pay day in a night of drunken debauch.

Washington, trained only in the military tactics of the frontier, was "first in war" because he shared preeminently with the men he led their faith in that for which they fought, their dauntless courage, their deathless dream of right, triumphant.

Washington, also "first in peace," in the discharge of civic duty, was the leader of men whose ideals have made this Nation great.

Leading the armies that won America independence, presiding in the convention that adopted the Federal Constitution, serving as first President of the United States, retired, a private citizen at Mount Vernon, Washington was ever "first in the hearts of his countrymen." Enshrined, he will always hold that place in our hearts.

We have reached a new historic milestone, the two hundredth anniversary of the birth of George Washington. In celebrating this anniversary we celebrate the birth of new ideals in government, rekindle the camp fires of Valley Forge, renew acquaintance with the best and most enduring in the Republic that Washington helped to establish.

The present is the past. The living present is such part of the past as is kept alive by appreciation and proper recognition. Personalities like that of Washington live, participating potentially in public life if a nation in its attitude will permit them. When national indifference to them prevails and appreciation becomes dormant or stinted, national decline has begun.

Down the centuries, establishing monarchies, obliterating republics, with the stride of a giant, came the force of an idea, decreeing with despotic favoritism, that a few should be kings and the rest slaves. It was a fatal day for that idea when Washington was born, for coincident with his birth there came to the hearts of the pioneers of America the resolute conviction that "all men are created equal" under the law.

Two hundred years have passed. The faith of the common people has become the "divinity that shapes" the ends of government, establishing republics, obliterating monarchies.

On the 30th day of April, 143 years ago, with the beauty of a new-born flag, floating in pride and confidence above him, George Washington took the oath of office as first President of the United States. That flag still floats, exultant with hope, and the unfailing integrity with which that first inaugural pledge was kept pleads to-day at the bar of public sentiment that popular government may never permit the American colors to be pulled down and disgraced by the disloyal hands of broken promises.

In celebrating the bicentennial of the birth of Washington we are honoring a name that is now immortal. We are renewing a promise that those principles in our government that are worthy of immortality will be perpetuated.

Governor Hunt, the United States Commission for the Celebration of the Two Hundredth Anniversary of the Birth of George Washington is, with splendid patriotism and cooperation, presenting to you, our governor, for the State of Arizona, a bust of Washington. This gift and its acceptance are a manifestation, timely and appropriate, of understanding and harmony between State and Federal Governments.

I have been appointed by the United States Commission to act as its representative in presenting to your excellency this patriotic memorial, an expression of the desire of our State and Nation to honor and cherish the memory of Washington.

REMARKS OF GOV. GEORGE W. P. HUNT, OF ARIZONA, ON THE OCCASION OF THE PRESENTATION TO THE STATE OF ARIZONA BY THE NATIONAL BICENTENNIAL COMMISSION OF A BUST OF GEORGE WASHINGTON ON APRIL 30, 1932

To me Washington's career is an inspiration because of his courage and fortitude. Perhaps Washington was not as brilliant as Hamilton, as humane as Jefferson, or as versatile as Franklin, but he was preeminently brave. Morally and physically he had the supreme courage of his convictions, and I believe courage to be the first requisite of a public servant.

His eight years in the Presidency might have been equally well served by others had they possessed the confidence needed by the people in the head of a new government, but his seven years' struggle for independence made him immortal.

He knew that a quibbling Congress was delaying needful action; that the wealthy and prominent colonists were Tory and considered him not only a traitor to his King but to his class and associates; that more Americans were frequently enlisted in the British service than under his flag; that jealous underofficers were engaged in a Conway cabal to supplant him in command, but for seven long years he took his punishment and when his opportunity came he was ready for it. He purchased our liberty at a price that insures a high value on independence.

Washington detractors, by making him human, have but raised the eminence to which we, other humans, can aspire. History may forget popular leaders, but it does not permit the valiant champions of unpopular but righteous causes to remain in obscurity.

America is fortunate to have had such a man as her first President, because as long as our children emulate him, this Nation will go forward to a justified perseverance.

AGRICULTURAL SITUATION IN THE WEST

Mr. CAREY. Mr. President, I ask unanimous consent to have inserted in the RECORD a letter which I have received with reference to the agricultural situation in the West, and from which I have deleted a portion, together with the name of the writer. I feel that the letter contains much valuable information which should be transmitted to the Senate.

The VICE PRESIDENT. Without objection, it is so ordered.

The letter is as follows:

DENVER, COLO., *May 6, 1932.*

Hon. ROBERT D. CAREY,
Washington, D. C.

DEAR SENATOR CAREY:

* * * * * * *

Since February I have been at meetings of various kinds in the Dakotas, Washington, Idaho, Utah, Wyoming, Colorado, Oklahoma, and New Mexico. I find there is no general western agricultural problem nor sentiment. Thought by the individual farmers or stockmen is largely based on the condition of the market for the commodity in which they are interested.

There is, however, a general trend to be noted in the expressions heard everywhere on the political, economic, and financial questions. Debts created on the former high commodity price levels and the heavy county and State taxes on tangibles are the two principal causes of irritating and depressing mental attitudes by those involved. These are common problems.

As to farm debts, and irrespective of the governmental or other aid for these conditions, I find two plans are slowly crystallizing in the minds of farmers to cast off these burdens. One is for the calling together of a joint meeting of banking and merchant creditors with the farmer debtors in county or possibly larger areas for a frank discussion of the untenable situation. The thing that is in the minds of those proposing this idea is a scaling down of debts made on the former higher price levels. It would mean practically a compromising of the debts on a percentage basis as is frequently done in commercial life by retail or wholesale dealers with their creditors to avoid receivership or bankruptcy. It is predicated on the fact that not only are commodity prices on a much lower basis but the capital structure of practically all business is liquidated to the bone as indicated in quotations on the stock exchanges and the smaller, or lack of, dividends of corporations. Such a reduction in farm assets it is felt must also be recognized.

The second idea that I occasionally hear discussed is more drastic in its action to relieve the farmers' debts. It is to take advantage of the national bankruptcy laws. This has always been repugnant to the agricultural classes although relatively common in commercial business. I would not say that this idea has been encouraged by banking and insurance interests in the big centers but apparently it is not seriously opposed.

A typical illustration of a farmer's condition is as follows:

He has a first mortgage on the farm. Often a second mortgage secures a local loan. The local banker will hold either a personal or crop-loan note. Three to five machinery people have notes on file. In addition local merchants have open accounts for supplies, prices of which due to credit extended often run 25 to 50 per cent higher than cash prices. One instance I know of is of tractor gasoline billed at 35 cents, when the season's cash price was never over 20 cents.

In cases where discouraged farmers have broached the subject of throwing up their whole business under such handicaps, certain first-mortgage holders have suggested that the bankruptcy act could be taken advantage of; homestead and household exemptions, which can not legally be signed away, could be claimed, and thus they can run on a clean slate for another year. In the meantime the first-mortgage owner would bid in the farm and lease it back to the original owner, the inference being that at a later date he could buy it back on easy terms. (One instance in Idaho I ran into was of two adjoining farms, only fairly well improved, on both of which an insurance company had loans. The latter foreclosed one mortgage of $4,000 and was offering the property at $3,500. The neighbor had a $4,000 loan also, along with a lot of other debts, and was seriously considering throwing up his place and buying in the adjoining land at $500 less than either mortgage.)

The above two plans are not in universal thought among farm debtors as yet, but are in process of development in certain sections. Should they result in action and spread, it would certainly play havoc with local business men and bankers who are listing a lot of this top-heavy debt as assets.

As to agricultural or farming conditions and plans:

Due to relative scarcity of durum and spring wheat last year and very fair prices as a result mainly of drought and grasshoppers, I note a greatly increased intention to plant wheat in the Northwest. There will be a decrease in flax. In many other sections farmers are starting spring work in a disheartened and despondent state of mind. The potato men in the Yakima, Walla Walla, Idaho, Colorado, and Red River sections all are that way, yet they are planting potatoes again. Practically all fruits and vegetables were in oversupply last year, but crops of these are going in everywhere. Onions were the high-priced article of 1931, and farmers are almost universally responding to price and are plunging heavily on them. Seed is almost impossible to obtain, the demand is so great. I saw letters from Kalamazoo, Mich., in New Mexico wanting onion seed or plants. At a conference at Santa Fe, N. Mex., of western men we were told that the estimate is for 300,000 tons of canning peaches in California this year. Last year's canned storage is heavy, and canners will only contract 100,000 tons, so two-thirds of the crop is to be wasted. Numerous other crops are in the same situation.

Here in Colorado and in your State the lack of a minimum price for sugar beets is causing a lot of worry and actual distress among tenants and labor. Yet plantings are going on irrespective of the bad trading position growers will be in this fall in trying to sell to one buyer. They hope "something will turn up" to clarify the sugar situation. In Oklahoma, Texas, and eastern New Mexico cotton is being planted in a half-hearted, discouraged way, as losses were real last year and the heavy carry-over portends a weak situation again. Winter-wheat fields down there generally look bad, but as last year's surplus is still a weight on the market, growers expect only small gross returns for the current crop, although the lighter crop will doubtless aid in reducing the surplus. It will, however, bring little money into the different regions and it is very questionable whether many farmers can stand another light-income year.

Water, either subsoil moisture or snow in the mountains, for irrigation is in good supply in all but a few small areas. From a production point of view prospects haven't been better, in the main, for a number of years.

As to livestock, it has been a bad winter; feed was scarce, as was money to buy it, so lots of stock had a pretty tough time and there were heavy losses.

Except where overwhelmed with debts or with $8 loans, the sheepmen as a class are the most hopeful for the future of any that I have met. They point to the fine distribution of the entire lamb crop last year, even if at low prices. They believe the total number of ewes shown January 1, which included the culls of two years in many flocks, would show a sharp decrease if counted as of June 1, due to winter losses. Around 75 per cent of the ewe lambs of 1930 and over 85 per cent of the ewe lambs of 1931 were sold by owners in order to get money, so it is estimated that average ages of ewe bands have risen over one and one-half years. This will mean enforced replacement or else going out of business in a year or two. Wherever possible to finance operations, I believe you will see a lot of ewe lambs held back this fall. This holding will reduce supplies of market lambs and prices, which, while low, are very buoyant, will rise—it is fondly hoped by sheepmen—and they will be on their feet again. They believe that a market which could absorb the increased number it did the past year in the face of seriously declining purchasing power will respond rather broadly not only to a shorter total lamb crop but to reduced market numbers due to these replacement needs.

The beef-cattle men in general are in the attitude of sailors riding out a storm. There is little husbandry trouble within the industry, their serious price situation being due to restriction in labor demand for a supply of meat of only normal tonnage. Sales at younger age and lighter weight are absorbing more numbers in a given tonnage when compared to 10 years ago. So, although they are at present hard pressed, they are in a good statistical position to take advantage of the if and when of industrial movement.

I am writing you all of this as my personal observations and am not interested in politics. But the latter is cropping out in one or two governmental activities. The main one is in the use of the so-called reconstruction money, or at least that part of it assigned to agricultural aid. I mean in the way it is being considered by recipients. Farmers who even in distress were too proud to accept of the drought, seed, and feed emergency loan appropriations feel that the new funds are political in character and that they might as well get their share of the distribution. They are aided and abetted in this by local business men. "The big corporations, banks, loan and insurance companies, and railroads are getting theirs; this is what was allotted to us so we might as well have it" is the attitude in many instances.

The livestock interests, however, in some sections are arising in wrath at the terms and conditions being forced on them through the operations of the newly set up livestock loan companies to use the reconstruction money. These companies, whose principals are often local bankers, are forcing borrowers to put up 10 per cent of their loan for capital stock in the companies, in most cases as a cushion for bad loans formerly made by the local bankers and over which the conservative borrowing stockmen have no control. Also, it is stated that banks are shoving the loans of customers, as they come due, off onto the loan companies whether the stockmen want to go or not and at additional cost. It is claimed that while the face of the paper shows 7½ per cent interest, actual operations, inspections, deductions, etc., will run the costs to the prohibitive figures of 15 to 18 per cent per annum for actual use of money for around 18 months. The 10 per cent investment required is not to be paid back when the conservative loan is repaid but is held until all loans are liquidated and assumes its share of the loss for irresponsible loans. I saw one actual loan worked out which shows over 17 per cent costs for the money on a fair loan forced out of a local bank.

You may already have heard of some of this discontent with the treatment which stockmen claim they have had; as I under-

stood protests were being drawn up to go either to your body or to the heads of the Reconstruction Finance Corporation.

This communication is entirely too long. However, you asked me for a report on western conditions which takes in a lot of items.

Yours truly, ——— ———.

CALL OF THE ROLL

Mr. FESS. Mr. President, I suggest the absence of a quorum.

The VICE PRESIDENT. The clerk will call the roll.

The legislative clerk called the roll, and the following Senators answered to their names:

Ashurst	Coolidge	Johnson	Sheppard
Austin	Copeland	Jones	Shipstead
Bailey	Costigan	Kean	Smoot
Bankhead	Couzens	Kendrick	Steiwer
Barbour	Davis	Keyes	Stephens
Bingham	Dickinson	Logan	Thomas, Idaho
Black	Dill	McGill	Townsend
Blaine	Fess	McKellar	Trammell
Borah	Fletcher	McNary	Tydings
Bratton	Frazier	Metcalf	Vandenberg
Broussard	George	Moses	Wagner
Bulkley	Glass	Norris	Walcott
Bulow	Glenn	Oddie	Walsh, Mass.
Byrnes	Goldsborough	Patterson	Walsh, Mont.
Capper	Hale	Reed	Watson
Caraway	Hastings	Robinson, Ark.	Wheeler
Carey	Hayden	Robinson, Ind.	
Cohen	Hebert	Schall	

Mr. SHEPPARD. I desire to announce that the Senator from Okahoma [Mr. GORE], the Senator from Nevada [Mr. PITTMAN], the Senator from Texas [Mr. CONNALLY], the Senator from Oklahoma [Mr. THOMAS], and the Senator from Tennessee [Mr. HULL] are absent on official business.

The VICE PRESIDENT. Seventy Senators have answered to their names. A quorum is present.

INCREASE OF BANKING FACILITIES

The Senate resumed the consideration of the bill (S. 4412) to provide for the safer and more effective use of the assets of Federal reserve banks and of national banking associations, to regulate interbank control, to prevent the undue diversion of funds into speculative operations, and for other purposes.

Mr. GLASS resumed and concluded the speech begun by him yesterday. The speech follows entire.

Monday, May 9, 1932

Mr. GLASS. Mr. President, some time back the Senate unanimously passed a resolution known as Senate Resolution 71, and I now desire to invite the attention of the Senate to the text of it. It resolved that—

> In order to provide for a more effective operation of the national and Federal reserve banking systems of the country, the Committee on Banking and Currency of the Senate or a duly authorized subcommittee thereof be and hereby is empowered and directed to make a complete survey of the systems, and a full compilation of the essential facts and to report the result of its findings as soon as practicable, together with such recommendations for legislation as the committee deems advisable.

I desire to invite particular attention to this sentence of the resolution:

> The inquiry thus authorized and directed is to comprehend specifically the administration of these banking systems and respect to the use of their facilities for trading in and carrying speculative securities, the extent of call loans to brokers by member banks for such purposes, the effect on the system of the formation of investment and security trusts, the desirability of chain banking, the development of branch banking as a part of the national system, together with any related problems which the committee may think it important to investigate.

The resolution was a modification of a more elaborate resolution proposed by the junior Senator from Utah [Mr. KING].

In obedience to that unanimous action of the Senate, the Committee on Banking and Currency set up a subcommittee of five members with jurisdiction of all the questions propounded in Senate Resolution 71. The subcommittee in January and February of last year instituted extensive hearings on every phase of the banking problem as comprehended in the resolution. The committee brought here banking experts and economists and textbook writers, and heard, in addition to the persons summoned, all responsible bankers or technicians who expressed a desire to be heard. The committee covered the entire field of existing banking, and made a searching inquiry into proposals for modifications of the banking laws.

In addition to these hearings the experts of the committee prepared sweeping interrogations which were sent out to several thousand of the more or less important banking institutions of the country, including, of course, all of the Federal reserve banks and all of the member banks of the Federal reserve system, as well as many of the more important banks outside of the Federal reserve system. The committee thus acquired perhaps the most extensive information on banking problems of any theretofore assembled by any committee of the Congress. These data we searched with the utmost diligence and scrutinized in all their varying phases.

Perhaps it might be somewhat interesting to the Senate in this connection to give a little of the background of the Federal reserve banking system. Before the adoption of that system, as all Senators will recall, we had an utterly inadequate banking system in this country, the national bank currency being based on the bonded indebtedness of the United States, and State banks being precluded from all issue by a prohibitive tax of 10 per cent.

In those days the bonded indebtedness of the United States, somewhat less than $1,000,000,000, measured, with a limited supply of Treasury bills, the entire possible volume of outstanding currency. In time of stress a national bank in any given community could only issue such amount of currency as would measure the volume of its bonds having the circulation privilege impounded with the Comptroller of the Currency in Washington. Although the demands of that community, commercial and industrial, might be for currency aggregating $10,000,000 or more, if the national banks in that given community had impounded with the Comptroller of the Currency only three or five million dollars of United States bonds they could issue only that amount of currency.

Then we had a system of pyramided reserves, the reserve of a bank being, as it were, an index, a thermometer, to the bank itself, as to its patrons, of the solvency of the bank. Under then existing law an interior bank, known as a country bank, might carry a part of its reserve with a bank in a reserve city, and the bank in the reserve city, in turn, might carry a greater proportion of its reserve with a bank in a central reserve city. Thus the reserves of the country were pyramided, and did not furnish an accurate, enlightening index of the solvency of the banking community.

Moreover, under the old system, a practice, not now altogether abandoned, grew up of not only sending these reserves in a pyramided form to the money centers but of sending all the surplus funds of an interior bank to the money centers at a nominal rate of interest, usually about 2 per cent.

I have often said that the banking business of the country was the only business of which I had any knowledge that refused to be governed by the law of supply and demand. In other words, in lax periods, when credit was abundant and currency likewise, few if any of the unit banks would give their industrial and commercial patrons the benefit of that situation. Rather than reduce what they termed their standard rate, whatever it might be—6 per cent in some communities, 7 per cent in others, and as high as 12 per cent in some of the States—rather than "demoralize," as they termed it, their standard rate of interest, they would bundle up their surplus funds and send them to the money centers at a 2 per cent rate; and thus sent to the money centers the banks there must make use of them, for naturally they would not permit them to remain idle drawing the nominal rate of 2 per cent. The use they made of them was "on call." They used the idle funds of the whole banking system of the United States largely for stock speculative purposes on the market.

When business should become active, when credit should become in urgent demand, when local banks must respond actively and at times urgently to the local demands of credit, they in turn would seek to withdraw their reserves and their other deposits from the banks in the money centers. Inter-

est rates on call thereupon would rise and rise and rise, until finally disaster would overtake the entire banking community. The banks in the money centers found themselves unable to respond to the demands of the country banks throughout the Nation.

The country banks then were forced to preclude loans for local commercial and industrial purposes, and as the difficulty thus became accentuated the interior banks found themselves unable to respond to their checking balances and depositors found themselves unable to withdraw their funds on deposit with their local banks. That meant that throughout this Nation wherever there was an institution known as a clearing house the banks in that state of organization would get together and severally and unitedly issue what were known as clearing-house certificates, to be used instead of the ordinary currency. It was an utterly illegal and irregular expedient, but the banks were compelled to resort to it in order to avert a complete breakdown and in order to avert a complete stoppage of business. Thus every decennial we would have what was known as a "financial panic" in the United States. The chief harm was not to the banking community by any means, because by these irregular expedients the banking community protected itself; but the almost irretrievable disaster frequently was to the business interests of the country, to industry, to commerce, to the man behind the plow, to the laborer in the factory, and everywhere.

The last recurrence of a disaster of this kind eventually prompted the Congress of the United States to adopt what is now known as the Federal reserve act. We sought by that legislation to withdraw the reserve trust funds of the country from the money centers, from use in "speculation," as some politely term it, but "stock gambling" as I have no hesitation in describing it, and to impound them in 12 regional banks for commercial and industrial uses and not for stock-speculative uses.

We had hoped that in thus withdrawing the reserve funds and distributing them throughout the country in these regional banks we would set an example that would readily be followed by the country banks. We regarded it as a banking declaration of independence. We undertook to rescue the country bank from involuntary servitude to the great banks in the money centers. But we failed to do that; they are still in involuntary servitude, and right now, as I am receiving telegrams of protest from the money centers against a proposition to have branch banking in the national system, the very bankers who are sending the telegrams know perfectly well that some large banks have as many as 4,000 correspondent banks throughout this country which are in involuntary servitude to them. By granting the correspondent banks privileges and giving them accommodations which they may obtain, if they would obtain them, at their respective Federal reserve banks, the banks in the money centers know that they put them under obligation, so that "advice" from a great bank in a money center usually amounts in the last analysis to coercion; and the country to-day is witnessing the evil results of a system of that sort.

Mr. WATSON. Mr. President, will the Senator yield?

Mr. GLASS. I yield.

Mr. WATSON. Is not that the very method that was used in order to induce the correspondent banks to take many of these foreign securities?

Mr. GLASS. That is just what I am about to say. The Senator anticipated me.

It was because of that system of involuntary servitude that the great banks in the money centers choked the portfolios of their correspondent banks from Maine to California with utterly worthless investment securities, nearly eight billions of them being the investment securities of tottering South American republics and other foreign countries.

Incidentally, I may remark that the State Department is largely culpable for the extent of these worthless loans. It assumed, without sanction of law and without precedent of any sort, the impossible function of passing upon foreign loans. A little clerk up there, devoid of facilities of examination or of inquiry or of estimation, undertook to say whether a foreign loan was acceptable or unacceptable to this Government, with the result that these foreign investment securities would go into the open market practically with the imprimatur of this Government upon them in competition with sound domestic loans seeking credits for purpose of promoting our commerce and our industrial life.

I say the State Department is largely responsible for its part in promoting credits of this kind; and this notwithstanding the Senate by unanimous vote, without a word of dissent, passed a resolution expressing it as the sense of this body that the State Department should desist from this evil practice. The newspapers the next day announced that the Secretary of State would pay no attention to the expressed conviction of the Senate; and it pursued the lawless practice with just such revelations as we had before the Finance Committee of the Senate.

But to get back to the Federal reserve system, if anything was made plain in the spirit and the text of the act, it was that the Congress intended that the reserve trust funds of the Federal reserve system should never be used for speculative purposes.

Mr. NORRIS. Madam President——

The PRESIDING OFFICER (Mrs. CARAWAY in the chair). Does the Senator from Virginia yield to the Senator from Nebraska?

Mr. GLASS. I yield.

Mr. NORRIS. I desire to ask the Senator if in the investigation of the committee any evidence was adduced that not only the State Department but the Treasury Department had been instrumental to some extent, through its examiners or otherwise, in inducing so-called country banks to make the investments the Senator has mentioned?

Mr. GLASS. I do not know that we took testimony upon that particular point; but I do know that a few days ago my attention was called by a letter from one of the most responsible bankers in Virginia to the fact that an official of the Federal reserve system itself had issued a letter, over his name as an official of a certain Federal reserve bank, promoting an investment stock.

Mr. NORRIS. Madam President, will the Senator yield further?

Mr. GLASS. Yes; I yield.

Mr. NORRIS. I am induced to ask the question because a great many bankers in my section of the country have told me that that was true. Those who were stockholders in banks that failed mainly on account of investments of this kind have told me likewise that it was almost a common practice for the national-bank examiners to advise the banks to make investments of this kind rather than to loan their money to farmers in the community, where, as they claimed, the loans would lack the liquidity that they otherwise would possess if the banks invested in the stocks and bonds mentioned.

Mr. GLASS. I myself have heard that bank examiners were not at all averse to giving advice not only to banks but to individuals as to how they might, in view of the bank examiner, better invest their funds. I assert, however, that nothing in the Federal reserve act is plainer than the expressed intent of the Congress that no longer should the reserve funds of this country and the accumulated assets of the Federal reserve banks be used for speculative purposes.

Under section 13 of the act it is provided that—

Upon the indorsement of any of its member banks, * * * any Federal reserve bank may discount notes, drafts, and bills of exchange arising—

How? Out of speculative transactions? Never!

Arising out of actual commercial transactions; that is—

In further explanation—

notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes.

That is what these credits were to be made for; and the act charges the Federal Reserve Board with the exclusive

right to determine or define the character of paper thus eligible for discount within the meaning of this act.

There is the affirmative side of the law, stating textually what these credits are to be set up for. There is, however, a negative side of the proposition:

Nothing in this act contained shall be construed to prohibit such notes, drafts, and bills of exchange, secured by staple agricultural products, or other goods, wares, or merchandise from being eligible for such discount, and the notes, drafts, and bills of exchange of factors issued as such making advances exclusively to producers of staple agricultural products in their raw state shall be eligible for such discount.

Thus far, we see, the act provides what may be eligible and only what may be eligible for rediscount at the Federal reserve banks. Then, however, it proceeds a step farther, and puts its negation upon speculative credits:

But such definition—

That is, the definition to be made by the Federal Reserve Board exclusively—

Such definition shall not include notes, drafts, or bills covering merely investments or issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Government of the United States.

I can not conceive that anything in a Federal statute could be made plainer than the intent of Congress to provide against the use of Federal reserve facilities, directly or indirectly, in stock-market speculative operations. So Senate Resolution 71 charged your Banking and Currency Committee particularly to investigate that aspect of the question, and to ascertain to what extent, if any, the Federal reserve banking facilities had been used for these speculative purposes. Thus, at the very outset, this bill, S. 4412, undertakes to deal with that question.

FEDERAL RESERVE SYSTEM TRANSFORMED

Not only has the Federal reserve banking system been used in an inordinate measure in stock-market transactions but there appears to have been an extraordinary misconception by the administrators of the act of its real purpose. In large degree the system has been transformed into an investment banking system, whereas the fixed purpose of Congress was to set up a commercial banking system and to preclude speculative operations. Your committee was even informed in writing recently that one of our assumptions embodied in a certain provision of the bill would be sound, would be feasible, based upon the supposition that member banks of the Federal reserve system rediscounted with the Federal reserve bank for the purpose of relending the funds thus secured. What else, I may ask, was ever designed than that process? The whole purpose of the act was to enable a member bank of the system, when it should have depleted its own liquid and ready resources in responding to the requirements of commerce and agriculture and industry, to take its eligible paper to its Federal reserve bank and get additional funds. And for what purpose? To respond further to the demands of commerce and industry. That is what was meant by the rediscount operation of the Federal reserve banking system.

Yet we are quietly told that that is not the process any longer; that the administrators of the law know perfectly well what the intent of Congress was, but that "the evolution of banking" activities has been such that no longer is that done to any considerable extent.

Let me tell Senators the meaning, and, in the last analysis, the result of that sort of administration of the law. It means that a member bank may engage in any sort of speculative business it may please, and then, when its reserve in the Federal reserve bank is impaired, it may take its eligible paper for rediscount and use the credit and the currency thus afforded to reestablish its reserve, and not to relend for "commercial, industrial, or agricultural purposes."

That is an evasion of the intent, the spirit, and text of the Federal reserve banking act. It never was intended that its facilities should be used for investment purposes, or for speculative purposes, in that roundabout way.

OPEN-MARKET OPERATIONS

We had an open-market provision in the Federal reserve bill. One has only to read the report made in 1913 to the House of Representatives on the bill as it passed and became a law to understand what the open-market provision of the bill was intended for.

It was intended for two purposes only: To enable the Federal reserve bank to enforce its discount rate against the acquisitiveness and greed of any member bank in its region, an authority somewhat akin to the practice of the Bank of England.

The other design of the open-market provision was to enable the Federal reserve bank to use its idle funds, not in a speculative venture, but to use its idle funds in a reasonably profitable way in order to cover its overhead, in order to pay its expenses.

I find that the average person, if not the average Congressman, is laboring under the hallucination that the expenses of the Federal reserve bank system are borne by the United States Government, and the Economy Committee at the other end of the Capitol actually proposes to "economize Government expenses" by cutting down the salaries of the members of the Federal Reserve Board, whereas the Government of the United States never spent a 10-cent piece toward the expenses of the Federal reserve banking system, never paid the salary of a janitor. The expenses of the system are paid by assessments upon the member banks; and how on earth we may "economize Government expenditures" by cutting down the salaries of the Federal Reserve Board I am unable to understand.

I have indicated what were the two purposes of the open-market provision of the reserve act, vehemently opposed by the large banks in the money centers, because, they said, it would bring the Federal reserve bank into competition with them in their ordinary business transactions.

What has happened? The rediscount feature of the system has practically been submerged by the open-market transactions in the large money centers, somewhat speculative, altogether of an investment nature, totally, I contend, unrelated to what were intended to be the normal operations of this great banking system.

For a period of six years one of the Federal reserve banks has apparently given more attention to "stabilizing" Europe and to making enormous loans to European institutions than it has given to stabilizing America. Accordingly, we have a provision in this bill asserting, in somewhat plainer terms, the restraint the Federal reserve supervisory authority here at Washington should exercise over the foreign and open market operations of banks which may assume to be a "central bank of America."

We did not think that we were having a central bank. We thought we were having 12 regional banks. The operations of the bank particularly referred to were so extensive in the European field that it found itself liable for hundreds of millions of dollars of foreign acceptances which could not be collected, which had to be renewed at maturity—just a sort of a revolving fund—absolutely foreign to the intent, and, as I contend, to the text of the Federal reserve act.

For a long time that great bank resisted any suggestion—and it does now—that it should be brought within the actual jurisdiction of the central authority here at Washington. At one time it was so—and I think it is now—that all Europe regarded this Federal reserve bank as "the central bank of the United States." When its governor would go abroad he was accorded the privilege of an office and a clerical staff in the Bank of England, and he was spoken of as the "governor of the central bank of the United States." In turn, when the governors of the Bank of England and the continental central banks would come here they came by invitation or notification to the governor of this one Federal reserve bank. Two members of the Federal Reserve Board once told me that the only contact this central supervising power at Washington ever had with one of these foreign central bank presidents was by courtesy of the governor of this particular Federal reserve bank.

There is not a word in the law which provides for a "governor" of a Federal reserve bank. The statute will be searched in vain for any suggestion of a "governor" of a Federal reserve bank.

While we intended to preclude all idea of central banking, we designed that the Government, through its agencies, should keep a strict supervisory control of the system, and we appointed a Government agent, one of three of the Government directors at the Federal reserve bank, who should be the presiding officer, and whom we intended to be the head officer of the bank. He has been literally brushed aside. He is a mere custodian of evidences of credit. They have set up in each of these banks a government of their own.

For a while this "board of governors" came well-nigh usurping important functions of the Federal Reserve Board here in Washington. They would have their meetings at their pleasure and convenience, resolve this, that, or the other thing, and graciously let the supervising authority here know what they had done. It was proceeding so far that the Federal Reserve Board was threatened with the humiliating status of "unofficial observers" of the transactions of the Federal reserve banking system. Finally the governor of the board here had the discernment and the courage to put a stop at least to that sort of thing, and served notice on them that they should meet only when the board required them to meet, and upon the sanction of the board.

The system has been transformed. The open-market operations of one bank alone have practically submerged the rediscount phase of banking. In their open-market operations they have never bought a dollar of commercial paper. They have made no effort to establish and foster a market for commercial paper which might be bought in the open, and thereby made more valuable than it otherwise might be. They have bought investment securities. They have bought by the millions United States bonds for which they have no use, and are doing it to-day in a futile effort to "control prices." They have about as much prospect of controlling prices as I would have of taking a broomstraw and sweeping Niagara upstream. They may improve the liquidity of certain banks in the money centers and thereby abate fears of withdrawals. The theory appears to be grounded in the fanciful expectation that these great banks are philanthropically going to let some measure of resultant prosperity drip down upon the interior banks of the country. I have not noted that this experiment has raised the price of a staple product one stiver. I can not do it unless these gentlemen have discovered something that nobody else on earth has ever discovered, and that is that manipulation of bank credits or legislative fiat can control the inexorable law of supply and demand.

SPECULATIVE BANKERS WANT NO RESTRAINT

These great speculative banks are opposed to sections 3 and 8 of the bill because they say we have no right to interfere with the independent operations of member banks or of the Federal reserve banks; that we have no right, more explicitly than the act now does, to put a stop to the use of Federal reserve facilities for stock speculative purposes. Under the 15-day provision of the existing act, 10 of the larger New York banks alone in 1929, over a period of six months, borrowed a billion dollars from the New York Federal Reserve Bank, with United States bonds as collateral security, chiefly for stock speculative purposes—not all at one time; I said over a period of six months—when they had no right to borrow a dollar for that purpose from the Federal reserve banks; it was contrary to the express provision and the real intent of the law.

To show conclusively that it never could have been the intention of Congress to authorize a stock-gambling use of Government bonds in that dangerous fashion, it need only be stated that when the Federal reserve act was passed there were less than $1,000,000,000 of United States bonds in existence. Of the amount outstanding, $748,000,000 of them were held by national banks for circulation purposes. Nearly all the balance was held in estates, by fiduciary officials, and by individuals. So that it is perfectly safe to say that there were far less than $100,000,000 of United States bonds outstanding that might be used for rediscount purposes at the Federal reserve banks. I would think less than $50,000,000 that might be used for that purpose. And yet, here 10 large banks in New York, over a period of six months, were using $1,000,000,000 of them for speculative purposes. The bill proposes to put a stop to that practice, and if it does not do that, it is not worth the paper upon which it is written and I would be willing to cast it in the scrap basket.

Mr. BORAH. Mr. President, section 3 and section 8 are the sections to which the Senator has been referring?

Mr. GLASS. Yes.

A GENERAL DESCRIPTION

Briefly now, in explanation of the bill itself, the first two sections simply deal with the title of the act and the definitions particularly of the banking facilities. Section 3 of the act puts a requirement upon Federal reserve banks to acquaint themselves with the condition of member banks and with the purposes for which member banks are using their funds and their facilities. I had the once governor of a great Federal reserve bank to tell me that he would not ask a member bank, seeking privileges at the Federal reserve bank, "what it was going to do with the money"; that he did not believe he had any right to ask a member bank what it was going to do with the money. It was his duty to know what the member bank was going to do with the money in order that the reserve bank might not make an irregular or illicit use of the Federal reserve facilities.

Neither a Federal reserve bank nor the Federal Reserve Board has any control over an individual bank so long as the individual bank is not seeking the privileges of the Federal reserve system; but the instant a member bank wants to recoup itself at the Federal reserve bank, it is the business of the Federal reserve bank to know the reason why. So that in this section we require a Federal reserve bank to keep itself informed and we require the agent of the Federal Reserve Board at that bank to keep the Federal Reserve Board informed. If at any time it shall appear that the member bank seeking the privileges of the Federal reserve bank is inordinately extended in stock-market transactions or unsound and unsafe loans, we empower the Federal Reserve Board, upon due notice and hearing, to suspend the facilities of the Federal reserve bank to that offending bank.

Mr. TYDINGS. Mr. President——

The VICE PRESIDENT. Does the Senator from Virginia yield to the Senator from Maryland?

Mr. GLASS. I yield.

Mr. TYDINGS. The Senator stated that many of the banks are opposed to section 3. Am I to understand they are opposed to section 3 because they object to letting the Federal reserve banks know why they want the money?

Mr. GLASS. They object to section 3 because it empowers the Federal reserve bank and the Federal Reserve Board to prevent the misuse of Federal reserve facilities for stock speculative and other illicit purposes. It is not any increased power that we are conferring upon the Federal reserve bank and board. They have the power under existing law; but there has been a division among them as to the interpretation of the law, and this section simply makes the intent plain and the authority peremptory.

Section 4 of the bill relates to the distribution of earnings. Although the Federal Government has never expended a dollar in the maintenance of the Federal reserve system and does not own one dollar of proprietary interest, it has collected in excess of $150,000,000 from the earnings of the Federal reserve banks upon the pretense that it was a franchise tax for privileges granted. Senators will find upon examination that the 12 Federal reserve banks do, without charge, a fiscal business for the United States Government that twenty times over compensates the Government for any privilege the Federal reserve banks may have. In fact, the only privilege a Federal reserve bank has from the Government is the privilege that national banks have possessed for more than 60 years, and that is the issuance of currency. Some institution has got to issue currency under severe espionage and restriction, and, of course, the Federal reserve banks are now doing that in conjunction with the national banks.

It was originally intended that national-bank currency, which was a bond-secured currency, inelastic and at times ruinous, should be retired and that the currency of the country should automatically issue upon commercial transactions such as the law authorizes, and automatically retire at the consummation of those transactions, meeting every possible business requirement promptly and completely, and retiring so as not artificially to inflate the credits of the country. The Federal reserve banks do a fiscal business for the United States Government that has never been paid for. The Government has not floated a loan since the beginning of the World War that it has not done it through the agencies and instrumentalities of the Federal reserve banking system.

We propose now a different distribution of the earnings of the system. We propose to pay the member banks 6 per cent cumulative dividends on their stock, as always has been done. Then we propose to transfer future earnings of the banks to surplus account. We propose to recapture from the Federal Treasury $125,000,000 of the one hundred and fifty million dollars and odd that has been paid into the Treasury, and pass it to the credit of a revolving fund for prompt liquidation of failed banks. Now, when a bank fails——

Mr. BLAINE. Mr. President, would it interrupt the Senator if a question were asked at that point?

Mr. GLASS. No.

The VICE PRESIDENT. Does the Senator from Virginia yield to the Senator from Wisconsin?

Mr. GLASS. Certainly.

Mr. BLAINE. I do not want to interrupt the Senator. I am sorry I could not be here for the opening of his remarks. The $125,000,000 to which the Senator refers as being "recaptured" is money that belongs to the Government of the United States?

Mr. GLASS. Yes; and ought not to.

Mr. BLAINE. It becomes necessary to make an appropriation out of the Federal Treasury to the extent of $125,000,000?

Mr. GLASS. Yes.

Mr. BLAINE. How does that proposal fit in with the administration's plan for economy and a balancing of the Budget?

Mr. GLASS. Well, I am not a part of the administration in its detailed arrangements about economy; I had not that in view. I had only the equities of the case in view. We wanted to establish a liquidating corporation to pay the depositors of failed banks with some degree of promptness and completeness; and this was a fund that we thought, in equity, ought to be recovered and adapted to that purpose.

Mr. BLAINE. But the $125,000,000 is money that actually belongs to the people of the United States, and now it is proposed to transfer that money to a liquidating corporation without any consideration whatever.

Mr. GLASS. The Senator from Wisconsin must not have been here when I undertook to show that the Government of the United States was never equitably entitled to a dollar of that fund.

Mr. BLAINE. But that is not the point. The point is——

Mr. GLASS. Of course, the Government has actual ownership of it now or we could not "recapture" it from the Government.

Mr. BLAINE. But whether or not the money came to the Government rightly has been passed upon by the Congress. Congress stated how this money must be paid into the Treasury.

Mr. GLASS. And now I want Congress to say we shall take it back and adapt it to a better purpose.

Mr. BLAINE. This is applying $125,000,000 of Federal money to a private organization known as the "liquidating corporation."

Mr. GLASS. Yes; to a private corporation, but for public purposes.

Mr. BLAINE. For public purposes, but not for a public purpose excepting for special banks and the depositors of those special banks.

Mr. GLASS. Well, I do not think it would be profitable for the Senator and I to enter into the technical distinctions involved. As a matter of fact, if the Senator thinks the proposal impinges upon the economy program of the administration, I may remind the Senator that the administration itself for the liquidating corporation proposed by it recommended $100,000,000 out of the Public Treasury.

Mr. BLAINE. I did not want to ask the Senator that direct question, but I am glad he brought it up, as I understood the administration, acting through the Secretary of the Treasury, had proposed or approved—whichever may be the case—that this $125,000,000 be transferred from the Public Treasury to the liquidating corporation. Am I mistaken or correct in that supposition?

Mr. GLASS. The administration recommended an appropriation of $100,000,000, another branch of the Congress proposes $150,000,000, and we thought that $125,000,000 would be about right. We propose to make that change in the earnings of the Federal reserve banks, still providing that the surplus funds of the banks shall not be diminished, but from time to time shall be replenished.

Mr. NORRIS. Mr. President——

The VICE PRESIDENT. Does the Senator from Virginia yield to the Senator from Nebraska?

Mr. GLASS. Yes; I yield.

Mr. NORRIS. Is it proposed that future earnings shall go into this fund instead of going to the Government as heretofore?

Mr. GLASS. No; future earnings of the fund will go into the surplus account of the Federal reserve banks. In other words, we propose to take $125,000,000 from the Federal Treasury, which we conceive to be a recapture of a part of a larger amount paid into the Treasury to which it was not entitled. Then we propose to take one-quarter of the existing surplus of the Federal reserve banks themselves and apply it to this fund; but hereafter the future earnings of the Federal reserve banks will go to the surplus fund of the Federal reserve banks and none to the Government.

Mr. NORRIS. And none to the revolving fund for the relief of depositors in failed banks?

Mr. GLASS. No; because we think the revolving fund, as we have set it up, is somewhat more than ample for that purpose.

Mr. NORRIS. It is the judgment of the committee that that fund will not need replenishing and that this money will be sufficient?

Mr. GLASS. That is true. We think it will be more than ample; and I may say that the Federal Reserve Board thinks it is excessive.

Mr. McKELLAR. Mr. President——

The VICE PRESIDENT. Does the Senator from Virginia yield to the Senator from Tennessee?

Mr. GLASS. I yield.

Mr. McKELLAR. May I ask if the bill is not a form of guaranty of bank deposits?

Mr. GLASS. No; the bill does not guarantee any bank deposits; it takes over the assets of failed banks, has them immediately estimated by competent actuaries, and, instead of waiting for a period of years—sometimes 10 or 12 years, though not often that long—instead of waiting an inordinate time, it takes over the assets by purchase or makes loans to the receiver, so that the depositors of failed banks may be promptly and, as completely as the circumstances permit, paid their money.

Mr. NORRIS. Mr. President——

The VICE PRESIDENT. Does the Senator from Virginia yield to the Senator from Nebraska?

Mr. GLASS. I do.

Mr. NORRIS. It is not contemplated, then, that any of this money will be used for the purpose of assisting failed banks excepting in so far as the money used will be secured and will not be liable for loss on account of the failure of a bank?

Mr. GLASS. That is true; yes.

Mr. NORRIS. In other words, it is not the idea of the bill or of the committee, as I understand, that the revolving

fund will be lessened or that it will take over any assets except such assets as are considered perfectly good?

Mr. GLASS. That is true; yes. The revolving fund will have, as we conceive, accretions or earnings, 70 per cent of which will go to the revolving fund and 30 per cent of which will go to the member banks as an additional dividend.

Mr. WAGNER. Mr. President——

The VICE PRESIDENT. Does the Senator from Virginia yield to the Senator from New York?

Mr. GLASS. Yes.

Mr. WAGNER. Perhaps I did not listen carefully. Is not also a contribution to be made of a certain percentage of the deposits of the member banks?

Mr. GLASS. I am about to refer to that.

Mr. WAGNER. I beg the Senator's pardon.

Mr. GLASS. In addition to the recapture of $125,000,000 from the Federal Treasury, and taking over one-fourth of the surplus fund of the Federal reserve banks, the bill makes an assessment of one-quarter of 1 per cent of the deposits of the member banks as a contribution to this fund. One call is expected to be made within 90 days after the passage of the bill, should it become a law, and the other call held in reserve, to be made if necessary; but the committee frankly does not think it will ever be necessary to make the second call.

Mr. NORRIS. That will make up a total fund of how much?

Mr. GLASS. These direct contributions to the revolving fund will make up a sum total of approximately $400,000,000—between three hundred and fifty and four hundred million dollars. I will ask the Senator from Delaware if that is not correct.

Mr. TOWNSEND. I think that is correct.

Mr. GLASS. In addition to that, we authorize the liquidating corporation to issue its own debentures to twice that amount. We do not think it would ever have to issue debentures, but the administration made a proposal of that sort in the measure suggested by it, and we took that over. Frankly, however, we do not think the corporation will ever have to issue its debentures, because we think the direct contribution is certainly ample, if not more than ample, for the purpose. As I have indicated, the governor of the Federal Reserve Board thinks it is excessive. Therefore there has been a suggestion that we make the assessment against member banks one-eighth of 1 per cent rather than one-fourth of 1 per cent. That is a matter for the decision of the Senate. As the committee reported the bill, it provides for an assessment of one-quarter of 1 per cent.

Mr. WAGNER. Mr. President——

The VICE PRESIDENT. Does the Senator from Virginia yield to the Senator from New York?

Mr. GLASS. I do.

Mr. WAGNER. The administration bill, so called, which attempted to set up the same type of liquidating corporation, did not provide for any contribution represented by a percentage of the assets of the member banks into the fund.

Mr. GLASS. No; it did not.

Mr. WAGNER. In that respect the pending bill differs from the administration bill.

Mr. GLASS. It differs in that respect, and it differs in another respect: The member banks are to receive 30 per cent of the earnings of the corporation, and, therefore, we did not think it would work any hardship upon them at all to make this assessment.

Now let me discuss that question for just a moment to show how utterly unreasonable some of the bankers are at times when they think their interests are affected. They were perfectly willing to agree to, or, if not perfectly willing, they were acquiescent in the proposition to contribute 2 per cent of their deposits or 10 per cent of their capital and surplus to the so-called National Credit Corporation in New York, over which they had not one particle of control; and yet they are caviling about contributing one-quarter of 1 per cent to this liquidating corporation, 30 per cent of the earnings of which will be returned to them. The fact of the matter is, I may say incidentally in passing—and I have a good many incidental comments to make—when things occur which excite the moral indignation of any man who considers them—we never would have had any National Credit Corporation in New York but for the fact that the people who were implored to organize it received assurances down here first that the corporation would be taken over by the Federal reserve banking system and that its frozen assets would be dumped en bloc in the lap of the Federal reserve banks. When it was found that some of us here in Congress would resist that to the bitter end, they were told the corporation would be taken over by the Reconstruction Finance Corporation, and that has practically been done. So all of this talk about the "great liberality and generosity" of the organizers of the National Credit Corporation disappears in thin air when the facts involved are scrutinized.

Mr. NORRIS. Mr. President, I think it would be profitable if the Senator would explain in a little more detail from what sources, if any, the revolving fund is going to derive an income. Is there anything in addition to the interest it might receive on the assets of the bank which might be purchased?

Mr. GLASS. No.

Mr. NORRIS. Can the Senator give us any idea as to what the income might be or would probably be from that source?

Mr. GLASS. We could only conjecture about it.

Mr. NORRIS. Of course, there would be some liability also; that is, losses might occasionally occur.

Mr. GLASS. Possibly; but I would not say that it is at all probable. The liquidating corporation would have experienced and capable actuaries, and it would immediately pay only a large measure of the losses to the depositors—not all of them. I think—and that was the considered judgment of the committee—that if they proceeded with anything like due care the corporation would be obliged to earn a substantial dividend for the member banks, and to carry to the revolving fund a substantial sum each year.

If we are going to have approximately within a thousand miles as many bank failures as we have had in the last two years, the corporation would get wealthy if it was managed with any degree of skill.

BANK AFFILIATES

Another problem that confronted your committee was the question of bank affiliates. That is going to be discussed in some detail by two of my colleagues, and I shall make just a passing reference to this aspect of banking.

The committee ascertained in a more or less definite way—we think quite a definite way—that one of the greatest contributions to the unprecedented disaster which has caused this almost incurable depression was made by these bank affiliates. They sent out their high-pressure salesmen and literally filled the bank portfolios of this country with these investment securities. They actually dealt in the stocks of the parent bank; and one of them notably offended by running the stock of a parent bank above 500, and a few days ago it was down to 42. They were organized to evade the law. That is the very purpose of their existence—to evade the national bank act and to do a business outlawed by the national bank act—and yet they are so interlocked that it is difficult to tell which is which.

Right here I am tempted to say to the Senate that a few days ago I came into possession of information that literally astonished me. I learned that one of the most distinguished lawyers at the American bar, at one time president of the American Bar Association, Solicitor General of the United States under President Taft, had given an exhaustive, searching opinion as to the legality of national-bank affiliates. I have read the opinion. Although not a lawyer, I venture to pronounce it a legal classic, searching and sweeping. The opinion is, in effect, an unmistakable declaration that national-bank affiliates are absolutely illegal, that they contravene the national bank act, that the parent bank contravenes the national charter, and the affiliate in many instances the State statute and the charter

of the State from which it derives its existence. Court opinion after court opinion of both inferior courts and the Supreme Court of the United States are cited.

No action was ever taken under this tremendously important opinion of the Solicitor General of the United States. Not only was no action taken, but it is within the confines of fact to say that the opinion was suppressed; and few things have ever happened in this country that better illustrate the power and the blandishments of inordinate wealth, because the opinion dealt with institutions and individuals who had accumulated inordinate wealth. Not only did the Attorney General at that time fail to act, but another Attorney General, some years afterwards, elevated to a place of even higher distinction, declined to permit the opinion to be made public; with what result? With the result that these institutions, declared by the Solicitor General of the United States to be engaged in illicit practices, were perhaps the greatest contributors to the riot of credit and inflation in 1928–29, with the result that the country is now almost in an irreparable condition.

I have gotten permission, of which I think I shall avail, to insert in the RECORD as a part of my remarks this opinion of Solicitor General Lehmann, which clearly discloses, to my mind, as far as I am competent to judge legal distinctions, that the activities of these affiliates are not only disastrous, as we now witness, but that they are absolutely illegal. Yet, although we give them three years, and most, if not all, the members of the committee are willing to give them five years, to separate themselves from the parent banks, to make a readjustment of their capital organizations, they are desperately trying to defeat that provision of the bill.

There was some difference of opinion in the subcommittee and in the general committee—and I want to deal with these various questions openly and frankly—as to whether we should permit national-bank affiliates to continue business under severe espionage and restrictions and requirements of examination and report, or whether we should require them to separate; and that is a question that the Senate must gravely consider. Some of us felt that perhaps it were better to let them continue in business with restrictions as to the loans they may make and restrictions in many other respects, together with the requirement that we have now in the bill that they must be examined periodically by the bank examiners and cotemporaneously examined with the parent bank, because it would be a very defective examination if made at a different time. Some of us felt that perhaps that would be a better restraint and restriction upon them than to separate them entirely and leave them to their own devices under State charter and State law. That the Senate must determine.

Mr. MOSES. Mr. President——

The VICE PRESIDENT. Does the Senator from Virginia yield to the Senator from New Hampshire?

Mr. GLASS. I do.

Mr. MOSES. In order to clarify the situation and get the chronology straight, the opinion of Solicitor General Lehmann to which the Senator has referred must have been rendered something like 20 years ago, if rendered when he was in office.

Mr. GLASS. Yes; but if it was good law then, it is good law to-day.

Mr. MOSES. Yes; but in the meantime the whole banking structure has been recast by reason of the creation of the Federal reserve bank system. At the time Solicitor General Lehmann rendered his opinion it was under the old national banking act; was it not?

Mr. GLASS. Yes; and under the present national banking act; and everything he said then applies to-day. It has nothing to do with the reserve banking system.

Mr. MOSES. And the Senator, as I understood, said that the opinion had lain moldering or covered with dust for 20 years, all through various administrations of the banking act.

Mr. GLASS. Oh, yes. I am not criticizing any particular administration.

Mr. MOSES. Nor is the Senator trying to exculpate himself during his own administration of the Treasury Department?

Mr. GLASS. No; not the least bit. I had no knowledge of it then; and the Comptroller of the Currency had no knowledge of it five days ago, although it ought to be right in his office.

Mr. MOSES. Under those circumstances, it must be very interesting to know the various courses that opinion took before it has now come to the surface and into the possession of the Senator.

Mr. GLASS. Yes. The present Attorney General very graciously permitted me to have a photostatic copy made from the original—and only the original exists in the Attorney General's office. It could not be found in the comptroller's office. There is the public official who is the czar of the national banking system. There is the public official charged by law with strict supervision of the national banking system, and yet no copy of this important opinion of the Solicitor General of the United States could be found in his archives. The comptroller very readily complied with my request, however, to ask the Attorney General to let me have a copy of it, and they gave me a photostatic copy of the original.

Mr. MOSES. If the Senator will permit me to suggest further, now that the Senator has come in possession of a copy of this important opinion, I hope that the intimation which he has just made, that he will insert it in his remarks, will be carried out, because I am sure it will be of transcendent consequence to Senators considering this legislation.

Mr. GLASS. I think so, and for that reason I urged the Attorney General to permit me, with some desirable excisions, to print it in the RECORD. I am not concerned with the personalities or the particular institution involved. I am only concerned with the law, and I want it distinctly understood that I am not seeking to involve any of the present officials in any criticism which might be implied, and my friend from New Hampshire will find it impossible to get me into any partisan mood or posture in discussing banking matters.

Mr. MOSES rose.

Mr. GLASS. The Attorney General, who refused to permit access to the opinion or its publication, was a Democrat, if the Senator wants to know.

Mr. MOSES. I want to assure the Senator from Virginia that I have no intention whatever of trying to entice him into any posture regarding his legislation which could possibly be regarded as partisan, because upon both sides of the Chamber it is well recognized that the Senator has lent his great talents and his wide knowledge of the banking situation to an entirely nonpartisan and wholly patriotic effort to bring about legislation which would help relieve the country from the situation in which it now finds itself, and every Member of the Senate, regardless of any shade of partisanship which he may have, feels himself under a great debt of gratitude to the Senator for the labors which he has rendered in this session.

Mr. GLASS. Mr. President, if I had my hat on I would take it off to the Senator from New Hampshire in token of my very deep appreciation of what he has said.

Mr. BRATTON. Mr. President, will the Senator yield to me?

Mr. GLASS. I yield.

Mr. BRATTON. Will the Senator tell us the circumstances under which the Solicitor General rendered the opinion, that is to say, at whose request?

Mr. GLASS. At the request of the then Attorney General.

Mr. MOSES. And because, may I ask further, of the fact that this system of affiliates was then beginning to show itself in the national banking system?

Mr. GLASS. As it had shown itself, just in the form and aspect that it has to-day.

Mr. MOSES. Did that arise from any of the restrictions under the old national banking act, which still continue,

which hampered the banks under the national banking act, as they probably thought, in the range of investments that they might make, and they were seeking subterfuges whereby to extend the area of their investments?

Mr. GLASS. As they surely thought, yes; and that is why they organized the affiliates—there was no other reason in the world for it—as annexes, as back doors, to the parent banks. In other words, they were precluded by the whole spirit and text of the national bank act from doing the things which they were organized to do, and which they are doing now, in contravention of the requirements of the bank act.

I sincerely hope that the lawyers in this body will read the opinion, because it amounts to a demonstration that the organization of these affiliates was contrary not only to the text but to the history and the tradition and the spirit of the national bank act.

Mr. NORRIS. Mr. President, will the Senator yield?

Mr. GLASS. I yield.

Mr. NORRIS. With a view of having more of the Senators read this opinion, I would like to ask the Senator whether, in addition to publishing it in the RECORD, he will not ask that it be published as a Senate document?

Mr. GLASS. That had occurred to me, and I think perhaps it should be so printed. Let me make this clear: I have no evidence in support of any supposition that might arise that the Attorney General agreed with Mr. Lehmann's opinion, nor have I any reason to suppose that he disagreed with it, except that nothing was ever done. The opinion disappeared almost from the face of the earth. No copy of it could be found in the office of the comptroller, especially and specifically charged with the conduct of national banking and administrative affairs, and I had to get it in the way I have indicated.

Mr. NORRIS. Why not make the request now?

Mr. GLASS. Mr. President, I ask unanimous consent that this opinion of the Solicitor General, Mr. Frederick W. Lehmann, to which I have made reference, be printed in the RECORD and as a public document, with certain excisions which I have agreed to make as to the institution and the persons involved.

The VICE PRESIDENT. Without objection, the opinion referred to will be printed as a part of the Senator's remarks and also as a public document.

(See Exhibit A.)

Mr. GLASS. Mr. President, I shall not discuss affiliates further, because two of my colleagues have been charged with the responsible duty of doing that.

A JURISDICTIONAL MATTER

We have inserted in the bill, section 25, relating to court jurisdiction of foreign bank law violations. Naturally I am not so familiar with the technicalities of that subject. I was rather inclined to object to that provision, having gotten some faint idea that when lawyers in this or any other body begin a discussion of jurisdictional matters they consume a great deal of time, and I wanted to get the bill through. But the Senators who are lawyers can determine whether or not that provision of the bill shall remain in it.

BANK CAPITALIZATION

In the matter of capitalization of national banks, our inquiry very thoroughly revealed the fact that approximately 80 per cent, if not a greater percentage, of bank failures in recent years were due to inadequate capitalization. They were of small banks, hundreds of them mere pawnshops which never should have been chartered. Their failure, notwithstanding their inconsequential activities in some respects, created a psychology which was extremely detrimental to the whole banking and business community. When three or four small banks in any given section of the country in any State fail, the fact of the failure of three or four banks in that section, however small they may be, begins to create consternation, to undermine public confidence, and to create runs on the larger and stronger banks.

There are vastly too many banks in this country now. It has been suggested that the Reconstruction Finance Corporation has done a wholesome work by arresting bank failures. That may be so. I would be interested to know just to what extent its activities have had that result. There have been so many bank failures that there are very few real weak banks left to fail. Unless we pass this bank bill, or enact some of its provisions, there are going to be bank failures of institutions which are now regarded as entirely sound and solvent.

We have raised the minimum capitalization of national banks, and made it $100,000, "except that such associations with a capital of not less than $50,000 may be organized in any place the population of which does not exceed 6,000 inhabitants."

Mr. TYDINGS. On what page is that?

HOLDING COMPANIES

Mr. GLASS. Pages 36 and 37. Somewhat akin to investment bank affiliates, we undertake to deal with the question of holding companies, the system of holding companies being one species of what is known as chain banking. It is a species of chain banking that is largely devoid of responsibility.

Some of these holding companies have been admirably managed, managed by bankers of character, long experience, and great skill. Many of them have done no great harm. In fact, they will tell you that they have done great good. But the committee was convinced that they needed pretty severe supervision, restraint, and examination, and I want to say for those officials that they were cheerfully willing that that should be provided. We have incorporated in that provision of the bill many of the suggestions made by them, not because they were made by them, but in spite of the fact, because all of us were very suspicious when we entered upon the consideration of that phase of banking.

There is this to be said, that if one of those holding companies—as some of them have—should come under the administration of unscrupulous persons, the amount of harm that might ensue is hard to conceive. Therefore we have undertaken to encompass them with such restrictions and restraints and requirements of examination and report as, we hope, may induce them perhaps to go out of that sort of banking at their convenience.

There is one, to me, extremely amusing aspect of the topic, and that is the inured ignorance of some bankers who came to Washington to speak for the banking community. They were invited here by their legislative guardians, and after getting here were drilled in a night school, as it were. I am not prepared to say whether they were tutored in the daytime as well as at nighttime, but I suspect at both times. They appear to have been told exactly what objections to make to the bill when they should appear before the committee at a later hearing. What amuses me right now is that I recall that in one provision of the bill we sought to liberalize the discount rate at member banks, not so much as an accommodation to the banks but as an accommodation to the public. One of the pupils of this night school who came before our committee vehemently objected to that provision of the bill because, he said, it was a restriction upon the interest charge that banks might make. It was just the reverse.

There are 34 States which limit the discount charge at their banks to 6 per cent. There are a few which make it 7 per cent and two or three States which permit a discount charge as high as 10 per cent. Formerly they had permitted a charge of 12 per cent, but I think no State goes that high just now. The result of these restrictions, particularly of this restriction of 6 per cent, in time of exigency when Federal reserve banks think the rediscount rate should be raised, would be paralysis of credit. In other words, if the rediscount rate of the Federal reserve bank in certain districts should be 6 per cent, that would practically preclude the members banks from rediscounting at the Federal reserve bank except perhaps at a loss.

If the rediscount rate should be 7 per cent, as it was in four of the Federal reserve banks in 1920, that would estop the member banks of those four districts from rediscounting

except at an actual loss of 1 per cent on every rediscount made. So we inserted a provision, which is existing law, that member banks may charge the rate of discount prescribed by the State law or 1 per cent above the rediscount rate of the Federal reserve banks of a given district. Therefore, rediscounting in no event may be precluded. That is the provision to which this pupil of the night school strenuously objected, when it was to his own advantage and he did not know it. I had to take him aside and explain it to him.

DISMISSAL OF OFFENDING BANK OFFICIALS

It appeared from our inquiry that the office of the Comptroller of the Currency, not simply the incumbent Comptroller of the Currency but at all times as far back as we know anything about it, has been greatly perplexed and embarrassed in the enforcement of the law authorizing him to close what seems to him to be an insolvent bank. The comptroller has great reluctance to apply the drastic condemnation of the law. He waits, sometimes vastly too long, before he takes action. The comptroller now, who is a most worthy gentleman, scholarly, studious, courageous, I believe, in his testimony before the committee admitted that the comptroller's office—not himself, but the comptroller's office—had knowledge of the precarious condition of that large bank at Louisville the failure of which spread consternation and distress over a great part of that country and of another bank in Tennessee the failure of which did likewise; that the comptroller's office had knowledge that these banks were engaged in irregular and unsound if not actually illicit business five years before the failure came; that the files of the comptroller's office were replete with admonitory letters, with letters severely protesting against the practices in those banks over a period of years; but they did not close up the banks because of this reluctance of the comptroller's office to resort to that severe proceeding.

I took the liberty of suggesting to the comptroller that he would have better severely dealt with those banks five years theretofore, so that the failure which was inevitable when it came would not have been so extensive and disastrous. But he suggested, and we have acted upon the suggestion, that there should be a less drastic penalty. The only penalty now is to close up the banks. No matter how much he may admonish them, they disregard the admonition; they disregard what is called the "criticism" of the examiner and of the comptroller's office. So we have embodied in the bill a provision which authorizes the comptroller and the Federal reserve agent, when a bank is found in irregular and illicit and unsound practices which it either fails or refuses to correct, to summon these bank officials to a court of inquiry and give them a thorough hearing and, if the facts sufficiently warrant it, to suspend or dismiss the officers of the bank.

Mr. ROBINSON of Arkansas. Mr. President, may I ask the Senator a question?

The VICE PRESIDENT. Does the Senator from Virginia yield to the Senator from Arkansas?

Mr. GLASS. Certainly.

Mr. ROBINSON of Arkansas. How would the official places be filled?

Mr. GLASS. By the board of directors.

Mr. ROBINSON of Arkansas. In the same manner that the original officers were chosen?

Mr. GLASS. Yes; but the board would be precluded from reelecting the offending officials.

Mr. WHEELER. Mr. President——

The VICE PRESIDENT. Does the Senator from Virginia yield to the Senator from Montana?

Mr. GLASS. Certainly.

Mr. WHEELER. What right would they have to suspend the officers of a local or private bank?

Mr. GLASS. None as regards a private bank.

Mr. WHEELER. Of a national bank? I doubt the legality of such a provision. I doubt that they would have the right legally to suspend officers of a national bank.

Mr. GLASS. We are advised that the section as drawn is entirely legal. They are to serve notice upon the offending director or officer and give him a hearing, and we should think that they would have as much lawful right to dismiss such an officer as they would to go to the courts and close the bank. It would be a very much more salutary and helpful proceeding.

Mr. BLAINE. Mr. President——

The VICE PRESIDENT. Does the Senator from Virginia yield to the Senator from Wisconsin?

Mr. GLASS. I yield.

Mr. BLAINE. The Senator will recall that that difficulty was brought up in the committee.

Mr. GLASS. Yes; I recall the Senator from Wisconsin objected to that provision of the bill.

Mr. BLAINE. I may suggest to the Senator from Virginia that I have had prepared an amendment which I think avoids the situation to which the Senator from Montana refers.

Mr. GLASS. I am glad the Senator has given it that consideration.

Mr. BLAINE. I doubt very much if an officer of a State bank which is a member bank could be compelled to be removed from office or could be removed from office. I think an amendment will cure that situation. I expect to offer that amendment at the proper time.

(At this point Mr. GLASS yielded the floor for the day.)

Tuesday, May 10, 1932

BRANCH BANKING

Mr. GLASS. Mr. President, on yesterday I tried to present an outline of S. 4412, being the banking bill reported by the Senate Banking and Currency Committee in response to Senate Resolution 71. I am not sure that I made as clear and complete an explanation of the bill as I might desire to do and as would leave in the minds of Senators a comprehensive understanding of the bill; but I did the best I could in the circumstances.

I think, perhaps, I left untouched one of the most controversial provisions of the bill and that I shall undertake to explain to-day. It relates to the problem of branch banking. That is a question which has been controverted over a long period of years and upon which no definite conclusion of any value has been reached by the Congress. When the Federal reserve bill was under consideration it was proposed to authorize member banks under certain limitations to engage in state-wide branch banking.

Another question presented at that time was that of guaranteeing the deposits of member banks. Both the Senate and the House rejected the branch-bank proposals. The Senate incorporated in the bill, on motion of Senator John Sharp Williams, urgently supported by Senator Thomas, of Colorado, what was called a deposit-insurance provision, but that went out in conference.

I may say that at the time I strongly resisted both propositions, but, after studious, if not prayerful, consideration of the problem during the period which has elapsed since the adoption of the Federal reserve system, I have very reluctantly come to the conclusion that we ought to authorize state-wide branch banking by member banks of the system. I know very plausible objections are urged to the contrary, but in my view they are only plausible; they were that when used by me in opposition to the system years ago; they are that now.

One objection is that to authorize branch banking would be an invasion of the sovereign rights of the States. I do not think the Interstate Commerce Commission and the Supreme Court of the United States have left the States with any sovereign rights; but it seems to me, Mr. President, rather an untenable argument to insist that the Congress may authorize the establishment of a national banking system in all the States, but that it would be an invasion of the sovereign rights of the States to authorize such banks to establish branches and to conduct their business in various parts of the States rather than in one place.

The Congress, sustained by a decision of the Supreme Court of the United States, completely swept away the rights of the States in matters relating to the banking business when it imposed on State-bank circulation a 10 per cent tax, which was prohibitory, and under existing law, as confirmed

by the courts, no State bank may issue its notes; only national banks and Federal reserve banks have the power of issuance except under prohibitive taxation. Therefore, I have come to the conclusion that it is no invasion of the rights of the States for Congress to authorize a national bank to establish branches; certainly it is no greater invasion of the rights of the States than the 10 per cent tax on State-bank issues or than the original authorization for the establishment of a national bank. Only by sanction of Congress may a State tax a national bank.

Moreover, Mr. President, when we take the practical view of branch banking and the problems involved, the system appeals to the common sense of some of us who have thoroughly investigated the question; and so I am thoroughly convinced not only of the equity and feasibility of branch banking but of the real necessity for it in order to save the situation that now confronts the country.

We have now a species of nation-wide branch banking in this country that concentrates in the money centers an enormous fund contributed by the interior banks. In other words, as I suggested yesterday, thousands of the country banks of this Nation are in involuntary servitude to the great banks in the money centers by reason of the fact that we do have a species of irresponsible nation-wide branch banking. Every one of the large banks in the money centers makes a monetary exaction from every one of its correspondent banks wherever situated in the 48 States of the Union. The correspondent banks are required to carry a certain deposit with the large banks, the requital being a nominal interest, together with such accommodations, real or imaginary, as the large banks in the money centers may extend to the country banks throughout the States. As I tried to indicate yesterday, the accommodations thus afforded practically put the interior banks in subjection, subtle it may be, but real after all, to the large banks in the money centers; so that any "advice" volunteered, any expression of judgment that may issue as to the purchase of investment securities or as to any policy that may be proposed or pursued in the last analysis, amounts to a species of coercion.

I have heard banker after banker say since this problem of bank reformation has recently been discussed that they had purchased certain securities not because they wanted them, not because they were confident that they would be remunerative or that the facilities of their respective banks would justify their purchase, but because they were indebted to the offering banks for accommodations extended. I insist, as I have done over and over again, that there is no need of these correspondent banks in the large cities. Any bank doing a sound commercial banking business can get all the accommodations it may require at its Federal reserve bank. But this system has grown up and it amounts to a vicious species of nation-wide branch banking without the responsibility that properly attaches to a sound branch-banking system.

There is a dispute, though I do not see how there can be, as to the efficiency of the branch-banking system which prevails in Canada and which has prevailed there for many years. I am not advocating that we have that same system in this country, but it has proven very effective in Canada. During the last 65 years there have been but 26 bank failures in Canada, and not one during this period of frightful depression! Since 1923 we have had nearly 5,000 bank failures in the United States, while they have had but 1 bank failure in Canada. The significant part of it is not the number of bank failures so much as the volume of losses that occur.

As I recall the figures, which I have here, in all the history of Canadian banking, the total volume of losses to depositors of failed banks was $13,500,000, whereas the Comptroller of the Currency informed your committee that the losses to depositors of failed banks in this country in the last two years aggregated two and a half billions of dollars.

Mr. WATSON. Mr. President, will the Senator yield?

The VICE PRESIDENT. Does the Senator from Virginia yield to the Senator from Indiana?

Mr. GLASS. I yield.

Mr. WATSON. Does the Senator attribute that difference solely to the branch-banking system of Canada?

Mr. GLASS. Oh, no; I do not attribute it solely to the branch-banking system.

Mr. WATSON. I just wanted to get the Senator's idea of the causes of the difference.

Mr. GLASS. But I think the branch-banking system is largely responsible for the more efficient operation of banks in Canada.

Mr. KEAN. Mr. President, may I ask the Senator a question?

The VICE PRESIDENT. Does the Senator from Virginia yield to the Senator from New Jersey?

Mr. GLASS. I yield.

Mr. KEAN. Would the Senator mind stating how many banks there are in Canada?

Mr. GLASS. I think there are 16; but they have innumerable branches. Of course, when a large bank with a number of branches fails the disaster covers a large territory. There is no doubt about that. I am not proposing, however, the Canadian system of branch banking. It is inconceivable that this country will ever have but 16 banks. Moreover, we are not proposing nation-wide branch banking. We are proposing to confine it to State lines.

There is a provision in the bill that in very exceptional circumstances, with the assent of the Comptroller of the Currency or the Federal Reserve Board, would enable a bank to cross State lines for a distance of 50 miles from the parent bank in order to maintain the business of its established trade area. Speaking for myself, however, and not for the committee, I would cheerfully have that provision go out, because I urged before the committee that it was simply going to afford a peg for the opposition to hang an objection upon, and it would take care of an inappreciable number of banks and communities.

Mr. NORRIS. Mr. President, will the Senator yield?

The VICE PRESIDENT. Does the Senator from Virginia yield to the Senator from Nebraska?

Mr. GLASS. I yield to the Senator.

Mr. NORRIS. I desire to ask the Senator about the one bank that failed in Canada. Did it have branches?

Mr. GLASS. Oh, yes; it had a number of branches.

Mr. NORRIS. Were they all closed?

Mr. GLASS. I think 9 of them were closed and 5 of the 9 were rescued, and the total loss to the depositors was less than a million dollars.

Mr. BORAH. Mr. President——

The VICE PRESIDENT. Does the Senator from Virginia yield to the Senator from Idaho?

Mr. GLASS. I do.

Mr. BORAH. The Senator has described the national branch-banking system which we have by reason of the practice which has grown up. If we establish the State branch-banking system, will that increase or will it diminish the strength of the system which we have now?

Mr. GLASS. I think it will greatly impair the force of it, if it will not eventually break it up.

Mr. FLETCHER. Mr. President, will the Senator yield?

The VICE PRESIDENT. Does the Senator from Virginia yield to the Senator from Florida?

Mr. GLASS. I yield to the Senator.

Mr. FLETCHER. I think, under the laws as they exist, branch banking is allowed in States which permit branch banking. One thing that this bill does—and I wanted to hear the Senator on that—is to allow branch banking in States which prohibit branch banking; in other words, in all States, without regard to whether the States prohibit branch banking or not. There are a few States that do not allow branch banking. This bill would permit the establishment of branch banking in all the States without regard to the State regulation on the subject.

Mr. GLASS. I have tried to indicate that there is no law of any State that permits national banks to be established, and yet the Congress of the United States has authorized the establishment of national banks in the 48 States of the Union. There is no State law that prohibits a State bank

from issuing its notes as currency, or that imposes a tax upon State bank issues; and yet the Congress of the United States has practically prohibited the issuance of notes in the form of currency by State banks.

Moreover, on that point it may be said that there is not a State that might not, if it so pleases, adjust itself to this proposition of allowing national banks to establish branches; and I should be willing to predict that if the Congress enacts this bill into law, there is not a State in the Union that will not promptly authorize its State banks to get on an equality of competition with the national banks by adopting the state-wide branch banking system.

Mr. FLETCHER. Mr. President, will the Senator yield again?

The VICE PRESIDENT. Does the Senator from Virginia further yield to the Senator from Florida?

Mr. GLASS. I yield.

Mr. FLETCHER. May I suggest in that connection that in those States which now do not allow branch banking, the banks are getting around the situation by organizing affiliates. National banks establish affiliates even in those States which prohibit branch banking, and those affiliates are doing exactly what a branch bank would do.

Mr. GLASS. Exactly. The affiliates and the holding companies are acquiring long chains of banks. Not only that; in many instances they are buying up banks. They have systems of chain banks without the responsibility of unit banking or of branch banking, because where a bank has a branch the double liability of the stockholder prevails. Moreover, in the provision of this bill we do not permit the establishment of a branch unless and until the parent bank, if it does not already possess the required amount of capital, shall increase its capital by the amount that is required for the establishment of a unit bank in any given community.

It will be interesting to the Senate to know that during the 11-year period from 1921 to 1931, inclusive, there were 8,221 bank failures in this country.

Mr. TYDINGS. How many banks are there?

Mr. GLASS. There are approximately 22,000 institutions called banks; but thousands of them were little pawnshops that never should have been chartered either by the Federal Government or by State governments. Fifty-nine per cent, or 4,861 of these suspended banks had a capital of $25,000 or less; 25½ per cent, or 2,175 of these banks had a capital exceeding $25,000 but not exceeding $50,000; and of the 8,221 failures, only 37 banks, or four-tenths of 1 per cent, had a capital of as much as $1,000,000. Over 60 per cent of these failures occurred in communities with a population of less than 1,000 inhabitants, and over 90 per cent of these failures occurred in cities and towns with a population of less than 25,000 inhabitants.

It is, therefore, obvious that the problem is largely one of small rural bank failures. Right here, I pause to say what I have repeatedly said before in discussing this question—that the appeal of the little bank, so called, against the "monopolistic" tendencies of branch banking, is misleading when we come to reason about it.

The fact is that the little banker is the "monopolist." He wants to exclude credit facilities from any other source than from his bank. He wants to monopolize the credit accommodations of his community. He does not want any other bank in his State to come there. If it is a manufacturing enterprise, he welcomes it. Whether it be a branch of some great industrial operation or otherwise, he welcomes it; but if it is to trade in credit, if it is to accommodate the commercial and industrial borrowing demands of the community, he wants to monopolize that himself.

Mr. FLETCHER. Mr. President, may I ask the Senator a question?

The PRESIDING OFFICER (Mr. ROBINSON of Arkansas in the chair). Does the Senator from Virginia yield to the Senator from Florida?

Mr. GLASS. I do.

Mr. FLETCHER. The Senator stated the number of bank suspensions throughout the country. Can he state how many of those were national banks?

Mr. GLASS. Incomparably fewer were national banks than State banks. In proportion to the number of national banks, as compared with State banks, I should say that approximately the failures would be five to one of State banks as compared with national banks.

Mr. FLETCHER. I think those figures can be obtained, separating national banks from State banks.

Mr. GLASS. They can be obtained from the comptroller; yes. I may have them here; and when we come to a more immediate discussion of the various provisions of the bill, I shall have some things to say that it is not necessary to say here now.

Mr. President, I have been now for nearly 32 years a member of the Banking and Currency Committees of the other branch of Congress and of the Senate. I have been an intent listener and observer of all measures of importance that have been considered; and I assert here that never in that whole period has any merchant or business man having relationships with banks ever protested against branch banking. No man who has wanted credit, no man who wanted to borrow funds with which to conduct his business has ever in that whole period raised his voice against branch banking. It has only been done by the bank which wanted a monopoly of credit in its community.

Mr. TRAMMELL. Mr. President, will the Senator yield?

Mr. GLASS. I yield.

Mr. TRAMMELL. I dislike to interrupt the Senator, but I would like to ask him whether the champions of the branch-banking policy have not, on the other hand, been the people who want to enter that field? The Senator says there has been no one opposed to it except those interested on the other side.

Mr. GLASS. I think the insistent proponents of branch banking are people who want credit, who do not want to be confined to the inadequate facilities of their respective communities. Take that restriction of the national bank act which prohibits any bank from loaning to any customer, partnership, concern, or corporation more than 10 per cent of its capital and surplus. That provision of the national bank act requires thousands of business industries and commercial concerns in this country to go to the large money centers to get credit, because the banks in their respective communities can not, under the restrictions of the national bank act, grant them adequate credit.

Take the great shoe industry of my own town, with a population of 45,000 people. The national banks there combined can not begin to respond adequately to the requirements of those industrial concerns, with the result that they have to go to New York, and to Boston, particularly to Boston, and to other large money centers, to get credit.

If a great tobacco industry in Richmond should want to establish a branch house or factory in my town, do Senators imagine there is a human being there who would object to it? Then if some bank should want to sell credit in my town, why should anybody object to it?

Mr. COPELAND. Mr. President, will the Senator yield?

Mr. GLASS. I yield.

Mr. COPELAND. If what the Senator says now about the tobacco concern or the shoe concern in his town be the fact, what significance has this provision regarding the paid-in capital of the branch banks of $500,000? How would that insure safety to stockholders of that concern?

Mr. GLASS. I do not think any question of safety is involved. We provide that no bank with a capital of less than $500,000 may establish these branches throughout the States.

Mr. COPELAND. Is that what this language means?

Mr. GLASS. Yes.

Mr. COPELAND. "No such association shall establish a branch outside of the city, town, or village in which it is situated unless it"—meaning the association?

Mr. GLASS. Yes.

Mr. COPELAND. Not the branch?

Mr. GLASS. No; the association. It requires that when it establishes a branch anywhere else it must enlarge its capital to the extent that would be required for the establishment of an independent bank in that community.

Mr. COPELAND. I do not think the language in the measure is clear.

Mr. GLASS. Perhaps not. We think it is.

Mr. COPELAND. It could be read either way, either that the association should have paid-in capital, or that the branch should have the paid-in capital. I think it should be made very specific so there would be no doubt as to its meaning. If the association had an increased capital of $500,000 because it had a branch in Richmond, and the Richmond concern were permitted to borrow far in excess of that, I can not see how protection would be given by reason of that slight increase in capital.

Mr. WHEELER. Mr. President, will the Senator from Virginia yield to me?

Mr. GLASS. I yield.

Mr. WHEELER. If I may interrupt the Senator just a moment, I was interested in his statement with reference to branch banks being able to extend better credit facilities. In Montana, where we have had, not the branch-bank system but the chain banks, there has been a general complaint on the part of stockmen and other people of that character to the effect that since the chain banks came into the State, they have not been able to get the credit facilities which they formerly had with the other independent banking group. I received a letter just the other day from an individual who is comparatively wealthy for that section of the country, stating that the banks out there at the present time would extend no credit, even though he had resources and owed no money whatsoever.

Mr. GLASS. The Senator can get letters of that sort from any community in the United States, for that matter.

Mr. WHEELER. That is true, but that has been a general complaint in my State with reference to the chain banks since they have come into the State.

Mr. GLASS. What we want to do is to break up chain banking, which is an irresponsible species of banking, and substitute for it branch banking, which is an entirely responsible species of banking.

Mr. WHEELER. I agree with the Senator that branch banking would be better than chain banking, but I do not know how this measure would break up the latter.

For instance, as the Senator said, these chain banks buy up the stock of banks, my understanding is, and put it into a holding company, and the holding company may or may not be responsible for the double liability on the stock.

Mr. GLASS. They are not responsible.

Mr. WHEELER. They are not responsible.

Mr. GLASS. Some of them, by State law, are responsible.

Mr. WHEELER. They may be or they may not be.

Mr. GLASS. Some of them were wise enough to make themselves responsible by their charter provisions—notably so in Michigan.

Mr. WHEELER. How would this bill break up chain banking? I am asking the Senator for information and not with the idea of criticizing.

Mr. GLASS. It is the view of the committee, upon information presented, that if we do not adopt state-wide branch banking, the holding companies and the banks which they hold are going to be pretty soon wrecked. I do not know that it ought to be stated here, but we want to consider this whole problem in frankness. If the existing requirements of the law were put into effect by the Comptroller of the Currency, there are thousands of banks which have not yet closed their doors, whose capital and surplus have been impaired, which would have to be closed up to-day, and unless we do something of this nature, that part of the country where these holding companies exist—and they are not confined to any one section, though perhaps they are more numerous in the northwestern section of the country than in any other section—are going to find themselves in inextricable difficulties.

Mr. WHEELER. What I would like to have the Senator explain to me is how this measure would help them out. I do not see how this particularly would help them out.

Mr. GLASS. They would convert their banks into branches. They would convert their holding companies into banks. They would convert the banks which they hold into branches, with the double liability. If they are as skillful as they have seemed to us to be, they would manage to increase their capital holdings so as to insure the soundness and solvency of these banks as branches.

Mr. WHEELER. Even though they did put them into branches, state-wide branches, now, for instance, the holding companies are at Minneapolis, and hold a string of banks through North Dakota, South Dakota, Wyoming, Nebraska, and Montana, and under the provisions of this measure they could not turn their holding companies and their affiliates into branch banks, because this would only extend as far as the State line. Is that correct?

Mr. GLASS. Yes; it would extend only to the State line.

Mr. WHEELER. So that they would have to set up branches in each one of these States.

Mr. GLASS. Undoubtedly they would have to set up a parent bank in each one of the States. If the Senator wants to know what those people out there think of the situation, I exhibit to him this pile of telegrams, and I have received probably 2,000 such messages in the last three days from those people, which very clearly indicate their apprehension that if something of this sort is not done that section of the country and other sections of the country are going to have numerous bank failures.

Mr. WHEELER. I am not very much disturbed about the Senator's telegrams——

Mr. GLASS. No; and I am not, either. I have never invited one in the 30 years I have been in Congress; I have never inspired one; I have never had my judgment affected by one. I am every day getting propaganda inspired by the superintendent of State banks of my State, who does not appear to know that his own State authorizes state-wide branch banking in large measure. Does anybody think I am simple enough to be influenced by propaganda of that sort?

Not one of these banks would have ever thought of initiating letters to me about a matter of that sort if this bank official had not been guilty of the gross impropriety of starting that sort of propaganda. I have a contempt for it, and I am not governed by these 2,000 telegrams in favor of this so-called Glass bank bill. I made up my mind as to its various provisions long ago without getting any telegram from any source. But I just wanted to indicate to the Senator what the people of Montana and of the Dakotas and Wyoming and Michigan and Wisconsin and of all that section of the country think about the situation, what their apprehensions are as to what will happen if we do not get some measure of sound branch banking enacted.

Mr. WHEELER. Those telegrams are not, in my judgment, from the rank and file, or from the merchants of the country, except in so far as they have been inspired by the chain-banking group, and for that reason——

Mr. GLASS. I do not know who inspired the telegrams. I know I did not.

Mr. WHEELER. I understand that.

Mr. GLASS. And I know I am not influenced by them. But I am interested in having the Senator know that upon examination he will find that at least two-thirds of them, if not a greater percentage, are from people who are not bankers, but are business men, the patrons of the banks, who want accommodations at the banks.

Mr. WHEELER. As I have said, they have been inspired by the banks, and my comment is the same as what the Senator said about the telegrams, that lots of people who send telegrams do not know what they are talking about when they send them.

Mr. GLASS. No; and that applies to those opposing this bill as well as those favoring it. There was a night school

here in Washington, at which even the bankers had to be taught the objections to the bill. Representatives of the American Bankers' Association came into my office and asked for three weeks to study the bill, saying that they did not understand it, but they got a complete understanding of it between my office and the Western Union Telegraph office, where they went and deluged the country with telegrams urging the killing of a bill which they had told me an hour or two before they did not understand.

Mr. KEAN and Mr. BLAINE addressed the Chair.

The PRESIDING OFFICER (Mr. BORAH in the chair). Does the Senator from Virginia yield; and if so, to whom?

Mr. GLASS. I yield to the Senator from New Jersey, who rose first.

Mr. KEAN. The Senator says that in his home town there is a large shoe manufacturer.

Mr. GLASS. The largest east of the Mississippi and south of the Potomac; not one but several.

Mr. KEAN. Who can not borrow money in his own town.

Mr. GLASS. I did not say that. They can borrow all the money in my town the banks are authorized under the law to lend, but they are not authorized under the law to lend them enough.

Mr. KEAN. The Senator says they have to go to Boston to borrow the money.

Mr. GLASS. They do not have to go there. They do go there or to New York.

Mr. KEAN. Why do they not go to Richmond? I can not see why they can not borrow it just as well in Richmond as they could in Boston.

Mr. GLASS. If Richmond had a branch bank, they might borrow it there more readily and certainly in larger amounts and possibly at a smaller rate of discount than they could borrow from the local banks.

Mr. KEAN. But not cheaper than they could in Boston?

Mr. GLASS. Perhaps not.

Mr. BLAINE. Mr. President——

The PRESIDING OFFICER. Does the Senator from Virginia yield to the Senator from Wisconsin?

Mr. GLASS. I yield.

Mr. BLAINE. The Senator included in his category of States my own State.

Mr. GLASS. Yes; I have a lot of telegrams from Wisconsin.

Mr. BLAINE. Does the Senator know the type of men who have asked for branch banking in Wisconsin?

Mr. GLASS. I have told the Senator I did not take enough interest in the telegrams to read them.

Mr. BLAINE. May I inform the Senator that the only banks in Wisconsin which desire branch banking are the very small group of large banks that want to obtain absolute control of the banking facilities of Wisconsin?

Mr. GLASS. Perhaps that is so in Wisconsin. As I pointed out, my observation and experience have taught me that the banker who does not want a branch bank in his town is the real monopolist. He is the exclusionist.

Mr. VANDENBERG. Mr. President, may I ask the Senator a question?

The PRESIDING OFFICER. Does the Senator from Virginia yield to the Senator from Michigan?

Mr. GLASS. I yield.

Mr. VANDENBERG. In addition to every other consideration which the able Senator has submitted, is it not a fact that we are in an emergent situation in which many communities are calculated to be devoid of any banking facilities whatsoever except as they have them through a branch bank?

Mr. GLASS. The comptroller has pointed out to us that there are thousands of communities in the United States that are now destitute of all banking facilities. I personally know of them in my own State. The largest tobacco producing county in Virginia, and perhaps in the world, has not any banking facilities. Its three banks in this awful depression have failed. Nearly $3,000,000 of deposits are tied up in the hands of receivers and God only knows when any of the depositors will ever get a dollar of their money.

Mr. VANDENBERG. And there is no local capital to replace it.

Mr. GLASS. O Mr. President, these little pawnshops that call themselves "banks"! Here [indicating] is a chart showing the banks in one State of the West in 1920, enough of them, if they were real banks, to supply the United States. Those which have survived, and they are too many, are shown by this other chart. That condition applies not merely to one section of the country. It is just a startling illustration of the utter inefficiency of these inconsequential "pawnshops" which are chartered.

When they begin to fail, the psychology of the thing is quite as disastrous as the failure of a large bank. When small banks fail, the failure begins to create fear in the depositors of the large banks and the consequence is a run on the large banks and the withdrawal of deposits and the breakdown of the whole credit system of the section.

Mr. THOMAS of Idaho. Mr. President——

The PRESIDING OFFICER. Does the Senator from Virginia yield to the Senator from Idaho?

Mr. GLASS. I yield.

Mr. THOMAS of Idaho. Are the charts which the Senator has just exhibited in such form that they may be made a part of the RECORD?

Mr. GLASS. Oh, no.

Mr. THOMAS of Idaho. They seem to be quite an interesting exhibit.

Mr. GLASS. I do not think they should be made a part of the RECORD. They are not complete for the country. They relate to certain States and I do not care to be responsible for bringing those States under criticism, and therefore I purposely did not say to what States they relate.

Mr. THOMAS of Idaho. Very well.

Mr. GLASS. Credit, except for its delicate nature and its more important nature, is not different from anything else involved in business or in trade. Under sound restrictions I am totally unable to comprehend the objection to having any bank in my State, if it has the facilities, sell its credit in any part of the State. I would not advocate nation-wide branch banking. The species of branch banking which I am advocating now would tend to break down the existing species of nation-wide branch banking without any responsibility whatever or any care of the local interests involved.

Mr. WALSH of Montana. Mr. President——

The PRESIDING OFFICER (Mr. FESS in the chair). Does the Senator from Virginia yield to the Senator from Montana?

Mr. GLASS. I yield.

Mr. WALSH of Montana. When the Senator addressed himself to this feature of the matter a while ago I was curious to learn why it is that a member bank, which has opportunity to get from the Federal reserve bank whatever credit it is entitled to, should put itself in a state of involuntary servitude to one of the large central banks.

Mr. GLASS. Had the Senator heard me yesterday he would have learned that when, in passing the Federal reserve act, we withdrew the reserve trust funds of the country from the money centers, we had hoped that the banks in involuntary servitude to the money centers would realize that they no longer were compelled to resort to those banks, but might with perfect liberty exercise their privilege to have their eligible paper rediscounted at their respective reserve banks; but they have maintained this alliance. They call it "traditional." They say these bankers are their friends. In fact, they are their masters and not their friends.

Mr. NORRIS. Mr. President——

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

Mr. GLASS. Certainly.

Mr. NORRIS. I think I realize the importance of the question asked by the Senator from Montana; but, as I understand it, one of the objects of the Federal reserve act was to free these banks from involuntary servitude, but they have remained in that state of slavery, so the Senator ought not to call it "involuntary." It is voluntary servitude now.

Mr. GLASS. It is involuntary in the sense that they either do not realize their possible independence or they prefer to maintain their traditional business relations and practices with those banks who in past years have accommodated them. The requirement always is that in order to maintain that relationship they must keep on deposit a certain percentage of their funds.

Mr. SHIPSTEAD. Mr. President——

The PRESIDING OFFICER. Does the Senator from Virginia yield to the Senator from Minnesota?

Mr. GLASS. I yield.

Mr. SHIPSTEAD. Is it not also a fact that many of the banks were not able to borrow from the Federal reserve bank because the paper which they could discount was limited, and in many of the communities where these banks do business they did not have that kind of paper and so they had to go to what is called the correspondent bank with what collateral they had and borrow money there?

Mr. GLASS. Oh, no; that is scarcely measurably true. In the first place, I can not conceive of any limitation upon the eligible paper of a bank doing a commercial business under the terms of the Federal reserve act. Any paper that has for its purpose an agricultural, commercial, or industrial business transaction, any note, bill of exchange, or other paper, the proceeds of which are intended to be used for these purposes, is eligible at a Federal reserve bank.

One reason why these banks prefer to keep the required deposit at their correspondent bank in the money centers is that they do not want to put themselves to the inappreciable trouble of assembling their eligible paper and rediscounting at a Federal reserve bank. They prefer to make a straight note and get an accommodation readily from their correspondent bank in the large money centers.

Mr. NORRIS. Mr. President——

Mr. SHIPSTEAD. May I ask another question before the Senator from Nebraska interrupts?

Mr. NORRIS. Very well.

Mr. SHIPSTEAD. Of course I do not refer to banks doing a commercial business. In many of the States, or in many parts of many of the States, there is very little of what is called commercial paper in the banks.

Mr. GLASS. Oh, no; the statistics of the Federal Reserve Board have proved that that is not true. They had $8,500,000,000 and have now that much of rediscountable paper, and they were rediscounting to an inappreciable extent.

Mr. SHIPSTEAD. I am talking about banks who do not have that kind of paper.

Mr. GLASS. The banks that do not have that kind of paper are not commercial banks, and many of them are out of business now, and ought to be out of business. If we do not do something to reform the banking system, many more will be out of business.

Mr. SHIPSTEAD. I hope the Senator will pardon me. I am trying to bring to his attention the fact that in agricultural communities there are banks that are not what we call city commercial banks.

Mr. GLASS. But agriculture has a preferred position under the requirements of the Federal reserve act. If you are a merchant you can get accommodated for only 90 days. If you are a farmer you can get accommodated for nine months.

Mr. SHIPSTEAD. On what kind of paper?

Mr. GLASS. On agricultural paper; on paper the proceeds of which have been used for agricultural purposes, or the intention is that they shall be used for agricultural purposes. Oh, no; there is plenty of commercial paper. In its bulletin of only March last the Federal Reserve Board reasserted that fact and added that it was adequately distributed throughout the country. The banks are simply not making loans.

Mr. VANDENBERG. And is it not a part of our difficulty that we mingle commercial and savings bank business generally throughout the country?

Mr. GLASS. Undoubtedly, and one large part of it is that we do not require the separation of investment banking from commercial banking.

Mr. NORRIS. Mr. President——

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

Mr. GLASS. Certainly.

Mr. NORRIS. I sought to interrupt the Senator a while ago when the Senator from Minnesota [Mr. SHIPSTEAD] had his attention. It seems to me the Senator is discussing a very important feature of our Federal reserve system. Without being an expert, it was almost shocking to me to realize, as I did some time ago when I got the figures, that there was such a large volume of eligible paper in the possession of the various banks of the country, with a place to go and get some money on it, and that the banks were not availing themselves of that privilege while their depositors and the entire country were crying out for the use of currency.

I can hardly conceive in the first place that the banks are ignorant of the fact that they possess this ability and have this source where they can rediscount their eligible paper. So it has always seemed to me that there must be some reason, which I do not know and which I do not understand, why this condition should exist. Knowing of his wide range of knowledge, I had hoped that the Senator from Virginia during the course of his discussion would enlighten me on that subject.

It is hardly sufficient to say, it seems to me, that the bankers do not know about it, and it is not an answer, as I look at it, to say that although there is a great cry for money the banks are really hoarding it and do not want to lend it, because, if they have eligible paper, which they have, and I, for instance, a farmer or a merchant, presented my note at the bank for a loan, they would not have to take the money out of the funds they have in their vaults but could at once send that note to the Federal reserve bank of which they were a member and get the money for it.

Mr. GLASS. Mr. President, one of the most embarrassing things to me, as I have already indicated, is to have imputed to me a knowledge of these matters that I do not actually possess. I can not tell the Senator from Nebraska or the Senate why the banks are frightened to death, but I think that is one reason why they are not making loans. They want to get into as liquid a position as they possibly can to meet or avert runs. Then, also, it is fair to the banks to say that there has been such an arrest, such a cessation, of business in this country that the demands are not nearly so extensive or insistent as otherwise would be the case.

Mr. NORRIS. If the Senator will permit me further, I am not asserting that the banker ought to loan money on a large scale. I have sympathy for him. I suppose I would do the same thing.

Mr. GLASS. I am afraid I should.

Mr. NORRIS. But in this case the banker does not loan his money; as a matter of fact, he merely acts as an intermediary between the man who wants to borrow and the Federal reserve bank. To make the loan would not take a dollar out of his vaults.

Mr. GLASS. The banker loans his depositors' money; and if he be a sound and honest banker, he ought to have and would have constantly in mind the interest of his depositors. It is true that he could replenish his coffers by rediscounting his eligible paper at the Federal reserve bank. Exactly why he does not do it, I can not tell any more than can the Senator from Nebraska.

Mr. THOMAS of Idaho and Mr. BYRNES addressed the Chair.

The PRESIDING OFFICER. Does the Senator from Virginia yield; and if so, to whom?

Mr. GLASS. I yield first to the Senator from Idaho.

Mr. THOMAS of Idaho. Referring to the statement of the Senator relative to the rediscount of paper, what I am about to say applies only to country banks, because I know nothing of the situation in the city banks. What the Senator says about the Federal reserve banks being able to take care of this situation, I think, is true. What he says about the eligibility of the paper, of course, is also true. However, the trouble is that the rules and regulations surrounding the requirements for rediscountable paper make it very

difficult for a country bank at the present time to rediscount paper; in fact, but few country banks have any of the $8,500,000,000 of strictly eligible paper for discount under the rules and requirements of the present administration of the act.

Mr. GLASS. The Senator will recall that I put into the RECORD the statement of the Federal reserve authorities showing that under the restrictions to which the Senator refers there were only 91 member banks of the 7,600 that were without eligible paper.

Mr. THOMAS of Idaho. I am quite in sympathy with what the Senator says about the bill, but, not to take too much time, I wish to answer the question why the banks do not loan the money when they have the rediscountable paper. Whenever the statement of a country bank is published it is a community affair, and past experience has shown that bankers who were borrowing money have sometimes failed, and the public is afraid of a bank which they think is rediscounting or borrowing money. It should not be so, but it is so. So the banks in the country communities are afraid to show rediscountable paper on their statements. For that reason they do not exercise the privilege that they could exercise, as in many cases they have the paper the Senator mentions.

Mr. GLASS. Right there I am prompted to inject that one reason which appeals to me for the establishment of branch banks is that there are thousands of country banks that have failed, and there are others that are now threatened with failure, not because the bank officials are dishonest, not because the bank officials have consciously been guilty of unsound methods, but because those banks are so inadequately supplied with capital that they can not afford to employ expert bank managers and skillful bank officials. Such a condition would not apply to larger banks having branches in a community where the unit bank is so weak and insipient that it can not possibly respond to the agricultural or commercial demands of its respective communities.

Mr. THOMAS of Idaho. I quite agree with the Senator, and I hope Senators will keep in mind all the time the viewpoint not so much of the banker, not so much of the borrower in these communities, but of the poor fellow who has his money on deposit. We must pass legislation here that will make the depositors' money safe. That is the thought that I have.

Mr. VANDENBERG. Mr. President, bearing upon the question submitted by the Senator from Nebraska [Mr. NORRIS], may I inquire of the Senator from Virginia if it might not be at least partially misleading to refer only to the nation-wide total of eligible paper? What I mean is, Is not the vast bulk of such paper calculated to be concentrated in the money centers, and is not the great margin of the liquidity essentially in the money centers?

Mr. GLASS. I can only respond to that by saying that the official of the Federal Reserve Board especially charged with the gathering of statistical information about these matters stated, and the Federal Reserve Board itself stated, that the distribution of eligible paper throughout the country was very adequate.

Mr. VANDENBERG. For example, is it not probable that no bank was given a loan either by the National Credit Corporation or now by the Reconstruction Finance Corporation except as it had first exhausted its eligible paper at the Federal reserve bank?

Mr. GLASS. I do not know that that is at all true with respect to the Reconstruction Finance Corporation. Certainly there is nothing in the act creating that corporation making such a requirement. I do not know, furthermore, that anybody knows anything about the National Credit Corporation. We could not even get the president of it by letter, telegram, and long-distance telephone to appear before our committee. I do not know what the requirements of that organization were.

Mr. VANDENBERG. Does not the Senator think that would be a reasonable assumption in looking the field over?

Mr. GLASS. I suppose I am rather impatient and testy when I undertake to refer to the National Credit Corporation. I do not think there was anything reasonable about it.

Mr. BYRNES. Mr. President, will the Senator yield to me?

The PRESIDING OFFICER. Does the Senator from Virginia yield to the Senator from South Carolina?

Mr. GLASS. I yield.

Mr. BYRNES. The Senator has made reference to the statement which he inserted in the RECORD during the discussion of the Glass-Steagall bill. I want to say to the Senator that because the statement was so interesting, I secured from the Federal Reserve Board the figures as of April the 27th, and they confirm the statement made by the Senator a few moments ago that eligible paper is still distributed throughout the various districts. However, the statement shows that the borrowings on April 27 were $106,472,000 less than at the time of the previous report. So the statement made by the Senator from Virginia during the consideration of the Glass-Steagall bill is borne out entirely that so far as the eligible paper is concerned, there was no lack of commercial paper or of United States securities, but there were no borrowers.

Mr. GLASS. Mr. President, I hope now, unless some Senator has a question to ask, that I may conclude my remarks in rather an orderly way. I have consumed infinitely more time of the Senate than I ever expected I would do.

Mr. KEAN. Mr. President, will the Senator yield to me for just one question?

Mr. GLASS. Yes, sir.

Mr. KEAN. There are some twenty-nine million dollars of deposits in the banks, of which the banks are forced, unwillingly perhaps, to keep from 7 to 10 per cent with the Federal reserve banks. They keep——

Mr. GLASS. No.

Mr. KEAN. Excuse me for one moment.

Mr. GLASS. Well, I wanted to stop the Senator at the first misstatement of fact.

Mr. KEAN. The Senator says they have $8,000,000,000 of paper eligible for rediscount. If they had 35 per cent of their deposits, they ought to have $9,100,000,000.

Mr. GLASS. As a matter of fact, they are not required to keep the sum the Senator from New Jersey says they are, because of their shiftiness. It will be recalled that some years ago we reduced the reserve requirement behind time deposits to 3 per cent, but our information was that about 85 per cent of the bankers have so manipulated their deposits as to transfer their demand deposits to their time deposits in order to get the benefit of that 3 per cent. That is not honest banking. It takes us back to what was the outstanding incident of the money trust investigation when Mr. Untermyer was cross-examining a great banker and asked him if the banks in the money centers did not consistently try to evade the law, and the very frank and notable response was: "Why, certainly; what do you suppose we hire the best legal talent in the world for?"

Mr. President, the committee's study of the banking situation showed us conclusively that the system of banking in the rural communities had broken down largely through causes beyond the control of individual bankers or of the community interests. These causes are of a basic nature and have many ramifications, brought about through economic and social changes which have occurred in the United States since 1914; and in a large part the economic movement of a large number of independent local utility and industrial operating units toward a stronger and more centralized form of operation in the large cities has curtailed the opportunities of the country bank for diversity and extension of business, while broadening these opportunities for the large city banks.

Senators know that we have in this country hundreds of 1-crop banks, so to speak. The diversity of their business is inappreciable; and if that one crop fails, the bank fails. That would not so actually apply to a branch-banking system. A large bank in the cotton territory would be very

much more apt to have a diversity of business than a weak bank in a small community of that territory; so that when the cotton crop in the far South, or the tobacco crop in Virginia, the Carolinas, Tennessee, and Kentucky fails, it does not necessarily follow that the bank in the larger community, with greater resources, would fail, as so often now occurs with the small banks in small communities.

Two fundamental causes are at the root of the small bank failures—lack of diversity and necessarily lack of earning power. Most of the small banks are what may be termed, as I have stated, 1-crop or 1-enterprise banks. Where the loans of a bank are made to the community which depends upon cotton, and cotton prices are low, or a crop fails, the bank is unable to stand the shock, and the amount of losses can not be absorbed, due to the lack of earnings, and it eventually fails. And so if it is in a tobacco community; so if it is in a coal-mining section.

Many of the banks in the coal-mining section of the country have failed because coal mining has been tremendously arrested, and people who own coal-mining stocks have been literally impoverished. They no longer are getting any dividends. My own small town of 45,000 inhabitants has many million dollars invested in coal stocks, and not one of them is now paying a dividend; and if the banks of that community had to depend upon the coal-mining business they would all fail.

During the 5-year period from 1926 to 1930, inclusive, for which figures have been compiled for national banks, of the banks with total loans and discounts of $150,000 or less, 35 per cent lost money; 28 per cent of the banks with loans and discounts from $150,000 to $250,000 lost money; 20.6 per cent of the banks with loans and discounts from $250,000 to $500,000 lost money; 14.6 per cent of the banks with loans and discounts from half a million dollars to $750,000 lost money; and 13.2 per cent of the banks with loans and discounts from $750,000 to $1,000,000 lost money, according to the figures supplied me by the Comptroller of the Currency. These are small banks; and if we included the year 1931, which was an abnormal year, the figures would show an enormous increase in losses; and as I have pointed out, we have thousands of communities in this country now that are absolutely destitute of banking facilities.

If we had branch-bank authorization, the strong banks that have survived this catastrophe could open up their branches in those communities and afford them not sparse but ample credit facilities—banks sound, expertly managed, with the full responsibility of stockholders' liability. As it is these communities are without banking facilities, and they are unable to raise sufficient capital in the communities to organize unit banks.

Mr. KEAN. Mr. President, would the Senator mind yielding for a question?

Mr. GLASS. Not at all, sir.

Mr. KEAN. I am sorry to interrupt the Senator again.

Mr. GLASS. The Senator need not express any regret. I am glad to be interrupted.

Mr. KEAN. All I wanted to ask was this: The Senator does not mean to say that the banks with $100,000,000 of capital did not lose money during 1931, does he?

Mr. GLASS. No; I do not mean to say that. I pointed out yesterday that one particular bank with more than $100,000,000 of capital lost for its depositors $18,000,000, and its affiliate lost $57,000,000, making a total of $75,000,000; but that was an exceptional case, it is to be hoped.

I say, Mr. President, that it is the duty of Congress to supply these thousands of communities that are now without banking facilities with those facilities that may be afforded by a sound branch-banking system.

Moreover, the Comptroller of the Currency points out that there are hundreds, if not thousands, of communities in the United States where banks have become so weakened by this frightful depression as to make it improbable that they can much longer stand alone. Under the branch-banking system provided by this bill, hundreds if not thousands of these weak banks might be taken over by strong banks, and their activities and usefulness continued as branches of the strong banks. Who that desires credit, who that needs and is seeking banking accommodations objects to that? I have never known a business man or a merchant to raise an objection. Only the little banker who wants a monopoly of his territory objects.

There is interposed here the suggestion that a bank having a branch in a distant community of its State can not altogether sympathize with the requirements of that community and would not so readily respond to the commercial and industrial demands upon it. Why would it be there, what would it have a branch there for, except to do business, and to do all the business that its resources would permit it to do? I grant you that it might be that the sound and sensible man or men in charge of a branch would not be so eager to grant favors and privileges arising out of personal contact and friendly association; but that would be to the credit of the management rather than to the detriment of the community. How many banks have failed utterly because of that sort of favoritism, and because of unbusinesslike loans made for the accommodation of bank officials themselves, or their personal friends?

That is no argument against a sound system of branch banking. The comptroller assures me that hundreds of banks might have been saved in this exigency—and that is a mild statement of the case—might have been saved and taken over by the stronger banks if we had had a branch-banking system; and he points out to me a very significant fact:

When the Congress granted that inappreciable measure of branch banking which is contained in the so-called McFadden bill, the most strenuous opposition came from the bankers in Chicago outside the loop. They hired a skillful and persuasive professional lobbyist and paid him a high salary to come here to Washington—worse than that, they hired some Congressmen, to my positive documentary knowledge—to oppose even that small measure of branch banking. They extolled the unit-banking system to the skies in preference. Yet, in 1931, there were 70 unit-bank failures outside the loop at Chicago, whereas if we had had a larger measure of branch banking many of these banks, failing not because of the dishonesty or perhaps incapacity of the bank officials, might have been taken over and saved and their depositors rescued from impoverishment.

I referred at the beginning of my remarks to-day to the situation in Canada. I stated from recollection that there had been but 26 bank failures in 65 years of the branch-banking system of Canada.

Mr. BLAINE. Mr. President, will the Senator yield?

Mr. GLASS. Just as soon as I finish this thought. I also pointed out that the chief significance of the figures furnished me by the comptroller's office was that the total losses from bank failures in Canada in 65 years amounted to but $13,500,000, and that since 1900 there had been but 9 failures, 5 being of small banks carrying deposits of less than a million dollars, and that 5 of the 9 failures were so managed that the depositors in the banks did not lose a dollar, because the large banks in concert took them over and saved the depositors.

I now yield to the Senator from Wisconsin.

Mr. BLAINE. I wanted to inquire of the Senator whether or not, in view of the fact that for 200 miles in Canada along the Canadian border there are natural resources, agricultural possibilities, the Great Lakes, transportation, and possibilities of industrial development, he would explain Canada's backwardness as compared with the United States in commerce, agriculture, and industry, as due to its branch-banking system?

Mr. GLASS. No; I do not think its backwardness is due to the branch-bankink system. I think if it had not been for its branch-bank system, with a record such as I have described, its backwardness would have been infinitely greater than it has been. But I am not undertaking to describe the industrial backwardness of Canada, or of any other country. I am simply undertaking to show that the banking system has been sound, and that it has not resulted in tremendous losses to the depositors.

Mr. BLAINE. Is it not a fact that leading Canadians and publicists of Canada claim that the concentration of credit and banking under the branch-banking system of Canada has been directly responsible for the lack of development in agriculture, industry, and commerce in Canada?

Mr. GLASS. I have not seen anything to that effect; but I recall very vividly that when we enacted the Federal reserve act we had before our committee Sir Edmund Walker, at that time the head of the Canadian banking system, and his unqualified defense of their banking system was to me exhilarating. It almost converted me from my fixed judgment to the contrary at the time, and I have since many times regretted that I did not yield to his urgency.

I want to say this, too, that prior to the Civil War the two best banking systems in the United States were the branch-banking systems of Indiana and Virginia. Their notes were at a premium in every State of the Union.

Mr. NORRIS. Mr. President——

The PRESIDING OFFICER (Mr. FESS in the chair). Does the Senator from Virginia yield to the Senator from Nebraska?

Mr. GLASS. I yield.

Mr. NORRIS. I wish the Senator would enlighten me on this subject. In speaking of the number of banks which failed in Canada, does the Senator mean that so many branch banks or so many banks with branches failed?

Mr. GLASS. Banks with branches.

Mr. NORRIS. I can not conceive of a branch failing under that system.

Mr. GLASS. Oh, no; the branch can not fail. If the parent bank fails, of course it carries the branch along with it. But, as I have tried to point out, it is not so much in the number of banks which have failed but the small losses to the depositors which have ensued.

Mr. NORRIS. I realize that. Nevertheless, I wanted to get the number if I could. If we count each branch a bank—and it seems to me we ought to do that when we compare them with our unit bank—how many would that mean?

Mr. GLASS. I have not those figures, frankly. I feel so thoroughly convinced that a large measure of the usefulness of this proposed reformation of the banking system is involved in this branch banking that I have presented the matter with as much urgency and force as I have been able to command.

I want to conclude this discussion of the branch-banking feature by again insisting to the Senate that no question of State rights is involved. The matter of the right of Congress to go into a State without its consent and establish a national-bank system, and even to deprive the State, as it were, of the right of taxation, except by consent of Congress; the fact that Congress went into the State and prohibited, under a species of taxation, the issuance of currency by State banks; and the significant and conclusive fact that there is nothing in this provision of the bill, or in any other provision of the bill, which would undertake to interfere in the slightest degree with the State exercising its sovereign power by conferring the right to establish branches on State banks, show that that is not a tenable objection, though a very plausible, and, to some people, persuasive one.

I am a State-rights Democrat. I believe in the Jeffersonian theory of State rights, and of revenue tariff, in contradistinction to some of my colleagues, to whom Jefferson would not speak if he should meet them on the highway. I believe in State rights. But no State rights is involved in this question, because the State is not precluded from putting its State banks on a level of competition with national banks should they avail themselves of a privilege proposed to be granted.

It is not compulsory. No national bank must establish a branch if it does not think the community needs it and desires it, and does not believe there is a profitable business there for a branch. It is a purely voluntary thing.

I would like to impress those Senators who have done me the honor to listen to me with that contention, that it is not a question of ruthlessly disregarding the right of any State, because any State has within itself the power to avert any inequitable or unfair competition which might be involved in behalf of national banks.

Mr. VANDENBERG. Mr. President, may I ask the Senator one further question?

Mr. GLASS. I yield.

Mr. VANDENBERG. In section 19, this privilege of establishing a branch, I apprehend, is limited in each instance to the approval of the Federal Reserve Board?

Mr. GLASS. Yes; just as the right to charter a national bank now resides in the Comptroller of the Currency here at Washington.

Mr. VANDENBERG. I assume it would not be a rash presumption that, in the exercise of this optional power, the Federal Reserve Board would prevent any competitive raid on a banking system in a community where adequate banking facilities exist?

Mr. GLASS. Undoubtedly; the Federal Reserve Board would feel the obligation was upon it not to invade any community with a branch national bank if the existing banks afforded adequate credits. That is presumptively the obligation of the Comptroller of the Currency now. Not longer than three weeks ago he rejected the insistent demands of responsible men in a rich community of Virginia desiring to charter a national bank, giving as the reason that the one State bank there in the community was equal to all the requirements of the situation. It is not to be supposed that if this bill becomes a law the Federal Reserve Board is going out and authorize branch banking by the wholesale.

Mr. VANDENBERG. Pursuing the implication of my question and the implication of the Senator's answer, would the Senator think that it was a dangerous limitation upon this branch-bankink power if the creation of the branches were limited to the taking over of existing unit or affiliate banks in a given community, except in the case where the community has no banking service whatever?

Mr. GLASS. I would not call it a dangerous limitation. It might not be regarded by the Banking and Currency Committee precisely as a desirable limitation.

I may say to the Senator that a suggestion somewhat akin to that cited by him was made to the committee. It was that we provide that no branch might be established in a community unless the parent bank proposing to establish a branch should first negotiate with the existing unit bank or banks to take it or them over. But the committee did not agree that that was a wise restriction, and we did not incorporate it in the bill.

Mr. FLETCHER. Mr. President, will the Senator yield?

Mr. GLASS. I yield.

Mr. FLETCHER. May I suggest, somewhat in line with the remark of the Senator from Michigan, that the banks now having affiliates in different States would prefer themselves that they be branches instead of affiliates, that they would like to dispose of their affiliates, if they were permitted to establish branches?

Mr. GLASS. I think some of them wish they had disposed of their affiliates long, long ago. Yet there are some who are violently railing against this bill because we propose over a period of years to separate affiliates from national banks.

I do trust that Senators will read the legal opinion of Frederick W. Lehmann, to which I made reference yesterday, and which the Senate authorized to be printed as a public document. It will be available in print to-morrow.

I spoke of it yesterday from recollection without having the opinion before me. I made the inaccurate statement, because it had been made to me, as I conceived, authoritatively, that it was not the opinion of the Attorney General, but simply the opinion of the Solicitor General. But, upon examining the opinion itself when I returned to my office, I found that it was also the opinion of the Attorney General, Mr. Wickersham, because Mr. Lehmann states in the second paragraph of his letter of November 6, 1911:

On August 1, 1911, I submitted to you an opinion in which you concurred that the agreement and arrangement in question were

means of enabling the banks to carry on business and exercise powers prohibited to it by the national banking act.

So that it will appear from the language thus used that this was not merely the opinion of the Solicitor General but it was an opinion concurred in by the Attorney General. Why it was not acted on, why the Comptroller of the Currency, having supervision and control under the law of the national banking system, was not supplied with this opinion for his guidance, why it apparently disappeared from the face of the earth and could only be found in its original form, of which I have been furnished a photostatic copy, is something that I can only conjecture.

In this connection I have just been handed a note from Attorney General Mitchell in which he makes the statement, which I had already discovered to be true, that it was not former Attorney General McReynolds who refused to give out this opinion for publication, but it was former Attorney General Palmer. I did not on yesterday state which Attorney General it was. Perhaps I said enough to indicate that one might easily guess it was Attorney General McReynolds, and I felt authorized to do that because the memorandum of the present Attorney General specifically and textually stated it was Mr. McReynolds. He now calls attention to the fact, which I had already noted, that since it happened in 1921 it could not have been Attorney General McReynolds, because he was then on the Supreme Court Bench. It was Palmer and not McReynolds, according to Attorney General Mitchell's note just now handed to me.

The note of the Attorney General, which is not personal, states that his files show that in 1913 Attorney General McReynolds, at the request of Secretary McAdoo, gave the latter—that is to say, Secretary McAdoo—a copy of the Lehmann opinion. I do not know what Secretary McAdoo did with it, but I know what ought to have been done with it when it was written and concurred in by the Attorney General. It ought to have been supplied to the Comptroller of the Currency. It seems to me that, fortified with an opinion of that sort, the Comptroller of the Currency, whoever he may have been at that time, was under obligation to break up these illicit practices and the establishment by national banks of affiliates.

Of course, the present Comptroller of the Currency is not involved in any criticism that may be implied by what I have said. The distinguished Senator from New Hampshire [Mr. MOSES], my very devoted friend, suggested yesterday that I did not do anything about it when I was Secretary of the Treasury. It was not, strictly speaking, any of my business to do anything about it. The Comptroller of the Currency is supposed to be, but is not always, independent of the Secretary of the Treasury; but had I known anything about it perhaps I would have gone out of my jurisdiction and had something to say about it, as I have had now.

EXHIBIT A

[Senate Document No. 92, Seventy-second Congress, first session]

LEGALITY OF CERTAIN AGREEMENTS CONCERNING HOLDINGS OF NATIONAL-BANK STOCK

Mr. GLASS presented the following opinion of Solicitor General Lehmann submitted to the Attorney General on November 6, 1911, relative to the legality of certain agreements and arrangements as to holdings of national-bank stocks:

DEPARTMENT OF JUSTICE,
Washington, D. C., November 6, 1911.

The ATTORNEY GENERAL.

SIR: You advise me that the President desires that there shall be submitted to him upon his return to Washington a fuller discussion of the question of the legality of the agreements and arrangements existing between the ——— ——— Bank of New York and the ——— ——— Co., a corporation of the State of New York.

On August 1, 1911, I submitted to you an opinion, in which you concurred, that the agreements and arrangements in question were means of enabling the bank to carry on business and exercise powers prohibited to it by the national banking act.

I have reconsidered the question with the care demanded by its importance, and have reached the conclusion that both the bank and the company, whether considered as affiliated or as unrelated, are in violation of the law.

At the outset it is well to consider the purposes which the framers of the national banking act had in view. The first, the paramount, purpose was to secure a uniform national system of currency, and to do this without the creation of a great central institution like the old United States Bank.

The opposition to such an institution was deep-seated and widespread, and the sponsors of the various plans which took final shape in the national banking act were careful to point out that the objections to the United States Bank had been duly considered and had been avoided by them.

In August, 1861, O. B. Potter, of New York, submitted to the Secretary of the Treasury a scheme to permit State banks and bankers to issue notes secured by United States bonds, saying: "*None of the objections justly urged against a United States bank lie against this plan.* It gives to the Government no power to bestow favors and does not place a dollar in its hands to lend. * * * It is impossible to see how such a system can be made use of for political ends." (The Origin of the National Banking System, S. Doc. No. 582, pp. 46–48, 61st Cong., 2d sess.)

Samuel Hooper, a Member of the House from Massachusetts, was an active agent in the attainment of the end sought. In support of one of the early measures proposed, which, while it did not become a law, was a step in that direction, he said:

"*Thus are secured all the benefits of the old United States Bank without many of those objectionable features which aroused opposition.* It was affirmed that, by its favors, the Government enabled that bank to monopolize the business of the country. Here no such system of favoritism exists. * * * It was affirmed that frequently great inconvenience and sometimes terrible disaster resulted to the trade and commerce of different localities by the mother bank of the United States arbitrarily interfering with the management of the branches by reducing suddenly their loans and sometimes withdrawing large amounts of their specie for political effect. Here each bank transacts its own business upon its own capital, and is subject to no demands except those of its own customers and its own business. It will be as if the Bank of the United States had been divided into many parts, and each part endowed with the life, motion, and similitude of the whole, revolving on its own orbit, managed by its own board of directors, attending to the business interests of its own locality; and yet to the bills of each will be given as wide a circulation and as fixed a value as were given to those of the Bank of the United States in its palmiest days." (Congressional Globe, 37th Cong., 2d sess., Pt. I, p. 616.)

In the national banking act as passed in 1863 it was believed that the desired result had been obtained.

Mr. Hugh McCulloch, president of a leading bank at Indianapolis, and distinguished as a financier, was induced, at great sacrifice to himself, to accept the office of Comptroller of the Currency and inaugurate the new system. In a letter to a friend published in the Banker's Magazine, Vol. XVIII, pages 8 and 9, he said:

"The national system of banking has been devised with a wisdom that reflects the highest credit upon its author to furnish to the people of the United States *a national-bank note circulation without the agency of a national bank.* It is not to be a mammoth corporation, with power to increase and diminish its discounts and circulation, at the will of its managers, thus enabling a board of directors to control the business and politics of the country. It can have no concentrated political power. Nor do I see how it can be diverted from its proper and legitimate objects for partisan purposes. It will concentrate in the hands of no privileged persons a monopoly of banking. It simply authorizes, under suitable and necessary restrictions, any number of persons, not less than five in number, in any of the States or Territories of the Union, to engage in the business of banking, while it prevents them from issuing a single dollar to circulate as money which is not secured by the stocks and resources of the Government. It is, therefore, in my judgment (as far as calculation is regarded), not only a perfectly safe system of banking, but it is one that is eminently adapted to the nature of our political institutions."

In his first report as Comptroller of Currency, made November 28, 1863, he says:

"By the national currency act the principle is for the first time recognized and established that the redemption of bank notes should be guaranteed by the Government authorizing their issue. The national currency will be as solvent as the nation of which it represents the unity. The country has at last secured to it *a permanent paper circulating medium of a uniform value, without the aid of a national bank.* This national system confers no monopoly of banking, but opens its advantages equally to all. It interferes with no State rights. It meets both the necessities of the Government and the wants of the people. It needs modifications, and may require others than those which are suggested in this report; but it is right in principle, and of its success there can, I think, be no reasonable doubt.

"This examination of the act, and the observation of the manner in which it is being administered, have resulted in the entering up of a popular judgment in favor of the national-banking system: A judgment, not that the system is a perfect one, nor free from danger of abuse, but that it is a safer system, better adapted to the nature of our political institutions, and to our commercial necessities, giving more strength to the Government, with less risk of its being used by the Government against the just rights of the States, or the rights of the people, than any system which has yet been devised, and that by such amendments of the act as experience may show to be needful, it may be made as little objectionable and as beneficial to the Government and the people as any paper-money banking system that wisdom and experience are likely to invent. It promises to give to the people that long-

existing 'desideratum,' *a national currency without a national bank*, a bank-note circulation of uniform value without the creation of a moneyed power in a few hands over the politics and business of the country."

And again in his second report, made November 25, 1864.

When in his letter and reports Mr. McCulloch speaks of "a national bank-note circulation *without the agency of a national bank*," etc., he manifestly has reference to an institution national in the sense of being a central institution like the old United States Bank, operating throughout the country by means of branches.

The banks created by the national banking act were, and were designed to be, local institutions and independent of each other, but under national control and supervision. Nationalization without centralization was the keynote of the law. This is demonstrated by the structure of the banks provided for.

Reference will be made to the national banking act as contained in the United States Compiled Statutes, 1901. It is title 62, and consists of four chapters. The first chapter deals with "organization and powers," the second with "obtaining and issuing circulating notes," the third with "regulation of the banking business," and the fourth with "dissolution and receivership." The entire act is too long for reproduction here, but pertinent sections will be set out in full or in their substance.

Section 5133, "formation of national banking associations," provides:

"Associations for carrying on the business of banking under this title may be formed by any number of natural persons, not less in any case than five. They shall enter into articles of association, which shall specify in general terms the object for which the association is formed, and may contain any other provisions, not inconsistent with law, which the association may see fit to adopt for the regulation of its business and the conduct of its affairs. These articles shall be signed by the persons uniting to form the association, and a copy of them shall be forwarded to the Comptroller of the Currency, to be filed and preserved in his office."

It should be noted in passing that only "natural persons" may engage in the formation of a bank.

Section 5134, "requisites of organization certificate," provides:

"The persons uniting to form such an association shall, under their hands, make an organization in certificate, which shall specifically state:

"First. The name assumed by such association, which name shall be subject to the approval of the Comptroller of the Currency.

"Second. The place where its operations of discount and deposit are to be carried on, designating the State, Territory, or District, and the particular county and city, town or village.

"Third. The amount of capital stock and the number of shares into which the same is to be divided.

"Fourth. The names and places of residence of the shareholders and the number of shares held by each of them.

"Fifth. The fact that the certificate is made to enable such persons to avail themselves of the advantages of this title."

By this section the bank is distinctly localized, for it requires that "the place where its operations of discount and deposits are to be carried on" shall be designated as to State, county and city, town or village, and it allows but one place.

This is repeated in section 5190, "place of business," which provides:

"The usual business of each national banking association shall be transacted at an office or banking house located in the place specified in its organization certificate."

By an act of May 1, 1886 (ch. 73, 24 Stat. 18), a bank was authorized to *change* its location, but not to a place more than 30 miles distant, and the new location must be within the same State. No provision has ever been made for increasing the number of cities, towns, or villages in which a bank may do business.

Section 5138, "requisite amount of capital," provides:

"No association shall be organized with a less capital than $100,000, except that banks with a capital of not less than $50,000 may, with the approval of the Secretary of the Treasury, be organized in any place the population of which does not exceed 6,000 inhabitants, and except that banks with a capital of not less than $25,000 may, with the sanction of the Secretary of the Treasury, be organized in any place the population of which does not exceed 3,000 inhabitants. No association shall be organized in a city the population of which exceeds 50,000 persons with a capital of less than $200,000."

This, because of the small amount of capital required in such case, extends the facilities of national banking to the smallest communities.

Section 5146, "requisite qualifications of directors," provides:

"Every director must, during his whole term of service, be a citizen of the United States, and at least three-fourths of the directors must have resided in the State, Territory, or District in which the association is located, for at least one year immediately preceding their election, and must be residents therein during their continuance of office. Every director must own, in his own right, at least 10 shares of the capital stock of the association of which he is a director. Any director who ceases to be the owner of 10 shares of the stock, or who becomes in any other manner disqualified, shall thereby vacate his place."

Here the local character of the bank is secured. The directors must all be shareholders, they must all be citizens of the United States and three-fourths of them must be residents of the State.

The powers of the bank are conferred in general terms by section 5136, and they are, to have a seal, and perpetual succession, to make contracts, sue and be sued, elect officers and define their duties, and further—

"Sixth. To prescribe, by its board of directors, by-laws not inconsistent with law, regulating the manner in which its stock shall be transferred, its directors elected or appointed, its officers appointed, its property transferred, its general business conducted, and the privileges granted to it by law exercised and enjoyed.

"Seventh. To exercise by its board of directors, or duly authorized officers or agents, subject to law, all such incidental powers as shall be necessary to carry on the business of banking; by discounting and negotiating promissory notes, drafts, bills of exchange, and other evidence of debt; by receiving deposits; by buying and selling exchange, coin, and bullion; by loaning money on personal security; and by obtaining, issuing, and circulating notes according to the provisions of this title.

"But no association shall transact any business except such as is incidental and necessarily preliminary to its organization, until it has been authorized by the Comptroller of the Currency to commence this business of banking."

Section 5137 confers power to hold real property and limits it to such as may be necessary for "its immediate accommodation in the transaction of its business," and such as it may acquire in the way of securing payment of debts previously contracted, but real estate so acquired can not be held for a longer period than five years.

Section 5197 limits the rate of interest which may be taken to that "allowed by the laws of the State, Territory, or District where the bank is located."

This again emphasizes the local character of the institution.

Section 5201 prohibits a bank from loaning upon or purchasing its own shares.

It has been repeatedly held that the powers of a national bank are limited to those expressly granted by the act and such as are properly incidental to those granted.

In Logan County National Bank *v.* Townsend (139 U. S. 67, l. c. 75), the court, speaking through Mr. Justice Harlan, said:

"It is undoubtedly true, as contended by the defendant, that the national banking act is an enabling act for all associations organized under it, *and that a national bank can not rightfully exercise any powers except those expressly granted by that act, or such incidental powers as are necessary to carry on the business of banking for which it was established.* The statute declares that a national banking institution shall have power 'to exercise, by its board of directors, or duly authorized officers or agents, subject to law, all such incidental powers as shall be necessary to carry on the business of banking; by discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt; by receiving deposits; by buying and selling exchange, coin, and bullion; by loaning money on personal security; and by obtaining, issuing, and circulating notes according to the provisions' of title 62 of the Revised Statutes."

And in California Bank *v.* Kennedy (167 U. S. 362, l. c. 366) the court, through Mr. Justice White, said:

"It it settled that the United States statutes relative to national banks constitute the measure of the authority of such corporations, and that they can not rightfully exercise any powers except those expressly granted, or which are incidental to carrying on the business for which they are established. Logan County Bank *v.* Townsend (139 U. S. 67, 73). No express power to acquire the stock of another corporation is conferred upon a national bank; but it has been held that, as incidental to the power to loan money on personal security, a bank may in the usual course of doing such business accept stock of another corporation as collateral, and by the enforcement of its rights as pledgee it may become the owner of the collateral and be subject to liability as other stockholders. National Bank *v.* Case (99 U. S. 628). So, also, a national bank may be conceded to possess the incidental power to accept in good faith stock of another corporation as security for a previous indebtedness. It is clear, however, that a national bank does not possess the power to deal in stocks. The prohibition is implied from the failure to grant the power. First National Bank *v.* National Exchange Bank (92 U. S. 122, 128)."

The proposition is an elementary one in corporation law and needs no elaboration.

It follows that while a bank may take the stocks of another corporation as collateral to a loan, or take them in payment of a debt previously incurred, it can not deal in stocks. The limit of its powers in this respect is stated by Chief Justice White in First National Bank *v.* National Exchange Bank (92 U. S. 122, 128):

"* * * In the honest exercise of the power to compromise a doubtful debt owing to a bank it can hardly be doubted that stocks may be accepted in payment and satisfaction, with a view to their subsequent sale or conversion into money so as to make good or reduce in anticipated loss. *Such a transaction would not amount to a dealing in stocks.*"

In First National Bank *v.* Converse (200 U. S. 425) a manufacturing company had failed, and the creditors, among whom was the bank, organized a new corporation to purchase the stocks, evidences of debt, and assets of the old, and to continue in the manufacture of the same articles that had been manufactured by the old company. This transaction was held to be without the powers of the bank. The court, page 439, said:

"* * * To concede that a national bank has ordinarily the right to take stock in another corporation as collateral for a present loan or as security for a preexisting debt *does not imply that because a national bank has lent money to a corporation it may become an organizer and take stock in a new and speculative ven-*

ture; in other words, do the very thing which the previous decisions of this court have held can not be done."

As to acquiring the stocks of other national banks, the ruling of the court is very explicit.

In Concord First National Bank *v.* Hawkins (174 U. S. 364) the bank of Concord, N. H., had bought and held as an investment 100 shares of the stock of the Indianapolis National Bank. The last-named bank failed and Hawkins as receiver sued the Concord bank to recover the assessment which had been made upon the stock of the Indianapolis bank. The Concord bank denied liability upon the grounds that it had no right to hold the stock. The court refused to so much as to apply the doctrine of estoppel in favor of creditors. Referring to previous decisions of the court and to the distinction made by the circuit court between the acquisition of stocks in national banks and of stocks in other corporations, the court, page 368, said:

"No reason is given by the learned judge in support of the solidity of such a distinction, and none occurs to us. Indeed, we think that the reasons which disqualify a national bank from investing its money in the stock of another corporation are quite as obvious when that other corporation is a national bank as in the case of other corporations. *The investment by national banks of their surplus funds in other national banks, situated, perhaps, in distant States, as in the present case, is plainly against the meaning and policy of the statutes from which they derive their powers, and evil consequences would be certain to ensue if such a course of conduct were countenanced as lawful.* Thus, it is enacted, in section 5146, that "every director must, during his whole term of service, be a citizen of the United States, and at least three-fourths of the directors must have resided in the State, Territory, or District in which the association is located for at least one year immediately preceding their election and must be residents therein during their continuance in office."

"One of the evident purposes of this enactment is to confine the management of each bank to persons who live in the neighborhood, and who may, for that reason, be supposed to know the trustworthiness of those who are to be appointed officers of the bank, and the character and financial ability of those who may seek to borrow its money. But if the funds of a bank in New Hampshire, instead of being retained in the custody and management of its directors, are invested in the stock of a bank in Indiana, the policy of this wholesome provision of the statute would be frustrated. The property of the local stockholders, so far as thus invested, would not be managed by directors of their own selection but by distant and unknown persons. *Another evil that might result, if large and wealthy banks were permitted to buy and hold the capital stock of other banks, would be that in that way the banking capital of a community might be concentrated in one concern, and business men be deprived of the advantages that attend competition between banks. Such accumulation of capital would be in disregard of the policy of the national banking law, as seen in its numerous provisions regulating the amount of the capital stock and the methods to be pursued in increasing or reducing it. The smaller banks in such a case would be in fact though not in form branches of the larger one.*

"Section 5201 may also be referred to as indicating the policy of this legislation. It is in the following terms:

"'No association shall make any loan or discount on the security of the shares of its own capital stock, nor be the purchaser or holder of any such shares, unless such security or purchase shall be necessary to prevent loss upon a debt previously contracted in good faith; and stock so purchased or acquired shall, within six months from the time of its purchase, be sold or disposed of at public or private sale; or, in default thereof, a receiver may be appointed to close up the business of the association.'

"This provision forbidding a national bank to own and hold shares of its own capital stock would, in effect, be defeated if one national bank were permitted to own and hold a controlling interest in the capital stock of another."

Here is an express recognition and assertion of the local and independent character of our national banks and the denial of any power which would tend to create what is in effect a central bank with branches.

As to the transfer of its shares, a national bank has power only "to prescribe, by its board of directors, by-laws not inconsistent with law, *regulating the manner* in which its stock shall be transferred." Manner relates to method or form and not to substance. So the by-laws may require a formal indorsement of the outstanding certificate, the issuance of a new one, and a register of the transfer upon the books of the bank. But no condition can be imposed which limits or impairs the right of transfer.

The national banking act, as originally passed in 1863, by section 36, denied to the stockholder "power to sell or transfer any share held in his own right so long as he shall be liable, either as principal debtor, surety, or otherwise, to the association for any debt which shall have become due and remains unpaid," etc.; but this provision was repealed by the act of 1864, which, with amendments, is the act now upon the books. The purpose of the repeal was to make the shares more readily transferable. Banks thereafter, however, attempted to enforce the restrictions of the original act by means of by-laws, but these have been held always to be invalid. Speaking to this subject in Bank *v.* Lanier, 11 Wall. 369, l. c. 377–378, the court said:

"The power to transfer their stock is one of the most valuable franchises conferred by Congress on banking associations. Without this power it can readily be seen the value of the stock would be greatly lessened, and, obviously, whatever contributes to make the shares of the stock a safe mode of investment, and easily convertible, tends to enhance their value. It is no less the interest of the shareholder than the public that the certificate representing his stock should be in a form to secure public confidence, for without this he could not negotiate it to any advantage.

"It is in obedience to this requirement that stock certificates of all kinds have been constructed in a way to invite the confidence of business men, so that they have become the basis of commercial transactions in all the large cities of the country and are sold in open market the same as other securities. Although neither in form nor character negotiable paper, they approximate to it as nearly as practicable. If we assume that the certificates in question are not different from those in general use by corporations—and the assumption is a safe one—it is easy to see why investments of this character are sought after and relied upon. No better form could be adopted to assure the purchaser that he can buy with safety. He is told, under the seal of the corporation, that the shareholder is entitled to so much stock, which can be transferred on the books of the corporation, in person or by attorney, when the certificates are surrendered, but not otherwise. This is a notification to all persons interested to know that whoever in good faith buys the stock and produces to the corporation the certificates regularly assigned, with power to transfer, is entitled to have the stock transferred to him. And the notification goes further, for it assures the holder that the corporation will not transfer the stock to anyone not in possession of the certificates."

This ruling holding the restrictive by-law to be invalid was repeated in Bullard *v.* National Eagle Bank (18 Wall. 594), Third National Bank *v.* Buffalo German Ins. Co. (193 U. S. 581), and in many cases on the circuit and in the State courts.

If the law was changed to permit a transfer, when to deny it was in the immediate interest of the bank, it surely never was the purpose to authorize a restriction upon transfer in behalf of any interest foreign to the bank, and with which it is forbidden that the bank, as a bank, may be identified.

From the history of the national banking act, from its terms and provisions, and from the decisions of the Supreme Court construing it, these propositions are derived:

I. The banks are local institutions and independent of each other, none the less that they are creatures of Federal power and subject to Federal supervision and control.

II. A bank may in its by-laws regulate the manner in which its shares may be transferred, but it can not impair or limit the right of transfer.

III. As to business operations, the bank has such powers as are expressly granted by the act and such as are properly incidental to those expressly granted, and none other, and so can engage only in the business of banking as that business is defined by the act.

IV. It is neither banking nor an incident of banking to invest the funds of the bank in another business in any manner or to any extent; and the bank has, therefore, no right to invest its funds in the stocks of another corporation, and especially not in the stocks of another national bank.

V. The powers of a national banking association are and can be granted only by the United States, and as no grant of such powers is made by the act to any State corporation they may not be exercised by such a corporation.

These propositions relate to matters of substance, and so may be no more evaded than violated. Indirection, if it accomplishes the same purpose, stands upon the same footing with direction.

Coming now to the case in hand, we have to consider what is the practical effect of the creation of the ——— ——— Bank and its affiliation with the ——— ——— Company.

So far as concerns matters of form, it may be conceded that the ——— ——— Bank was incorporated as an independent institution. Still its certificate of incorporation while not compelling dependence upon or interrelation with any other institution does provide for it. Its business powers and capacities are very extensive. They authorize the acquisition of any kind of property and the conduct of any kind of business and the doing of whatever may be incident thereto. (See art. 2 of the certificate of association.) The only limitation upon its business activities is to be found in Paragraph VIII of Article II, and this is:

"* * * but nothing herein contained shall be construed as authorizing the business of banking nor as including the business purpose or purposes of a money corporation or a corporation provided for by the banking, insurance, railroad, and the transportation corporations laws, or an educational institution or corporation which may be incorporated as provided in the education law, nor as authorizing or intending to authorize the performance at any time of any act or acts then unlawful."

As the business of banking, which must be taken to include the business of banking under the national banking laws, is expressly prohibited, the powers of the company *as granted by its charter* do not offend the Federal laws.

The tenth article provides in its first paragraph that "the directors of the company need not be stockholders," and in the second paragraph that—

"No transaction entered into by the company shall be affected by the fact that the directors of the company were personally interested in it, and every director of the company is hereby relieved from any disability that might otherwise prevent his contracting with the company for the benefit of himself or any firm, association, or corporation in which he may be in anywise interested."

These provisions in and of themselves violate no Federal statutes, but they give a facility for serving two masters, which is, to say the least, unusual; and they do permit the use of the company

as a mere instrumentality or convenience of some other institution.

The capital stock of the company is by the third article fixed at $10,000,000, but it is provided by paragraph 5 of article 10 that—

"The board of directors shall have absolute discretion in the declaration of dividends out of the surplus profits of the company, and they may accumulate such profits to such extent as they may deem advisable instead of distributing them among the stockholders, and may invest and reinvest the same in such manner as in their absolute discretion they may deem advisable."

Thus, while there is a limit placed upon the capital stock of the company, there is none upon the actual capital it may accumulate, and so none upon its possible financial power.

These various provisions of the certificate of incorporation are important to be considered in view of the use which has been made of the company.

The certificate is dated July 5, 1911, but prior to that date on June 1, 1911, an agreement was entered into between the ——— ——— Bank as the first party [three names of prominent persons eliminated] trustees, as the second party, and [five names of prominent persons eliminated] and other subscribers, "who are shareholders of the said bank," as parties of the third part. In the agreement these parties are designated, respectively, as "the bank," "the trustees," and "the subscribers."

The trustees are all of them officers of the bank. Mr. ——— is the chairman of the board of directors, Mr. ——— is its president, and Mr. ——— is a director.

The agreement, then, is one between the bank, its officers and its shareholders, and, as will be seen, the officers and shareholders are dealt with not as individuals but as officers and shareholders.

The preamble recites that—

"Opportunities and facilities for making desirable investments, *other than those which are possible in the ordinary course of the banking business*, are, from time to time presented to the officers of the bank, which they desire to make available to the shareholders of the bank."

Here is the declared purpose to do something, make investments, not within the scope of the bank's powers. That the officers and shareholders of the bank as individuals may make such investments is conceded, but that the bank, or its officers or shareholders, as officers and shareholders, may do so; in other words, that the powers and facilities granted by the national banking act may be used for purposes outside the ordinary course of banking business is denied.

The first article of the agreement provides for the organization of an investing company. It is here called the United States Investing Co. It is, however, the ——— ——— Company under a provisional name.

It is not within the scope of the bank's powers to have part or lot in such an agreement, for the simple reason that the formation of an investing company, under State corporation laws, is not the conduct of banking under national laws. And what is true of the bank is true of its officers and shareholders acting as such.

The second article accords to each shareholder of the bank, as a right, a beneficial interest, through the trustees, in the capital stock of the investing company, to the extent of two-fifths of the par value of his capital stock in the bank, provided he exercises his right by executing the agreement or by having his bank stock stamped as thereafter provided in the agreement. If the shareholder does not exercise his right in time, the trustees may determine the conditions upon which he may do so thereafter.

The par value of the capital stock of the bank is $25,000,000, and two-fifths of this is ten millions, which is the par value of the stock of the investing company. Every shareholder of the bank exercising his right, the stock of the company is fully provided for.

It is contended that the shareholder of the bank is not required to take his allotted beneficial interest in the company, but manifestly he is under strong compulsion. The bank and the company, as will be seen from later provisions of the agreement, are so closely bound together that the welfare of the company will always be the serious concern of the bank. For better or for worse the bank and the company are united. The shareholder, if he is not in the arrangement, must none the less hazard the worse and get none of the better, and so, inasmuch as against his will he is in for the worse, he will in self-protection go in further and entitle himself to the better.

The third article provides that in order to facilitate participation by the shareholders of the bank in the beneficial interests in the company, the trustees will recommend to the directors of the bank the declaration of a special dividend of 40 per cent on the capital stock of the bank, which will amount to $10,000,000, or the exact amount of the capital stock of the company. The subscribers, shareholders of the bank, agree to apply the dividend to the payment of the stock of the company.

The recommendation of the trustees, officers of the bank, assented to by the bank and by two-thirds of the shareholders, was sure to be adopted, but not even as against a dissenting or nonassenting minority, no matter how small that minority might be, was there a right to declare a dividend except as such declaration was made in the interest of the bank and its shareholders as such. And there is a larger interest, that of depositors and of the National Government, which requires that the bank shall be conducted as a bank pure and simple and not as a promoting agency of speculative investment companies.

The fourth article requires that the subscribers at once assign the special dividend to the trustees in order to enable the trustees to organize the investing company.

This only emphasizes the fact that the resources and facilities of the bank were utilized to create the investing company.

The fifth article provides (1) that the stock of the investing company shall be issued to the trustees and shall be held by them and their successors in trust, and (2) that the beneficial interest of the subscribers in this stock "shall not be transferable separately, but only by the transfer of the shares of stock of the bank held by them, respectively, and every sale or transfer of stock of the bank by a subscriber or his successor shall include the beneficial interest of such subscriber or his successor in the capital stock of the investing company attaching to the shares of the bank so sold or transferred."

The first clause of this article limits the number of stockholders in the company to three, the three being the trustees and their successors in trust.

Article 9 of the agreement provides:

"The number of trustees hereunder shall not be less than three. Any trustee may, at any time, resign. In case of any vacancy in the number of trustees, it shall be filled by the remaining trustees by the selection of some one who is an officer or a director of the bank: And any trustee who shall cease to be an officer or a director of the bank shall thereupon also cease to be a trustee hereunder; *it being intended that only officers or directors of the bank shall act as trustees.*

"No trustee shall be liable for the acts of any other trustee, but shall be liable only for his own willful misconduct.

"The trustees may act by a majority, either at a meeting or by writing with or without a meeting; and they may vote in person or by proxy."

Thus only officers or directors of the bank can ever be stockholders in the company, for the trustees hold the stock and only officers and directors of the bank can be trustees. And the trustees are a self-perpetuating body. Any vacancy is to be filled by the remaining trustees.

By article 8 it is provided that the trustees and such other persons as they may designate, who shall be officers or directors of the bank, shall constitute the first board of directors of the company, and that no one shall ever be a director of the company who is not also an officer or director of the bank.

The certificate of incorporation of the company provides for five directors, but it has only three stockholders; therefore it was provided in the certificate that directors need not be stockholders.

The second clause of article 5 prohibits transfer of beneficial interests in the company without a transfer of the corresponding shares of the bank, and, conversely, prohibits transfer of shares in the bank without a transfer of the corresponding beneficial interest in the company.

Article 6 provides for certain indorsements upon the certificate of bank shares and upon the certificates of beneficial interest in the company. These indorsements are in aid of the plan and purpose of the agreement.

Article 7 requires payment of company dividends to be made to shareholders of the bank whose certificates of bank shares are stamped or indorsed as provided in article 5. Payments of these dividends may be made by the trustees to the bank, and such payment will relieve the trustees from further liability on their account.

Article 10 provides for the amendment, modification, or termination of the agreement. Any of these can be accomplished only "with the written consent of the trustees and of two-thirds in interest of those for whom the capital stock of the investing company is then held by the trustees."

This, then, is the situation: The company was not independently organized, but was organized by the bank, its officers and shareholders, acting as such. Only shareholders of the bank were permitted an interest in the company and these only in the proportion of their holdings in the bank. This constitution of the interests of the company must continue to the end, for no one can ever come into the company without coming into the bank, and no one can ever go out of the company without going out of the bank. The bank, by declaration of a dividend, furnished the entire capital of the company. No person can be an officer or director of the company unless he is an officer or director of the bank.

This is not all. The company has no independence of action. It has no control or authority over its own affairs. It is to be remembered that all its stock is to be held by the trustees, and of course, is to be voted by them. Plenary power over the company is therefore held by these trustees. Now, these trustees were not elected by the incorporators of the company nor by its stockholders. They were nominated by the agreement between the bank, its officers and shareholders, made before the company was in existence. They can not be removed, nor can their successors be elected or determined by any power or interest of the company. The trustees, nominated by the agreement, perpetuate themselves. They appoint their own successors. The only power outside themselves which can make a change in their membership is the shareholding body of the bank. The shareholders by not continuing a trustee as an officer or director of the bank eliminate him as a trustee. The official organization of the company and the vesting of its powers are determined and can be determined only by the corporate action of the bank.

And the agreement which accomplishes all these things is beyond the scope of the legitimate action of the bank to change or terminate. Two-thirds of the shareholders of the bank and the trustees must agree before there can be a change in it or an end of it. In this matter, so material to the welfare of the bank,

the shareholders and the directors have abdicated their powers and duties and abandoned them to a minority of their number and the three trustees.

To facilitate the conduct of the business of the company by the officers of the bank, article 10 of the certificate of incorporation of the company provides that no transaction entered into by the company shall be affected by the fact that its officers or directors are contracting for their own benefit, or for the benefit of any firm, association, or corporation in which they may be interested in any wise.

This arrangement between the bank and the company virtually consolidates them, unifies their every interest, and requires that all the powers and capacities of both shall always be exerted in unison—or it does not.

If we have two institutions, and not one, chartered as each one of them is by public authority, and by different sovereignties, then each has its own peculiar mission and its own distinctive rights and duties, powers, and obligations. The bank is not concerned with the company, except as it might be with any other possible borrower of its funds, and the company is not concerned with the bank, except as it might be with any other institution whose funds it might wish to borrow. The bank will not be influenced to lend money in aid of any enterprise in which the company may be engaged, because of that fact, and the company will not, because of its relations with the bank, look to it the more readily for financial support. The business of each will be conducted with regard to its own distinctive advantage.

If these institutions are twain in the substantial sense indicated, then the arrangement which places the control of the company so absolutely and irrevocably under trustees appointed by the bank, and subject to change only by the corporate action of the bank, offends the fundamental law that "no servant can serve two masters; for either he will hate the one and love the other, or else he will hold to the one and despise the other." This law is implied in every line of the charter of the bank, and the attempt to repeal it in the tenth article of incorporation of the company is vain and nugatory.

If, however, the mission of the bank and the mission of the company are alike and linked always in interest and welfare, if the rights and duties of the two are necessarily harmonious and reciprocal, if the bank at all times must cooperate with the company and the company with the bank, if the officers and directors of the bank who are also the officers and directors of the company can not come into the predicament of divided allegiance, and, indeed, are in the service of but one master, then the bank involved is engaged, participating in, and conducting the business of the company, business beyond its chartered powers, business that is not national banking.

Only the absolute unity and identity of interest between the two institutions would afford moral excuse for the fusion of their powers under one control, but that excuse can not justify transgression of the positive mandate of the national banking act, which, from considerations of public interest, has determined that national banking shall be a business apart to be conducted by institutions organized for that purpose and for no other.

I am constrained to conclude that as to the bank the agreement violates the law, in its details, because it impairs and limits the right of transfer of shares and because it assumes to bind the bank beyond the possibility of release by the majority action of its shareholders and directors, and its general plan and scope, because it embarks the bank in business and ventures beyond its corporate powers.

The operations under this agreement are proper to be considered, and what is said in this connection is based upon a letter of date July 26, 1911, from President ——— to United States Attorney ———.

At that date $9,679,000 of the capital stock of the company had been paid up, showing that more than 96 per cent of the shareholders of the bank had come into the arrangement.

The company had made investments in the shares of 16 different banks and trust companies, the aggregate number of shares being 29,178. The market value of these was not shown. In addition, approximately $3,200,000 had been invested in other companies of different character.

Of the banks, nine were national banks. The number of shares held by the company and the total number of shares of the capital stock of the banks is as follows:

Bank	Company's holdings	Total number of shares of capital stock of bank
Second National Bank of New York	10	10,000
Fletcher American National Bank of Indianapolis	167	20,000
American National Bank of Indianapolis [1]	250	
Fourth Street National Bank of Philadelphia	500	30,000
National Shawmut Bank of Boston	1,000	35,000
Riggs National Bank of Washington	2,240	10,000
National Butchers and Drovers Bank of New York	3,000	3,000
Lincoln National Bank of New York	4,324	10,000
National Bank of Commerce of New York	9,800	250,000

[1] No such bank shown in the American Bank Reporter.

Thus the company holds the entire capital stock of the National Butchers and Drovers Bank, not even deducting the shares, 10 each, which its nine directors are by the law required to hold in their own right. This bank surely is not independent of the ——— ——— Bank, in view of the relations of each to the company.

The company wants but 677 shares to hold a majority of the capital stock of the ——— ———, and practically it may be said that when 4,324 out of 10,000 shares are held in one ownership, the control of the corporation has been secured.

If the ——— ——— Bank may extend its powers to the control of two other national banks, there is no limit to what it may do in that way. If the power exists, there is no restraint upon its exercise. By different methods and under other forms the ——— ——— Bank is doing, and in larger measure, what the Supreme Court in Concord First National Bank *v.* Hawkins, supra, declared to be in cantravention of the national banking act.

And the ——— ——— Co., considered by itself and apart from its relations to the ——— ——— Bank, is also in violation of law. Its charter from the State of New York expressly prohibits it from the business of banking. And that charter could not confer the power to engage in the business of national banking. Such power could be conferred only by the laws of the United States.

Section 5133, quoted above, confers the power to form a national banking association only upon "natural persons." Other sections of the law restrict the place of operations of the association to a single city, town, or village, and require that its directors shall be natural persons, all of whom have a substantial interest in the bank and three-fourths of whom must be citizens, and residents of the State in which the association operates. Then, too, as we have seen, the bank may not as an investment acquire the shares of another bank, or, indeed, of any other corporation. The purpose and the result are that each national bank must be a local, independent institution, managed by natural persons, and not linked by proprietary interest with any other business than that of national banking.

It is not necessary to consider whether the national banking act absolutely prohibits the holding of shares in a national bank by a State corporation to any extent or for any purpose, and it may be conceded that a State corporation may acquire such shares as an incident to securing payment of a debt and hold them to a convenient time for sale, or that an institution like a trust company may hold them in a fiduciary capacity, but certainly there can be no holding of such shares by any corporation when the result is to defeat the policy of the national banking act; that is, to destroy the local character of the bank, break down its independence, vest its control in another corporation, and link it in substantial proprietary interest with some other business than national banking.

The ——— ——— Company may embark in almost any business whatever, and in fact has made large investments in other enterprises than banking. It has acquired ownership of all the stock of the National Butchers and Drovers Bank, a virtually controlling interest in the Lincoln National Bank, and interests of magnitude in other national banks.

The ownership of property implies duties as well as rights. As the company owns all the shares of the Butchers and Drovers Bank it has a duty with respect to them. It must vote them at shareholders' meetings, it must elect the directors of the bank, and decide important questions of policy. If this is not conducting the business of a national bank, how shall it be characterized?

In Anglo-American Land Co. *v.* Lombard (122 Fed. Rep. 721, l. c. 736) the Court of Appeals for the Eighth Circuit, in an opinion by Van Devanter, J., now a Justice of the Supreme Court, held that the acquisition by a Missouri company of the stock, and control of a Kansas company was illegal. He said:

"* * * Where it is not otherwise provided, the implication in a grant of corporate power and life is that the corporation shall exercise its powers and carry on its business through its own officers and employees, and not indirectly, through another corporation operated under its control, *and that it shall maintain an independent corporate existence, and not surrender the control of its affairs or the exercise of its powers to another corporation.* Conceding that a corporation of a private character, not charged with any public duties, may, in pursuance of appropriate action on the part of its stockholders, sell all of its property, wind up its affairs, and permanently retire from business, still, *in the absence of express authorization, neither the corporation nor its stockholders can, incidental to the sale of its property or otherwise, clothe another corporation with the right to maintain the corporate life or exercise the corporate powers.* These views are sustained, and the reasons therefor are fully set forth in De La Vergne Co. *v.* German Savings Institution (175 U. S. 40, 54, 20 Sup. Ct. 20, 44 L. Ed. 66), Buckeye Marble & Freestone Co. *v.* Harvey (Tenn.), (20 S. W. 427; 18 L. R. A. 252; 36 Am. St. Rep. 71), Easum *v.* Buckeye Brewing Co. (C. C.), (51 Fed. 156), and in the cases there cited."

We are dealing with corporations of a public character, with national banks, which have public duties to perform, and of these it is a peculiar obligation "to maintain independent corporate existence and not surrender control of their affairs or the exercise of their powers to another corporation."

No authority is given by the Federal statutes to the National Banking Association for assigning their powers and delegating their duties to a corporation created by a State, and which, under

its charter from the State, may engage in a business and exercise powers denied to the banking association by the law of its creation.

Here again it is to be observed that if the power in question exists, it exists without limit. The company may extend its power to the full control of all the banks into which it has made entrance. Nor need it stop with these. As it grows by what it feeds upon it may expand into a great central bank, with branches in every section of the country. It is in incipient stage, a holding company of banks, with added power to hold whatever else it may find to be to its advantage.

Where public law and public policy are involved, forms and fictions are disregarded and the facts are dealt with as facts. In the Northern Securities case (193 U. S. 197) the securities company had acquired the majority of the shares of two great competing railway companies, and this was dealt with in effect as a consolidation of the railway companies. Harlan, judge, affirming the decree of the circuit court, said (p. 326):

"The stockholders of these two competing companies disappeared, as such, for the moment, but immediately reappeared as stockholders for the holding company which was thereafter to guard the interests of both sets of stockholders as a unit, and to manage, or cause to be managed, both lines of railroad as if held *in one ownership*. Necessarily, by this combination or arrangement, the holding company in the fullest sense dominates the situation in the interest of those who were stockholders of the constituent companies; as much so, for every practical purpose, as if it had been itself a railroad corporation which had built, owned, and operated both lines for the exclusive benefit of its stockholders. Necessarily, also, the constituent companies ceased, under such a combination, to be in active competition for trade and commerce along their respective lines, and have become, practically, one powerful consolidated corporation, by the name of a holding corporation the principal, if not the sole, object for the formation of which was to carry out the purpose of the original combination under which competition between the constituent companies would cease."

So in the *Standard Oil Case* (221 U. S.) and in the *Tobacco Case* (221 U. S. 106) the holding of stocks by the principal companies in the various subsidiary companies was recognized and dealt with as engaging in, directing, and controlling the business of the subsidiary companies.

Here the ——— ——— Company is not simply to control banks, but it may engage in any business whatever, even that forbidden by its charter, if, despite its charter prohibition as to certain kinds of business, it may invest in the stocks of companies conducting such business. The other enterprises in which the company is engaged may stand in need of credit and of funds, and it is too much to expect that the company's banks will deal simply as banks, equitably and impartially as between its own subsidiaries and persons and corporations with whom it is not affiliated. The temptation to the speculative use of the funds of the banks at opportune times will prove to be irresistible. Examples are recent and significant of the peril to a bank incident to the dual and diverse interests of its officers and directors. If many enterprises and many banks are brought and bound together in the nexus of a great holding corporation, the failure of one may involve all in a common disaster. And if the plan should prosper it would mean a union of power in the same hands over industry, commerce, and finance, with a resulting power over public affairs, which was the gravamen of objection to the United States Bank.

I conclude the ——— ——— Company in its holdings of national-bank stocks is in usurpation of Federal authority and in violation of Federal law.

Respectfully submitted.

FREDERICK W. LEHMANN,
Solicitor General.

Mr. WALCOTT obtained the floor.

Mr. McNARY. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER (Mr. FESS in the chair). The clerk will call the roll.

The legislative clerk called the roll, and the following Senators answered to their names:

Ashurst	Carey	Hull	Pittman
Austin	Cohen	Johnson	Reed
Bailey	Coolidge	Kean	Robinson, Ark.
Bankhead	Copeland	Kendrick	Robinson, Ind.
Barbour	Costigan	Keyes	Schall
Bingham	Cutting	King	Sheppard
Black	Dickinson	La Follette	Shortridge
Blaine	Dill	Lewis	Smith
Borah	Fess	Logan	Thomas, Idaho
Bratton	Fletcher	McGill	Thomas, Okla.
Broussard	Glass	McKellar	Trammell
Bulkley	Gore	McNary	Tydings
Bulow	Hale	Metcalf	Vandenberg
Byrnes	Hastings	Norbeck	Wagner
Capper	Hebert	Norris	Walcott
Caraway	Howell	Patterson	Walsh, Mont.

The PRESIDING OFFICER (Mr. FESS in the chair). I wish to announce that the following-named Senators are detained in committee meeting:

The Senator from Delaware [Mr. TOWNSEND], the Senator from Maryland [Mr. GOLDSBOROUGH], the Senator from North Dakota [Mr. FRAZIER], the Senator from Missouri [Mr. HAWES], the Senator from Washington [Mr. JONES], the Senator from North Dakota [Mr. NYE], and the Senator from Pennsylvania [Mr. DAVIS].

Sixty-four Senators having answered to their names, a quorum is present.

Mr. WALCOTT. Mr. President, I propose to discuss quite briefly the sections of this bill that relate to affiliates—that is, subsidiary companies of banks organized for the purpose of purchasing and selling securities. In the pre-panic period from 1924 or 1925 to 1929 there was an extraordinarily rapid development in the security business. It reached such a volume, there were so many willing purchasers, so much credit for investment purposes was available that there resulted a complete change in our banking system in the respect that business enterprises all over the United States began to finance their requirements by the sale of their own securities rather than by borrowing at the commercial banks upon their commercial paper—that is, upon their notes. The buying public was so eager for these securities, which in the heyday of our earning power were showing increasingly good returns that there seemed to be no end to the movement. Consequently, by rapid stages the volume of corporate securities on which loans could be made by our banking system stepped up and up and up until brokers' loans reached the phenomenal figure of more than $8,000,000,000.

The commercial banking business in consequence of this extraordinary volume of security business declined. The banks had to change to a large extent their method of handling business. There was no longer the great demand for borrowing on commercial paper. The net result of it all was that we were in the flood tide of speculation. Encouraged by the banks, encouraged to a considerable extent by cheap money, easy credit, and by the very extensive loans of the Federal reserve system, a spirit of speculation took hold of almost everybody in the United States. From the cook to the captain everybody was watching the newspapers, everybody was looking for the record of the stock exchange ahead of all other news, international or domestic.

The net result was a gambling fever such as this country and no other country had ever before experienced. It reached its climax in October, 1929; and we are all very familiar with what has happened since. The tumble has been precipitous, and, of course, very disastrous, reaching into almost every home in the United States, with a net reduction in values, as represented by stock-exchange securities and bonds, of probably at least $60,000,000,000, which represents the decline and the rapid shrinkage of credit. We are getting down to a cash basis; relatively we are very near it.

How was all this expansion possible? The private banking houses obviously could not have handled all of it. It took money, currency; it took a very expansive credit, which, of course, brought in the banks. As far back as 1911 the banks were investing heavily in securities, buying and selling securities. Most of the banks had been engaged in underwriting, and still are. The security business became such an important part of the operations of some of the banks, particularly of two or three of our larger banks, that some fear was occasioned that they would get away from the strictly commercial business for which they were organized and put out securities of doubtful value. At any rate, there was a conflict of opinion; there was a conflict between the business of marketing securities and the business of protecting depositors' money. As the result of considerable controversy the national banks engaged in the security business were compelled to divorce their security business from their banking operations, and the term "affiliates" came into being as the result of that divorce. That, in its simplest term, is what we mean by "affiliate" in this bill.

There are two or three different kinds of affiliates, but I want to speak particularly of the affiliate which was formed out of the endeavor to get the banks away from the speculative business of dealing in securities for their customers and to require them to attend more strictly to commercial

banking, for which they were originally organized, and particularly to the security of their depositors' funds. So, when we use the term "affiliate" in this sense and in connection with this bill, we mean that divorced subsidiary of a bank, whether State or National makes no difference, whose business it is to underwrite, purchase, and/or sell various securities as they come along in the market from day to day and week to week. The affiliates have reached enormous size; their growth has been phenomenal, coincident with the growth of the security business, which, as I have just described, is the outgrowth of the willingness of the public to buy readily and without very much inquiry all sorts of issues from the going businesses of the country.

We held very extensive hearings a year ago last January and February, and then finally having produced the draft of a bill, we again held very extensive hearings last winter on the question of affiliates. We found practically no argument in favor of leaving the affiliates as they are without any obligation to be examined, without any regulatory law governing their operation.

Many affiliates operate very much as a high-grade private banking house would do in the business of buying and selling securities. But abuses have crept in. A very notable case of such abuse of affiliates, which it will now do no harm to mention, is the Bank of the United States. There the practice had been so abused that nearly every time the officers of that bank bought a new parcel of real estate—and most of the parcels were in New York City—a so-called affiliate was organized to hold that particular parcel of real estate.

As the market for real estate advanced and new parcels were acquired other affiliates were organized to hold them, and so there were A, B, C, D, E, and F affiliates, some of them with holdings running into several million dollars. Eventually they were buying real estate at close to the top of the market. The whole thing was getting overloaded and top-heavy; they were pyramiding; they were financing by shoe-string operations; and of course it was inevitable that this great structure of innumerable affiliates should collapse. I have forgot the exact number of the affiliates of the organization referred to, but I think there were 50 or 55 in the city of New York alone, each controlling a large tract of land and some buildings; in nearly every case very expensive parcels of real estate. Long before the speculative boom had reached its climax this structure, built up with paper profits, collapsed, and great was the fall thereof. As I recall, it involved something like $495,000,000 of the money of innocent depositors, and that bank unfortunately belonged to the Federal reserve system. I cite that as a typical case of the excessive abuse of affiliates.

This could not have happened, in my opinion, if we had had examiners who were acting strictly under such provisions as are contained in the pending bill. This bill requires thorough and searching examinations of all affiliates, coincidental in every case with the examination of the parent bank itself under the direction of the Comptroller of the Currency. I make the distinction, and it is to be borne clearly in mind, which exists between the parent bank and the affiliate which operates under the parent bank.

The parent bank may own the stock of the affiliate, or its stock may be distributed to the stockholders of the parent bank, or a large portion of it may be owned outside; but that is irrelevant to the question I am discussing. The question is, Shall we control these affiliates or shall we end them? This bill proposes in various ways to examine them regularly, and coincidentally with the examination of the parent bank, and then requires them, at the end of three years, to separate from the parent company, with various provisions against interlocking officers and directors, and with other provisions for voting the shares of the parent company or bank, which up to now has been a kind of holding company.

Mr. BORAH. Mr. President——

The PRESIDING OFFICER (Mr. PATTERSON in the chair). Does the Senator from Connecticut yield to the Senator from Idaho?

Mr. WALCOTT. I yield.

Mr. BORAH. I understand the Senator to say that under the terms of this bill, if it should be enacted into law, these affiliates will be ended.

Mr. WALCOTT. No; I did not mean to say that.

Mr. BORAH. Perhaps I misunderstood the Senator. The bill undertakes to control them?

Mr. WALCOTT. We undertake to control them by strict examination and regulation, but not to put an end to them. There is, perhaps, some question as to when we should separate them or divorce them from the parent company. This bill requires divorce at the end of three years; and a good many of the banks—some with affiliates, some without affiliates—think that that is hurrying the process too much. Some think that it would be better to extend the period to five years. Some banks feel that the affiliates should be allowed to exist indefinitely as to-day constituted, provided they exist under the strict regulations provided in this bill. That is a controversial point, but I do not know of any other controversial points in this portion of the bill relating to affiliates.

Mr. ROBINSON of Arkansas. Mr. President——

The PRESIDING OFFICER. Does the Senator from Connecticut yield to the Senator from Arkansas?

Mr. WALCOTT. I do.

Mr. ROBINSON of Arkansas. Will the Senator inform the Senate whether the bill provides a process of divorcement or separation?

Mr. WALCOTT. Mr. President, it is quite simple. I will read the brief passage which covers that matter, on page 8, line 11:

> After three years from the date of the enactment of the banking act of 1932, no certificate representing the stock of any State member bank shall represent the stock of any other corporation, except a member bank.

That is practically all there is to it.

> Nor shall the ownership, sale, or transfer of any certificate representing the stock of any such bank be conditioned in any manner whatsoever upon the ownership, sale, or transfer of a certificate representing the stock of any other corporation, except a member bank.

After three years, in a word, the affiliates must be divorced from the parent, which is called here "a member bank," because, which means a member of the Federal reserve system, a parent bank in the sense that it is the owner or controller through stock control of the affiliate or affiliates. Do I answer the Senator's question?

Mr. FESS. Mr. President, will the Senator yield for a question?

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

Mr. WALCOTT. I do.

Mr. FESS. Earlier in the Senator's presentation he mentioned the fact that whether it be a national bank or a State bank, the control of affiliates does not extend outside of the Federal reserve set-up; that is, an affiliate of a State bank that is not a member of the Federal reserve system is not covered, is it?

Mr. WALCOTT. Mr. President, there are State banks which exist now within the Federal reserve system, and they are member banks.

Mr. FESS. Yes.

Mr. WALCOTT. There are national banks within the Federal reserve system. Most of the national banks are under the Federal reserve system; so that, whether State or whether national, provided the bank is a member of the Federal reserve system and has an affiliate, that affiliate must be divorced within three years.

Mr. FESS. The provision does not attempt to go beyond the Federal reserve system?

Mr. WALCOTT. It does not control State banking, and the reason for that is obvious: The Federal Government has no jurisdiction over State banks.

Mr. BORAH. Mr. President——

The PRESIDING OFFICER. Does the Senator from Connecticut yield to the Senator from Idaho?

Mr. WALCOTT. I yield.

Mr. BORAH. Referring to the divorce of which the Senator speaks, who is to initiate the proceedings? Does the bill depend upon the voluntary action of the banks to obey the law?

Mr. WALCOTT. There is a penalty clause here. The man who is to initiate the proceedings and enforce the provisions of this bill, as provided in the bill, is the Comptroller of the Currency in every case. He is also responsible for the examinations being held, just as he is now for the examination of a national bank.

I want to enlarge a moment upon bank loans and their uses, in order to clarify what seems to me a fundamental point in our whole banking system—a foundation stone upon which we have built up a financial structure.

It is evident from what has been said that the underlying factor in the whole prepanic situation was excessive use of bank credit. The question of excess is a question of judgment, and can only be determined by noting in specific terms the forms it has taken and the remedies to be applied to them.

The excessive use of bank credit in making loans for the purpose of stock speculation, or, more generally stated, for the excessive carrying of securities with borrowed money, was generally admitted before the panic of 1929, and almost universally since that time, to have been one of the sources of major difficulty, far exceeding in its scope any total that could be reasonably asked for as a basis for the financing of legitimate investment business. Under the same topic, too, must be mentioned the so-called "brokers' loans." These are merely a special form of securities loan in which a bank or commercial corporation or other enterprise advances funds through an intermediary—the broker—instead of lending direct. An excessive volume of brokers' loans must be considered in the light of the total volume of security loans outstanding. The category of brokers' loans obtained from "others" is a separate and especially difficult aspect of this problem. It was to these brokers' loans that I just alluded when I said they had reached the astounding total of more than $8,000,000,000 by September, 1929.

There seems to be no doubt anywhere that a large factor in the overdevelopment of security loans, and in the dangerous use of the resources of bank depositors for the purpose of making speculative profits and incurring the danger of hazardous losses, has been furnished by perversions of the national banking and States banking laws, and that, as a result, machinery has been created which tends toward danger in several directions.

I desire to enlarge upon that for just a moment, Mr. President. We have been drifting seriously because many of the States have passed laws that are so lax, and in my opinion so unsound, that they have created State banking situations surcharged with danger in troublous times, often not entirely sound even in good times, and as a result of this they furnish a kind of competition which in my opinion is thoroughly unwholesome. In my opinion, the competition of State banks operating under loose State laws has been so great that it has forced, willy-nilly, the more conservative national banks to take more or less unwarranted chances in running their business.

The net result of this competition between the State banking forces operating under loose laws and the national banking system operating under much more strict laws has been the disregard of a great many of the fundamentals of the banking business, taking chances with depositors' money, and the incorporation and rapid growth of the affiliate business, giving an outlet to that speculative type of business quite contrary to legitimate commercial banking. The net result is that to-day we have two billions and more of the money of innocent depositors locked up in closed banks. We have a complete collapse, in many cases, of these affiliate securities. We have banks that have closed their doors because they have overpurchased, as correspondent banks of some of the larger ones, the very securities that the larger banks have forced upon them.

Mr. FESS. Mr. President, will the Senator yield for another question?

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

Mr. WALCOTT. I do.

Mr. FESS. My impression from an examination of that procedure was that many of these brokers' loans were made detached from any particular banking institution at all; that many of the agencies making brokers' loans were not banks; that they were organizations using their own funds, like some great corporation.

Mr. WALCOTT. That is quite true, Mr. President. I did not mean to imply that the Federal reserve system was responsible for all the brokers' loans. It was not; but it was responsible, probably, for a great deal by lending to member banks—mind you, I am not accusing the Federal reserve system of breaking the law; far from it—the member banks, in turn, loaned to various customers, many of whom were brokers.

In addition to that, however, demand money brought such a tremendous premium, as high as 18 per cent at one time, that the temptation was for corporations that had recently sold their securities and made themselves strong in cash to lend that cash and get an excessive rate of interest. Many corporations over a period of months averaged as high as 8 and 9 and 10 per cent on the money which they had available for lending; and they were lending it in many cases through banks that, in turn, would take a small commission for guaranteeing the safety of those loans. It was an extraordinary system that developed overnight.

Mr. FESS. That particular field is not open for us here to correct, is it?

Mr. WALCOTT. No.

Mr. FESS. But it does lie with the States.

Mr. WALCOTT. That was an incident of a rapid evolution; but, in my opinion, if the provisions of this bill governing affiliates are enacted, we shall not be embarrassed by a repetition of this debacle for some time—I hope never; but never is a long time.

Just one more point, Mr. President, and I am through. I have referred briefly to the penalty clause. It is severe, in that the Federal Reserve Board may revoke the permit of the affiliate company unless the affiliate company submits itself to these examinations; or, if the affiliate company in any way covers up its real position, its permit may not only be revoked but its portfolio, showing the list of all of its holdings, may at any time be made public if the affiliate is in any way getting out of hand or abusing its lawful rights.

I think that concludes the description of this section of the bill. It is perhaps the most vital section of the bill, one of the sections most needed at the present time. My reference to the competition which has grown up between State banks not under the Federal reserve system and the member banks of the Federal reserve system indicates, I think, very clearly that we should some day give very serious attention to a unified banking law in this country.

Mr. DICKINSON. Mr. President, will the Senator yield to me?

Mr. WALCOTT. I yield.

Mr. DICKINSON. I was interested in what the Senator had to say with reference to the small banks which were interested in purchasing securities and bonds from the larger concerns. There was almost a propaganda put on for a while, and I remember out in our section of the country the officials more or less frowned upon the type of security which our banks had been using for 50 years and insisted that they get them out of the files and take what they called "quick assets." Then the "quick assets" began to shrink in value, and in a little while the banks had to close their doors and liquidate.

I am wondering why the committee left out the provision in section 5155 with reference to branches, "if such establishment and operation at the time permitted to State banks by the law of the State in question."

In other words, it looks as though the committee is trying to build this system up as an individual bank unit, while previously we always tried to maintain what was known as the State unit and give the State the authority to devise

the types of banks they wanted, so far as branch banking was concerned. The committee has taken out of the law the sentence I have read.

Mr. WALCOTT. Mr. President, my answer to that is this: I have not intended to cover the law pertaining to branch banking. The Senator is quite correct in his statement, but that particular provision of the law does not concern the affiliates. I am leaving that subject to some one else to describe. I am particularly concerned with affiliates, which has been a very complex and a very controversial question in banking for the last 20 years.

Mr. DICKINSON. Do not the two phases of it go together?

Mr. WALCOTT. They interlock, as do many other questions in this financial system of ours. There will be found running through the whole course of banking in this country for the last 75 or 100 years this competition, continuing all the time, and getting now more and more acute, between the State banks, which are not members of the Federal reserve system, and the member banks of the Federal reserve system. It is a growing menace, in my opinion. It leads the conservative bank astray, or tends to, and apparently the national system has very little influence in correcting the abuses of the State system.

MESSAGE FROM THE HOUSE

A message from the House of Representatives by Mr. Haltigan, one of its clerks, announced that the House had disagreed to the amendments of the Senate to the bill (H. R. 6477) to further extend naturalization privileges to alien veterans of the World War residing in the United States, requested a conference with the Senate on the disagreeing votes of the two Houses thereon, and that Mr. DICKSTEIN, Mr. MOORE of Kentucky, and Mr. JOHNSON of Washington were appointed managers on the part of the House at the conference.

RELIEF OF AGRICULTURE

Mr. HOWELL. Mr. President, in the course of my remarks on agriculture last Thursday I discussed briefly the Goldsborough bill, recently passed by the House and now in the Committee on Banking and Currency of the Senate. I then asserted my belief—and submitted evidence in justification thereof—in the great possibilities of that measure, not only in revivifying agriculture but also every other industry.

I was pleased to learn this morning that the chairman of the Banking and Currency Committee, the Senator from South Dakota [Mr. NORBECK], has already provided for a hearing on this bill, beginning next Thursday morning, and I wish to compliment him upon such [illegible]mptness in the premises.

Since 1922 the Federal reserve authorities have utilized open-market operations to the end of stabilizing credit and, incidentally, commodity prices. That is all that is proposed in the Goldsborough bill, except that it directs the Federal reserve authorities to utilize open-market transactions—that is, the buying and selling of Government bonds with Federal reserve notes, not merely to the end of incidentally stabilizing commodity prices but with such stabilization as the object of such transactions.

To those who may view such open-market transactions on an extensive scale with some apprehension, I would call their attention to the monthly report for May on economic conditions and governmental finance by the National City Bank of New York, and in this connection I ask unanimous consent to have inserted in the CONGRESSIONAL RECORD that portion of the National City Bank's report on this subject.

There being no objection, the matter was ordered to be printed in the RECORD, as follows:

The action of the Federal reserve authorities in determining to buy Government securities on a largely increased scale is a new and important development in the business situation. The reserve banks about the end of February began a program of purchases which averaged $25,000,000 weekly during the five weeks ended April 6. On April 13 Gov. George L. Harrison, of the New York bank, made a public statement that "the program has again been speeded up in rate and volume." The report of condition of the reserve banks on April 13, revealed an increase of holdings of Governments during the week of $100,000,000, and in the succeeding two weeks an increase of $206,000,000 occurred.

This action of the reserve authorities, taken for the purpose of creating easier money conditions, and thereby enabling the member banks first to free themselves of indebtedness to the reserve banks and then to offer funds more freely to the public or buy securities themselves, is probably the most important stroke of central bank policy ever made. Open market operations have never been undertaken before on the scale cited, but some way needs to be found to increase the amount of credit available, and evidently bolder and more powerful methods are called for than ever have been necessary in the past.

PRINCIPLES OF OPEN-MARKET OPERATIONS

Open-market operations for the purpose of influencing the money market are comparatively new in central bank practice. Central banking is an evolution in Europe from almost unregulated private banking, with numerous banks of issue, and the first step was by concentrating currency issues in each country in one central institution closely related to the Government. Its position as the source of currency issues naturally placed the central bank at the head of the country's banking system, other banks using it as a depository, looking to it for rediscounts as occasion might require and following its lead in financial policies of public importance. The central banks developed by experience the practice of using the discount rate to control the volume of credit and the movements of gold into and out of the country. Reserve bank credit is "money" in the market, and an advance of the discount rate tends to make "money" dearer throughout the country while a lowering of the rate has the opposite effect.

The influence of the discount rate has been supplemented to some extent in recent years by open-market operations, to wit, purchase or sale of securities by a central bank. A purchase by the bank giving a check on itself in payment puts credit into the money market and tends to make "money" easier, while, per contra, a sale of securities by the bank withdraws funds from the market and tends to make "money" dearer. Credit for discovery of the efficacy of open-market operations naturally belongs to the Bank of England, which long has had the problem of dealing with larger gold movements than any other institution and also has had resort to the most effectively organized money market in the world. It does not appear that other foreign central banks have used the practice to any great extent.

The Federal reserve authorities have resorted to open-market operations rather freely, buying and selling United States Government securities. The principle followed is that purchases are made when business is depressed, and sales when business is overexpanded, the aim being to promote stability in credit, prices, and trade. A statement by the New York Federal Reserve Bank to the Glass subcommittee of the Senate Banking and Currency Committee early last year gives the conditions under which the operations have been undertaken, as follows:

"Generally speaking, purchases of Government securities since 1922 have been made at times of business depression or recession in the United States accompanied by unemployment, declining foreign trade, weak commodity prices, and reduced speculative activity. Broadly speaking, also, sales of securities have taken place at times of large industrial activity, full employment, firm commodity prices, and tendencies toward excessive speculation. * * * Purchases and sales of Government securities since 1922 have been such as might reasonably be expected to exercise some influence toward business stability by aiding recovery at times of depression and retarding excesses at times of prosperity."

Following these principles, purchases in substantial volume were made in 1922, 1924, and 1927, periods of depression or threatened depression, and sales were made in intervening times to reduce the holdings and with a view to dampening speculative activity. At the end of 1929 and during 1930 the holdings were increased, and further purchases were made during 1931, though their effects were lost in the panic. When the Glass-Steagall bill became a law on February 27, 1932, the holdings amounted to $741,000,000. The banking situation having improved, but contraction of credit continuing, the time seemed appropriate for resumption of purchases; and the Glass-Steagall Act, by making such holdings available as the basis of currency issues, favored larger operations of this kind. For these reasons the purchases since made have aggregated $450,000,000.

RESERVE BANKS TAKE THE INITIATIVE

The special usefulness of open-market operations exists in the fact that the reserve banks take the initiative in making funds more plentiful. Ordinarily the initiative is with private borrowers, who apply to the banks where they do business. If these banks are without surplus reserves, it is their custom to borrow temporarily of the reserve banks to replenish them. This system works well enough in normal times and affords opportunity for the reserve authorities to use the discount rate to restrain excessive borrowing. It does not work so well when liquidation of bank credit is under way, with deposits and reserves falling by reason of the public determination to get out of debt, and by reason of the contraction caused by gold and currency withdrawals. Bank deposits for the most part are made by bank loans and investments, and decline as the volume of loans and investments is reduced. This credit can be called out again by a resumption of borrowing by the public, but with such extreme pessimism as has been manifested in the last year the public is disinclined to take the initiative and the banks are disinclined to borrow from the reserve banks to make loans, the more so as they have been compelled to

borrow to meet cash withdrawals. Hence has resulted a shrinkage of about $500,000,000 in reserve deposits, at the low point of this year compared with one year ago, and of nearly four billions in loans and investments, of the reporting member banks only, in the same period.

This is credit lost to the current supply and the loss is an obstacle to business recovery. Since the public does not take the initiative to correct the situation, it is necessary for the credit-making authority to do so and by its own action increase the amount of credit available in the market. This can be done by the purchase of Government bonds, issuing new credit for the purpose. The checks given for the bonds will be deposited in banks and thence pass back to the reserve banks, either in payment for past rediscounts or for credit in the reserve accounts of the member banks, where the credit will serve as the reserve base for a possible expansion of member-bank loans or investments in at least ten times the volume.

EFFECTS OF REDUCING REDISCOUNTS

The indebtedness of the member banks to the reserve banks at present is an abnormal one, an effect of credit strain caused by the demands for currency and gold beginning last September which forced rediscounting in the largest amount since the fall of 1929. Of course, this borrowing did not add to the supply of credit, being more than offset by the currency and gold withdrawals. Since the beginning of this year, with currency returning to the banks, rediscounts have been declining. The new credit will further assist the member banks in paying off their debt, first in the larger centers and thence working outward, and as the volume of rediscounts is reduced the number of banks wholly out of debt to the reserve banks will increase and the strain on others will be lessened. As this is accomplished, the accumulation of reserve funds will naturally result in a more liberal attitude toward loan applications by the banks or possibly in bond investments for themselves, either of which will put the credit or "money" into circulation.

A manifestation of strength in the bond market will be helpful not only to Government but corporate financing, thus providing the means for expenditures which will increase employment. In short, by placing funds in the money market, where business goes to finance its needs, it supplies funds in the manner most helpful to sound business revival, supplies it by an orderly process, assuring wide distribution, and avoids the dangers that attach to large issues of paper money. It is a careful and calculated method, under experienced control, of overcoming the excessive deflation of credit and of encouraging business confidence and enterprise. Of course, an increased volume of currency will naturally result as needed by increased activity in business.

A further word may be said upon the attitude of the member banks, since it is the subject of very free comment. There are inquiries as to whether, or to what extent, the banks will put the new reserve credit to use, and some of the comment implies that there is no alternative between a policy of allowing the credit to stand idle as excess reserve, which would nullify the reserve banks' efforts, and one of making loans and investments at excessive risk, which would be unsound banking.

However, there is no such sharp line. Between the alternatives of excessive risk and excess reserves there is a border area of indeterminate width in which the policy of credit expansion may be expected to take effect. As stated, the market for Government and other very high-grade securities of unquestioned safety provides one channel for release of the credit. Moreover, the policy is calculated to revive enterprise and stimulate a demand for credit by good borrowers. Relief of the situation in communities whose credit facilities have been impaired by bank failures or by the effects of fear provides another channel. The effect of the operations of the Reconstruction Finance Corporation is to restore the liquidity of banks which have been compelled to deny credits, and which indeed have become collectors instead of lenders. The effect of the reserve policy is to put new funds into the market which will become available to these banks, the two policies working together.

WORLD COOPERATION DESIRABLE

Undoubtedly this policy would have been inaugurated earlier but for manifestations of European misunderstanding of the measures being adopted in this country for relieving the credit situation, and the gold withdrawals from this country in consequence. Europe on account of past experiences is very sensitive to rumors about inflation or possible departure from the gold standard; and while this country has gold enough to meet any probable demand, it is desirable that misunderstanding should not be promoted. Financial circles in Europe now generally approve of the measures that at first were questioned, and of this Federal reserve policy, holding them soundly conceived and helpful to the world situation.

The inauguration of this policy on the scale now contemplated may result in the development of world cooperation by central banks for the more effective control of credit and prices. Obviously the banking system of a single country can not exercise the control over world prices that might be exercised by the banking systems of all countries or even the banking systems of a group including the more important countries, acting together. The prices in different markets of commodities entering into international trade are interlocked, and while they react upon each other, they must move promptly together, or the lagging ones will be a drag upon the others. Moreover, there is danger that a country leading an advance may lose trade by it. But all countries have a common interest in the stability both of credit and prices.

Able economists have maintained for years that the central banks of the world possessed the requisite organization and power, acting in cooperation, to stabilize the state of credit and the general price level to such an extent as to prevent the wide fluctuations which result in panic and disorder. Practical bankers have admitted the theoretical soundness of the principles involved, but feared popular opposition to anything that looked like international control of money and credit. Such cooperation, of course, would not attempt to control particular prices, and probably would not attempt to do more with general price movements than prevent the wide swings that result from excessive inflation and deflation of credit.

It is possible that the action now being attempted may enlist similar action in other countries and demonstrates the value of such continuous cooperation. The markets of the United States, by reason of this country's position as a source of supply of many commodities, exercise an important influence upon all world markets, but the effort to revive business and raise the price level should have support everywhere. The reserve system is giving the lead.

Mr. HOWELL. Mr. President, as advantageous as would be such a measure as the Goldsborough bill, not only for agriculture, but also for all the other industries in this country, yet it is not all that is necessary to rehabilitate agriculture. We must have something of a constructive nature which will assure, notwithstanding surpluses, United States prices for farm products, inasmuch as the farmer must pay United States prices for the things he buys. This measure will not accomplish that purpose. We must enact an additional measure. We must enact a constructive measure which will make effective the tariffs we have afforded agriculture. There is nothing of that character pending before the Senate, there is nothing of that character pending in the House. But little more than 30 days of this session remain. What are we to do about it, I ask again? Something must be done for agriculture to rescue it from its present deplorable condition.

MESSAGES FROM THE PRESIDENT

Messages in writing from the President of the United States submitting several nominations were communicated to the Senate by Mr. Latta, one of his secretaries.

INCREASE OF BANKING FACILITIES

The Senate resumed the consideration of the bill (S. 4412) to provide for the safer and more effective use of the assets of Federal reserve banks and of national banking associations to regulate interbank control, to prevent the undue diversion of funds into speculative operations, and for other purposes.

Mr. BULKLEY obtained the floor.

Mr. FESS. Mr. President, will my colleague yield?

Mr. BULKLEY. I yield.

Mr. FESS. I suggest the absence of a quorum.

The PRESIDING OFFICER (Mr. PATTERSON in the chair). The clerk will call the roll.

The legislative clerk called the roll, and the following Senators answered to their names:

Bailey	Dickinson	Kean	Robinson, Ark.
Blaine	Dill	Kendrick	Schall
Borah	Fess	Keyes	Sheppard
Bratton	Fletcher	La Follette	Shipstead
Bulkley	Frazier	Lewis	Smith
Bulow	George	McGill	Steiwer
Byrnes	Glass	McKellar	Thomas, Okla.
Capper	Goldsborough	McNary	Townsend
Caraway	Gore	Metcalf	Trammell
Carey	Hale	Moses	Tydings
Cohen	Howell	Norris	Vandenberg
Connally	Hull	Nye	Walcott
Costigan	Johnson	Patterson	Wheeler
Davis	Jones	Reed	

The PRESIDENT pro tempore. Fifty-five Senators having answered to their names, there is a quorum present.

Mr. VANDENBERG. Mr. President, I offer an amendment to the pending bill and ask that it may be printed and lie upon the table.

The PRESIDENT pro tempore. The amendment will be received, printed, and lie upon the table.

Mr. BLAINE. Mr. President, I send to the desk a proposed amendment to the pending bill and ask that it be printed and lie on the table.

The PRESIDENT pro tempore. The amendment will be received, printed, and lie upon the table.

Mr. BULKLEY. Mr. President, the bill now before the Senate represents earnest efforts, extending over more than a year's time, on the part of the so-called Glass subcommittee to discover the causes that led up to the remarkable financial crash and depression, and to recommend to the Senate such measure as might tend to avoid a repetition of such causes. While it is a technical measure in some respects and may not be thoroughly understood by the whole country, yet in my humble opinion it is second to no measure in the effect which it ought to have in the restoration of public confidence at this time.

It has been a great pleasure to work with the subcommittee, because in the consideration of the measure no trace of partisanship has made its appearance. Such differences of opinion as have developed have been honest differences of personal opinion, and have been so far resolved that we are able to present to the Senate a measure in which the subcommittee is unanimous as to almost every feature.

The distinguished chairman of the committee has asked me to speak particularly upon one subject matter covered by the bill, and that is a subject matter concerning which we may have certain telegrams and protests from some of the bankers. I refer to the subject of security affiliates and the related subject of investment banking.

The bill, in section 16, at page 37, provides for separating security affiliates from national banks after a period of three years and makes the same provision in section 5, at page 8, for State banks which are members of the Federal reserve system. These provisions are reinforced by section 18, which appears at page 43, and which provides that no national bank and no State member bank may hereafter be affiliated with any organization engaged in the investment security business. The provision of section 14, at page 34, requires national banks to get out of the business of underwriting and dealing in investment securities, and again, in section 5, at page 8, there is the same provision with respect to State member banks.

Securities affiliates of banks are corporations operating in the long-term capital market in competition with the investment houses, typically unincorporated, that have traditionally done most of the business in that market.

Securities affiliates are controlled usually by having their stock placed in the hands of trustees, who hold it for the pro rata beneficial interest of the bank concerned, each certificate of stock in the bank evidencing by indorsement the ownership also of the same number of shares of stock in the affiliate. All such affiliates are, of course, State-chartered corporations. The majority of them, or about two-thirds, belong to national banks, and about one-third to State banks, the reason for this difference being apparently that State charters are often more liberal than national charters, and grant powers which make an affiliate superfluous. It is also possible for State banks to own their affiliates outright in many States, and this makes resort to the device of trusteed stock less common with them than with national banks. Many of the important securities affiliates, especially those controlled through trusteed stock, were provided with their original capital by declaration of a stock dividend.

In the United States the mechanism for the supply of long-term funds to industry and to Government borrowers was originally in the hands of private bankers almost exclusively. Two causes appear to have brought this about. The first was that capital in any amount had to be imported from Europe, and the intermediaries were usually private individuals; frequently they were the agents of foreign bankers. The second is that nearly all the more important American banks after the Civil War were incorporated under national charter as banks of issue, with limited powers, and were typically of small size. The aggressive lead in supplying long-term needs was therefore taken by private houses and held by them with little competition until very recent years.

The first bank apparently to concern itself quite definitely with securities transactions was the First National Bank of New York, which seems to have engaged in syndicate operations as early as 1911. It organized its affiliate, the First Security Co., in 1908, by declaration of a stock dividend, but the bank itself has always appeared more active in securities business than the affiliate, chiefly as an underwriter. It is understood that this affiliate is used largely to hold long-term securities of a kind which the bank itself has no legal authority to hold or for other reasons desires to segregate from its banking assets. This affiliate is controlled through trustees, who hold its stock for the pro rata beneficial interest of the bank's stockholders.

In 1911 the National City Co. was organized, its capital being supplied by a stock dividend, and its stock was trusteed. A question of the company's legality was raised by the Government, Attorney General Wickersham disapproving it and Secretary of the Treasury MacVeagh approving it. It seems to have been designed originally, like the First Security Co., to hold stocks rather than to deal in them, but by 1916 it was known as an "investment distributing" organization, and subsequently it became one of the largest agencies in the securities business, integrating to a greater extent than any other company, incorporated or unincorporated, all the steps of origination, underwriting, wholesaling, and retailing.

The establishment of these two pioneer companies was followed by the establishment of many others, the great majority of them small and engaged mostly in wholesaling and retailing. Many of these affiliates act as holding companies or do miscellaneous things that the banks controlling them can not do or can not do so effectively. Organization of them was induced by the general desire to increase profits, and in the case of the larger ones which undertook origination, by the particular advantage the banks had in knowing the concerns which might want or might be induced to obtain new capital. Moreover these banks were already being called on by originators, syndicates, and distributors to finance flotations, and for that reason also they were in a strategic position to enter the field of competition. Although the competitive importance of these large securities affiliates activity engaged in origination is very great, the number of them is small.

Banks may at present be engaged in the securities business either in their own name or through the medium of an affiliate. In either event, it will only be the larger ones that are active in origination and underwriting. The smaller ones will be active only in retailing. In general the degree of activity, whether in origination, underwriting, or distribution, will determine whether or not the bank has a securities affiliate; but this is not always true. Some banks of comparatively large size, such as the Union Trust Co. of Pittsburgh, which has no securities affiliate, or the First National Bank of New York, which has one, will do considerable in their own name.

That the larger banks only should be engaged in origination and underwriting is due to the fact that securities issues will ordinarily be in the hundreds of thousands or millions of dollars. Even a small issue can probably be handled by a large bank as well as by a small one or possibly better; the question is one of facilities. Moreover a bank which has opportunities for origination may prefer to turn them over to another bank to be worked up, and secure for itself a larger commission on the underwriting and distribution. Banks which have gone into origination do so on a more comprehensive and omnivorous scale than the older unincorporated houses of issue. The latter specialized more selectively not only as to the kind of business but as to the particular corporations and the size of transactions they undertook to finance. Thus a given house would specialize not only in railways but in certain railways. The banks that recently entered the field seem not to have been observant of such limitations, however; they have sought business aggressively wherever they could get it. Of the total of about 300 securities affiliates of banks the ones that in the last five years have been conspicuous in origination are the following:

National City Co., New York.

Chase Harris Forbes Corporation, New York. (Successor as to securities business of the Chase Securities Corporation, of which it is a subsidiary.)

First National Old Colony Corporation, Boston.

Continental Illinois Co., Chicago.

Bancamerica-Blair Corporation, New York. (Subsidiary of Transamerica and affiliate of Transamerica banks. Not included in National City-Bank of America consolidation.)

Bancamerica Co., San Francisco. (Subsidiary of Transamerica and affiliate of Transamerica banks.)

First Detroit Co., Detroit. (Subsidiary of Detroit Bankers Co. and affiliate of First Wayne National Bank and other subsidiary banks.)

The foregoing list is not exhaustive. Other affiliates have engaged in origination, but the list is probably inclusive of those that have been most active and prominent. It does not include, however, important bank affiliates that, although large enough to have gone aggressively into origination, seem to have chosen to confine themselves principally to underwriting and distribution.

These would include the following and some others:

Guaranty Co., New York.

Security First National Co., Los Angeles.

First Chicago Corporation, Chicago.

Among the things that led American banks into the securities business one of the most important appears to have been the correspondent relationship. This is not to say that without the correspondent relationship the business would not have developed, but rather that the relationship furnished a peculiarly inviting system of distribution. The country banks were becoming increasingly aware of the desirability of diversifying their own portfolios with marketable securities, and also aware of opportunities to retail securities to their customers. At the same time they were dependent either on their city correspondents or on private distributing houses for advice in the selection of investments. The metropolitan banks, therefore, found themselves between their country correspondents who wanted securities and their customer corporations who wanted long-term financing. The one afforded distribution and the other supply. So long as they themselves stayed out of the field the business went to private houses who had not the contact either for origination or for distribution that the banks themselves had, for the latter's relations both with their corporation customers and with their country bank correspondents was constant and intimate. The private houses of issue might be extremely close to a few clients, but they could not have the wide and general access that the large banks had. It is natural that the city banks should have realized their advantage and made the most of it.

In the beginning the tendency probably was for them simply to take larger and larger shares in underwritings and in distribution; but as they did so they were able to exact more and more commission, and eventually if they chose, they were able to invade the field of origination themselves and integrate all the securities functions.

Once committed to the activity on a large scale, they would probably be led to cultivate more intensively the opportunities which the correspondent relationship had opened up to them. This would make securities business more important throughout the American banking structure and impel inland and country banks to set up securities affiliates in order to share more actively in the retail of issues.

As the possibilities in the correspondent relationship became developed, the private distributing houses were keenly aware of the disadvantage they were put under by having no such extensive and dependent a system of outlets as the city banks had. A number, both large and small, sold out to banks and became their securities affiliates, such as Blair & Co. to the Bank of America, New York; W. R. Compton & Co. to the Chatham Phenix National Bank & Trust Co., New York, and so forth.

This advantage in distribution went hand in hand with an increase in the number and amount of issues brought out by banks in 1928 and 1929—an increase that was partly due to business won from private houses, but even more in all likelihood to entirely new capital business that the spirit of the time and the energy of the originators combined to generate. It would be wrong to assume, however, that bank affiliates alone were aggressive, for some of the private houses, such as Dillon, Read & Co. were also intensely active.

All together there appear to be about 300 securities affiliates in the country. This does not mean that the same number of banks have securities affiliates, for in bank groups one securities affiliate may do the securities business for all the banks in the group. Of these 300, about 200 belong to national banks, about 70 to State bank members of the Federal reserve system, and about 30 to nonmember banks. The 270 belonging to member banks, even allowing for those that are in groups and therefore representing numerous banks, is a small number in comparison with the number of member banks in the Federal reserve system, which is approximately 7,000. The banks associated with the 270 or so securities affiliates are, of course, in the main of the largest size and even though they are few in number they represent probably more than half of all the banking business in the country.

Since 1929 there has naturally been a marked diminution in the activity of securities affiliates. Further than this they have absorbed very large losses in their portfolios, and reduced their capital in consequence. Some have dissolved entirely. According to published announcements, the National City Co. reduced its capital in 1931 from $55,000,000 to $11,000,000. The Chase Securities Corporation in 1931 reduced its capital, surplus, and undivided profits from $110,000,000 to $58,000,000. (The Chase Securities is not the operating securities affiliate of the bank, but indirectly owns it. The figures for the operating affiliate, Chase Harris Forbes Corporation, are not available.) The capital of the Guaranty Co. was reduced in the same year from $20,000,000 to $10,000,000. Figures for other important securities affiliates appear not to have been published. The following were discontinued entirely: The Bankers Co., capital $2,500,000, was absorbed in 1931 by the Bankers Trust Co.; the International Manhattan Co., subsidiary of the Manhattan Co., and affiliate of Bank of Manhattan Trust Co., was liquidated in 1931. The Chatham Phenix Corporation was sold to the Atlas Utilities Corporation in 1931 by the Chatham Phenix National Bank & Trust Co. before it consolidated itself with the Manufacturers' Trust Co. The Chemical Securities Corporation was absorbed by the Chemical Bank & Trust Co. in 1932.

These reductions of capital and dissolutions of corporate entity all appear to be retrenchments consequent upon losses; they do not appear to be due to voluntary change of policy. In the case of reductions in capital, the continued existence of the securities affiliate would indicate an expectation of continuing the securities function. In the case of the dissolutions, what has actually happened is that the function itself, much diminished as the result of securities-market recessions, has been taken over by the bank, and the separate corporation hitherto conducting it has been discontinued. There is probably little warrant for a conclusion that because the banks have pared down or dissolved their securities affiliates, they have abjured venturing henceforth into the long-term capital market.

The question we have had to meet in the preparation of this bill is, as has been stated by the able Senator from Connecticut [Mr. WALCOTT], whether the securities affiliate relationship is to be permitted to continue under strict regulation or is to be required to be terminated. The banks generally have not indicated any intention of going out of the investment-security business.

The important and underlying question is whether banking institutions receiving commercial and savings deposits ought to be permitted at all to engage in the investment-security business. The existence of security affiliates is a mere incident to this question. An investment affiliate might be desired by a bank which under its charter is not permitted to go into the investment business, as is the case with national banks, or it might be considered advisable to set up an affiliate for the purpose of segregating the capital employed in the investment-security business so

that the risks involved would not be carried directly by the institution responsible for money received on deposit.

The general principle involved is one that admits of argument, since there is foreign experience and tradition both ways. The English banks of deposit have kept themselves strictly clear of the investment-security business, while the big German banks, on the other hand, have not hesitated to make substantial investments of their own funds in promotions and refinancings with a view to public distribution at such time as might be convenient. In banking literature there are arguments both ways. It seems, however, that the English banking situation has been maintained in a more satisfactory and creditable manner than the German, and that whatever we may learn from comparison of English and German banking should lead us to prefer the English practice, under which commercial banking is strictly segregated from the origination and underwriting of capital issues.

It should not be assumed that any definite, final conclusion can be drawn from foreign experience, and what I shall have to say in support of the segregation of commercial and savings banking from the dealing in investment securities is based entirely upon American conditions and American experience.

It is clear that the national bank act was intended to set up a system of commercial banks, and did not extend to national banks the right to go into the investment-security business in any way. That view has been reinforced by the able opinion of Solicitor General Lehmann brought here by the Senator from Virginia [Mr. GLASS] yesterday, and which the Senate authorized to be printed as a Senate document.

It is clear, also, that until comparatively recent years this segregation of two different lines of banking was generally observed by institutions existing under State laws. And up to 20 years ago practically all the investment banking in this country was done by institutions specializing in that service.

Early in this century certain State banking institutions began setting up bond departments and began to engage in the origination, underwriting, and distribution of investment securities and also began to trade in them. There is still a considerable volume of such transactions carried on directly by banks of deposit, but a recognition of the risks involved has impelled many banks to set up subsidiary or so-called affiliate institutions in order that the capital stock and the stockholders' liability of the parent bank might be held inviolate for the protection of regular banking operations and for the benefit of depositors. Such affiliate corporations, whether of National or State banks, might be owned outright by the parent banks or by trustees for the benefit of the bank or of the bank's stockholders or perhaps by the same stockholders as the bank, with the restriction that stock of the affiliate might be transferred concurrently with stock of the parent bank and not otherwise.

This activity of State banking institutions spreading out into the investment-security field has been matched by many national banks, the pioneers in this respect being the First National and National City Banks of New York. It seems perfectly clear that in the organization of these affiliates under State laws, usually with broad charter powers not only to engage generally in the investment security business but to hold, control, and operate enterprises involving various kinds of business, sometimes including the ownership and control of banks, the national banks which thus set up affiliates presumed to exercise charter rights not contemplated by the national bank act, and indeed directly in conflict with the purpose and intent of their national charters which authorized them only to engage in the business of commercial banking.

Such a departure on the part of national banks was clearly never authorized by law, and it is difficult to understand why it should have been permitted to grow and develop as it has. In any event it has within the past 20 years, but particularly within the past 6 or 7 years, developed on so great a scale that the contention is made that it is now too late to argue that it should be stopped on account of its contravention of the purpose and intent of the law. If it is to be stopped now, it will be stopped not for any technical or legal reason but only after a reconsideration and revaluation of the questions of banking policy involved.

In such a reconsideration of policy it is obvious that there is no valid distinction between national banks and State banks which are members of the Federal reserve system. It is only fair to make a single rule for all banking institutions which receive commercial and savings deposits, regardless of whether their charters are derived from State or National authority; and the real question is not whether such banks shall be permitted to have investment-security affiliates but rather whether they should be permitted to engage in the investment-security business in any manner at all, through affiliates or otherwise.

When the national banks, through their affiliates, followed into the investment-banking business after the State banks had established their bond departments and subsequently their own affiliates, the idea of increased profits more and more obsessed our bankers. Perhaps there was an element of greed in this obsession, and perhaps it was largely a question of professional pride in keeping profits and dividends of one important banking institution up to the level of those of its rivals or a little ahead. Did not professional pride become diverted from the pride of safe and honest banking service to that of profits, greed, expansion, power, and domination? In order to be efficient a securities department had to be developed; it had to have salesmen; and it had to have correspondent connections with smaller banks throughout the territory tributary to the great bank. Organizations were developed with enthusiasm and with efficiency. The distribution of the great security issues needed for the development of the country was facilitated, and the country developed. But the sales departments were subject to fixed expenses which could not be reduced without the danger of so disrupting the organization as to put the institution at a disadvantage in competition with rival institutions. These expenses would turn the operation very quickly from a profit to a loss if there were not sufficient originations and underwritings to keep the sales departments busy.

It was necessary in some cases to seek for customers to become makers of issues of securities when the needs of those customers for long-term money were not very pressing. Can any banker, imbued with the consciousness that his bond-sales department is, because of lack of securities for sale, losing money and at the same time losing its morale, be a fair and impartial judge as to the necessity and soundness for a new security issue which he knows he can readily distribute through channels which have been expensive to develop but which presently stand ready to absorb the proposed security issue and yield a handsome profit on the transaction?

It is easy to see why the security business was overdeveloped and why the bankers' clients and country bank correspondents were overloaded with a mass of investments many of which have proved most unfortunate.

While the banks competed with each other in the business of finding and distributing issues of investment securities, yet they had at all times one great common interest—none of these profits could be made unless the condition of the securities market was such as to assure the absorption of securities. Most of the banks, certainly all the great ones, were interested, therefore, in a good market for capital securities. Can there be any doubt that under such pressure of competition there was an overproduction of capital securities? Can there be any doubt that in order to maintain the market conditions which would absorb the great production of capital securities and produce the big profits for the affiliates and bond departments commercial banks went astray by encouraging an overdevelopment of collateral-security loans? Is it not fair to attribute the vast development of loans on collateral security at least in part to the necessity for keeping up a market condition capable of absorbing capital issues? It does not matter whether this motive was deliberate or subconscious; the fact remains

that the banks generally were involved in it, and that if they are permitted to continue in the investment-security business the same motive will be provided for a repetition of the same performance. If, on the other hand, the business of originating and underwriting investment securities is confined to houses not engaged in deposit banking, then the extent and the desirability of new issues will be subjected to an independent and impartial check. This should tend to restore public confidence.

There is another phase of the situation which can not but have some effect upon the people's confidence in banks. The investment-security business is attended with certain risks. Market conditions may change after the making of a commitment in such a way as to cause considerable loss to an underwriter. A certain issue was underwritten in 1929 at $139,000,000, and the market price of the entire amount of that issue is to-day approximately $18,000,000. That is, of course, an extreme instance but not an unparalleled one. It is no doubt true that only a part of this loss fell upon the underwriter, in that particular case a banking affiliate. But with that much basis of truth, it would not be surprising if rumors went around that a large proportion of such a loss had to be taken by the affiliate in question. And although such a loss would possibly not result in any substantial impairment of the resources of the banking institution owning that affiliate, still it might be suspected that large amounts might have been loaned to the affiliate; and whether that were true or not, there can be no doubt that the whole transaction tends to discredit the bank and impair the confidence of its depositors.

It seems now that the principal responsibility for failure to detect the scandalous frauds connected with the issuance of Kreuger securities can be laid to a firm of private bankers. Yet there were commercial banks and affiliates of commercial banks who participated in the underwriting; and it is clear that public confidence in banks is impaired by events of this character.

It is alleged that the affiliate of a great bank some three years ago accepted a commission for underwriting a new issue of stock to be offered to the stockholders of a great corporation. Shortly before the expiration of the stockholders' rights to subscribe to the issue the great bank in question participated in a stock-market pool to hold the price of the corporation stock somewhat above the price at which it had been offered to the stockholders.

The success of the pool operation resulted in a complete subscription by the stockholders, and the great bank had earned its underwriting commission without being obliged to take up any part of its stock commitment. There is, however, a legal opinion to the effect that the participation by this bank in the stock-market pool amounted to a fraud upon the stockholders of the corporation, in that it deliberately deceived them as to the value of their subscription rights; and it is at least conceivable that legal action might be brought against that particular great bank. The effect of such a suit upon the confidence of depositors in that particular bank would necessarily be bad, and, unfortunately, such a development would have the tendency to undermine confidence in banks generally so long as banks of deposit are permitted to engage directly or indirectly in the underwriting business.

Let us now consider what effect this question has on the relation of a commercial and savings bank to its depositors. The banker ought to be regarded as the financial confidant and mentor of his depositors. This underlying relationship is a natural and desirable one with respect to all depositors, although the aspects of it and the kind of advice called for will necessarily vary a great deal from the poor widow whose life savings are evidenced by a savings passbook to the great corporation requiring financial aid in the development of intricate business problems.

Obviously, the banker who has nothing to sell to his depositors is much better qualified to advise disinterestedly and to regard diligently the safety of depositors than the banker who uses the list of depositors in his savings department to distribute circulars concerning the advantages of this, that, or the other investment on which the bank is to receive an originating profit or an underwriting profit or a distribution profit or a trading profit or any combination of such profits.

It is a long-established rule of English and American law that a trustee may not profit by dealing with his trust estate. It makes no difference that in an individual case a trustee might buy from his trust or sell to his trust to the real advantage of the trust estate. He is not permitted to trade with the estate at all. This is no reflection upon the honor or probity of trustees as a class; it is a recognition of a certain frailty of human nature that makes it dangerous for any man to represent the buyer when he is himself the seller.

The rule is well stated by Justice Day in Magruder *v.* Drury (235 U. S. 119) as follows:

> It is a well-settled rule that a trustee can make no profit out of his trust. The rule in such cases springs from his duty to protect the interests of the estate and not to permit his personal interest to in any wise conflict with his duty in that respect. The intention is to provide against any possible selfish interest exercising an influence which can interfere with the faithful discharge of the duty which is owing in a fiduciary capacity. * * * In effect, he is not allowed to unite the two opposite characters of buyer and seller, because his interests, when he is the seller or buyer on his own account, are directly conflicting with those of the person on whose account he buys or sells.

Let us consider, then, whether this is not also a good rule with respect to bankers. If we want banking service to be strictly banking service, without the expectation of additional profits in selling something to customers, we must keep the banks out of the investment security business.

Take the other side of the picture: A corporation, having carried its account with a bank, having borrowed from that bank for its ordinary commercial requirements, is confronted with the question of raising long-time funds by the issuance of securities. If it is to have the advice of its banker untainted by the prospect of obtaining an originating or underwriting profit we must keep the banks out of the investment security business. If we are to relieve the banker of the temptation to put pressure upon his commercial borrower to put out a security issue on which the banker will make either an originating or an underwriting profit we must keep the banks out of the security business. If the public is to be protected against the possibility of bad bank loans being set up into bond issues to be sold to savings depositors of the same banks without the exacting scrutiny of an independent underwriter interested primarily in the soundness of the securities he is about to sell we must prohibit the banks from engaging in the security business. If we are to keep banks from being tempted to make security loans in order to help make a market or to finance the purchase of securities on which the lending bank is making an originating or underwriting commission we must keep banks out of the investment security business. And if we are to save banks from the embarrassment of having to appraise, as collateral security offered by prospective borrowers, the very securities which their own affiliates have sold to those customers we must keep the banks out of the investment-security business.

It is not, of course, contended that the abuses here intimated are never avoided by the good conscience of the bankers. On the contrary, I believe they are avoided generally by good bankers. Certainly they are avoided much more often than they occur. Yet the danger is always there, and must be there as long as human nature remains human nature. And just as we believe in the strictest rules for the conduct of trusts, just as we believe in examination and audits of institutions whose officers are worthy of the highest confidence as to honor and ability, we must surround the banking business with sound rules which recognize the imperfection of human nature that our bankers may not be led into temptation, the evil effect of which is sometimes so subtle as not to be easily recognized by the most honorable man.

Throughout the development of investment securities affiliates and the development of the investment security business directly through the bond departments of banks, there have been banks which have remained free from this operation. A notable case is that of the Central Hanover Trust Co., of New York, which for years has publicly stressed the fact that it had no securities company, and, consequently, "nothing to sell." Even during the boom period, when the majority of its competitors were in the thick of securities distribution, the Central Hanover affirmed its policy and solicited business on the strength of it. It is to be noted that the Central Hanover, preeminently among American banks, is a trust company not merely in name but in fact, for trust business bulks unusually large in its activities beside commercial banking; and that it emphasized its abstention from securities business, not only in advertising the soundness of its commercial banking department, more particularly in advertising the disinterestedness of its trust service, the assurance being that it could not invest any funds of which it was trustee in any securities issues sponsored by itself. The same argument was also good in urging its ability to advise country correspondents upon the purchase of securities for their portfolios.

While it is true that the Central Hanover advertising has been largely directed to its investment securities department, still, as I demonstrated a few moments ago, it is true that the acceptance of deposits from the public is in itself a public trust which ought to be kept free of the investment-security business.

In line with that thought, and to bring out clearly the tendency of institutions now to see the error of the ways of those who have gone too far in the investment security business, I want to read an announcement recently made by a great New York institution. This institution is also a trust company, but please note that the consideration which impelled it to go out of the investment security business relates also to the acceptance by it of deposits. I read from the Commercial and Financial Chronicle of December 12, 1931, the announcement of the Bank of Manhattan Trust Co. as to the discontinuance of its affiliate.

In indicating the discontinuance of the securities affiliate—International Manhattan Co. (Inc.)—and the carrying on of its activities by the Bank of Manhattan Trust Co., a statement issued on December 10, after meetings of the boards of directors, said:

> After mature deliberation the conclusion has been reached that it is to the best interests of the group to follow the trend of opinion strongly expressed in some quarters to the effect that deposit banks should not have affiliated securities companies. The International Manhattan Co. (Inc.) has operated successfully and in every sense satisfactorily during most difficult times. After writing all securities down to market, its capital and surplus of $2,200,000 are unimpaired, but it is felt that the mere existence of a securities affiliate, no matter how carefully and conservatively run, is inconsistent with the best interests of the trust company and, therefore, of the group as a whole. Accordingly, the Bank of Manhattan Trust Co. will carry on such of the activities of the International Manhattan Co. (Inc.) as are consistent with the most conservative trust-company practice.

Mr. President, I hope that the sections of this bill to which I have alluded, prohibiting the carrying on of the investment security business by national and State member banks, whether through the medium of affiliates or otherwise, will be adopted.

Mr. VANDENBERG. Mr. President——

The VICE PRESIDENT. Does the Senator from Ohio yield to the Senator from Michigan?

Mr. BULKLEY. I yield.

Mr. VANDENBERG. I think the Senator is submitting an absolutely invincible thesis, with which I find myself in complete accord. I want to ask his judgment respecting the argument made that when these banking facilities are withdrawn from the investment field there will be inadequate fiscal mechanism for industry, and, indeed, for government itself. Will the Senator comment on that suggestion?

Mr. BULKLEY. I shall be very glad to comment on that. It is a question which is not capable of an absolute demonstration one way or the other. Nobody can prove that the facilities will not be adequate, and I confess to some difficulty in absolute proof as to the adequacy of the facilities that will remain. But I can give the Senator some information about it.

It should be noted, in the first place, that with respect to the affiliate relationship we allow a period of three years for a reorganization to be made, and at the end of three years it is not required that the affiliates shall be dissolved or that they shall go out of business. It is only required that they shall be disassociated from the institutions taking commercial and savings deposits. So that it is conceivable that a large proportion of the so-called affiliates which are now engaged in the investment-banking business will have their facilities at the service of the public and entirely unimpaired during this 3-year period that is allowed, and even beyond that, if conditions should require and justify their going on in business—which they are permitted to do merely by separating their stock ownership from that of the ownership of the banks.

I want to submit one other consideration on that point. Something more than a year ago Mr. Charles E. Mitchell, president of the National City Co. of New York, appeared before the committee and gave us some figures as to originations and participations of issues of $20,000,000 or more during a series of four years. It appears from the table he submitted that in the year 1927 originations to the amount of 12.8 per cent were handled by banking affiliates, 78 per cent by private bankers, the balance by commercial banks and trust companies. I will not take the time to read them year by year, but the proportion of originations by bank affiliates gradually increases from year to year, and in 1930 the percentage handled by bank affiliates was 39.2 per cent, as compared with 12.8 per cent in 1927. For private bankers the percentage in 1930 was 55.4 per cent, as compared with 78 per cent in 1927.

Turning to participations, as distinguished from originations, participations of bank affiliates increased from 20.6 per cent in 1927 to 54.4 per cent in 1930, whereas participations by private bankers decreased from 63.2 per cent in 1927 to 38.8 per cent in 1930.

The reason for giving those figures is that it will readily be seen that the originations and participations by bank affiliates had a very rapid increase over the period of three years. Why is it not equally possible that the private banking institutions could recapture that business and expand themselves to meet any demand which may be needed in the course of the three years next ensuing after the enactment of this measure?

I think it may be taken as a safe expectation that all legitimate capital needs of the Nation will be met by institutions which will not be under any of the inhibitions of this bill.

Remember, too, that the overdevelopment of these investment affiliates has unquestionably been one of the causes of the overdevelopment of the capital market, which has brought upon us such disastrous consequences. In other words, it is not expected that the needs of the capital market will immediately be quite as great as they were assumed to be back in the boom years of 1928 and 1929.

Mr. VANDENBERG. I thank the Senator for his answer. I do not want to detour him, but I would like to submit this supplemental question: After all of the banking investment facilities are withdrawn and we have delivered the complete control of investments to so-called investment bankers, is it the Senator's view, as a result of his inquiries, that investment banking as such should be submitted to further and more drastic regulation than at present?

Mr. BULKLEY. That is a subject which our committee has not presumed to go into, and I should add, in that connection, that the purpose of this bill does not extend to safeguarding purchasers of securities as such. The purpose of this bill is to improve the operation of the Federal reserve system and the banks which are members of it. The object of the inhibitions which I am discussing here is not primarily to protect the investing public, although that is a worthy

purpose, but our field is to protect the operations of the banking system itself, and to protect the depositors and customers of the banks so that they shall have the service from national and State member banks which they are entitled to expect.

Mr. LEWIS. Mr. President, will the Senator yield to me?

Mr. BULKLEY. I yield.

Mr. LEWIS. I address myself to the Senator from Ohio, conscious, as I am, of his complete knowledge of this bill, a fact to which the distinguished Senator from Michigan has just alluded, as a result of his research and information on the subject. I assume the word "affiliate" to the ordinary mind means a branch, but I take it that it is about as unintelligible to the ordinary citizen as the word "rediscount" is. But I would like to ask the Senator whether he can point out what provision in the measure, if any, he regards as looking to the protection and preservation of the depositors who deposit in these institutions called "affiliates" or in the main banks, in view of the disasters they have lately gone through and the vast losses which they have endured?

Mr. BULKLEY. Mr. President, I call to the attention of the Senator the fact that the word "affiliate," as used in this measure, is defined in section 2.

As to the protection of the depositors, we believe in general that most of the provisions of the measure tend to better protection of the depositors. Section 3, which the Senator from Virginia discussed at length this morning, refers to keeping the funds of Federal reserve banks out of speculative uses. We regard that as protection for depositors.

The Senator from Virginia also alluded to the formation of a liquidating corporation, which was not by any means a guaranty of bank deposits, but which is an assurance to depositors of member banks that they will be able to get promptly so much of their money as they may be entitled to at all in the event of a bank being closed. We regard that as some protection to depositors. But, in my humble opinion, the greatest protection to depositors that we have given in this measure is in connection with the very provision I have been here discussing, by prohibiting a banker from having an interest contrary to his depositors, by prohibiting him from being interested in securities which he recommends his depositor to buy, by keeping him in such position that he may be free and independent to pass on credits without the embarrassment of having brought back to him the very securities that he sold to his depositors and being asked to loan upon them. We feel that by removing the bankers from the temptation of using credit in such a way as to make a good background and foundation for the flotation for more security issues we are protecting the depositors. In other words, I would hesitate to point to any one thing in the bill that was intended to protect depositors, but I would rather say that the measure as a whole is in all of its fiber intended as a protection for depositors.

Mr. President, I have practically concluded what I have to say——

Mr. GEORGE. Mr. President, will the Senator from Ohio yield?

The VICE PRESIDENT. Does the Senator from Ohio yield to the Senator from Georgia?

Mr. BULKLEY. Certainly.

Mr. GEORGE. Let me ask the Senator to refer to the language in lines 5 to 10 on page 8. I wish to ask the Senator a question about that provision. It is as follows:

> State member banks shall be subject to the same limitations and conditions with respect to the purchasing, selling, underwriting, and holding of investment securities and stock as are applicable in the case of national banks under paragraph "seventh" of section 5136 of the Revised Statutes, as amended.

The question I wish to ask of the Senator is, Is not that provision with reference to member banks operative in futuro by reference to the amended section 5136 of the Revised Statutes?

Mr. BULKLEY. I think the Senator means with respect to securities that may be held for investment account?

Mr. GEORGE. That may be held by a State member bank at the time of the passage of this bill. I may say to the Senator from Ohio that I am anxious to have his view upon it. I have conferred with the author of the bill and he assures me that the provision is applicable in futuro.

Mr. BULKLEY. I feel very clear about it. If the Senator will indulge me I think I can demonstrate it. Of course, all it provides on page 8 is that State member banks shall be subject to the same limitations and conditions as are applicable in the case of national banks under paragraph seventh of section 5136 of the Revised Statutes, as amended. Paragraph seventh of section 5136 is amended by this very bill. Section 14 of the bill, commencing on page 34, amends section 5136 of the Revised Statutes. The wording of section 14 shows the reenactment of paragraph seventh of section 5136. The new matter begins in line 15 on page 34 of the bill. On page 35 there are some reenactments, and also some new matter, but the only limitations on what banks may hold for their investment accounts are two. One of them begins in line 5:

> But in no event shall the total amount of any issue of investment securities of any one obligor or maker hereafter purchased and held by the association—

And I there emphasize the word "hereafter"—

> hereafter purchased and held by the association for its own account exceed at any time 10 per cent of the total amount of such issue outstanding.

Then down below it provides:

> Nor shall the amount of the investment securities of any one obligor or maker hereafter purchased and held—

Again I emphasize the word "hereafter"—

> hereafter purchased and held by the association for its own account exceed at any time 15 per cent of the amount of the capital stock of the association actually paid in—

And so forth. I think it very clear that paragraph seventh of section 5136 as here amended is entirely in futuro with respect to securities purchased and held, and that it would relate back to the provisions to which the Senator has called attention on page 8.

Mr. GEORGE. Yes; the distinguished Senator from Virginia [Mr. GLASS], author of the bill, assured me that that is the correct interpretation, and I was anxious to see whether the Senator from Ohio agreed with that view.

Will the Senator give me his opinion upon the following provision appearing on page 40 of the bill?—

> (b) After January 1, 1935, every such holding-company affiliate (1) shall possess, and shall continue to possess during the life of such permit, free and clear of the lien, pledge, or hypothecation of any nature, readily marketable assets other than bank stock in an amount not less than 12 per cent of the aggregate par value of all bank stocks controlled by such holding company affiliate, which amount shall be increased by not less than 2 per cent per annum of such aggregate par value until such assets shall amount to 25 per cent of the aggregate par value of such bank stocks; and (2) shall reinvest in readily marketable assets other than bank stock all net earnings over and above 6 per cent per annum on the book value of its own shares outstanding until such assets shall amount to 25 per cent of the aggregate par value of all bank stocks controlled by it.

The question I wish to direct to the Senator is whether the bank is required to accumulate, as provided in the section which I have just read, 25 per cent under No. 1, and a reserve equal to 25 per cent of the aggregate par value of all bank stocks controlled by it under No. 2? In other words, whether 50 per cent of the aggregate par value of all bank stock controlled by such holding company affiliate is required, or whether it is the intention of the bill to require only 25 per cent? Have I made my question clear?

Mr. BULKLEY. I will be very frank with the Senator that I am not quite certain myself. That is not one of the subjects that was under my personal purview. I would be glad if the Senator from Virginia [Mr. GLASS] would feel that he could answer the question.

Mr. GEORGE. The Senator from Virginia advised me off the floor that he himself did not have direct supervision of this particular section; that is, he had not given particular study to the language.

Mr. BULKLEY. I will undertake to get an answer for the Senator, but I would rather not give it offhand.

Mr. GEORGE. Let me state the question in this way——

Mr. BULKLEY. I understand the question perfectly; but I would rather give the Senator a considered and reliable answer, which I am not able to do now.

Mr. GEORGE. If 50 per cent is required, I do not believe the language is quite clear. If only 25 per cent is required, it still may be said that it is not quite explicitly stated.

Mr. BULKLEY. I agree with the Senator that it ought to be made more clear.

Mr. FLETCHER. Mr. President——

The VICE PRESIDENT. Does the Senator from Ohio yield to the Senator from Florida?

Mr. BULKLEY. I yield.

Mr. FLETCHER. It seems to me that the provision in the bill for the liquidating corporation, which has been stated to be for the protection of depositors, is to a very great extent for their protection, but it really ought to be stated that it will benefit them rather than protect them.

Mr. BULKLEY. I think perhaps the word "benefit" is better than "protect." It protects the depositor against having his funds tied up for an inordinate length of time. But I cheerfully accept the correction of the Senator from Florida. I think the word "benefit" is better.

Mr. President, I have concluded what I desired to say. I believe that the Senate will make no mistake in keeping the sections to which I have been referring substantially as they are, in order that we may not go forward to what may be merely building up again for a recurrence of the unfortunate events that we have had in the past.

Mr. JONES. Mr. President, will the Senator from Ohio permit me to interrupt him?

The VICE PRESIDENT. Does the Senator from Ohio yield to the Senator from Washington?

Mr. BULKLEY. Certainly.

Mr. JONES. I asked the Senator from Virginia [Mr. GLASS] about this outside the Chamber, but did not get an opportunity to ask him on the floor. I would like to get the Senator's judgment. I have a telegram from one of the leading bankers of Seattle. I think he is one of our most reliable bankers. He said:

> We have made careful study of Glass bill and are in favor of all provisions except section 14, pertaining to investment securities. Feel that bill should permit national banks to maintain bond departments and distribute such securities as are eligible for their own account, with limitations and restrictions by comptroller.

What answer would the Senator make to that suggestion?

Mr. BULKLEY. Mr. President, as I indicated at the beginning of my remarks, that is a question on which honorable men might take a different view from mine. I have no quarrel with anyone who thinks the banks ought to be continued in the investment-securities business, but I have endeavored to give to the Senate my reason for believing that it makes a divided interest in the allegiance of a bank to its customers, and that it is not in accord with what we know human nature to be to expect that a bank shall have securities for sale on which it makes a profit and at the same time be competent to advise its customers with respect to their investments. My own view is very strongly that the Senator from Washington should plead with his friend to reconsider his view and ask him whether the banks would not be relieved of a great deal of embarrassment and a great deal of the loss of confidence from which they now suffer if they were prohibited from carrying on that sort of business, which puts them on the opposite side of transactions from their own customers.

Mr. GLASS. Mr. President——

The VICE PRESIDENT. Does the Senator from Ohio yield to the Senator from Virginia?

Mr. BULKLEY. Certainly.

Mr. GLASS. I may supplement what my colleague on the committee has just said by referring to that remarkable opinion which the Senate yesterday made a public document. Mr. Lehmann, the Solicitor General, speaks of that sort of thing as a vain attempt to fairly serve two masters, and that it can not be done.

Still further I would say to the Senator from Washington that the mistaken impression prevails that there is some deflationary degree in section 14 of the bill, whereas if he will examine it critically he will see that it relates to future transactions and does not require a single bank to discharge any of its existing investments.

There can be no question, though there is a controversial element in it, that it is not a safe business for a commercial bank to be engaged in investment banking. They ought to be entirely separate.

Let me add—and my colleague will confirm the statement—that those bankers who came to Washington and went to night schools and got their lessons one after another made the same objection to section 14. However, when it was pointed out to them that they had a misconception of its meaning, that it did not involve any deflation of their existing assets, that it related solely to the future, without exception they acquiesced in it as a sound measure and abated their objection to that section.

Mr. JONES. I thank the Senator for that opinion with reference to this matter. I myself have no opinion in regard to it, and I am perfectly willing to take the Senator's judgment.

Mr. BULKLEY. I should say to the Senator that there was no objection whatever at the hearings to the limitation with respect to securities held for a bank's investment account. We have never had a complete agreement on the general subject of whether banks ought to be permitted to continue in the securities business.

Mr. JONES. In this telegram it is stated further:

> Please secure interpretation of page 35, line 2, that "the association may purchase for its own account investment securities under such limitations and restrictions as comptroller may by regulation prescribe," and ascertain whether or not this provision would permit national banks to sell and distribute as well as purchase through well-regulated bond departments; otherwise, we believe that the security markets generally as well as the condition of all collateral owned would be greatly impaired.

Will the Senator give me his opinion with reference to that statement?

Mr. BULKLEY. Mr. President, I am very clear that the language quoted has reference to the purchase by banks of securities to be held for investment in their own portfolios. Banks have always held a certain amount of bonds and other securities as investments, as a so-called secondary reserve. This provision relates only to the purchase for such investment account. I am clear that my view of this would cause the Senator's correspondent to be opposed to the section, but, nevertheless, I believe that what the language refers to is the regulation of purchases of securities for investment for the bank's own account and not for distribution in the sense to which reference is made in the telegram.

Mr. JONES. I thank the Senator.

Mr. BULKLEY. Mr. President, I yield the floor.

Mr. VANDENBERG. Earlier in the day I submitted an amendment to the pending bill and asked that it lie on the table and be printed. I now offer the amendment and ask that it may be considered as the pending amendment.

The VICE PRESIDENT. The Senator from Michigan offers an amendment, which will be stated.

The LEGISLATIVE CLERK. It is proposed to amend section 19 by adding at the end of subsection C, on page 45, the following:

> *Provided*, That only existing unit or affiliated banks shall become branch banks, except that this proviso shall not apply in any city, town, or village where no national or State banking corporation is regularly transacting customary banking business.

Mr. DICKINSON. I offer an amendment to the pending bill, which I ask to have printed and lie on the table.

The VICE PRESIDENT. The amendment offered by the Senator from Iowa will be printed and lie on the table.

THE GLASS BANKING BILL—EDITORIAL FROM FORT WORTH STAR-TELEGRAM

Mr. CONNALLY. Mr. President, I ask unanimous consent to have printed in the RECORD an editorial from the Fort Worth (Tex.) Star-Telegram in relation to the bill which the Senate is now considering.

There being no objection, the article was ordered printed in the RECORD, as follows:

[From the Fort Worth (Tex.) Star-Telegram, May 1, 1932]

FUNDAMENTAL ERRORS OF THE GLASS BANKING BILL

Although the Glass banking bill as now pending in the Senate is a very much less dangerous measure than that first introduced, it still contains many features objectionable from the standpoint of practical banking, and it continues subject to two fundamental charges of error. Of the latter, the most important is found in the bill's apparent assumption that the human element may be expunged from banking, or that, failing this, human responsibility may be attained in more desirable form merely by shifting from one set of individuals to another. This error is the more glaring since the individuals from whom responsibility would be taken are the bank officials who obviously have a more direct concern with the interests of their customers and their communities, while those upon whom this additional responsibility would be conferred are members of a board isolated in Washington. That mistakes are possible even for the Federal Reserve Board is suggested by the fact that this board is frequently charged with responsibility for the wild speculation and consequent collapse in 1929, the board's "easy-money" policy being blamed.

The second general error of banking policy which may be proved against the present Glass bill is the fact that it would so militate against continued membership in the reserve system on the part of State banks that it likely would drive out of the system institutions now contributing 40 per cent of its resources. The provisions of the bill in this respect involve a direct breach of contract with the State banks now members. During the war period when added strength was vitally needed by the reserve system, a special effort was made to induce State banks to become members as a patriotic duty. In order that the State banks might not be required to surrender their charter rights entirely, an understanding was reached which assured member banks under State charters a reasonable autonomy and freedom of action. This understanding would be forcibly abrogated, without consent of one of the parties, by the Glass bill, which would require State banks members of the reserve system to be entirely subservient to the Comptroller of the Currency and the Federal Reserve Board. In addition, by its branch-banking provisions, the bill would place member State banks at a disadvantage, since these would be prohibited by their State charters from establishing branches in other States, a practice which would be permitted to national banks. These two requirements, in the opinion of bankers, would force nearly all State banks out of the reserve system.

For more than two years the country has been struggling with the most difficult and complicated business situation in its history. Many important readjustments seem necessary and desirable. But granting that some changes are desirable in existing laws, the present, when we are just emerging from an atmosphere of hysteria and fear which was the inevitable consequence of the period, would hardly seem a propitious time for enacting new and far-reaching provisions which in their very nature are excessively deflationary. It would be unfortunate if we were now to rush in and attempt to cure evils of the past year by means which, even if they proved helpful at some future time, would inevitably add to the length and depth of the present depression.

The fact that three years ago an unduly large amount of credit was extended to stock-market operators by member banks and nonmember banks, as well as by corporations and individuals over whom bankers had no control, should not now cause us to go to the other extreme and enact a law which would make all the legitimate investment business an outlaw business by practically preventing banks from extending credit to anyone engaged in that line. Nor should the fact that in the past a few banks went too deeply into the securities market be now used as an argument for prohibiting all banks from dealing in sound investment bonds.

In attempting to prevent a repetition of old mistakes in this line the Glass bill would permit new and greater errors by destroying all machinery for the distribution of long-term securities, which is, after all, an essential part of the Nation's financial business and therefore an important public service. Wrecking this machinery would be a sorry service to States, counties, and municipalities, as well as to railroads and other corporations whose legitimate need for long-term credit must be recognized. It would also deprive business and industry of what is right now its chief reliance for the ultimate act of aid in breaking through the depression. Before business can be restored the investment market will be called upon not only to finance new undertakings but also to absorb bank loans and obligations that have been taken over by the Reconstruction Finance Corporation. If banks members of the Federal reserve system are prohibited from participating in this necessary work, not only will the opportunities for business rescue be reduced but the work of refinancing will be taken away from institutions under supervision and turned over to private institutions over which there is no public control.

It is impossible to escape the conclusion that the effects of this bill would be entirely opposed to the purpose of the two most important reconstruction acts undertaken by Congress this year—the Reconstruction Finance act and the Glass-Steagall Act. These measures, a product of broad-minded and nonpartisan statesmanship of the leaders of both parties, have done much to reestablish national confidence on the part of bankers and the public. The passage of this bill undoubtedly would destroy most, if not all, the good that has been accomplished along this line and would lead to further deflation of securities and additional restrictions on credit at a time when just the opposite influences are needed.

EXTRAVAGANCE OF GOVERNMENTAL EXPENDITURES—ADDRESS BY ROBERT R. M'CORMICK

Mr. WATSON. Mr. President, some days ago Col. Robert R. McCormick, the very able editor of the Chicago Tribune, delivered an address over the radio, April 16, on the subject of governmental expenditures. I ask unanimous consent that it may be printed in the RECORD.

There being no objection, the address was ordered printed in the RECORD, as follows:

The cause of the world-wide depression has been definitely and finally traced to the extravagance of governmental expenditures since the war.

That is the one common denominator found in all countries, defeated, victorious, or neutral, in all forms of government, monarchist, republican, socialist, dictatorship; in every clime, on every continent, and in every State, county, and city.

All governments are either bankrupt or on the road to bankruptcy. Among them we find Germany, Austria, England, Australia, and New Zealand perhaps beyond recovery, and the rest pointing to the same end.

Among cities, Chicago, Detroit, and Philadelphia are known to be bankrupt, but New York City is utterly insolvent. With a debt approaching $2,000,000,000, an outgo far exceeding income, she is increasing her expenditures constantly. One wonders how much longer the banks and the insurance companies of New York will dare to loan money to finance wasteful public business. Her budget for 1932 was $631,000,000. Since 1920 our largest city has much more than doubled its budget. This year's deficit will reach $100,000,000 by June. Cleveland has a deficit of $2,000,000 in her general fund and $2,000,000 in her educational fund, and her credit has gone sour.

Boston is so much older than our mid-western cities that she ought to know better. However, according to William H. Davies, writing in the Boston Herald, she permitted her city officers last year to spend $10,000,000 more than they had ever spent before. And thus she has a deficit of at least $5,000,000 for this year.

Mayor Curley telegraphs me that the overexpenditures exceeded my figures by $2,000,000, but that the deficit is $2,500,000 less, and that he expects to collect it from the $11,000,000 of taxes in default. I trust he is justified in his hopefulness, but defaulted taxes of such enormous proportions in a city the size of Boston would seem to indicate a tax strike. I am afraid that Boston will soon join the ranks of the other bankrupts.

Such is the plight of the larger cities, but the smaller ones have not done better. In 28 States there are known to be defaults. In the others it is just a question of time. Defaults and repudiations are the order of the day in government as a result of submersion in debts beyond ability to pay.

National expenditures are exceeding income by 100 per cent, or $2,000,000,000.

The United States Senate sits smugly on the horns of the dilemma it seems to have chosen—whether to fail to meet the Nation's obligations or to levy taxes which will destroy the entire economic structure of the country as the House has done. No serious thought of retrenchment appears to have entered the heads of our office-holding tyrants.

Not since the States ratified the Federal Constitution has there been so dark an outlook—in all the history of our people.

If we are to save ourselves from the threatened cataclysm, we must find by what steps we were led into this morass, that we may learn how to retrace them.

Time will not permit me to detail the rise of bureaucracy in this country which, hardly noticeable for the first century of our existence, may have found its germ in the vast activities of government in the Civil War, because it was in the following generation that government expansion got its start.

Before Europe went to war there had been added to the constitutional offices a Department of the Interior, a Department of Justice, a Civil Service Commission, an Interstate Commerce Commission, a Department of Agriculture, Department of Commerce, a Bureau of Forestry, a Department of Labor, the Federal Reserve Board, and the Federal Trade Commission. Between them and our declaration of war arrived the National Advisory Commission for Aeronautics, the Employees' Compensation Commission, the Tariff Commission, and the Federal Board for Vocational Education.

The act creating the last-named board was innocent enough in appearance. It provided for Federal assistance on a 50-50 basis to States which would match the Federal Government gift to them in expenditures for teaching in the schools, boys to become machinists and carpenters, and girls to do fancywork. But that entering wedge opened the way for the shiftless States to spend the money of the thrifty ones, with the National Government providing half the funds. That was the means through which Ohio money came to be taken to build roads in Utah. That is the means through which citizens of Philadelphia contribute to the culinary education of Alabama farmer ladies.

But we are getting ahead of our story. Federal Government expenditures, which increased quite steadily prior to the war, did so at a rate that might cause the Democratic and Progressive Parties of 1912 to view with alarm, but they were still very moderate. Less than a billion dollars paid for everything the Congressmen could get each other to vote for. Less than a billion took care of the Army and the Navy, the postal deficit, the Panama Canal, and all the waste.

Nineteen fourteen was the first year that Federal Government expenditures went over a billion dollars, and by 1916, a year before we declared war, the total was only a billion forty-two million. But at that time there were fewer than 40,000 Federal employees in Washington and fewer than 400,000 outside of Washington. At the beginning of the present fiscal year the number of civil employees was the largest in any peace-time year, 72,000 in Washington, 545,000 outside of Washington.

It was, however, the Great War that changed the entire scale of national income and national expenditure.

First the prices of agricultural products soared. Cotton mounted from 7 cents to 43 cents a pound and wheat from 80 cents to $3.50 a bushel. Although the value of cotton was due entirely to the temporary demand for explosives and the demand for wheat was caused by the drafting of European farm workers into armies and the shortage of shipping which prevented South American and Australian competition, farm lands advanced in price, as though farm incomes would be permanently stabilized on a war basis.

Next factories making war material boomed, and factories which could be turned to war manufacture zoomed after them. In consequence factories unadaptable for war manufactures became insufficient to supply the civilian needs of the country, and the demand exceeding supply brought the inevitable high prices of nearly all commodities, while so-called prosperity and the high cost of living brought about increase of wages on an average of 172 per cent.

Neither financiers nor soldiers had thought that the enormous armies prepared in Europe could be supported for more than a few weeks of war, and the various war plans of general staffs all aimed at an early victory. The Schlieffen plan of Germany, plan 17 of France, the Conrad plan of Austria, and the Yonouskevitch plan of Russia all aimed at this result, and all failed because the book-trained staffs had no conception of modern combat.

It was only when the war settled into a siege that the world perceived for the first time to what extent credit could be extended and to what taxes men and industries would submit under the impulse of pariotism.

During three years Europe pinched and fought while we merely increased our production, our cost of production, and our cost of living. When finally we declared war we felt rich; some felt a sense of moral delinquency because we had not entered the war earlier, and all realized that we had incurred a national peril.

We found it necessary to raise our soldiers by conscription, and this led to the moral consequence that the unconscripted could deny them nothing. There followed an organized reign of terror against all criticism. We had organized propaganda, censorship, and a cheka. These were used to fight enemies at home and abroad, and were used just as much to prevent criticism, encourage extravagance, and protect corruption.

In their shadow unscrupulous men sought unconscionable contracts, harbor appropriations, camp locations, and the many spoils of war and politics. Side by side with necessary war activities were perpetrated the grossest frauds in the history of the world up to that time.

Those for whom room was not found in the Army or Navy the cry was raised, "Give till it hurts. Buy bonds till it hurts. Pay taxes till it hurts." And no one complained.

They raised sums more vast than mathematicians had imagined possible, and they set a standard of taxation and extravagance in government which has finally brought this country to the verge of ruin.

They established enormous organizations for the collection and expenditure of taxes and for the creation and enlargement of public debt.

Naturally, at the end of the war the jobholders and the industries which had been created from war conditions wished to continue; the honest as well as the dishonest, and the dishonest as well as the honest.

Those that could not remain in the Federal service flowed over into the States, the counties, and the cities.

The habit of exuberant and exorbitant taxation continued and was borne by a people who had been taught to bear it under the stress of national necessity. The propagandists found new euphemisms for public expenditures in civil life to take the place of patriotism and self-sacrifice for unnecessary waste in war time.

The greatest postwar thefts of public funds have been camouflaged as desirable projects or indispensable services.

One weapon of the peace-time propagandists has been to direct the public attitude toward war-time profiteering, for which they were largely responsible, against necessary peace-time industries. There was a natural antipathy toward the men who got rich from war necessities. Progressive taxation was imposed no mere to provide revenue than to punish the profiteers. Tax thieves have perpetuated this attitude and have hamstrung essential industries and forced millions of workingmen out of employment on the generalization that private profit, however honestly gained and however indispensable to the common welfare, should be penalized.

Before the war our public expenditures were $3,000,000,000 per year, including State and local governments. Five years after the war they exceeded $10,000,000,000. The total public expenditures for 1931 exceeded $14,000,000,000!

Nor must you be hoodwinked with that utterly false statement that the largest part of this sum is spent on war, because only 17 per cent of the National Government's expenditures is even appropriated in the name of the Army and Navy Departments.

The general result is that we now have on the public pay rolls over 3,000,000 people, and we have allied with them, in the form of contractors and other beneficiaries—I can not say how many millions more.

Before the war our national indebtedness, including States and counties, was $4,850,000,000, while in 1922, four years after the war, it had risen to $31,000,000,000. Between 1922 and 1930 the Federal debt had been cut by $6,700,000,000, but borrowings of States and cities had more than offset the Federal amortization. Now the debts of all our governments aggregate about $35,000,000,000.

These costs seemed bearable because of the steep, if temporary, increase in values of all kinds.

The inflations of values began with farm land during war time, and then like a pulse passed through all other land—Florida land, subdivision land, conservative business property, and even the houses in which we live. Inflation went through the securities listed on the exchanges, and the owners of property not on the market felt a glow of wealth which they could not realize upon, to be sure, but upon which they were not loath to pay increasing taxation.

How to account for this phenomenon I am not sure. Increased income from property was responsible for but a small part. The effect of spending borrowed money had some share. The energy created by war enthusiasm and the natural optimism following victory all contributed.

The consequence has been that property of every kind was raised, as a ship on a wave, and left by the receding wave high and dry on the jagged rocks of ruinous taxation.

Earnings never were high enough to support the levels of taxation which were imposed. The unbearable load was concealed, like the face of Mephistopheles, behind a mask of plenty.

Now, under the grinding load of taxation, industry is everywhere slowing up. Incomes are falling and disappearing. Industries, contracting or closing down altogether, are unable to furnish employment to workmen. Everywhere we find economies and hardship excepting on the part of those people who have their hands under color of law, in the pockets of others, and even these are suffering as the pockets become empty.

They are like the wolves of Anticosti. That island was populated by limitless droves of caribou until one year Labrador wolves were carried to it on the ice. The island was favorable to the pursuit of wolves, and its shores prevented the escape of the pursued. The wolves waxed in number, destroyed the caribou, and then, with nothing to feed upon, all died of hunger. That is the prospect which lies before our tax eaters.

The evil talk of tax strikes is heard throughout the land, but far more serious than strikes is the growing inability of taxpayers to pay. Strike or no strike, it is absolutely impossible to pay the taxes assessed. Owners of buildings are tearing them down because the taxes are more than the receipts. Owners of unimproved property are unable to pay their taxes, and tax buyers can not be found to evict them. Individuals, estates, and corporations are beginning to find it impossible to meet Federal taxation extorted with all the ruthlessness of the Germans in Belgium.

We have reached the extraordinary situation where the ownership of property has become a liability, not an asset.

Ever since the war the Government has been living on and living off income taxes and taxes that it called "income" taxes. Where the taxes were levied on profit in the purchase and sale of a fixed article, such as a piece of real estate, or a certificate representing the ownership of a company owning real estate, improved or unimproved, a railroad or a factory, the tax is not on income, but is a capital levy. This fact is recognized in the proposed tax law under which losses in the resale of such property may not be deducted.

Obviously, by the continuation of the principle of taxes, exacting tribute on values as they rise and conceding nothing when they decline, sooner or later the Government will have extorted the entire value of all property.

It will be like the fisherman who, hauling in his line as the fish comes his way, and snubbing his line when the fish would run, soon has him gaffed. If I were inclined to pun on so serious an occasion, I would continue the illustration and say the American taxpayer is a "poor fish."

Now, as to taxes on incomes proper. It being the evident purpose of our Government to take away from its citizens, like the Roman conquerors from their subject peoples, all their property in so far as it is profitable for the Government to do so—how far can the taxes be extended before they destroy the source of income?

Here we enter a less defined field of political economy, but there is ample evidence visible to those willing to see. The great industrial enterprises which pay so large a part of all kinds of taxes, real, personal, and income, employ so many men and women, buy such quantities of primary products, started from small beginnings and have been built up from accumulations. If these accumulations had been sequestered in the past, as they will be in the future, the industries never could have grown. If we stop accumulation at this time, no more industries may grow to take up the slack of unemployment and to pay the cost of government.

A no less vital factor is the repayment of debts. The existence of banks, and hence the existence of bank depositors, depends upon the ability of debtors to pay. To the nonproducing theorist a strictly limited return on capital may seem sufficient and all that is morally justified for some one else to receive, but for the borrower a return sufficient to pay not only the interest but the principal of his debt is necessary lest he lose his all. If the opportunity of repaying his debt is denied him, he can not venture, and if the Government will take from the borrower the money which is needed to repay the lender, the bank dare not lend. We can have no banks.

Nothing is more popular to-day among the human crocodiles than the progressive estate tax. If, they argue, it is fair that the creator of wealth is entitled to its use, this right does not extend to his heirs who did not produce it—an argument plausible to those who wish to see it that way, but one which, carried to its logical conclusion, injures the very people it is supposed to benefit.

Modern property is no longer in the patriarchal stage. The rich man does not own 1,000 goats or 10,000 sheep, of which 500 or 7,000 may be taken by Pharaoh, still leaving the heirs a considerable quantity of mutton and wool.

In its simplest form, for the taxgatherer, this wealth will be found represented in bonds and shares of stocks listed on an exchange, a part of which can be sold to pay the tax on the whole. Forced sales of stocks to pay taxes are another form of bear raids, or short selling. Stock which in the natural order of events would be kept off the market will be forced on the market, breaking the market. The forced sale of the stock sold destroys the value of that retained, and any glee caused by the confiscation of the estate of a rich man will be turned to dismay when it is found out that all stock, in whosoever hands it may be, is thereby depreciated in value. Not only every share of the particular stock sold will be depreciated, but as these shares fall in value they will bring all the other shares down with them. The recent collapse of the stock market is partly due to stocks forced upon the market by Government exactions and for which buyers are wanting, and the same is true of all depreciated values.

But more difficult than this by far will be the case of the many businesses of one kind or another which are operating successfully, employing labor, buying supplies, and paying taxes, which are not listed on any stock exchange and which in many cases do not consist of capital stock. The machinery and fixtures can not be separated and sold piece by piece. They would produce nothing. Assuming an enterprise to have a given value in the hands of its owner, say, one million or ten million dollars, how much will it bring at a forced sale, a sale forced upon the citizen by his government? How much will the individual so fortunately situated as to have his competitor's property auctioned off to him by the Federal Government bid for it? Will he bid its fair value? Will he bid its value as fixed by Cæsar's legates, and if he bids less, will the Government demand a tax on a larger sum that it realizes for its victim? And how long will enterprises exist if they are to be overtaxed during the generation of their founder and confiscated with his death?

Look across the ocean! Look at England, the founder of industrial civilization, the originator of steam machinery. There you will see industries of all kinds groaning along on out-of-date, worn-out machines, incapable of competition in the world markets. Why do the English endeavor to manufacture with out-of-date, worn-out machinery? Because taxation has risen to such heights in England that the owners can not afford to modernize their plants. What money the Englishman can get he puts in hiding, in a losing effort to maintain his declining civilization.

The course which our rulers have laid out for us, and from which they show no sign of deviating, is the road to complete and inescapable ruin. If they proceed as they are going, they will dry up every profit, every interest payment, and every pay roll. They will bring upon us a fall like the fall of the Dutch Republic and of the Roman Empire. And with our ruin their ruin is also inextricably bound up.

If you ask me what is the alternative, I will make this statement and I will continue to proclaim it: There is not a Cabinet officer, there is not a Member of Congress, who can demonstrate that one-half of the money appropriated for any department of government is used for the purpose designated. I will be specific: not one-half of the money appropriated for the War Department is spent to make an army; not one-half of the money appropriated for the Navy Department is spent to build, operate, and maintain a combat fleet; not one-half of the money appropriated for the Post Office Department is spent to move the mails. As for other great branches of the Government—the Department of Commerce, the Department of the Interior, the Department of Agriculture, are not much better than rackets. Rackets, I regret to say, which are supported by small elements of our population, persuaded that they are receiving from them special benefits at the expense of the general taxpayer.

It took centuries for enough wealth to accumulate to raise our civilization from the misery of the Middle Ages to the high estate we have witnessed. It has taken 15 years of excessive taxation to bring us down to the verge of ruin. The tax bill passed by the National House destroys all hope for the future.

Like the French under Louis XV, we are ground down by an unbearable army which is extorting in taxes from the suffering populace $10,000,000,000 annually, and is spending $4,000,000,000 more, so that local treasuries are largely bankrupt and the Federal credit is stretched to the breaking point. Everywhere people are crying for relief, and nowhere are they receiving it, while smug officeholders quote "After us, the deluge."

If you are to exist you must tear these weasels from the throat of the Nation. To attend meetings is not enough; to pass resolutions is not enough. You will have to go into every detail of political organization. If you do less, you will be destroyed.

Since the passage of the new tax bill by the House of Representatives we read that $6,000,000,000 have been lost in stocks listed on the exchange. Forty thousand farms have been sold for taxes in Mississippi. There has been a bloody riot in Newfoundland, an insurrection in New Zealand, Australia is leaning over the brink of civil war. The prospect is dark, indeed.

But we are the descendants of the people who dared the trackless ocean and the impenetrable forests and who, in the face of obstacles greater by far than those which we face to-day, overthrew a tyrant king and established the greatest Nation in the world.

We face a threat and accept the challenge. There are serious times ahead, but I am confident that the American spirit will yet save our country.

A gathering of patriotic citizens of Aurora, Ill., anxious about the future of their country and inspired by its past, yesterday asked me to point out to you that of the many organizations wielding influence upon public office for good or ill, all are limited in their membership by class, trade, or previous experience, and all are favoring special causes. There is no organization as wide as America and none devoted exclusively to the public welfare. They ask me to suggest that there be organized throughout this country an association of Americans with no other limitation than that of American citizenship; that its Constitution shall forbid its advocacy of any special interest whatsoever, and that it shall devote and confine its activities to the general welfare. Remembering the organization which freed the Colonies from foreign oppression and made it possible to establish this Nation, they suggest that we call it the Patriots.

Listeners all over the land, if this suggestion receives your favor, will you write and tell me? If you disapprove of the suggestion, will you do the same? And if you have other ideas to save us from our peril let me have those also. The danger is nigh and the time is short.

Amazing increases in the expenditures of national governments

	Pre-war, 1913–14	7 years after the armistice, 1925–26	Now, 1930–31
GREAT WAR PARTICIPANTS			
United States	$724,511,963	$2,930,707,176	$4,294,274,778
Great Britain	961,099,680	4,020,216,000	3,805,160,149
Germany	718,363,560	1,754,300,000	2,679,273,600
France	998,176,700	1,580,644,000	1,985,681,200
Italy	590,367,700	736,000,000	1,636,325,200
Japan	286,139,000	523,924,000	802,086,500
Canada	168,690,000	320,660,000	393,972,000
Belgium	[1] 172,928,000	369,962,400	342,079,200
Australia	112,416,150	300,848,000	319,242,400
Brazil	53,732,545	137,739,464	262,608,000
NEUTRALS			
Argentina	171,537,000	302,864,000	[2] 659,199,000
Spain	273,400,000	459,500,000	384,000,000
Netherlands	88,158,600	299,765,000	334,227,624
Sweden	56,226,400	[3] 164,573,000	192,820,000
Chile	58,256,545	100,036,000	128,593,000
Norway	43,177,238	120,997,000	96,047,000
Denmark	29,856,000	[3] 71,500,000	85,279,000
Switzerland	20,419,400	59,439,000	73,897,770

[1] 1912. [2] 1929. [3] 1924–25.

Amazing increases in spending and borrowing by leading cities

Cities	Expenditures				
	1912	1918	1922	1926	1930
New York	$243,208,000	$238,336,000	$389,276,000	$507,815,000	$681,834,000
Chicago	67,802,000	97,948,000	163,080,000	234,621,000	297,376,000
Philadelphia	43,312,000	66,156,000	108,764,000	176,897,000	163,407,000
Detroit	13,836,000	29,682,000	119,543,000	150,444,000	197,795,000
Cleveland	18,555,000	27,181,000	59,039,000	73,057,000	78,673,000
St. Louis	21,580,000	23,959,000	31,548,000	46,196,000	55,194,000
Baltimore	18,091,000	18,691,000	38,394,000	48,445,000	57,486,000
Boston	32,553,000	38,456,000	49,223,000	73,418,000	85,491,000
San Francisco	18,789,000	21,363,000	33,130,000	44,225,000	91,699,000
Newark	13,956,000	17,080,000	29,809,000	39,688,000	54,110,000
	Net debt				
New York	$792,927,000	$1,005,055,000	$1,067,000,000	$1,323,000,000	$1,616,000,000
Chicago	65,668,000	72,728,000	131,341,000	204,429,000	372,067,000
Philadelphia	97,388,000	136,184,000	195,846,000	357,721,000	464,100,000
Detroit	9,109,000	23,513,000	122,587,000	206,246,000	290,674,000
Cleveland	47,475,000	72,666,000	116,089,000	136,871,000	139,854,000
St. Louis	24,013,000	17,488,000	14,183,000	24,956,000	64,429,000
Baltimore	46,328,000	67,083,000	79,911,000	117,042,000	155,039,000
Boston	75,677,000	86,204,000	84,678,000	98,558,000	113,666,000
San Francisco	22,179,000	43,276,000	71,058,000	80,702,000	137,875,000
Newark	28,187,000	39,924,000	48,998,000	70,498,000	103,169,000

EXECUTIVE SESSION

Mr. McNARY. Mr. President, other Senators who desire to speak on the pending measure are unprepared to proceed to-day. I therefore move that the Senate proceed to the consideration of executive business.

The motion was agreed to; and the Senate proceeded to the consideration of executive business.

EXECUTIVE MESSAGES REFERRED

The VICE PRESIDENT laid before the Senate messages from the President of the United States, submitting several nominations, which were referred to the appropriate committees.

(For nominations this day received see the end of Senate proceedings.)

REPORTS OF COMMITTEES

Mr. WATSON, from the Committee on Finance, reported favorably the nomination of Ernest H. Van Fossan, of Ohio, to be a member of the Board of Tax Appeals for a term of 12 years from June 2, 1932 (reappointment).

Mr. SMOOT, from the Committee on Finance, reported favorably the nomination of Asst. Surg. Edwin G. Williams to be passed assistant surgeon in the Public Health Service, to rank as such from May 21, 1932.

Mr. ODDIE, from the Committee on Post Offices and Post Roads, reported favorably sundry nominations of postmasters.

The VICE PRESIDENT. The reports will be placed on the calendar.

THE CALENDAR

The VICE PRESIDENT. If there be no further reports of committees, the calendar is in order.

POSTMASTER AT HEBRON, NEBR.

The legislative clerk read the nomination of Earnest E. Correll to be postmaster at Hebron, Nebr.

The VICE PRESIDENT. On a previous occasion the nomination just stated was passed over. Without objection, the nomination is confirmed.

DIPLOMATIC AND FOREIGN SERVICE

The legislative clerk read the nomination of Erle R. Dickover to be secretary, Diplomatic Service.

The VICE PRESIDENT. Without objection, the nomination is confirmed.

THE JUDICIARY

The legislative clerk read the nomination of James C. Vickers, of Maryland, to be associate justice, Supreme Court of the Philippine Islands.

The VICE PRESIDENT. Without objection, the nomination is confirmed.

The legislative clerk read the nomination of Jose Abad Santos, of the Philippine Islands, to be associate justice, Supreme Court of the Philippine Islands.

The VICE PRESIDENT. Without objection, the nomination is confirmed.

The legislative clerk read the nomination of John A. Hull, of Iowa, to be associate justice, Supreme Court of the Philippine Islands.

The VICE PRESIDENT. Without objection, the nomination is confirmed.

The legislative clerk read the nomination of Paul W. Kear, of Virginia, to be United States attorney, eastern district of Virginia.

The VICE PRESIDENT. Without objection, the nomination is confirmed.

The legislative clerk read the nomination of George S. Pitman to be United States marshal, eastern district of Virginia.

The VICE PRESIDENT. Without objection, the nomination is confirmed.

BOARD OF TAX APPEALS

The legislative clerk read the nomination of Eugene Black, of Texas, to be a member of the Board of Tax Appeals.

The VICE PRESIDENT. Without objection, the nomination is confirmed.

The legislative clerk read the nomination of William D. Love, of Texas, to be a member of the Board of Tax Appeals.

The VICE PRESIDENT. Without objection, the nomination is confirmed.

The legislative clerk read the nomination of J. Edgar Murdock, of Pennsylvania, to be a member of the Board of Tax Appeals.

The VICE PRESIDENT. Without objection, the nomination is confirmed.

Mr. WATSON. Mr. President, I ask unanimous consent that the nomination of Ernest H. Van Fossan, of Ohio, to be member of Board of Tax Appeals, reported by me from the Committee on Finance a few moments ago, may be considered at this time.

The VICE PRESIDENT. Is there objection? The Chair hears none, and, without objection, the nomination is confirmed.

PUBLIC HEALTH SERVICE

The legislative clerk read the nomination of Estella Ford Warner to be surgeon, Public Health Service.

The VICE PRESIDENT. Without objection, the nomination is confirmed.

COAST GUARD

The legislative clerk proceeded to read the nominations of sundry officers in the Coast Guard.

Mr. MOSES. I ask unanimous consent that all Coast Guard nominations may be confirmed en bloc.

The VICE PRESIDENT. Is there objection? The Chair hears none, and the nominations are confirmed en bloc.

POSTMASTERS

The legislative clerk proceeded to read the nominations of sundry postmasters.

Mr. MOSES. I make the same request regarding the post-office nominations.

The VICE PRESIDENT. Is there objection? The Chair hears none, and the nominations are confirmed en bloc.

THE ARMY

The legislative clerk proceeded to read the nominations of sundry officers in the Army.

Mr. REED. I ask unanimous consent that all Army nominations may be confirmed en bloc.

The VICE PRESIDENT. Is there objection? The Chair hears none, and the nominations are confirmed en bloc.

That completes the calendar.

RECESS

Mr. McNARY. As in legislative session, I move that the Senate take a recess until 12 o'clock noon to-morrow.

The motion was agreed to; and, as in legislative session (at 4 o'clock and 23 minutes p. m.), the Senate took a recess until to-morrow, Wednesday, May 11, 1932, at 12 o'clock meridian.

NOMINATIONS

Executive nominations received by the Senate May 10 (legislative day of May 9), 1932

MEMBER OF THE UNITED STATES TARIFF COMMISSION

Edgar Bernard Brossard, of Utah, to be a member of the United States Tariff Commission for the term expiring June 16, 1938. (Reappointment.)

DISTRICT JUDGE

Cecil H. Clegg, of Alaska, to be district judge, District of Alaska, division No. 3, to succeed E. Coke Hill, appointed district judge, District of Alaska, division No. 4.

CONFIRMATIONS

Executive nominations confirmed by the Senate May 10 (legislative day of May 9), 1932

SECRETARY, DIPLOMATIC SERVICE

Erle R. Dickover to be secretary in the Diplomatic Service.

ASSOCIATE JUSTICES, SUPREME COURT OF THE PHILIPPINE ISLANDS

James C. Vickers to be associate justice, Supreme Court of the Philippine Islands.

José Abad Santos to be associate justice, Supreme Court of the Philippine Islands.

John A. Hull to be associate justice, Supreme Court of the Philippine Islands.

MEMBERS OF THE BOARD OF TAX APPEALS

Eugene Black to be a member of the Board of Tax Appeals.

William D. Love to be a member of the Board of Tax Appeals.

J. Edgar Murdock to be a member of the Board of Tax Appeals.

Ernest H. Van Fossan to be a member of the Board of Tax Appeals.

UNITED STATES ATTORNEY

Paul W. Kear to be United States attorney, eastern district of Virginia.

UNITED STATES MARSHAL

George S. Pitman to be United States marshal, eastern district of Virginia.

PUBLIC HEALTH SERVICE

Estella Ford Warner to be surgeon.

COAST GUARD

To be ensigns

Donald T. Adams.
Joseph A. Bresnan.
Garland W. Collins.
Walter W. Collins.
James D. Craik.
Anthony J. DeJoy.
Theodore J. Fabik.
John P. German.
Robert L. Grantham.
Theodore J. Harris.
John R. Henthorn.
Edward T. Hodges.
Reinhold R. Johnson.
John R. Kurcheski.
George R. Leslie.
Gilbert I. Lynch.
Walter B. Millington.
Emil A. Pearson.
Oscar C. Rohnke.
Richard D. Schmidtman.
Loren H. Seeger.
William H. Snyder.
Irvin J. Stephens.
Carl H. Stober.
George D. Synon.
Hollis M. Warner.
Frederick G. Wild.
Karl O. A. Zittel.

APPOINTMENT, BY TRANSFER, IN THE REGULAR ARMY

Second Lieut. Leslie Haynes Wyman to Field Artillery.

PROMOTIONS IN THE REGULAR ARMY

Charles Hartwell Bonesteel to be lieutenant colonel, Infantry.

Stephen Ralph Tiffany to be major, Infantry.

Ottmann William Freeborn to be major, Infantry.

Edwin Thomas May to be captain, Infantry.

Stephen Bowen Elkins to be captain, Infantry.

Henry Lee Hughes to be first lieutenant, Coast Artillery Corps.

Norman Mahlon Winn to be first lieutenant, Cavalry.

Edgar Eugene Glenn to be captain, Air Corps.

Narcisse Lionel Cote to be first lieutenant, Air Corps.

William Bertram Meister to be lieutenant colonel, Medical Corps.

James Miles Webb to be chaplain, with the rank of lieutenant colonel.

POSTMASTERS

ARKANSAS

Edgar G. Gunnels, Emerson.
John F. Halbrook, Plumerville.
Menno S. Klopfenstein, Siloam Springs.

CALIFORNIA

Harry A. Canfield, Bellflower.
George P. Morse, Chico.
Lela P. James, El Segundo.
Daniel McCloskey, Hollister.
Marion W. Bessom, Lawndale.
Frances W. Brown, Montrose.
Edward G. Farmer, Needles.
William N. Friend, Oakland.
May C. Baker, Paradise.
Myrtle H. Turner, Reseda.
Louis P. Miller, Rio Vista.
John D. Chace, San Jose.
Alfred Gourdier, Torrance.
William Braucht, Whittier.
Violet D. Manor, Williams.
Belle B. Jenks, Willowbrook.

GEORGIA

William H. Freeman, Toomsboro.

ILLINOIS

Olive G. Woods, Hennepin.
Charles J. Rohde, Lena.
James W. Corwine, Lincoln.
Lyle E. Wilcox, McLean.
Leon M. Shugart, Pontiac.
Samuel M. Combs, Ridgway.
Fred A. Meskimen, Robinson.
Alta Winn, Saybrook.
John Van Antwerp, Sparland.
Willis A. Myers, Wenona.

IOWA

Louis C. Giencke, Guttenberg.
Harvey S. Powers, Iowa Falls.
William A. Grummon, Rockwell.
Cora B. Alberty, Thornton.

KANSAS

John D. Ferrell, Cedar Vale.
Henry B. Gibbens, Cunningham.
Merton M. Fletcher, Glasco.
Onto R. Linday, Mound Valley.
Callie L. Henderson, Udall.

MICHIGAN

Thomas S. Shober, Pentwater.

MISSISSIPPI

Romie Green, Amory.
Myrtle R. Hammons, Boyle.

MISSOURI

Leonard E. Decker, Creve Coeur.
Amanda P. Renfrow, Humansville.

NEBRASKA

Earnest E. Correll, Hebron.

NEVADA

James L. Finney, Boulder City.

NEW HAMPSHIRE

James H. Fitzgerald, East Jaffrey.
Evelyn H. Beane, Henniker.

NEW JERSEY

Harriet C. Rosenkrans, Branchville.
Tobias V. Chieffo, Cliffside Park.
Byron M. Prugh, Westfield.

NEW YORK

Charles H. Werger, Averill Park.
Albert B. W. Firmin, Brooklyn.
Nellie Mac Morran, Firthcliffe.

OKLAHOMA

Daisy E. Skinner, Adair.

OREGON

William P. Skiens, Burns.
Odden L. Dickens, John Day.

PENNSYLVANIA

William H. Harper, Avondale.
Nelson O. Smith, Blawnox.
Leon E. Mayer, Boyertown.
George H. Houck, Cairnbrook.
George A. Frantz, Confluence.
Mertie T. Hallett, Devon.
John L. Elder, Ebensburg.
John P. Rodger, Hooversville.
Gertrude Klinefelter, Jonestown.
Wellesley H. Greathead, McConnellsburg.
Margaret V. Roush, Marysville.
Isaac A. Mattis, Millersburg.
George W. Schell, Myerstown.
Martin T. Weaver, Strasburg.
George N. Turner, Toughkenamon.
Jerold J. O'Connell, Valley Forge.
Cornelius L. Corson, Willow Grove.

VERMONT

James E. Kidder, Derby.

VIRGINIA

Jessie M. Martin, Concord Depot.
Neville L. Adams, Gretna.
Nannie L. Curtis, Lee Hall.
McClung Patton, Lexington.
Charles E. Virts, Lovettsville.
John J. Ward, Nassawadox.
Richard F. Hicks, Schuyler.
Samuel R. Gault, Scottsville.

HOUSE OF REPRESENTATIVES

TUESDAY, MAY 10, 1932

The House met at 12 o'clock noon.

The Chaplain, Rev. James Shera Montgomery, D. D., offered the following prayer:

Almighty God, may we ever covet that strength and courage of Him who trod the wine press alone. Be Thou the food for our meditation, the staff for our feet, the light for our eyes, and the wisdom for our understanding. Willingly and courageously may we always identify ourselves with the great causes for which our Government stands. Let us never shrink from any burden that implies the good and the stability of the Republic. Endue us with spiritual and mental vigor that strikes weakness out of our breasts and that holds us from the compromising levels of life. O thrust us into those great movements which are designed to cross the horizons of our souls and which yield their reverence for God, for home, and for native land. Amen.

The Journal of the proceedings of yesterday was read and approved.

MESSAGE FROM THE SENATE

A message from the Senate by Mr. Craven, its principal clerk, announced that the Senate has passed without amendment bills of the House of the following titles:

H. R. 615. An act for the relief of C. B. Bellows;

H. R. 1554. An act for the relief of G. Carroll Ross;

H. R. 8637. An act to authorize the sale on competitive bids of unallotted lands on the Lac du Flambeau Indian Reservation, in Wisconsin, not needed for allotment, tribal, or administrative purposes;

H. R. 9393. An act to increase passport fees, and for other purposes;

H. R. 9591. An act to extend the period of time during which final proof may be offered by homestead entrymen;

H. R. 9970. An act to add certain land to the Crater Lake National Park, in the State of Oregon, and for other purposes;

H. R. 10277. An act to transfer Lincoln County from the Columbia division to the Winchester division of the middle Tennessee judicial district;

H. R. 10284. An act to authorize the acquisition of additional land in the city of Medford, Oreg., for use in connection with the administration of the Crater Lake National Park; and

H. R. 10744. An act to authorize the issuance of patents for certain lands in the State of Colorado to certain persons.

The message also announced that the Senate had passed bills and a joint resolution of the following titles, in which the concurrence of the House is requested:

S. 2434. An act for the relief of Edgar H. Taber;

S. 3191. An act for the relief of Anne B. Slocum;

S. 4070. An act to authorize the acquisition of a certain building, furniture, and equipment in the Crater Lake National Park; and

S. J. Res. 125. Joint resolution authorizing the attorney general of Wisconsin to examine Government records in relation to claims of Wisconsin Indians.

IMMIGRATION.

Mr. DICKSTEIN. Mr. Speaker, I ask unanimous consent to take from the Speaker's table the bill (H. R. 6477) to further amend the naturalization laws, and for other purposes, with Senate amendments, disagree to the Senate amendments, disagree to the Senate amendments, and ask for a conference.

The SPEAKER. Is there objection to the request of the gentleman from New York?

Mr. STAFFORD. Reserving the right to object, when the gentleman last made his request I had not had time to examine the various amendments. I have since examined them and find that they were given very little consideration in the Senate. I have no objection to the amendments except the amendment known as section 8, which seeks to authorize the Bureau of Naturalization to compile statistics