SEEN—HEARD around the National Capital

By CARTER FIELD

Washington.—It was just a coincidence that Senator Couzens introduced his excess profits tax amendment on the heels of another blast from Father Coughlin, who happens to be one of Couzens' most prominent constituents. Couzens has always believed in high taxes on the rich. He has been attacked many times by those who said that he had his own fortune in tax exempt government bonds, and was therefore not as unselfish as it might appear in wanting the taxes on big incomes and corporation earnings.

Curiously enough, Bernard M. Baruch, so bitterly assailed by Father Coughlin, and apparently with so little information—about the only thing he had right was as to the closeness between Gen. Hugh S. Johnson and Baruch—is also an advocate of high taxes on the rich, and on corporations.

Baruch's motive is slightly different from that of Couzens. The financier is a fanatic on the subject of balancing the budget. He agrees more nearly with the economic and fiscal ideas of Lewis W. Douglas, former director of the budget, than with anyone else in the New Deal. Incidentally, his advice on fiscal affairs has never been taken, though several times asked, by the Roosevelt administration.

Just before inauguration, Baruch, consulted as were many others about the inaugural address, pleaded with the President to stress two points and only two—stand by the gold standard and balance the budget. The President gave a little lip service, for a few months, to the idea of balancing the budget, but he gave the hint that he would not worry about the gold standard in the words "an adequate but sound currency."

Then Went to Europe

Baruch believed in cutting governmental expenses, imposing high enough taxes so that receipts would equal total expenditures, and no "emergency budget." He was pleased when his old friend and lieutenant, Johnson, was appointed at the head of NRA, but had nothing to do with that appointment. As a matter of fact he immediately departed for Europe, so that it could not be said truthfully that Johnson was just a mouthpiece for Baruch, or just acting as his creature.

This is not just supposition. Baruch told friends the chief reason he was getting out of the country for a while was to head off just such talk. And as a matter of fact it is no secret that when he returned to the United States he was not too well pleased with the way things had gone.

Washington correspondents who have been observing the movements of Baruch for these many years are rather intrigued at the amount of misinformation Father Coughlin had acquired about the financier. The two men differ violently on one tremendously important issue—inflation.

Baruch is desperately against it. Coughlin is enthusiastically for it. Roosevelt stands somewhere between the two. Roosevelt is against printing press money. He is for devaluation of the gold content of the dollar. He would like to see some international system for currency worked out—not now, but after commodity prices have reached the level he thinks proper.

Cotton Situation

Concern about the cotton situation continues to mount in administration and New Deal circles. Of all those speaking about it publicly, however, the only high official who really gives anything like the real picture is Daniel C. Roper, secretary of commerce.

He is one of the few who openly concede that the government has tried to maintain the price of cotton at too high a level—that if held there it is only a question of time until the rest of the world either finds an acceptable substitute, or a new cotton growing area. He is one of the few who has had the temerity to talk openly about the menace of the new development in Brazil, one known result of which already is that certain important English cotton mills have altered their looms—a most expensive operation, hence indicating permanence—so as to handle Brazilian instead of American cotton.

Secretary of Agriculture Wallace, while denying vigorously that any change in the cotton program is anticipated, did not attempt to predict that the amount of money the government would loan on a bale of cotton in 1935 would be as great as it has been.

The amount the government will loan will be cut. In other words, the government has slowly but surely been driven to what it now knows is the necessity of pegging the price of cotton lower than it has been.

One of the most convincing points in driving the administration to this position—not yet officially announced—is not the fear of a substitute, or of the future development of a new area, though both of these are recognized as being real enough. It is the fact that the rest of the world is not now buying anything like the normal amount of cotton from the United States.

More Trade Treaties

Coming right on the heels of the collapse of the effort to barter half a million bales of cotton in a deal with Germany—mostly for blocked marks which would have had to be expended inside Germany for exports—the falling off in American cotton exports has given a decided boost to the pressure for more reciprocal trade treaties.

Manufacturers of this country have been warned by Secretary Roper that—in this drive to provide exchange in this country for foreign countries which might buy our cotton, and other products—they must stand ready to submit to foreign competition. It is not enough, he warned, to reduce duties on foreign goods, which do not compete with American factories. It is necessary to admit a very large volume of goods, which do compete with ours—or else give up all hope of selling our own goods abroad.

Underneath all this pressure is one particular necessity—to provide a foreign market for American cotton.

This does not mean that the government hopes to continue the present price of cotton by obtaining additional foreign buying. It now accepts as a fact that it must reduce the price as part of what is necessary to induce foreign buying; that—and provide in some way for foreign purchasing power. The last, of course, is why the government is now pressing for reciprocal trade agreements looking to American purchases of more foreign goods.

The situation has not been much discussed because it is so unpleasant. Nobody is expected to be happy about it. Not the southern cotton growers, for they must look forward to lower prices for their staple. Not the manufacturers, for they must look forward to keener competition, and to sacrificing part of the American market to their foreign competitors.

Return of prosperity, with greater purchasing power in America, will help the manufacturers. For the cotton planters, however, it would probably spell higher prices for everything they buy.

Business Salvage

Right under the smoke screen provided by Senator Huey Long and Father Coughlin, business has eased into Washington and run off with more salvage than it had thought possible two months ago—or even two weeks ago.

For instance—due to an amazing flood of propaganda—repeal of the pink slip publicity for income taxes provision seems assured.

Also—the death sentence of utility holding companies has been reprieved to life imprisonment—or at least discretion to do so will be reposed in government agencies.

Also—contractors, scheduled to be left high and dry whenever possible in the four-billion-dollar work relief expenditures, now find themselves in such satisfactory shape that the construction industry, and Michael McDonough, of the building trades unions, join in a statement singing the praises of the Presidential program. While another big group of contractors, the road builders, are giving a good imitation of a cat with cream on its whiskers.

And that would not be all, if a few more industries wake up to the situation and realize what they have to do to be saved. Though so far not many have shown indication of so doing.

For example, the railroads, with an army of security holders almost as large as the utilities, have not thought of making a mass attack on individual senators and representatives for what they really want—regulation of trucks and busses, but especially trucks.

They have been very discreet, stating their case in pompous arguments, and leaning over backward lest they be suspected of speaking in self-interest. If they would get their stockholders writing in to the senators and representatives in whose states and districts the security holders vote, there might be action very quickly.

How to Get Results

What the railroads should learn, and what a good many other lines of business should learn, is a very simple fact about how to get results in Washington. It is a fact that was appreciated to the utmost by the Anti-Saloon league. It is a fact which has been appreciated for the first time this session by the utilities. And a fact spectacularly demonstrated by the forces fighting now for repeal of income tax publicity.

The fact is that the average senator and representative can be affected only by backfires from his own state or district. The average senator, for example, is no more interested in a referendum by the National Chamber of Commerce on some piece of legislation than he is in a treatise on why the ancient Assyrians did not drink whisky instead of wine. Probably not so much.

But he does care, and tremendously, if half a dozen of the very manufacturers who voted in that referendum send him strong personal letters and wires—if the manufacturers in question live in that senator's state. And if they induce a lot of their friends to join the clamor, the senator seeks light as a result, very quickly.

Will Use Gold "Profit" to Retire Bond Issues

Public Debt to Be Reduced $675,000,000 in Move by Treasury That Is Unprecedented in Annals of Federal Financing.

By WILLIAM C. UTLEY

UNCLE Sam has reached into his jeans for the first time to spend, in any large way, the gold "profit" resulting from the devaluation of the dollar. By August 1 the government will have retired two long-standing issues of 2 per cent federal bonds, reducing the now staggering public debt by almost $675,000,000 and easing the carrying charge of the national debt by $13,500,000 a year.

In effecting the move, the Treasury department will cause the withdrawal of all national bank notes from circulation, further concentrating control of the currency under the federal government. The act, which is hailed as the most important financial one of Franklin D. Roosevelt's administration and is without precedent in the annals of federal financing, is in no way inflationary, according to leading bankers, as well as Henry W. Morgenthau, secretary of the treasury, and Thomas Jefferson Coolidge, under-secretary, who made the announcement. It does, however, create some potential opportunity for inflation.

About $2,000,000,000 of the gold "profits" will continue to remain in the stabilization fund. The fund so far has been called upon for the larger part only for support of the dollar on exchange markets.

Keeping such a profit "on ice" was looked upon as a waste of resources by the treasury. The department found that it could put some of these resources to work, and at the same time concentrate federal control of the currency, which has been one of the objectives of the banking bill before congress, by retiring bonds which carry the "circulation privilege." These are bonds which the national banks deposit as collateral when they issue national bank notes.

The government will, as opportunity offers, substitute federal reserve notes for national bank notes, of which there are $657,937,080 outstanding. This will leave only three kinds of currency in circulation—silver certificates, United States notes and Federal Reserve notes.

Relic of Civil War Finance.

The national bank note is a relic of the financing of the Civil war. Before 1863 virtually all banks were issuing "circulating notes," whose value, because no law made all currency interchangeable at par, as it is now, varied in inverse ratio to the geographical distance of the notes from the banks which issued them. A note issued by a bank in Springfield, Ill., was good for its face value in Springfield, where "everybody and his brother" knew the bank. But in Cleveland, Ohio, it was worth less, and in Trenton, N. J., still less.

With the need for more money pressing during Civil war time, the government issued a new kind of currency called United States notes, which their color soon earned the name "greenbacks." In addition to the banks which purchased war bonds, it granted the privilege of issuing another form of currency, national bank notes. There are still some of the "greenbacks" in circulation today, and national bank notes now make up about 10 per cent of our currency.

The latter step had the double advantage of selling more war bonds and unifying the currency. It may easily be seen that unifying the currency, making bank notes the same value throughout the nation, was

Senator Elmer Thomas.

actually a vital step in unification of the country itself, at a time when the Union was in vital need of hanging together.

Before issuing national bank notes, banks had to deliver to the comptroller of the currency collateral in the form of federal bonds which they had already bought, and which were designated as having the circulation privilege. The comptroller then issued to the bank national bank notes up to the par value of the bonds. In case of failure of the bank the government would redeem the notes out of the bonds deposited by the bank. The issuing of the notes was, in effect, circulation of federal bonds.

This was a profitable business for the banks, for in addition to the interest they earned on national bank notes loaned out or invested, they also received interest on the bonds deposited with the Treasury department; in the case of the bonds now to be retired, the interest was 2 per cent.

Until July 22, 1932, the only bonds with the circulation privilege were those about to be retired August 1. On that date a provision of the Federal Home Loan Bank act allowed other bonds, totaling approximately $150,000,000, the circulation privilege until July 22, 1935. Quoting directly from the report of the treasury:

Retires the Bonds.

"At that time the banks with circulating notes outstanding under this temporary authorization will have to replace the bonds, now

Thomas Jefferson Coolidge, Undersecretary of the Treasury.

serving as security, with lawful money to retire their outstanding notes thus secured."

It follows, then, that retiring national bank notes is, in reality, retiring the bonds which secure them.

A little over a year ago the federal government decided to revalue the dollar. Under the Gold Reserve act of January 31, 1934, the Treasury department acquired all the gold in the United States. This metal was then valued at $20.67 an ounce. The government revalued it at $35 an ounce. Thus, there was still the same amount of gold in the country, but there were more dollars for a given amount of gold.

In process of revaluing gold—and in that way revaluing the dollar at 59.60 cents in gold—the nation realized a technical profit of $2,812,000,000. Two billion dollars was placed in the stabilization fund, and out of the remainder congress appropriated $139,000,000 to the Federal Reserve banks for loans to industry; of this total, $13,500,000 has been used for the purpose. An indefinite sum was appropriated by congress for the melting of gold coins estimated at $8,000,000, and another $23,000,000 was appropriated for the Philippine currency fund, leaving $642,000,000. This will be used to retire some of the national debt. The difference between the $642,000,000 and the $675,000,000 necessary to retire the bonds will be made up out of a special treasury fund, it is believed.

The bonds which will be retired in the move are the 2 per cent consols—"consolidated refunding bonds"—of 1930, which have been called for redemption July 1, and the 2 per cent Panama Canal loan bonds of 1916-1936 and 1918-1938, which have been called for redemption August 1. The former issue totals $599,724,050 and the latter $74,901,580. Even the retirement of this sizeable total represents only a small fraction of the public debt which, in mid-March, stood at $28,554,642,825, as compared with $26,052,598,596 a year earlier.

Based on "Gold Profit."

The treasury will retire the bonds by issuing gold certificates, based on the gold "profit," to federal reserve banks, and they, in turn, will issue federal reserve notes against the gold certificates, to redeem the national bank notes. The Treasury department estimates that it will take about a year for the government to acquire all the outstanding national bank notes. These, of course, will simply disappear entirely from the national ledger.

According to Undersecretary Coolidge, this will not in any way change the government's policy toward gold or gold certificates, but would "merely increase the number of such certificates held by federal reserve banks." The total outstanding amount of currency will not be altered at all. Federal reserve notes will simply take the place of the national bank notes. The country will be freed of all bond-secured money.

The only real inflationary aspect of the movement has been largely "pooh-poohed" by Morgenthau and Coolidge. This aspect is the power of the federal reserve banks to issue more federal reserve notes, using the gold certificates as a base, than is necessary to retire the national bank notes. Federal reserve notes need only a 40 per cent gold base; therefore they may be issued in amount two and a half times that of the gold represented by the gold certificates. In this case the federal reserve banks technically could issue approximately $1,687,500,000 against the gold certificates. Notably sharing this view was Senator Elmer Thomas (Dem.), of Oklahoma, one of the most ardent advocates of inflation; he has advocated all along the issuance of currency against certificates which do not bear interest.

The financial world was inclined to minimize the possibilities of actual inflation. It took the stand that no inflation will take place because one angle of the operation will offset the other.

Using the gold to retire the bonds, the government will be increasing the reserves of the national banks. This in itself would be inflationary, for it would expand the credit base. But the same banks that receive these additional funds will have to put up cash for the retirement of the national bank notes which they have issued against the bonds deposited with the treasury. This will mean a loss of reserves for the banks, effecting an actual balance and leaving them with no more reserve than they had before.

Standing in the way as an obstacle to retirement of national bank notes in past years has been the fact that the banks made an extra 2 per cent profit using the notes, for they received interest on the bonds deposited in addition to the interest earned by the money in loan or investment. There is but little protest expected against the action at the present time, however, because the banks have much more funds on hand than they can profitably lend or invest. During the last two years they have actually been retiring their circulation rapidly of their own accord. The two largest banks in the country, the Chase National and the National City, both of New York, had no bank notes outstanding at all at the close of 1934.

Stimulate Bond Market.

It was thought that the retirement of the bonds might stimulate the government bond market by creating a demand for new issues of the national banks to replace the retired bonds. About the only direct harm that could come from the move was thought to be a misunderstanding of the procedure both home and abroad. Especially foreign markets might jump to the conclusion that this was inflation. Accordingly, the government was ready the day after the move was announced to guard the dollar on all markets with the additional gold "profits" in the stabilization fund.

The government's plan was an indication of real confidence on the part of the Treasury department to handle bond financing in the future, according to Dr. O. M. W. Sprague, former executive assistant to the secretary of the treasury. "I had supposed the gold profit would be held for government bonds in case they were weak," he said.

Commenting on Senator Thomas' assertion that the move would result in an increase of $46,000,000

Henry Morgenthau, Jr., Secretary of the Treasury.

in the currency, he said: "That would be of little consequence. There is already about $5,000,000,000 in currency. It would be like a drop in the ocean."

The government's use of the gold "profit" to retire part of the national debt was without inflationary implications, except as individuals interpreted them, in the opinion of Col. Leonard P. Ayres, nationally known economist and statistician.

"The move takes into progressive reality the recent gold decision of the United States Supreme court. It makes all money government money," he said.

The government's operation was generally considered a constructive one. The chief actual danger that may lie in it is the precedent it sets for paying off the public debt by cutting the value of the dollar. Too much of that would in time result in collapse.

TREMENDOUS TRIFLES

By ELMO SCOTT WATSON

ORDERS ARE ORDERS

SIR FERDINAND GORGES was a colonial promoter and his greedy eyes looked across the sea into the uncharted territory of the New world. He would send a colony there.

The earl of Warwick agreed to be Sir Ferdinand's partner. Both gentlemen had heard rumors of a group in Leyden who were eager to be sent into America. This group had already purchased and manned the Speedwell and were also buying the large three-masted vessel named the Mayflower. The two titled schemers thought that here was a ready-made colony for them.

Sir Ferdinand placed his own captain on the Mayflower. The man was one Mr. Jones, an ex-pirate. His patron had rescued him from jail and he was ready to take orders. The Mayflower left London late in July, 1620, with Captain Jones and a rowdy crew.

They were to meet the Speedwell, out from Leyden, and then the two boats were to proceed to Virginia—or so their passengers thought. The ex-pirate had other orders from his master. Twice the Speedwell sprang a leak and twice put back for repairs. Members of her crew later confessed that they had deliberately caused the damage because they knew the vessel was headed for New England.

Finally, in September, the Mayflower sailed. After a perilous trip land was sighted, but it was not the Virginia coast that the passengers' patrons had promised. The Pilgrim leaders insisted that Captain Jones take them southward, but he refused and headed for the dangerous waters of Cape Cod. Sir Ferdinand's orders were orders!

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TREMENDOUS STOMACH ACHE

FRANCE was passing through a political upheaval after the fall of the Second Empire during the Franco-Prussian war in 1870. The Monarchists were determined to rule, but sentiment for a republic was strong.

The national assembly which would decide the issue, was almost evenly divided, with a slight edge in favor of the Monarchists. The vote was to be taken on June 30, 1875. As the roll of the assembly was called the whole atmosphere was tense with excitement, for the balloting was very close.

There was no sound in the chamber but the grave voice of the president. He called the name of Monsieur Leurant. There was no answer.

The absurdities that interfere with politics were operating to prevent his response. Deputy Leurant had a stomach ache that morning, a bad one. He managed to sit through the preliminaries, suffering with the griping pains of colic, but finally he could stand it no longer.

The president called his name in vain. Leurant's vote would have been for the Monarchists as he was known to be unswerving in his devotion to this form of government. While he was absent the assembly was deadlocked, 352 to 352. Finally, as was constitutionally provided for in such emergencies, the president cast his vote . . . in favor of the republic.

France might still be a monarchy, if it hadn't been for this stomach ache.

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LITTLE GADGETS—BIG MONEY

KING GILLETTE, looking at the nicked chins of American men and counting up the millions of hours they spent in stropping their razors, devised a safety razor with replaceable blades. His profits are said to have been $2,500,000 a year for several years.

B. F. Sturtevant devised a wooden shoe peg which was much cheaper and just as satisfactory as nails. It made $6,000,000 for him.

Hyman Lipman made $100,000 out of other persons' mistakes. He put a rubber tip on the end of a lead pencil so they could rub out their errors of spelling, grammar, etc., and start over again.

Samuel Kischbaum, a tailor, had managed to save $120. He invested the whole amount in a new gadget—a hook and eye arrangement for dresses. Within a few years his $120 had grown to $12,000.

Jeremiah Geary, a plumber sold his shop and invested the proceeds, $600, in a gas mantle. That investment paid big dividends—$500,000, so it is said.

Joseph Glidden, a farmer, may or may not have been the first to think of twisting short pieces of sharply-cut wire at regular intervals around other strands of wire, but he made $1,000,000 out of his barbed wire business. Later he invented a new type of farm gate and within two years it showed a profit of $150,000.

Invent a little gadget that the public wants and make big money out of it—if you're lucky!

TREASURE IN KETTLE

A kettle unearthed in a forest near Leningrad, recently, was found to contain 11,000 coins of many countries, all dating from the Eleventh century or earlier.

Keep Out of Them!

How little sympathy a man gets in a lovers' quarrel.

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