Protection of the gold reserve

United States. Congress. House. Committee on ...

Protection of the Gold Reserve

HEARINGS

BEFORE THE

COMMITTEE ON WAYS AND MEANS

HOUSE OF REPRESENTATIVES

ON

H. R. 13201

A BILL TO PROVIDE FOR THE PROTECTION OF THE MONETARY GOLD RESERVE BY THE MAINTENANCE OF THE NORMAL GOLD PRODUCTION OF THE UNITED STATES TO SATISFY THE REQUIREMENTS OF THE ARTS AND TRADES, BY IMPOSING AN EXCISE UPON ALL GOLD USED FOR OTHER THAN MONETARY PURPOSES, AND THE PAYMENT OF A PREMIUM TO THE PRODUCERS OF NEWLY MINED GOLD, AND PROVIDING PENALTIES FOR THE VIOLATION THEREOF

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COMMITTEE ON WAYS AND MEANS.

HOUSE OF REPRESENTATIVES.

SIXTY-SIXTH CONGRESS, THIRD SESSION.

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ERNEST W. CAMP, *Clerk*.

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PART 1.

PROTECTION OF THE GOLD RESERVE.

Committee on Ways and Means,
House of Representatives,
Tuesday, May 25, 1920.

The committee met at 10.30 o'clock a. m., Hon. Joseph W. Fordney (chairman) presiding.

The Chairman. Gentlemen, we are here to hear certain gentlemen interested in the so-called McFadden bill (H. R. 13201).

(The bill referred to is as follows:)

A BILL To provide for the protection of the monetary gold reserve by the maintenance of the normal gold production of the United States to satisfy the requirements of the arts and trades by imposing an excise upon all gold used for other than monetary purposes, and the payment of a premium to the producers of newly mined gold, and providing penalties for the violation thereof.

Be it enacted, etc., That on and after May 1, 1920, in addition to any existing tax now assessed or levied thereon, there shall be levied, assessed, collected, and paid a tax of 50 cents per pennyweight of fine gold contained in all gold manufactured, used, or sold for other than coinage or monetary purposes, by or for a manufacturer or dealer, or his estate, on or after such date, and upon the gold contained in any manufactured articles sold by any dealer or manufacturer or his estate.

Sec. 2. That the Internal Revenue Department shall prescribe, and provide a proper and sufficient stamp that shall be attached to or imprinted upon any and every manufactured article, or the package containing the same, in which gold is used, that may be sold after the 1st day of May, 1920, and upon all gold used in any form other than for monetary purposes after the said May 1, 1920. The stamps to be so provided and authorized to be sold and imprinted upon or attached to such manufactured articles, or the packages containing the same, shall be in such form, and shall be imprinted upon or attached to, the articles or packages, at such time and in such manner as may be provided by the rules and regulations of the Internal Revenue Department carrying this act into effect.

That on account of the impracticability of suitably stamping finished dental restorative appliances, the Internal Revenue Department shall further prescribe such rules and regulations for the collection of the tax provided herein upon all gold used for dental purposes as will equitably protect the interests of the public; that all gold used by the Government for dental, medical, and surgical purposes, and all gold employed in dental services rendered to war risk insurance patients by the United States Public Health Service, shall be exempt from the excise provided herein; and that all gold used in corrective and restorative dental work for children of both sexes not over the age of fifteen, and all gold used in dental infirmaries conducted for the benefit of the poor and not for private profit, shall be exempt from the excise provided herein.

Sec. 3. That all moneys collected pursuant to the provisions set forth in section 1 of this act shall be paid into the custody of the Treasurer of the United States, and shall be kept by him in a separate fund designated as "the gold premium fund," and shall be used and paid out in accordance with the provisions of this act as herein set forth, and for no other purpose; except that if, at the end of any current year, a balance has accrued in the gold premium fund over and above the amount necessary to pay the premium obligations that have accrued thereunder, it shall be the duty of the Treasurer to place said balance in the general fund of the Treasury of the United States.

SEC. 4. That from the gold premium fund, and any other funds in the Treasury of the United States not used for specified purposes, there shall be paid by the Treasurer of the United States, after the 1st day of May, 1920, and for a period of five years thereafter, to the producer of new gold in the United States or its possessions a premium of $10 per fine ounce, in accordance with the provisions of this act hereinafter set forth.

SEC. 5. That for the period commencing May 1, 1925, both the tax and premium as herein set forth shall be readjusted annually by the Secretary of the Treasury, the Secretary of Commerce, and the Secretary of the Interior, meeting as an adjustment board for such purpose; that said readjustment shall be made in accordance with the commodity price index number of the fifth year of the five-year period hereinbefore designated as compared with the average commodity price index number for the first four years of said period; that the index numbers of all commodities governing this readjustment shall be those ascertained and published by the Bureau of Labor Statistics of the Department of Labor; that the said tax and premium as readjusted shall constitute the amount of tax and premium that shall be collected and paid during the next year ensuing; and that each readjustment shall be made annually prior to the 1st day of May of each succeeding year, which shall determine the amount of tax and premium to be collected and paid.

SEC. 6. That on and after May 1, 1920, every producer of gold from any mines in the United States or its possessions, who shall be entitled to the provisions of this act, shall deliver the gold so produced to the United States Mint, or its authorized agencies, accompanied by a sworn statement setting forth the place where the gold was mined, the dates between which it was mined and prepared for market, and that no gold obtained from any other source is contained therein. In the event any gold was recovered from ore by custom smelting or milling, the proprietor, or his managing agent, or an executive or managing officer of any such smelting or milling company shall make and deliver to the producer a sworn statement stating the date or dates on which such ore was delivered for smelting or milling and the date that the gold recovered from said ore was delivered to the producer and the amount of gold so delivered to him.

Upon the delivery of any such gold, accompanied by the sworn statement of the producer, or accompanied by the sworn statement of the smelting or milling agency, the Director of the Mint shall execute and deliver to such producer a certificate setting forth the number of fine ounces of newly mined or smelted gold then and there delivered by such producer, and shall set forth the amount of premium to which the producer is entitled.

In the event that ore containing gold is delivered for smelting or milling by the producer of the ore to a custom smelter or mill, and in the usual smelting or milling practice the same can not be treated without delay, the smelting or milling company may follow the usual smelting or milling practice, purchase said ore, and receive the certificate, under oath, of the producer, setting forth the time and place of the mining thereof, and pay to the producer thereof the monetary price of $20.67 and the premium as herein provided upon each fine ounce of gold so recovered by said smelting or milling company, which, upon such payment, shall be entitled to all of the rights of the producer of the ore as of the date of delivery of the ore to such smelting or milling company, and upon the presentation of the certificate of the producer, together with a certificate of such smelting or milling company setting forth all of the facts as required by the rules and regulations established hereunder, shall receive the same amount of money as a premium for such gold so produced and delivered to the smelter or mill as the producer may have received if such ore had been smelted or milled and the gold returned to the producer of the ore.

That every person or corporation so producing newly-mined gold from any mines within the United States or its possessions on and after May 1, 1920, and who shall deliver the same to the United States Mint or its authorized agencies as herein provided shall be paid therefor the sum, amount, or consideration as now provided by existing law, and in addition thereto, shall be entitled to receive on the certificate issued by the Director of the Mint, as herein provided, the additional sum of $10 for every ounce of fine gold so mined and delivered to the United States Mint or its authorized agencies: *Provided*, That no gold bullion in any form whatever shall be issued or delivered to such gold producer in payment of, or in exchange for, any such newly-mined gold so delivered as herein provided: *Provided further*, That the Director of the mint may coin any such gold so produced and delivered and deliver to any such producer the coin minted therefrom, or the director may deliver to any such producer coin in exchange for such newly-mined gold, as is now authorized under existing laws.

SEC. 7. That upon the delivery of the gold and the sworn statements as hereinbefore set forth to the United States Mint, or its authorized agencies, a certificate shall be issued by authority of the Director of the Mint to the producer or his order certifying that the holder thereof is entitled to receive from the Treasurer of the United States the sum specified therein as payment of the premium for the production of new gold from the funds in the custody of the Treasurer herein provided.

SEC. 8. That any person who purposely or knowingly shall violate the rules and regulations of the Internal-Revenue Department referring to the collection of this excise imposed upon gold for other than coinage or monetary purposes, or who shall sell or dispose of any article containing gold to which there has not been affixed, or upon which there has not been imprinted, the proper stamp, without first affixing or causing to be imprinted thereon such stamp as shall be provided by the Internal-Revenue Department of the United States, shall be guilty of a crime against the United States and shall, upon conviction, be imprisoned not more than five years or fined not more than $10,000, or both.

SEC. 9. That any person, whether acting for himself or as agent or officer of any gold producer, smelter, refiner, or milling company, who purposely or knowingly, by any art, way, or means, shall himself adulterate, or procure or solicit another to adulterate, any gold presented to the United States Mint for which a certificate for the payment of a premium as provided herein is requested, or who shall purposely or knowingly make a false statement, or procure or solicit another to make a false statement, in any statement or certificate required herein, which would entitle the producer to receive a premium on the production of gold herein provided for, shall be guilty of a crime against the United States and shall, upon conviction, be imprisoned not more than five years, or fined not more than $10,000, or both.

SEC. 10. That all administrative, special, or stamp provisions of law, including the law relating to the assessmet of taxes, so far as applicable, are hereby extended to and made a part of this act, and every person liable to any tax imposed by this act, or for the collection thereof, shall keep such records and render, under oath, such statements and returns, and shall comply with such regulations as the United States Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, may from time to time prescribe.

Whenever in the judgment of the United States Commissioner of Internal Revenue necessary, he may require any person, by notice served upon him, to make a return or such statements as he deems sufficient to show whether or not such person is liable to tax. The commissioner, for the purpose of ascertaining the correctness of any return or for the purpose of making a return where none has been made, is hereby authorized, by any revenue agent or inspector designated by him for that purpose, to examine any books, papers, records or memoranda bearing upon the matters required to be included in the return, and may require the attendance of the person rendering the return or of any officer or employee of such person, or the attendance of any other person having knowledge in the premises, and may take his testimony with reference to the matter required by law to be included in such return, with power to administer oaths to such person or persons.

SEC. 11. That any person required under this act to pay, or to collect, account for and pay over any tax, or required by law or regulations made under authority thereof to make a return or supply any information for the purposes of the computation, assessment, or collection of any such tax, who fails to pay, collect or truly account for and pay over any such tax, make any such return or supply any such information at the time or times required by law or regulations, shall, in addition to other penalties provided by law, be subject to a penalty of not more than $1,000.

Any person who willfully refuses to pay, collect, or truly account for and pay over any such tax, make such return or supply such information at the time or times required by law or regulations, or who willfully attempts in any manner to evade such tax shall be guilty of a misdemeanor, and, in addition to other penalties provided by law, shall be fined not more than $10,000 or imprisoned for not more than one year, or both, together with the costs of prosecution.

Any person who willfully refuses to pay, collect, or truly account for and pay over any such tax, shall, in addition to other penalties provided by law, be liable to a penalty of the amount of the tax evaded, or not paid, collected, or accounted for and paid over, to be assessed and collected in the same manner as taxes are assessed and collected: *Provided, however*, That no penalty shall be assessed under this subdivision for any offense for which a penalty may be assessed under authority of section 3176 of the Revised Statutes, as amended, or of sections 8 or 9 of this act, or for any offense for which a penalty has been recovered under section 3256 of the Revised Statutes.

The term "person" as used in this section includes any officer or employee of a corporation or a member of or employee of a partnership, who, as such officer, employee, or member is under a duty to perform the act in respect of which the violation occurs.

The CHAIRMAN. Mr. McFadden, we will be glad to hear you. How many gentlemen are there here who wish to be heard on the bill, Mr. McFadden?

Mr. McFADDEN. I do not know, Mr. Chairman. I have not consulted with them. There are several men here, but I do not know just what the program is.

Mr. BAILEY. There are at least three here. So far there does not seem to be any representative of the Treasury here.

STATEMENT OF HON. LOUIS T. McFADDEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA.

Mr. McFADDEN. Before I begin, Mr. Chairman, I was wondering whether the Secretary of the Treasury was going to be present.

The CHAIRMAN. The Secretary had written a letter and we called on him yesterday, and the Secretary informed the clerk that he had nothing to say on the matter further than what was contained in his letter addressed to the committee, and we have that letter. Have you seen the letter, Mr. McFadden?

Mr. McFADDEN. No, sir; I have not.

Mr. TIMBERLAKE. It might be well, Mr. Chairman, to have the letter read.

The CHAIRMAN. Yes.

Mr. McFADDEN. I would like to know what he has said.

The CHAIRMAN. You may proceed, Mr. McFadden, until the clerk gets the letter.

Mr. McFADDEN. The reason I made that suggestion was because there were certain questions I wanted to propound to the Secretary of the Treasury or have you propound to him, in connection with this hearing, and in his absence I think I will put in the record these questions and let the Secretary do as he chooses about answering them. They are very vital to this hearing and I regret that he is not here to answer them.

Mr. GARNER. Before you go on, may I ask whether you have already propounded these questions to the Secretary of the Treasury?

Mr. McFADDEN. No; I have not.

Mr. GARNER. Then why is it you regret that he is not here. He has said to the chairman of the committee in his letter that he has nothing further to say and I do not think that the inferred criticism of the Secretary of the Treasury, under the circumstances, is justified.

Mr. McFADDEN. I am not criticizing him, Mr. Garner.

The CHAIRMAN. The clerk will read the letter of the Secretary for the benefit of the members of the committee and the gentlemen present.

(The clerk read as follows:)

THE SECRETARY OF THE TREASURY,
Washington, May 24, 1920.

MY DEAR MR. FORDNEY: I have your letter of the 22d of May and thank you for your invitation to appear before the Ways and Means Committee to-morrow in case I had anything additional to add to my letter of the 9th of April reporting on H. R. 13201, introduced by Mr. McFadden, "To provide for the protection of the monetary gold reserve by the maintenance of the normal gold production of the United States to satisfy the requirements of the arts and trades, by imposing an excise upon all gold used for other than monetary purposes, and the payment of a premium to the producers of newly mined gold, and providing penalties for the violation thereof."

In reply, allow me to say that I appreciated the opportunity given me by the committee to report upon the bill, and that I have nothing further to add to my letter of April 9 which seems to present the Treasury's viewpoint fully.

Cordially, yours,

D. F. HOUSTON.

Hon. JOSEPH W. FORDNEY,
Chairman Ways and Means Committee,
House of Representatives.

Mr. GARNER. Where is the letter of April 9?

The CHAIRMAN. Yes; read the letter of April 9, if you please.

(The clerk read as follows:)

THE SECRETARY OF THE TREASURY,
Washington, April 9, 1920.

DEAR MR. FORDNEY: I received your letter of April 5 with the inclosed copy of the bill (H. R. 13201), introduced by Mr. McFadden, "To provide for the protection of the monetary gold reserve by the maintenance of the normal gold production of the United States to satisfy the requirements of the arts and trades, by imposing an excise upon all gold used for other than monetary purposes, and the payment of a premium to the producers of newly mined gold, and providing penalties for the violation thereof."

The Treasury is very much opposed to this bill. The Treasury is opposed to subsidies in general and is particularly opposed to subsidizing the gold mining industry. I believe that the gold miners will in the long run benefit with the rest of the community from the ability of this country to maintain itself on a gold basis. In connection with the general subject, I take pleasure in handing you herewith a copy of report, dated February 11, 1919, made by a committee appointed by Secretary McAdoo to investigate the problem of production of gold.

Very truly, yours,

D. F. HOUSTON.

Hon. JOSEPH W. FORDNEY,
Chairman Committee on Ways and Means,
House of Representatives.

Mr. GARNER. May we have that report put in the record also?

The CHAIRMAN. Yes; we will have the report put in the record.

(The report referred to follows:)

FEBRUARY 11, 1919.

The SECRETARY OF THE TREASURY.

SIR: On November 2, 1918, your predecessor appointed the undersigned committee to investigate present conditions in the gold mining industry and to study the problem carefully and thoroughly with a view to definitely ascertaining all the difficulties confronting gold production and submitting suggestions of sane and sound methods of relief.

The nature of the problem submitted to the committee was well stated in the letter of Secretary McAdoo to Delegate Sulzer, of Alaska, under date of June 10, 1918, to which reference has been made in almost all resolutions or discussions of the subject since that time. That letter is reproduced herewith.

At that time the war was at its height and there was every prospect of a prolonged war. Contrary to the belief apparently entertained in many quarters the structure of banking credit in any country during war time does not depend very much, if at all, on the amount of gold that can be made available as a reserve for that structure. Undoubtedly the rise in prices in this country since 1914 is to a great extent due to the heavy importations of gold during 1915 and 1916, but it does not follow that the export of a corresponding amount of gold at the present time would operate to bring down prices. As a matter of fact it is the judgment of this committee that it would not so operate until we have reached or approached normal peace conditions.

In time of peace the gold reserve is undoubtedly an important factor in controlling the credit structure, but in time of war that structure is determined by other causes. This distinction is sometimes overlooked and much inaccurate thinking is due to this oversight. Under war conditions the imperative necessity of the Government for the production of war essentials determines Government expenditure, and this expenditure can not be modified to meet the banking needs of the country; on the contrary, the banking policies of the country must conform to the fiscal policy of the Government. Under these circumstances, the only way in which the expansion of banking credits can be checked is by a reduction of civil demands to correspond with the expanding needs for Government expenditure. The credit saved through this reduction of civil demands becomes available to the Government through the purchase of Government securities or through the payment of taxes. To the extent to which such saving and resulting investment does not take place Government obligations must be taken by the banks, giving rise to credits to the Government which create additional purchasing power to the Government. This additional purchasing power, in turn, competes with the demands of private individuals, driving up prices against the Government and against the civil consumer and ultimately impairs the individual's purchasing power to an amount roughly equivalent to the impairment that might better have been brought about through voluntary saving. The credit structure thus erected depends inevitably upon Government needs and upon the willingness and ability of the community to impose upon itself voluntary restraint in expenditure. In other words, the structure will be high if the community fails to save.

The results in saving achieved in the United States were remarkable, but no program of saving can be instantly put into effect and the expansion of the credit structure that took place under these circumstances was inevitable and could not have been controlled through any reduction in the gold reserve.

This being so and a long war being believed in prospect, it was important to maintain a strong gold reserve in order that there might be no impairment of confidence in the convertibility of our currency and in our ability ultimately to settle any international indebtedness in gold.

The cessation of hostilities has radically changed this situation, and, with the change in the situation, any need of particular effort to promote or stimulate our gold production which may have existed has ceased. There is now no danger of an impairment of confidence. The dimensions of our financial problems are becoming clear and we know that we can without permanent strain meet any financial requirement the Government will be willing to assume. Some further expansion of credit may result from our expenditures for demobilization and readjustment, but we can look forward to a comparatively early contraction of our credit structure with the attending circumstances of a free gold market and a gold reserve that shall once more perform its normal function of regulating credit conditions. That movement will, we believe, be both preceded and accompanied by lower commodity prices.

Under these circumstances, there is in our opinion no need for artificial stimulation of gold production. Not only has any need therefor passed, but there have come into operation causes that will in due time restore all industry, including the mining of gold, to a normal basis. Gold mining will then become again normally profitable and respond automatically to normal stimuli.

It is therefore the judgment of this committee that no steps should be taken by the Government to stimulate or promote the production of gold.

The representatives of the gold-mining interests very properly based their suggestions for relief on the public necessity for a larger production of gold and not on the hardships suffered by them as parties interested in an industry in which the margin of profit had been rapidly shrinking, and in many cases had entirely disappeared or been turned into a loss. They recognized that such diminishing profits and such losses were inevitable under the shifting conditions of war and that merely as producers they had no better claim to relief than any other section of the community suffering a reduction of profits or incurring losses under the changing incidence of war conditions.

In the course of its consideration of the subject referred to it this committee has conferred with a committee appointed by the American Gold Conference held at Reno in August, 1918, under the presidency of Gov. Emmet D. Boyle, of Nevada; it has had the benefit of the very complete survey of the conditions of the gold mining industry contained in the report dated October 30, 1918, of the committee appointed by the Secretary of the Interior to study the gold situation, of which Hennen Jennings, Esq., was chairman, and of the report dated November 29, 1918, of the gold-production committee appointed by the commissioners of the British treasury under the chairmanship of Lord Inchcape; they have conferred with or secured the views of Prof. Irving Fisher and other eminent economists, besides which they have had referred to them a considerable volume of correspondence expressing widely varying views which had been received by the Secretary of the Treasury and the Director of the Mint.

It is interesting to note that the British treasury committee arrived at the same conclusion as that which we have reached.

We can not refrain from expressing gratification at the substantial unanimity of opinion among those whose position or experience entitles their views to respectful consideration against suggested measures of relief that would have had a tendency to undermine or upset our standards of value.

Respectfully submitted.

ALBERT STRAUSS.
EDWIN F. GAY.
RAYMOND T. BAKER.
EMMET D. BOYLE.
POPE YEATMAN.

Mr. McFADDEN. Mr. Chairman, there is no desire on my part in propounding these questions I have suggested, to embarrass the Secretary of the Treasury. It is more to get the information and have it as a matter of record in these hearings that I have suggested them. If, however, in the judgment of the members of the committee, they would prefer that I would submit these questions in a letter to the Secretary of the Treasury, I will be very glad to do that and leave them out of the record now.

Mr. GARNER. Put them in the record. I guess the attention of the Secretary of the Treasury will be called to the record made in this case.

Mr. DICKINSON. It strikes me it would have been better to have sent the questions to the Secretary of the Treasury by letter and also to have put them in the record. You might have gotten an answer from him by this time.

The CHAIRMAN. I think it might be well for the clerk to send a copy of these questions to the Secretary and ask him if he wishes to reply to them, and put them in the hearings also, if that is agreeable to the gentlemen of the committee.

Mr. McFADDEN. Yes; that will be entirely satisfactory to me.

Mr. DICKINSON. Yes.

The CHAIRMAN. Yes; and if the Secretary replies to them, we will put the Secretary's letter in the record also.

Mr. GARNER. Let me ask, Mr. Chairman, is it your purpose to send the questions submitted by Mr. McFadden as being sent by the Committee on Ways and Means to the Secretary of the Treasury with the suggestion that he submit to the committee such answer as he may desire?

The CHAIRMAN. If that is Mr. McFadden's request and if that is agreeable to the committee.

Mr. GARNER. I was just asking what the policy was going to be.

Mr. McFADDEN. With your permission, Mr. Chairman, inasmuch as there is some controversy about this matter, I will just withdraw these questions, and perhaps later on get this information from the Secretary direct, without troubling the committee.

Mr. RAINEY. Would it not be better to submit this bill to the Secretary?

The CHAIRMAN. It has already been submitted and we have a reply from him about it.

Mr. DICKINSON. Permit me to suggest, Mr. Chairman, that Mr. McFadden is now or soon will be the head of a great committee of the House, and it looks to me as though it is entirely appropriate for him to have asked those questions by letter of the Secretary of the Treasury or present them now, and so far as I am concerned I will be very glad to have them go in the record.

Mr. CRISP. Mr. McFadden has said that he was going to withdraw the questions.

Mr. McFADDEN. I will withdraw them so there will be no question or controversy about them.

Mr. Chairman and gentlemen of the committee, at the forty-fifth annual convention of the American Bankers' Association the following resolution was adopted unanimously on October 2, 1919:

Whereas the gold production of the United States, which declined so rapidly during the war period, has since the signing of the armistice still further declined because of the extreme economic pressure to which the gold-mining industry has been subjected; and

Whereas gold is the standard of value and the basis of all credit, and it is vitally important to the financial and commercial life of the Nation that the monetary reserve be protected: Now, therefore, be it

Resolved, That the American Bankers' Association, in convention assembled, respectfully requests and urges upon the Government of the United States the desirability of maintaining the domestic production of new gold in sufficient volume to satisfy the present anticipated trade requirements for this metal, and asks that steps be taken immediately to that end; and be it further

Resolved, That the secretary of this association be, and hereby is, instructed to send a copy of this resolution to the President of the United States, the Secretary of the Treasury, and the Members of the Senate and House of Representatives of the United States, advising them of its adoption; and be it also further

Resolved, That, considering the great importance of this subject, this convention recommends to the executive council that the matter be referred to the Federal legislative committee and the currency committee for an exhaustive study and such action as may be deemed necessary.

On April 27, 1920, the Federal legislative committee of the American Bankers' Association in session recommended the indorsement of H. R. 13201 as the best means of accomplishing the results as set forth in the resolution of the convention of October 2. On the same day the trust company section of the American Bankers' Association in their report also recommended the indorsement of this bill.

Mr. GARNER. Mr. McFadden, I gather from that resolution that your bill is for the purpose of carrying out the expressed purpose of those resolutions?

Mr. McFADDEN. Exactly.

Mr. GARNER. That is, to promote increased production of gold in the country.

Mr. McFadden. Yes.
Mr. Garner. And you propose to do that under the taxing clause of the Constitution?
Mr. McFadden. Yes.
Mr. Garner. Well, I did not know you used the taxing clause of the Constitution for the purpose of promoting a business. Of course, it has always been our idea to use the taxing clause of the Constitution to get revenue in the Treasury and not for the purpose of either depressing or promoting any enterprise or business.
Mr. McFadden. This is an excise tax collected from the manufacturers on the sale of their product.
Mr. Garner. I am not speaking now about the legality of the tax. I am speaking about the purpose for which you say the tax is levied, not to get anything in the Treasury but to promote a business or an industry in the United States. I have never heard anyone yet say, in support of excise taxes or other taxes, so far as internal revenue taxes are concerned, at least, that they levied the tax for the purpose of promoting an industry; but the purpose of the tax was to get revenue in the Treasury.
Mr. McFadden. I call your attention in that connection to the fact, as the situation presents itself now, that the price of gold being fixed at $20.67 an ounce, and the cost of production exceeding that amount, the Government is actually subsidizing the manufacturers of gold.
Mr. Garner. You have a perfect right to subsidize an industry, but the country then knows exactly what you are doing; that you are subsidizing that industry in order to make it produce, but I have never known the taxing clause of the Constitution to be used for the purpose of promoting an industry in the country.
Mr. McFadden. It is a new proposition. I will admit that.

A free gold market is maintained under the provisions of this bill, for the reason that the excise is collected upon the manufactured article as sold and not upon the bullion. The consumers of industrial gold will continue to purchase their raw material from the mint at the free gold market price of $20.67 an ounce.

NO CHANGE IN MONETARY UNIT.

This bill does not change the number of grains of gold in the dollar and, therefore, does not change the monetary unit.

INDUSTRIAL CONSUMERS OF GOLD NOW SUBSIDIZED.

The Government is selling gold without limitation for industrial consumption at the prewar price of $20.67 an ounce, which is less than the cost of production. The average wholesale price of all commodities for the year 1919 was 112 per cent greater than for the year 1914. Had the price of gold been regulated by the law of supply and demand, it would have at least increased in price with the general average of all other commodities in the United States. The gold producers would have received for their 1919 output, which was sold to the industrial consumers for $58,500,000, an increase of

112 per cent, or an additional amount of $65,000,000. To this extent the industrial consumers of gold profited by a subsidy at the expense of the producers of gold. This bill creates the governmental machinery by which the industrial consumers of gold may pay more nearly the cost of production for their raw material, thereby lessening the subsidy which they now enjoy.

Premium to producers compensates for part of the decline in purchasing power of the dollar.

As compared to 1914, the purchasing power of the dollar in terms of all commodities as compared to 1919 was 47 cents. The gold producers' ounce in 1914 had a purchasing power of $20.67, whereas during 1919 the same ounce could purchase in terms of all commodities but $9.70. The gold producer is in the same position as a person who received the same income in 1919 as in 1914 and finds that a $2,000 income had shrunken in purchasing power to $970.

This is the most important reason why the gold production in the United State declined from $101,000,000 in 1915 to $58,500,000 in 1919, and from present indications will probably still further decline to not exceed $40,000,000 during 1920.

This bill is a revenue producer and lessens the tax burden upon the public.

Had this bill been in effect during 1919, it is estimated that a revenue in favor of the Treasury Department and in excess of the expenditures provided under this act would have amounted to $14,000,000. From present indications it is probable that the production of new gold for 1920 will not exceed $40,000,000, and from the record of sales of gold for consumption in the manufactures and the arts it is probable that $90,000,000 of gold will be consumed for industrial uses this year, which would create a balance in favor of the Treasury of $25,000,000. Since the tax is imposed upon the consumers of industrial gold, it does not fall upon the public, but largely upon the consumers of jewelry, a luxury.

GOLD STANDARD PROTECTED.

It is important that the gold-mining industry be kept alive for fear that with the greatly reduced production there will be difficulty in retaining the gold standard during a popular campaign for credit restriction, accompanied by declining prices. The gold-mining industry will be completely shut down unless constructive aid is provided without delay. The continued depletion of the gold stock by excess exportation and industrial use will seriously impair the public confidence in the Nation's finance and currency unless a normal gold output is insured. If the gold-mining industry is allowed to shut down, it will take years to develop a normal output at a very much greater expense. The time to act is now, before the industry is shut down and the deep mines are filled with water.

Here I want to insert some statements of fact pertaining to the gold situation which I will not trouble you with reading, but you gentlemen will have it all before you in this statement:

Important gold facts.

Total United States gold stock May 1, 1919	$3,092,430,916
Total United States gold stock May 1, 1920	2,646,615,750
Decline in United States gold stock May 1, 1919, to May 1, 1920 (14.4 per cent)	445,815,166
Export of gold from the United States, calendar year 1919	368,144,500
United States gold imports, calendar year 1919	76,534,000
Loss of gold by excess exportation, calendar year 1919	291,610,500
Exports of gold from the United States, Jan. 1 to Apr. 30, 1920	181,013,054
United States gold imports, Jan. 1 to Apr. 30, 1920	83,701,311
Losses of gold by excess exportation, Jan. 1 to Apr. 30, 1920	98,311,743
Total Federal reserve net deposits Apr. 30, 1920	1,812,732,000
Federal reserve notes in circulation Apr. 30, 1920	3,074,555,000
Total reserves, Federal reserve banks Apr. 30, 1920	2,070,765,000

Ratio of reserves to Federal reserve net deposit and note liabilities April 30, 1920, 42.4 per cent; 4.4 per cent above the legal requirements.

Gold cover of the Federal reserve dollar note in circulation April 30, 1920, 46.7 cents.

Bureau of Labor Statistics, wholesale price index numbers, 1914, equal 100; for the year 1919 equal 212.

Purchasing power of gold ounce at fixed monetary price of $20.67 was only $9.70 in the year 1919.

Premium of $10 per ounce of new gold to compensate for loss of purchasing power gold, the product of an industry, is the only commodity that has not increased in price; hence this premium is not a subsidy. The industrial consumers of gold are receiving their metal at the prewar price of $20.67 per ounce.

The excise and premium proposal merely creates the machinery by which the consumer of commodity gold in manufactures and the arts may pay the cost of its production.

World's gold production 1915, $469,000,000; 1919 (estimated), $350,000,000.

World's gold production decline 1915–1919, $119,000,000, or 25.4 per cent.

United States gold production 1915, $101,000,000; 1919, $58,500,000.

United States gold production decline 1915–1919, $42,500,000, or 42.1 per cent.

Average increased cost of gold-mining supplies in June, 1918, over prewar costs, 85 per cent.

Gold sold by United States mint for consumption in manufactures and the arts, 1919	$76,837,600
Usual estimated gold coin destruction	3,500,000
Total gold sold and coin destroyed for use in manufactures and the arts, 1919	80,337,600
1919 production fails to equal gold consumed in manufactures and the arts by	$21,848,000
Old gold refined by New York assay office and returned to manufacturers, 1919	20,359,613
Gold sold by United States assay office, New York, for consumption in the manufactures and the arts, Jan. 1 to Mar. 31, 1920	20,037,317
1918 United States siliceous ore:	
Gold output (63.7 per cent of total)	42,284,130
Placer gold output (23.6 per cent of total)	15,673,424
Base ore by-product output (12.7 per cent of total)	8,454,282
United States gold production 1920 (estimated)	40,000,000
Estimated failure of gold production to meet 1920 requirements of manufactures and the arts	40,000,000

Estimated income from excise of 50 cents per pennyweight based on 1919 domestic consumption of gold in manufactures and the arts (excludes imported jewelry, an additional source of revenue)	$43,000,000
Estimated premium cost based on 1919 gold production	29,000,000
Balance in favor of United States Treasury	14,000,000

Mr. RAINEY. What happens when a deep mine is filled with water? Is it possible to develop it again?

Mr. McFADDEN. I suppose by pumping out the water, at great expense, it can be reclaimed. I think some of the gentlemen who are here and who are practical miners will present those facts.

Mr. RAINEY. You have some practical miners here?

Mr. McFADDEN. Yes.

The Treasury officials have, I think, taken a premature stand in opposition to this proposal. Secretary Houston has stated that he objects to the premium proposed in this bill because it constitutes a subsidy to which the Treasury as he says is ever opposed. Evidently he does not realize that he is more greatly subsidizing the consumers of gold in jewelry and for other industrial uses to a larger extent than the premium proposed under this act. Taking this into consideration, there is no net subsidy to the producer under the provisions of this act.

The Secretary also appends a report made by a committee, at the head of which was Mr. Albert Straus, former member of the Federal Reserve Board, who opposed any stimulation in the production of gold, saying that a checking in the production had been occasioned by war causes, which would disappear as the war receded further and further into history. The economic pressure experienced by the gold-mining industry with the attendant high prices for labor and material would cure itself in the course of time.

It is true that the Great War is vanishing into the past, but for all that prices for material and labor have greatly increased since the signing of the armistice and the pressure upon the gold mining industry is even greater to-day than it was at that time. Furthermore, at the time that this report was prepared there was an embargo placed upon the exportation of gold from the United States and restrictions with reference to its industrial use. Since the presentation of this report the embargo has been lifted and the restrictions removed, thereby occasioning a loss to the monetary gold stock of the United States in the amount of $443,000,000 from May 1, 1919, to May 1, 1920, by excess exportation and a consumption of gold in the manufactures and the arts greater than the amount of metal produced from our mines. In the meantime the gold-mining industry is suffering and going more and more into decline, approaching very rapidly the vanishing point. It is surprising to find any opposition in the Treasury based upon such premises. It is complaining of its huge deficits. The excise proposed will be collected at no considerable expense to the Treasury. The excise will not only pay for the premium but will leave a substantial balance of some fifteen or twenty million dollars annually, which balance is to be paid into the general fund of the Treasury of the United States.

In a letter which was submitted by the California Metal and Mineral Producers' Association to the Railroad Commission of the

State of California, Secretary Houston, on April 1, 1920, stated the following:

In response permit me to state that the Treasury would, under present circumstances, regret to see any steps taken tending to interfere with the production of gold, which even now is on a much diminished scale. It is, of course, impossible for the Treasury to judge of the respective importance of the conflicting needs of your community for power, and it must, therefore, confine itself to the statement that it would regard as unfortunate anything that would further curtail gold production.

I would ask you to contrast that letter with the statement of the Secretary of the Treasury which has already been submitted.

From the above statement it is hard to account for the opposition expressed to this bill which provides for relief to the gold-mining industry, thereby insuring the continuance of production over this period of economic stress with the statement made by the Secretary in his letter of April 1 as above cited.

If the Treasury Department regard the declining gold output as unfortunate and are opposed to the constructive relief afforded in this bill, they should present a proposal which will effectively maintain a normal gold production during this period of economic stress. It is not in the interests of the financial security of the Nation to criticize without substituting a superior means of accomplishing a result which will protect the gold standard and serve as a financial safeguard.

I will put in the record at this point a copy of the letter I just quoted from, written by the Secretary of the Treasury, and also a copy of his letter to Mr. Fordney, so that they both can be seen and read at this point.

TREASURY DEPARTMENT,
Washington, D. C., April 1, 1920.

ROBERT I. KERR, Esq.,
Sec.-Treas. California Metal and Mineral Producers' Association,
San Francisco, Calif.

DEAR SIR: I have your letter of March 26 inclosing a copy of your communication of March 4 requesting a statement as to the attitude of the department in regard to the need for the continued production of gold. The purpose of asking for this statement is, I understand, to permit its use before the Railroad Commission of the State of California in case that commission should adopt a priority schedule governing the supply of hydroelectric energy during the forthcoming summer months. A very light rainfall is stated to be the reason why it may become necessary to adopt such a priority schedule.

Your letter also incloses a copy of a letter dated June 10, 1918, written by Hon. William G. McAdoo, then Secretary of the Treasury, to Delegate Sulzer, House of Representatives.

In response permit me to state that the Treasury would, under present circumstances, regret to see any steps taken tending to interfere with the production of gold, which even now is on a much diminished scale. It is, of course, impossible for the Treasury to judge of the respective importance of the conflicting needs of your community for power, and it must, therefore, confine itself to the statement that it would regard as unfortunate anything that would further curtail gold production.

Very truly, yours,

D. F. HOUSTON.

THE SECRETARY OF THE TREASURY,
Washington, April 9, 1920.

DEAR MR. FORDNEY: I received your letter of April 5 with the inclosed copy of the bill (H. R. 13201) introduced by Mr. McFadden, "To provide for the protection of the monetary gold reserve by the maintenance of the normal gold production of the United States to satisfy the requirements of the arts and trades, by imposing an excise upon all gold used for other than monetary purposes, and the payment of a premium to the producers of newly mined gold, and providing penalties for the violation thereof."

The Treasury is very much opposed to this bill. The Treasury is opposed to subsidies in general and is particularly opposed to subsidizing the gold-mining industry. I believe that the gold miners will, in the long run, benefit with the rest of the community from the ability of this country to maintain itself on a gold basis. In connection with the general subject, I take pleasure in handing you herewith a copy of a report, dated February 11, 1919, made by a committee appointed by Secretary McAdoo to investigate the problem of production of gold.

Very truly, yours,

D. F. Houston.

Hon. Joseph W. Forndey,
Chairman Committee on Ways and Means, House of Representatives.

The facts that have been presented and correspondence received since this bill was introduced show beyond reasonable doubt that products containing gold manufactured for the export trade should be relieved of the excise burden specified in the act. It is not my intention that any hardship should be imposed upon such manufacturers which would be detrimental to the export business of the Nation, and I therefore submit for your consideration the following amendment to H. R. 13201, section 2.

If you have copies before you there. and will refer to them, I will just go through them briefly:

That under such rules and regulations as the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, may prescribe, the excise tax imposed under the provisions of section 1 of this act, shall not apply in respect to articles sold for export and in due course so exported. Under such rules and regulations the amount of any excise tax erroneously or illegally collected in respect to exported articles may be refunded to the exporter of the article instead of the manufacturer if the manufacturer waives any claim for the amount to be refunded.

This is the wording used in the act imposing a luxury tax in exempting gold articles sold for export from the tax.

There are a few minor changes in the wording of the act which I would also like to submit for your consideration.

Page 6, lines 2 and 3, eliminate the following: "the monetary price of $20.67 and" as being superfluous reference.

Page 6, line 13, the substitution of "would" for "may."

Page 10, line 1, the substitution of "collection" for "collected."

Page 10, line 2, the substitution of "shall fail" for "fails."

Page 10, line 7, the substitution of "shall willfully refuse" for "willfully refuses."

Page 10, line 16, the substitution of "shall willfully refuse" for "willfully refuses."

I think, gentlemen, that is all I have to say on the subject.

Mr. Watson. May I ask a question? What is the standard price of gold to-day?

Mr. McFadden. $20.67 an ounce.

Mr. Watson. How long has that been the standard price?

Mr. McFadden. Ever since the gold standard was adopted years ago.

Mr. Watson. How many gold mines are not now in operation?

Mr. McFadden. I can not give you the exact number. Some of these mining gentlemen here, I have no doubt, can do that, but a large percentage of them have already shut down and many more are shutting down, as evidenced by the decreased production of 50 per cent.

Mr. GREEN. As I understand, there are some gentlemen here engaged in the mining business who will be able to give the committee those figures.

Mr. WATSON. What does it cost to produce an ounce of gold?

Mr. McFADDEN. It depends on the kind of mining and the value of the ore. There are several different kinds. For instance, there is the placer and then there are the low-grade ores and the high-grade ores.

Mr. WATSON. Does it now cost more to produce an ounce of gold than the Government price?

Mr. McFADDEN. In many instances, yes; as evidenced by losses sustained by operating companies and by the fact that such a large proportion of the mines have shut down. From the correspondence that has come to me from miners engaged in this operation, it is indicated to me that the increased cost will be no more than covered by the premium provided by this act in many of the big operations.

Mr. WATSON. Who loses the most, from the time the pick goes into the ground until the time when the gold arrives in the Treasury?

Mr. McFADDEN. I do not just understand your question.

Mr. WATSON. As I understand, there is a loss of about $8 an ounce upon the production of gold from the time it is mined until it reaches the Government; is that right?

Mr. McFADDEN. There are losses in the various processes of extracting the gold values from ores. These losses are borne by the producer.

Mr. WATSON. I want to know who loses the most money, the miner, the owner, or the refiner. Of course, the loss is scattered from the time the pick goes into the ground until the bullion reaches the Treasury.

Mr. McFADDEN. I am not a practical miner and I do not know just how that burden is distributed, but I presume some of these practical mine men can answer your question. I am sorry I can not.

Mr. HAWLEY. You do not propose that when the Treasury sells a quantity of gold to any manufacturer it shall tax him 50 cents per pennyweight?

Mr. McFADDEN. No; when he sells the manufactured product. He still gets it at the price of $20.67 per ounce.

Mr. HAWLEY. And then when he sells the manufactured article——

Mr. McFADDEN (interposing). When he sells the manufactured product, the excise tax is collected on his manufactured article.

Mr. HAWLEY. How do you determine the amount of gold in that article?

Mr. McFADDEN. I suppose that is a regulatory matter. The Revenue Department here, I suppose, would have charge of that and establish some system as to that. It would probably be upon certification.

Mr. GREEN. But would it not be easier to require the tax to be paid when the manufacturer bought the gold?

Mr. McFADDEN. I think you would experience some difficulty in doing that, and it might interfere with our entire gold situation.

Mr. LONGWORTH. What is the price of silver now?

Mr. McFadden. It is around $1 an ounce. It has declined from the high price of $1.37, which it reached some weeks ago, to practically $1 an ounce.

Mr. Hawley. Do you think it is practicable to levy the tax as you propose? For instance, here is an article that has a gold plating on the outside; how is the Treasury going to determine the amount of gold in that gold plating?

Mr. McFadden. I should say it would have to be on a sworn certificate from the manufacturer that so much gold was used in the production of the article. It is a matter of honor to a certain extent, I should say, but I think the Treasury Department can easily ascertain that.

The Chairman. What would be the serious difficulty in imposing the tax, as Mr. Green has said, when the manufacturer purchases the gold for manufacturing purposes?

Mr. McFadden. Well, it would not be an excise tax, particularly, would it? It could be used for any purpose. I would call your attention also to the fact that I have introduced a bill which provides a fine for the destruction of gold coin, which I think ought to be taken in connection with this same bill. We have a law on the books providing against mutilation of the coins, but we have never had a law providing against destruction. There are many of these jewelers and optical people who have been melting up coins. It is very difficult to ascertain how much of our gold coin is melted up annually.

The Chairman. Such a bill would come before your committee, would it not, Mr. McFadden?

Mr. McFadden. That bill is now before the Committee on Coinage, Weights, and Measures.

Mr. Chairman, I desire to place in the record at this point letters from the governors of Alaska and Colorado and a statement from the governor of Idaho urging this legislation.

(The data referred to are as follows:)

Territory of Alaska,
Office of Governor,
Juneau, May 8, 1920.

My Dear Congressman: I am in hearty accord with the bill (H. R. 13201) introduced by you in the House of Representatives, as being the only measure so far advocated which, while not pushing gold to a premium, still stimulates production by allowing governmental assistance to the producer of the virgin metal.

Alaska last year stood third in rank of the gold-producing States and Territories, but even then gold production had steadily dwindled, as compared with preceding years. Until 1917 gold mining was considered the Territory's basic industry, as more men were permanently employed in gold mining than in any other occupation. Now gold mining is secondary to other forms of development. Unless the present costs of production are reduced or the miner given assistance by an increased price for his product, it will not be long before gold production will cease to become an economic factor in territorial development, and the world will be deprived of our great contribution toward the standard medium of exchange. Given a premium on gold to the miner to offset the cost of production, gold mining within Alaska will once more resume its normal proportions.

Now, as never before, is the world in need of a gold supply, particularly as gold seems to be the only medium of exchange on which the nations can unite. Credits are based on gold and credits are perilously near the edge of the abyss. Hence, in the interest of stable government, if for no other reason the production of the universal standard must be maintained and, if possible, increased.

I doubt very much (and this is also the opinion of other engineers) if the world will ever again see the abnormal gold production existing for a short period in South Africa, the Yukon Territory, and Alaska during the latter part of the last century and the first few years of the present one, which for a time replenished a shrinkage gold reserve. Miracles seldom happen, and only a miracle can reestablish production under present conditions; but by judicious assistance mines can be made to operate profitably on the present known lower-grade ores and gravels, now perforce lying idle entirely or working at a loss.

I take the liberty of addressing you, as the measure you advocate means much, not only to Alaska, but to the Nation.

Sincerely, yours,

Thomas Riggs, Jr., *Governor.*

Hon. Louis T. McFadden,
House of Representatives, Washington, D. C.

February 27, 1920.

Hon. Charles B. Timberlake,
House of Representatives, Washington, D. C.

My Dear Mr. Timberlake: I am informed that a bill to stimulate the production of gold is soon to be introduced in Congress. This bill, according to the information at hand, provides for a bonus of $10 an ounce to the producers and for an excise tax of $10 an ounce on all gold used in the arts.

Everyone who has any knowledge of the present conditions surrounding the production of gold realizes that the industry is being conducted under great difficulties. The gold miner is receiving the same price for his product as he received before the war, when his costs were very much less. Unlike the producer of silver, lead, zinc, and other metals, he has had no compensation for the ever-increasing cost of labor and supplies, until now only those gold mines which are unusually rich, or which are large enough to make it possible to operate with great economy, are still working. The average small operator is rapidly being forced to the wall. This is well illustrated by the rapid decrease in the production of the Cripple Creek district in recent years; $13,700,000 in 1915, $12,100,000 in 1916, $10,400,000 in 1917, $8,100,000 in 1918, and $5 800,000 in 1919. Part of this can, perhaps, be charged to the gradual depletion of the ore deposits, but I believe it is chiefly due to the increasing costs which make it impossible for the leaser and the small mine owner to do the development work necessary to find the new ore bodies that undoubtedly still exist in the productive area. There is no doubt in my mind that if the proposed bonus is granted there will be an immediate resumption of prospecting followed very shortly by greater production. Some increase can also be looked for even sooner from ore bodies already known, but of too low a grade to be profitable under present conditions.

I have spoken of Cripple Creek because it produces nothing but gold and is more directly affected by the gold situation than our other metal mining camps. However, as practically all of our metal mines produce some gold in connection with the other metals, the bonus would help them all and prosperity for the metal mines would naturally reflect favorably on all the rest of the State.

Aside from the producers' purely personal view of the situation, which I have outlined above, there is a larger and more important aspect of the decreasing gold production. The country's credit is founded on its gold reserve. The steady decrease of this reserve, due to the decrease in production, has been and is being considered with grave concern by the men at the head of the large banks and financial institutions of the country. They are urging upon Congress the necessity of immediate action to stimulate the gold production of the United States, instead of allowing it to fall at the rate of over $10,000,000 per year, as it has been.

Many plans have been proposed to encourage the gold producer, but, until the one mentioned above was advanced, I have seen none that did not seem likely to impair, if not altogether destroy, our entire financial system. This plan has no defects that I can see and appears to offer a way of accomplishing the much to be desired increase of gold production without disturbing, in any way, the currency of the Nation.

I am quite certain that you are familiar with this proposed legislation, but have taken this occasion to emphasize some of the features of the bill which have appealed to me in the hope that they may be useful to you in its support.

Yours, truly,

O. H. Shoup, *Governor.*

STATEMENT BY GOV. D. W. DAVIS, OF IDAHO.

As a banker I have viewed with extreme alarm the vanishing gold reserve and it is with hearty concurrence that I subscribe to the attitude of the American Bankers' Association in urging Congress to use every possible means to increase the production of gold.

We are facing, and have, a period of deflation which must be met with the very acme of public confidence. Financial panics, as we all know, have been attributable throughout financial history to fear, and we can establish confidence and build it on the rock of stability should we have a gold reserve which will warrant confidence.

It may be of interest for us to know more of the condition of gold production in Idaho, for Idaho typifies the apathy in gold production of other States. It shows that something radical must be done to encourage the production of gold. I favor tht method suggested by the American Mining Congress of imposing an excise on gold articles to produce a premium to the producers of new gold.

There is absolutely no incentive for capital to invest in the development and equipment of low-grade gold-bearing deposits in Idaho with the present fixed price of the metal and with the mining conditions of to-day. We have huge deposits and extensive resources, but it is necessary that in some way a reasonable margin of profit be arranged for. Under the suggested bonus plan this might be done.

We have an exceptional field in Idaho under the most promising geological conditions for the development of copper-ore deposits of large capacity. These all carry relative good values in gold, and the by-product composed of that precious metal would prove alluring should the price be worth what it costs to produce. The proposal of giving a bonus would be instantly recognized in this line and would bring an inducement to rapid development in all gold-bearing ore deposit production in this and other States.

I have taken this matter up with the members of our State bureau of mines and geology, and particularly with our State inspector of mines, the latter having acted in a substitute capacity as State geologist through a continuous service in Idaho for the past 15 years. With a previous practical experience as a gold miner for an additional 15 years, Mr. Bell is probably more thoroughly familiar with our gold resources than any other man.

According to Mr. Bell, the placer-gold production of Idaho in about 60 years is conservatively estimated at $200,000,000, which he considered the detrital or float evidence of a much larger permanent resource of gold in the form of lode deposits. While the richer veins have probably largely been discovered and worked, yet we have in Idaho some very extensive deposits of low-grade gold-bearing veins varying in width from 100 to 300 feet on which considerable preliminary development and experimental testing indicates average values of $2 to $3 per ton. This is equal to or better than the great mainland low-grade gold-ore deposits of southeastern Alaska, whose potential capacity, backed by the opinion of the leading engineers of America, was put at a maximum feasible output of $10,000,000 to $20,000,000 worth of new gold per year.

It can readily be seen from these figures what it would mean to gold production here should some encouragement be given the industry allowing a reasonable return for business investment of money in the mining of low-grade ore.

STATEMENT OF HON. HARRY L. GANDY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH DAKOTA.

Mr. GANDY. Mr. Chairman and gentlemen of the committee, for the period from 1912 to 1918 South Dakota ranked fourth in the production of gold among the States of the Union. If you count in Alaska, one of our Territories, then South Dakota ranked fifth in the production of gold under the American flag.

When I came to Congress in 1915 there were approximately 20 producing companies in the Black Hills of South Dakota. That number has dwindled until to-day there are two.

The CHAIRMAN. What was the cause of that?

Mr. GANDY. That was due to the unusual situation in which the gold industry finds itself, the price of its product remaining stationary and everything it has to buy that enters into the production of that product having increased.

The present situation is favorable to foreign producers and against the producers in this country. I just want to briefly call your attention to the fact that the rate of foreign exchange enables the producer of foreign gold to either bring his gold to this country or unload it with gold clearances and then take the depreciated currency of his country and meet his bills there, so that the net result is that the general situation in the world has really granted a subsidy to the foreign producer.

Our excess of gold exports is worthy of consideration in the matter of the depletion of our gold reserves. Take, for instance, the month of December, 1919, and January, 1920. The figures, as given by the Bureau of Mines in one of their official bulletins, show that the excess of exports over imports was approximately $70,000,000 for those two months alone. There was withdrawn in 1919 for use in the arts and sciences, and some gold goes into science, in excess of $80,000,000 of gold; far more than our production.

The resolution of the American Bankers' Association, gentlemen, urges that the Congress do something to stimulate the production of gold in this country, at least to where it will equal the amount withdrawn in the arts for manufacturing purposes.

In the last analysis, faith in our gold reserve underlies all credits, and once that faith is shaken, then the people of this country would understand very quickly that this problem which confronts the gold producer to-day is in fact a national problem. It is your problem, gentlemen, and every man's problem in this country, to see to it and to know that that faith in the gold reserve is not shaken.

Mr. Garner. May I ask you a question, Mr. Gandy?

Mr. Gandy. Yes, sir.

Mr. Garner. My attention has been called to the fact that gold production is decreasing very much, and I think it is a subject that Congress might well take into consideration. What do you say about using the taxing clause of the Constitution for the purpose of promoting an industry in this country?

Mr. Hawley. How would you use it?

Mr. Garner. That is what this proposes. This is not a revenue bill. It does not say in the enacting clause that it is for the purpose of getting any revenue at all, but for the purpose of promoting an industry by the taxing clause of the Constitution. Now, I have read the Constitution with reference to taxation, and I did not know you had that power in order to promote an industry.

The Chairman. Mr. Garner, on the other hand, does not the bill put a tax upon the gold used in manufacturing for the purpose of lessening the quantity of gold used for that purpose? Is not that the object of the bill?

Mr. Garner. It says that it is not for the purpose of getting revenue when your tariff legislation, for instance, which you say is for protection, has that purpose stated in it, and the Supreme Court has held that such legislation is for the purpose of getting revenue. This bill does not say that it is for the purpose of obtaining revenue.

The Chairman. It is not for that purpose, is it?

Mr. Garner. That is what I say. The Constitution does not give the Congress power to levy taxes for any other purpose except revenue.

Mr. HAWLEY. But the preceding speaker said that the net result would be some fifteen or twenty million dollars still remaining for the Treasury after paying a proportion to the producer of gold.

Mr. GARNER. I was simply asking Mr. Gandy what he thought about the policy of Congress using the taxing power to either destroy or build up a business in this country.

Mr. RAINEY. Is not the question whether we are going to protect our gold standard or permit the production of gold to stop entirely and interfere with our standard of money?

Mr. GANDY. The ramifications of——

Mr. RAINEY (continuing). If our Constitution will not permit us to protect the standard upon which our circulating medium is based, then we can not do much under the Constitution.

Mr. GARNER. We have plenty of opportunity under the Constitution to subsidize this industry or any other industry that you desire to subsidize, but the Constitution does not give you the power to tax an industry into prosperity or out of business, although it has been used for that purpose in the case of oleomargarine, the phosphorus match, and two or three others, but they have always put it on the ground of raising revenue, but this bill on its face is drawn for no purpose except to promote an industry. I think you can change the heading of it and make it all right.

Mr. RAINEY. You are absolutely right about it. There is no precedent for it in the history of legislation in this country or in any other country in the world, but we are confronted with a most serious problem, and the question is how to meet it. I am not prepared to say that this is the best way, but we ought to take some steps to meet the problem.

Mr. GARNER. I think myself that Congress ought to take into consideration some legislation with reference to the decrease in the production of gold in this country, but what I was directing the speaker's attention to was the fact that the Constitution says that you levy taxes to get revenue, and that is the only power that it grants.

Mr. GANDY. Of course, this measure if enacted would produce revenue. Independent of what would be done with the revenue received it will produce revenue, and then we think that the net result will be the production of revenue for the Treasury.

Mr. HULL. Mr. Gandy, may I interrupt to say that I think Mr. Garner's contention is that under the technical drafting of this bill it probably comes within the inhibition of the Constitution; but if the bill was re-formed and drafted so that the title would recite that it was for the purpose of raising revenue, and for other purposes, it would be all right.

Mr. GANDY. I assume, Mr. Chairman, that any matter of that kind could have the attention of the committee, and if anything is necessary to perfect this bill that it could be so perfected. The thing we are vitally interested in is that this Government, having fixed the price of the product of the gold mine, having tied the hands of the producer, ought not to say that the producer of gold in South Dakota or any other place under the American flag ought to be compelled to sell his product to manufacturers of jewelry or to other users of gold for less than it costs to produce it.

Mr. RAINEY. Mr. Gandy, what do you think of Government operation of mines which can not be operated by private corporations at a profit?

Mr. GANDY. That is a question I have not given any consideration to. I would think those most familiar with the properties and with the business would be better able to cope with conditions, which vary in each mining field, than any Government official.

Mr. RAINEY. It might be arranged so as to give the owners of the mine a profit on their investment. The Government is the only agency that could produce gold at a loss, and the Government must have gold, and while I do not believe in Government ownership as a general proposition, yet if the Government operated the deep mines that can not be operated with a profit, practically, that need not disturb the price of gold in this market or anywhere in the world, inasmuch as the price is fixed by the law of the land. The gold would still go on the market at the same price.

Mr. GANDY. Many of these properties are operated on a very narrow margin.

Mr. RAINEY. I know they are, and some of them, unquestionably, are operated at a loss.

Mr. GANDY. There is a misconception as to the profits of a gold mine. You may take, for instance, the famous Homestake Mine in the district which I have the honor to represent. It is operated on a margin of some 20 or 25 cents a ton, and that has now decreased with the increasing cost of production, so that if it were not for the long years of stability behind that company they would not be able to proceed at all.

Mr. GARNER. I have heard it said that there is more gold put in the ground than is actually taken out.

Mr. GANDY. Even if that were true, we must have the yellow metal, and the fact confronts the American Congress that gold production under the American flag is at the lowest stage since 1896.

The CHAIRMAN. In your opinion, would not the transfer of the operation of mines from private ownership to Government ownership greatly increase the cost of production of gold?

Mr. GANDY. I do not think there is any question about that.

We are very much concerned about this problem, gentlemen. We feel that you are concerned also; that it is the problem of the country to see that gold is produced and that we do our share toward adding to the world's supply of gold; toward maintaining the gold reserves of this country, to the end that the faith in the credits back of the gold reserves may not be destroyed and that this industry, on which so much depends in this country, may not be destroyed.

Mr. RAINEY. Do you know anything, Mr. Gandy, about the difference in cost of producing gold in this country and in South Africa, for instance, at the Kimberley mines?

Mr. GANDY. I do not.

Mr. GREEN. You are aware, however, that it is very much lower than the cost in this country; but what you mean to say is that you are not informed as to the details?

Mr. GANDY. I am unable to give you any figures, and therefore I will let the gentlemen who are familiar with that phase of the question give you that information.

The CHAIRMAN. We will now be glad to hear the other gentlemen.

STATEMENT OF MR. H. W. SEAMAN, PRESIDENT OF THE TROJAN MINING CO., CHICAGO, ILL.

The CHAIRMAN. Mr. Seaman, please give yor name, address, and the industry you represent.

Mr. SEAMAN. H. W. Seaman, 719 The Rookery Building, Chicago. I am president of the Trojan Mining Co., the mines of this company being located about 6 miles from Deadwood, in the Black Hills of South Dakota.

Mr. Chairman and gentlemen, my experience in the mining business extends over a period of 30 years, and has been confined to the gold-mining industry alone. During all of that time and until prior to the war our operations were reasonably profitable. Our ore is low grade, running from $4 to $6 per ton, gross value, and we recover about 85 per cent of these values. It has taken years to develop our properties and bring them up to the point where they could be called a straight manufacturing proposition. With large ore reserves and a known method of treatment, the matter resolves itself into the question of capital investment and good management. We have no debts at present. We expect to have if present conditions continue. Unless immediate relief is given, many of the mines now operating will be forced to close, including the Trojan mine. Millions of dollars are being expended by the Government for the conservation of our national resources. The gold ores of the country are a national resource, and just now the gold-mining industry is about to collapse. The resultant loss to the country as a whole would be colossal. In the McFadden bill we have presented a method whereby this catastrophe can be measurably averted.

Our financial substructure will be strengthened. A vast industry that is responsible for the sinews of war and that is a victim of war conditions will be saved from unnecessary ruin, and the country as a whole will be greatly benefited. No one will be harmed, for surely the users of gold must expect to pay at least the cost of production for their raw materials.

An intelligent consideration of the McFadden bill can not be had without a fair understanding of mining conditions.

You ask me to describe a typical gold mine operation in our district. At present the Homestake and the Trojan are the only two operating properties, all the others having been forced to close.

The Homestake Mine at Lead City, S. Dak., ranks as the leading gold mine of the world. When operating to capacity they put something like 5,000 tons of ore through their mills daily, using a combination of plate amalgamation and cyanidation for the recovery of their values. If I remember correctly, they make an ultimate recovery of something better than 95 per cent of the gold assay of the ore.

The property of the Trojan Mining Co., of which company I am president, is located in the same district as the Homestake. Our ore is entirely refractory—that is, no part of our values can be recovered on the plates as free gold—and we are confined to recovery by the use of cyanide. It is purely a chemical proposition. Our milling capacity is between 400 and 500 tons per day. The average assay value of our milling ore runs around $4 per ton and we make only a few cents profit per ton of ore treated—less than 40 cents per ton. The ore, for instance, as mined from the Trojan mine is rough crushed in a No. 5 Gates gyratory, then reduced to 60 mesh and finer by means of chillean and ball mills, classified into sand and slime products and these treated by cyanide solution, where the values are leached out and recovered in the zinc boxes.

Our final product is taken to the local United States assay office in the form of more or less impure so-called "gold bars," the assay value of which, less a small refining and handling charge, they pay to us by draft on the Treasurer of the United States. You will readily appreciate that outside of the use of the capital invested our main operating costs consist of taxes, power, labor, cyanide, explosives, steel, timber, machinery, and the thousand and one other items used in and about a mine and mill operation. Since the war all costs have increased so heavily that the margin of profit between the selling price of our product and the expense of producing that product has entirely vanished. Unlike any other business, the gold miner has no opportunity whatsoever to add his increased cost of production to the price of his finished product; the selling price of his gold is definitely fixed at $20.67 per fine ounce. Therefore, when the cost of producing that ounce of gold reaches the selling price the gold miner has the alternative of either shutting down his operation or continuing at a loss.

The situation is, of course, reflected in the total gold output of the country, which has fallen from over $100,000,000 in 1915 to $58,000,000 in round numbers for 1919. These figures tell. It is safe to say that unless immediate relief is afforded the gold output from the mines of the United States for 1920 will not exceed $40,000,000. Many mining companies, and among them my own company, the Trojan, are continuing operation at a loss, using only their best ore, gophering here and there "high grading," so to speak, holding on like grim death in the hope that the Government will come to their aid in time to avert disaster.

I do not believe that any similar situation has ever before been presented for your consideration, either as a revenue measure or as a measure to assist an industry. It stands in a class by itself. The Government has so framed conditions by absolutely fixing the price of gold at $20.67 per fine ounce, that in effect the Government has become a "wicked partner" in the gold mining business. Unfortunately, the Government itself is unconsciously profiteering at the expense of the producer of gold. It is subsidizing the users of gold in the arts and manufactures by selling to them the output of our gold mines at less than the cost of production. While the purchase price of our materials and supplies has been increased in many cases double pre war prices, yet our gold market has not changed. For instance, the Alien Custodian reported that Messrs. Roessler & Hasslagher, who supply nearly all the cyanide used in the mining industry, showed a profit of over 3,000 per cent. Many other concerns furnishing essential materials show great excess profits, and the Government is taking from 40 to 60 per cent of that profit as a matter of revenue. To that extent the Government has profiteered at the expense of the gold miner.

Mr. Green. I wish we were taking 60 per cent this year, but it is only 40 per cent.

Mr. SEAMAN. Well, 40 per cent; it makes no difference; it results in the fact that the Government is participating, unconsciously, of course, in the earnings of the various concerns from whom we purchase our supplies. It is the abnormal cost of these supplies that that is largely responsible for the sad plight in which the gold mining industry finds itself.

It is for this reason that the gold mining industry is in a category by itself. We need your help, gentlemen, we need it now. Only the mines with high-grade ore can continue. The gold of the world is produced almost entirely from low-grade mines; that produced from high-grade—picture rock—properties is almost a negligible quantity. The real high-grade properties with any tonnage to speak of can be literally counted on the fingers of one hand.

Mr. RAINEY. Are your properties being operated now?

Mr. SEAMAN. Yes, sir.

Mr. RAINEY. At a profit?

Mr. SEAMAN. At a loss.

Mr. RAINEY. How much loss?

Mr. SEAMAN. In the month of April this year, for instance, at a loss of over $3,000.

Mr. RAINEY. How long can you operate at a loss?

Mr. SEAMAN. We can not continue to operate much longer; we are only waiting to see what this proposition will bring forth.

Mr. RAINEY. What would happen to the mines if they were to be shut down?

Mr. SEAMAN. The loss would be very great. Our treatment plant cost in the neighborhood of $300,000. The Trojan operation is relatively a small one. It is a "wet mill"—a cyanide mill. When out of commission these mills go to pieces very rapidly. We are 6 miles from Deadwood. The little town of Trojan depends upon our industry. In case of a shutdown, the insurance on our mill and buildings is automatically canceled; the water supply for both town and mill is cut off; the houses are vacated, for the men must find work elsewhere; the splendid organization of technical workers, which has taken us years to get together, is dissipated; the trades people as well as the near-by farmers who furnish supplies lose their markets; the mines fill with water, and serious loss from caving is bound to occur. Many of the miners own their homes—they must be abandoned and their savings of years become a total loss.

Mr. RAINEY. How many families depend on your mill?

Mr. SEAMAN. I should say that the town of Trojan has around five to six hundred people. We employ about 150 operatives. But the town of Lead, with around 8,000 inhabitants, also depends wholly upon the Homestake operations for its existence.

Mr. HAWLEY. You operate three shifts?

Mr. SEAMAN. In the mill; yes, sir—24-hour operation—but in the mine itself we only operate one shift of 8 hours. The Homestake use three shifts, I believe, in their mine as well as mills.

Mr. HAWLEY. How deep is your mine?

Mr. SEAMAN. We operate largely by inclines—go some six to eight hundred feet under the surface. At present we are sinking a new shaft and expect to reach quartzite at around 800 feet. The Homestake operates entirely from shafts and is down more than 1,500 feet.

Mr. HAWLEY. What did it cost you in the month of April, say, to mine an ounce of gold?

Mr. SEAMAN. I can not tell you that exactly. I could furnish the information by reference to our records.

Mr. HAWLEY. Could you put it in your hearing?

Mr. SEAMAN. Yes, sir; by sending to our Deadwood office.

Mr. HAWLEY. Approximately, what was it for the present year?

Mr. SEAMAN. My recollection is around $4 per ton of ore mined. Our expense all told brings the cost of gold per ounce above the $20.67 we realize from the Government.

Mr. RAINEY. If your mine should fill with water, could you resume work in the same mine at some time in the future?

Mr. SEAMAN. We are in a much better position in that regard than most mines, although we would be at a great expense on account of caving. In many of the operations the shafts must be resunk at great cost and much valuable ore is forever lost. Many mines that could profitably continue under constant upkeep will never resume on account of the abnormal cost of reopening. An abandoned mine is generally a sorry spectacle.

The CHAIRMAN. You say it is costing more money per ounce to mine the gold than you get for the gold?

Mr. SEAMAN. Yes, sir; to-day.

Mr. OLDFIELD. You say $10 more?

Mr. SEAMAN. No, sir; not quite that amount. We are in a little better position than most mines. We are losing money. The fact that less gold is being produced from the industry as a whole shows beyond question that it costs more to produce gold than the Government pays for it.

Mr. RAINEY. What is the reason for continuing the operation of your mine from the standpoint of your company when it is operating at a loss?

Mr. SEAMAN. Simply because we can not face a shutdown without a much greater ultimate loss than at present.

Mr. HAWLEY. Is there any hope of continuing at all?

Mr. SEAMAN. Yes, sir; we hope the Government will give favorable consideration to this bill; if not, then my company must suspend. Without this relief I do not believe you will have $25,000,000 of gold produced in this country.

Mr. HAWLEY. What is the experience of the Homestake—is it losing money?

Mr. SEAMAN. I think so; they had a bad fire in their mine on top of their other troubles. I believe I have somewhere with me a statement of the Homestake operations prepared by their metallurgist which was published in one of the mining journals. I can not give it to you offhand, but will put it in the record.

The CHAIRMAN. We will be glad to have you put those figures in.

Mr. HAWLEY. What is the prospect of a reduction in the cost of mining gold in the near future?

Mr. SEAMAN. Naturally these costs will decrease in the course of years. We are only asking for temporary relief under this bill, to tide over the period of high operating costs. Many of the mines are down, more are going down, and we need this instant spur to enable us to keep operating at all. Under the provisions of the McFadden bill the amount to be paid the producer of new gold is subject to review at the end of five years and the matter will adjust itself from time to time to existing conditions. It is in effect an emergency measure.

Mr. HAWLEY. What is the name of that mine in British Columbia—the Treadwell?

Mr. SEAMAN. The Treadwell is in Alaska, Mr. Hawley. This mine sprang a leak—the ocean came in on it, and it is doubtless hopelessly gone—war conditions were not responsible.

Mr. HAWLEY. There is one large mine in British Columbia the name of which I was trying to recall?

Mr. SEAMAN. There are a number of good mines in British Columbia.

Mr. HAWLEY. Do you know whether those mines are operating under adverse conditions?

Mr. SEAMAN. The British operation is different from ours. Great Britain appreciated the necessity of continuing gold production at the beginning of the war. They commanded the Cassells, of Glasgow, who furnish the greater amount of cyanide used in British operations, to sell to their Canadian miners the cyanide needed at 12 cents per pound. It is costing us nearer 30 cents per pound.

Mr. HAWLEY. Will the amount proposed in this bill to be paid in taxes by the users of gold in the arts and sciences and for ornaments and other uses be a sufficient amount to enable the gold-mining operations in this country to continue?

Mr. SEAMAN. I think so; there may be a few exceptions.

Mr. RAINEY. You can not get now more than $20.67 an ounce?

Mr. SEAMAN. The Government pays us only $20.67. There is no premium on gold in this country.

Mr. RAINEY. The Government is the only market?

Mr. SEAMAN. During the war we had only one purchaser—the Government—and there was an embargo as well on the export of gold. Why sell it to anyone other than the Government when anyone can get all the gold they want from the Government at $20.67 per ounce, plus the small handling charge which we also pay? They buy it from the Treasury at exactly the price we sell it to them for.

Mr. RAINEY. Do you know of any other business, where the operating expenses have increased enormously, which has not been permitted to charge more than before the war?

Mr. SEAMAN. The gold-mining industry is the only one I know of where the price of its product is not fixed by the law of supply and demand. During the war the Secretary of the Treasury appealed to the gold producers, from the standpoint of patriotism, to maintain their output of gold to help win the war.

Mr. HAWLEY. You want the users of gold, in making heads for gold canes, watchcases, and other articles of commerce, to pay approximately what the raw material costs?

Mr. SEAMAN. Yes, sir. They are in effect profiteering at our expense; they are only paying $20.67 an ounce for this gold, and it costs the miner more than that to produce it.

Mr. OLDFIELD. Do you have to sell all of the gold you produce to the Government?

Mr. SEAMAN. During the war the Government commandeered our gold. We now have an open market.

Mr. OLDFIELD. You are released from it?

Mr. SEAMAN. Yes, sir.

Mr. OLDFIELD. You can sell to the jeweler?

Mr. SEAMAN. We can—yes, sir—but he would be foolish to pay us a premium when he can buy all he wants from the Government at $20.67 an ounce. He would not pay us $28 an ounce, for instance.

Mr. OLDFIELD. Can he buy all he wants?

Mr. SEAMAN. Yes, sir; of bullion.

Mr. OLDFIELD. I supposed the manufacturer in some way got the $10 and $20 gold pieces and melted them up. But you say he can buy the bullion?

Mr. SEAMAN. He takes gold certificates to the Subtreasury and exchanges for bullion.

Mr. RAINEY. What he gets is Treasury bars?

Mr. SEAMAN. Yes, sir. The Trojan Mining Co., for instance, deposits its bullion bars with the United States assay office at Deadwood. They assay them and promptly pay to us their value in a draft on the Treasurer of the United States. They charge us a small sum for handling and refining. Under the law we can either withdraw gold coin or gold certificates or gold bullion in exchange for our draft at any Subtreasury.

The CHAIRMAN. If you take the coin, do you pay the mintage charge?

Mr. SEAMAN. I believe we only pay the express and refining charges.

Mr. COLLIER. Under the McFadden bill, how much is the proposed tax on an ounce of gold to the jeweler?

Mr. SEAMAN. $10 an ounce when the gold is actually sold by the manufacturer.

Mr. CRISP. How would the excise tax paid by the manufacturer help the producer of gold if the tax goes into the Treasury of the United States?

Mr. SEAMAN. The Treasury of the United States continues to pay us at the rate of $20.67 an ounce for the gold we deliver, then out of the amount received by the Treasury from this excise tax it pays the gold miner an additional $10 per ounce.

Mr. CRISP. I can see how if the Treasury were to turn that excise tax over to you, and the Treasury refused to let them buy gold, and they had to buy their gold of you, that it might help you, but what I want to get is, if the Government is going to keep that excise tax and continue to permit the manufacturers to withdraw gold from the Treasury, how does that help you?

The CHAIRMAN. The bill prvides that the money shall be paid back to the gold miners.

Mr. SEAMAN. That is the provision of the bill.

Mr. OLDFIELD. In other words, the Treasury collects the tax from the manufacturers and turns it over to you?

Mr. SEAMAN. Yes, sir; to the extent we deposit our bullion output.

Mr. RAINEY. If this excise tax of $10 an ounce is paid on gold, then the manufacturer who withdraws the jeweler's bars would have to pay $30.67?

Mr. SEAMAN. No; not that. He pays only $20.67 for his bars, but when that appears in manufactured form for sale then this excise tax of $10 per ounce of gold content automatically attaches to that article. We have a free gold market absolutely.

It makes no difference where the manufacturer obtains his gold, whether from old jewelry, old coin or mint bars, from Mexico or South Africa, the tax is not imposed until after it is actually manufactured.

Mr. RAINEY. If you should sell to the jewelers for a trifle less than the price they are compelled to pay at the mint, plus the tax they are supposed to pay when they sell their products, would not the jewelers buy of you altogether?

Mr. SEAMAN. Oh, no; gold has but the one price. They can buy gold bullion from the mint at the free market price of $20.67 per fine ounce: they do not pay this tax until after the gold is actually worked up into an article for sale.

Mr. RAINEY. Then they do not pay the tax until after the article is sold by them—they account for $10 an ounce when it is sold?

Mr. SEAMAN. That's it.

Mr. RAINEY. So that in the end it costs them $30.67?

Mr. SEAMAN. Yes, sir; that's the base price to them, and to that they, of course, add their manufacturing costs and their profit. But unless and until they sell the manufactured article they do not pay the $10 at all.

Mr. RAINEY. If they can buy from you for $28 an ounce, what reason would they have for——

Mr. SEAMAN. Not possible. We only get $20.67 and that is all they pay for gold. Why pay us $28.67 when they can buy from the mint for $20.67 and get all they want? We have an absolutely free gold market.

Mr. RAINEY. But before they get it off their hands it costs them $30.67 under this bill?

Mr. SEAMAN. Not until it is worked up and sold. The Government stamp is affixed to the manufactured article.

Mr. RAINEY. The tax would apply whether they bought from the Government or from you?

Mr. SEAMAN. It would be immaterial from what source the gold came.

Mr. COLLIER. How is the tax going to be distributed to the gold miners? I understand there are a great many of you, and here are the jewelers all over the country. What is the method of distribution?

Mr. SEAMAN. The gold miner takes his mill bars to the United States Assay Office. They pay us for them. That is one transaction. Then some agency of the Government would determine the amount of virgin gold actually produced by each miner and upon that certificate he would collect his $10 per ounce. That's the second transaction.

Mr. COLLIER. On a pro rata arrangement?

Mr. SEAMAN. It is just so much per ounce for the gold deposited.

Mr. OLDFIELD. They would know exactly what they received from you and then they would figure the percentage and give it to you?

Mr. SEAMAN. Yes, sir; the machinery is very simple.

Mr. WATSON. Have you made an estimate of the amount of revenue to be derived from this bill?

Mr. SEAMAN. If you will please permit Mr. Lawrie, the economist of the American Mining Congress, to answer that question. He has the absolute figures.

Mr. WATSON. Suppose this plan fails; what practical suggestion have you to offer?

Mr. SEAMAN. None. The mines must close. The relief must come very soon.

Mr. WATSON. This is the only plan then that can be carried through?

Mr. SEAMAN. The only one I know of. It is equitable. Neither the manufacturer nor the public can object to paying something like the cost of producing the gold.

Mr. HADLEY. What have you to say as to the wisdom or necessity of collecting this tax from the manufacturer on the manufactured product, as against its collection upon the bullion at the time it is purchased?

Mr. SEAMAN. I do not just understand the question.

Mr. HADLEY. That question was propounded to the previous witness as to why it was proposed to levy the tax upon the manufactured product rather than to collect it from the manufacturer when he buys the bullion.

Mr. SEAMAN. Simply because he would not be obliged to pay until he sells. It is the most equitable method all around I can think of.

Mr. HADLEY. You think, then, no difficulty would be encountered in determining the amount of the tax to be collected from the manufacturers?

Mr. SEAMAN. No more so, if as much, as any other tariff provision. They have ample machinery for the purpose in the Treasury Department.

Mr. HADLEY. Your idea is it would be covered sufficiently by regulation so as not to be complicated in any way?

Mr. SEAMAN. Yes, sir; it is positive and known and in very few hands.

Mr. RAINEY. The dentists are very much opposed to this bill. Have you anybody who knows about the amount of gold that finds its way into the dental profession?

Mr. COLLIER. Does not this except the dentists?

Mr. SEAMAN. No, sir; the McFadden bill does not except anybody that uses gold in the arts for any purpose; the dentist has no license to profiteer at the expense of the gold producer—to buy his raw material at less than it costs to dig it out of the ground.

Mr. COLLIER. Have there not been several bills introduced on this?

Mr. SEAMAN. There may have been, but the McFadden bill is the only one I know of.

Mr. COLLIER. Was it not proposed in one of the original bills introduced to exempt dentists at one time?

Mr. SEAMAN. Not that I know of, but possibly so.

Mr. COLLIER. I thought I had seen one that excepted them.

Mr. SEAMAN. I desire to briefly speak my mind upon another phase of this question, distinct from its mere industrial side. I refer to its monetary aspect. As I view it, it is not only the solemn duty of our Government to maintain in every honorable way our own Government upon a sound money basis, but to assist as well our debtor nations to honorably redeem their obligations to us in the express terms of those obligations. Even the prospect of repudiation would not be wholesome.

England and the United States together produce the great bulk of the world's supply of gold. France, Germany, and Japan produce very little. Japan sensed the World's War far sooner than did the United States. Her statesmen were quick to realize that without gold a nation at war was at a tremendous disadvantage. Before we in America woke up to the fact, Japan had skillfully taken from us in one way or another many millions of our stock of the yellow metal. Her silks, her teas, her porcelains—everything she had in salable merchandise, other than war materials—was forced upon us at bargain-counter rates where necessary. Her trade balances of every kind and character were energetically collected by her people in actual gold, and this gold found its way into the war chest of the Mikado's Empire. Japan was not alone in this forehandedness. Straightway we became aware of this insidious drain the Treasury substantially commandeered what actual gold there was left in the country, placed an embargo upon the export of gold, forced the producers of gold—the miners of gold, if you please—to sell only to the Government, and then begged the miners to speed up their production in order that this Government might have the wherewithal with which to buy from Chile her nitrates, from Russia her platinum, from Bolivia her tin, and so on down the line of those absolutely essential things we did not possess, but without which no nation, however strong she might be in mere man power, could hope to long maintain herself as a belligerent.

As the war progressed it gradually dawned upon us that we were in the midst of a titanic struggle for world domination. It meant either "Deutschland Uber Alles," including our own very existence as a free Nation, or else we of the United States must fight to the last ditch. The sleeping giant awoke to its awful responsibilities. We did fight, and we bled, and it was the outpouring of our wonderful resources in men and material and credit that finished the war. We financed ourselves by borrowing from our own people some twenty billions of money. We loaned to our allies ten billions. Every dollar of these gigantic obligations, both domestic and foreign, are expressly repayable in gold coin of the United States of the present weight and fineness. Thirty billions! And there are only nine billions of actual gold in the whole world with which to redeem these pledges. Of this amount the United States possessed one year ago $3,000,000,000, or one-third of all the gold in the world. To-day we have lost $500,000,000 of this, and in a year hence we will probably lose as much more.

The governors of our Federal reserve bank feel that in order to be safe they must have at least 40 per cent of their note obligations in actual gold. The international gold cover is far below that figure. Is it thinkable that the Government of the United States will not do its utmost to maintain the production of gold from its own mines to help augment the world's supply of gold? Would she knowingly become a party to the downfall of the gold-mining industry of the country by failing to come to its relief, particularly when the way is open, without doing harm to any other interests? The relief we ask is in no way in derogation of the gold standard, but directly in aid of the gold standard. The McFadden bill is designedly framed with two purposes in view—to fortify the gold standard and to tide the gold-mining industry over a period of depression and wastage, to which the Government indirectly and unwittingly has itself been a party.

The integrity of the Nation is at stake. The confidence of our people in the gold standard must not be shaken. The gold miner produces the product that is both a commodity for industrial purposes and a standard of value for monetary purposes—both nationally and internationally. The excise tax asked by the gold miner to tide him over war-time costs of production by no means places a premium upon gold. It in no possible way interferes with the monetary standard—that remains at $20.67 per ounce. But it does cause those who use gold as a commodity in their manufactured product to pay something like a fair price for their raw material. Thereby a great and essential industry—that of the mining of gold—will be preserved to the Nation against its time of need. At the same time a simple act of justice will be done to an industry where the Government in time of war embargoed its output and in peace time by indirection restricts the price of its product, inasmuch as the Treasury Department maintains an open market for the sale of that product for manufacturing purposes at less than the present cost of its production. We have faith that the Congress of the United States will remedy this injustice by granting the relief we ask.

STATEMENT OF MR. H. N. LAWRIE, ECONOMIST, AMERICAN MINING CONGRESS.

Mr. LAWRIE. Mr. Chairman, I have no formal statement to make before this committee. I have put in four years' time studying the situation from every angle, and I have a great many of the facts pertaining to this subject at my command, and I would like preferably to put myself at your disposal and have the members of the committee ask any questions they desire to know about specifically.

Mr. RAINEY. I wish you would talk about this gold that is used by the dentists.

Mr. LAWRIE. I have been in close touch with a man who understands the dental business very thoroughly and obtained his advice in the formulation of these exemptions that you find in this act with reference to restorative appliances to be used in the mouths of children. These restorative appliances sustain a loss by the abrasion only, and the appliances are not destroyed. The amount of gold that goes into the dental industry does not amount to a great deal in the total. Probably $5,000,000 would be the total amount consumed yearly in that way. About 5 per cent of that, it is estimated, goes into fillings, and the balance of it goes into bridges and plates and crowns. It has been estimated by Mr. Louis T. Weinstein, who operates a dental research laboratory in New York, that the average restorative appliances, so-called, and bridges, would consume about a pennyweight of gold on the average, or 50 cents, in the terms of this excise, per tooth.

The matter of making the regulations has been left to the Internal Revenue Department, so as to protect the public interests and at the same time to make it as simple to collect as possible. And it is believed the department will in their regulations specify something in the nature of 50 cents a tooth, because it is almost impossible for the dentists to estimate the amount of gold contained in a filling.

Mr. RAINEY. What do you think about exempting them?

Mr. LAWRIE. I see no reason why they should be exempted from the payment of the cost of production of the raw material which they use. It would not be equitable.

Mr. HAWLEY. The amount of gold that goes into the repair of teeth, in comparison with the charge made, is a very small percentage?

Mr. LAWRIE. It is very small. And the same way in the manufacture of jewelry, the amount of gold is a very small per cent of the total cost of the product, if precious stones are included in the article, for instance.

Mr. HAWLEY. We have heard so far here about the mines of South Dakota. Are the conditions that prevail there repeated in all of the other mining sections of the country?

Mr. LAWRIE. They possibly are still more severe in Alaska, which is more remote from the labor market. Right now they are experiencing a good deal of difficulty about that.

Mr. HAWLEY. What about the Treadwell mine up there?

Mr. LAWRIE. The Treadwell mine had a cave-in in 1917. I know the property is not operating now.

Mr. HAWLEY. What about the mines in Colorado; are any of them operating at the present time?

Mr. LAWRIE. A few of the very high-grade properties are still operating on a reduced scale awaiting result of this measure; otherwise I have definite information they are going to shut down.

Mr. HAWLEY. What about the gold coin on Bull Hill mine in the Cripple Creek district, and other mines?

Mr. LAWRIE. That is one of the properties I refer to.

Mr. HAWLEY. Are they still operating?

Mr. LAWRIE. They are still operating, but they are high-grade properties.

Mr. TIMBERLAKE. They are operating at a very great loss and I think we have a gentleman here from California who is familiar with the conditions of those mines, and who will corroborate the statement of the gentlemen of South Dakota.

Mr. LAWRIE. I have been in touch for some time with all the gold producers in the United States and have watched them close down, and they positively can not continue unless relief is had and that almost immediately.

Mr. HAWLEY. What per cent of the total production is closed down now?

Mr. LAWRIE. We can not judge by the number of mines in the country that have shut down.

Mr. HAWLEY. I mean in per cent of the entire normal production.

Mr. LAWRIE. The production has declined from $101,000,000 in 1915 to $58,500,000 in 1919, which means that 42 per cent of the capital investment in the gold-mining industry has been rendered unremunerative, because they are shut down and not operating to-day. And some of those plants are rapidly disintegrating. Some of those plants that shut down were plants that were operating on a very narrow margin of profit, which shut down in 1916, others in 1917, others in 1918, and others in 1919, as the purchasing power of the dollar gradually became a great deal less.

Mr. HAWLEY. What per cent of the mines now operating will have to shut down in the coming year unless relief is granted?

Mr. LAWRIE. I have estimated from the facts presented by producers with reference to mines that are about to close down that the production will not be over $40,000,000 this year, unless substantial relief is rendered of this nature.

One of the gentlemen asked a question with reference to the imposition of this excise tax on the bullion. That would immediately establish a premium gold market and that is one thing we desire to obviate and have obviated in this bill. While some people urge that there is only a sentimental reason for maintaining a free gold market, at the same time we are a creditor Nation and it is our desire that we should continue to maintain a free gold market.

Mr. HADLEY. I will say the only reason I asked that question was to develop a little more clearly in the record the reason you had in mind.

Mr. LAWRIE. That is the specific reason, and the manner in which that is protected here in this act takes away any objections to it, because we maintain a free gold market.

With reference to the technicality brought up on the revenue side, an excise, of course, merely gives the consumer of gold in the arts and trades an opportunity to pay more nearly the cost of production of his raw material; so that you are not imposing any great burden on the industry when you call upon it to pay for the cost of production of its raw material. But if it will serve better the legal requirements of the situation, I would suggest the insertion of "for revenue" between "excise" and "upon," in the fourth line of the preamble of the bill, which would then read:

To provide for the protection of the monetary gold reserve by the maintenance of the normal gold production of the United States to satisfy the requirements of the arts and trades by imposing an excise for revenue upon all gold used for other than monetary purposes, and so forth.

Mr. HAWLEY. You would have to say "for revenue and other purposes," otherwise the whole tax will go into the Treasury and could not be paid out without specific appropriations.

Mr. LAWRIE. For revenue and other purposes.

The CHAIRMAN. The effect of this bill, if enacted into law, would be this, that the consumer of gold in manufacturing would pay a little more for his gold, but it would enable the men engaged in the production of gold to produce more gold.

Mr. LAWRIE. To satisfy his requirements.

Mr. TIMBERLAKE. He would not pay any more than $20.67 for his gold?

The CHAIRMAN. He would have to pay his excise when it is manufactured. If this would enable the Treasury Department to help out the producer of gold so that there would be cost for him or a profit in it, it would stimulate the production of gold. That is the object of the bill?

Mr. LAWRIE. Yes. According to the American Bankers' Association resolution, it is to stimulate production in an amount sufficient to satisfy the industrial requirements so as to protect the monetary gold reserve from the present drain by diversion of the monetary gold stock to industrial use.

The CHAIRMAN. And it would only increase the cost of an article that is really a luxury?

Mr. LAWRIE. Yes; it would, but not in proportion to the present market price, by any means.

The CHAIRMAN. No; I understand; but whatever that cost would be, it would only add to the cost of the article which is very largely a luxury?

Mr. LAWRIE. It is very largely in line with what the Federal Reserve Board has already initiated; they are restricting credit for the manufacture of luxuries. They recognize that as one of the ways in which we may more quickly get back to normal conditions. And in imposing this tax, it is borne only by the consumers of the luxury itself and is not a tax upon the general public.

The CHAIRMAN. In the last calendar year we lost in gold, in this country, in exports—that is, the exports exceeded the imports of gold, in round number, $150,000,000—it was $149,000,000, and some odd thousands.

Mr. LAWRIE. $292,000,000.

The CHAIRMAN. That gold largely went to the South and West and to the Orient?

Mr. HAWLEY. Do you propose this tax shall be imposed upon imported jewelry?

Mr. LAWRIE. An excise operates upon foreign-made products sold in this market, automatically.

Mr. HAWLEY. So that whatever is paid by the local manufacturer will also be paid by the importer?

Mr. LAWRIE. Yes. It establishes a perfect balance, an equally between the domestic and foreign manufacturer.

Mr. HAWLEY. So that we will not be aiding industries abroad?

Mr. LAWRIE. No, sir.

STATEMENT OF MR. FRANK W. GRIFFIN, VICE PRESIDENT NATOMAS CO. OF CALIFORNIA, SAN FRANCISCO.

Mr. GRIFFIN. In answer to the question asked Mr. Seaman whether or not the conditions he described as existing in South Dakota, applied to California, I state that they do. His description fits the case of the gold-mining industry generally in the United States. California is the leading gold-producing State. About 55 per cent of the production of California is derived from lode mining and 45 per cent from placer deposits. The greater part of the placer gold comes from the operation of dredges.

The idea many people have that gold mining is a business wherein the hazards are great and the returns either nothing or very large is erroneous. It is a highly scientific, soundly established industry, wherein the risks are reduced to a business basis and the successful conduct of the industry calls for the most careful, detailed management. The amount of capital involved is very large and the return on this capital is no greater in normal times than in a manufacturing business. Of course, in exploration work the hazard is great, but I am speaking of developed, producing mines.

Most of the gold produced comes from properties where the ore or placer is of low grade. These low-grade properties must be operated on a very large scale to insure a profitable return, and involve the installation of expensive, big-capacity plants. If such a property is forced to close down, it falls rapidly into decay. In many instances it never can be opened again. Even those mines that can be rehabilitated involve severe economic losses in the process. For this reason many mines which under the present conditions are unprofitable are still kept at work.

Gold mining is in such a precarious condition to-day, first because the price at which gold must be sold is fixed, no matter what the supply or demand, at $20.67 per fine ounce. Second, labor, material, power, and every other factor that goes into the cost of producing gold, have increased manyfold. It has been argued that these conditions are temporary, and when they return to normal we can again produce gold. While this is true, it is also a fact, that this bill was drawn to meet that very contingency. It provides the necessary aid to permit the continued production of gold, and to prevent permanent injury that would otherwise be done to the industry during this transition period. Provision is made in the act for reducing the excise and premium in accordance with the appreciating purchase power of the dollar as economic conditions become normal.

Gold mining is a wasting industry, and there is but one crop of ore. Therefore, if the production of gold is to be maintained, constant exploration work and development work must be done. In the stoppage of this work lies the greatest menace to the future production of gold.

The problems confronting the gold-dredging industry are typified by those of my company, the Natomas Co., of California. We handle about 24,000,000 cubic yards, equivalent to about 36,000,000 tons of gravel per year. We employ only about 400 men. Labor represents 23 per cent of our cost, wages have increased 70 per cent, materials 128 per cent, power 36 per cent. Our wages run from $4 to $8 per day. We have installed a bonus system granting 10 per cent increase in pay for three months' continuous service.

In 1914 we operated 14 dredges, valued at $3,500,000, and produced 127,500 fine ounces of gold or $2,637,000, at a cost of $15 per fine ounce. In 1919 we operated 11 dredges and produced only 89,017 fine ounces or $1,840,000, at a cost of $23 per fine ounce. It is less costly for us to absorb this loss than it would be to close down our plant for taxes, insurance, and deterioration of idle equipment, plus loss of our organization would be greater than this present loss. During the year 1920, three more of our dredges will go out of commission and our production will be proportionately curtailed.

The life of a dredge is about 10 years. When the dredge wears out or works out the particular ground for which it was built, our practice is to rebuild that dredge. But on account of the high cost of such rebuilding to-day plus greatly increased operating costs we can not do it.

Our ground averages about 9 cents per cubic yard.

A dredge which cost $263,000 to build in 1914 would cost $475,000 to-day. Such a dredge with a yearly capacity of 2,200,000 cubic yards and a life of 10 years would use up 250 acres of ground; a minimum return for such ground should be $200 per acre. To return 10 per cent interest on the capital required plus redemption of capital from an annual sinking fund bearing 4 per cent interest, the ground would have to yield 11.5 cents per yard, with the present working cost of 7.2 cents per yard.

As we can not increase the value of the ground about 9 cents, we must defer the building of the dredge until construction and operating charges return to normal, when the investment could be amortized from ground yielding 7.6 cents per cubic yard.

Under the present conditions no new equipment can be added to dredging properties and the gold produced from this source must continue to decline, as only high valued ground can be worked.

In the great mother lode mines of California, many of which are from two to four thousand feet deep, rock carrying $3 to $3.50 per ton was pay ore in 1914. To-day nothing can be classed as ore under $6.

Mr. Fletcher Hamilton, State mineralogist of California, under date of May 24 wires me:

> The State mining bureau is in close touch with mining operations of California through its field engineers, and it is an undisputed fact that gold quartz mining is in a deplorable condition. Production is being maintained by large well-organized companies only. Increased cost of labor, material, and supplies has stopped development work. Depletion of ore bodies in large mines, together with total inactivity of smaller properties, makes the outlook extremely discouraging unless some means of relief are offered in near future.

Another illustration is given in a telegram received by me May 25 from Mr. W. J. Loring, one of the largest California operators:

> Have just closed down gold mine after spending over $1,000,000 doing 17,000 feet development and opening for stoping 600,000 tons. Could not make enterprise pay expenses which under normal conditions would have been profitable. McFadden bill will not only permit my mine resuming operations, but will stimulate development of other mines and prospecting for new properties.

The above telegrams are illustrative of the lode mining condition in California and show why production of gold is decreasing to such an alarming extent.

Confusion may be caused by using as a standard of comparison the present cost of producing a fine ounce of gold.

The statement has been made that the cost of producing gold is in excess of $20.67 per ounce. It would be more nearly correct to say that if the volume of gold production was maintained at the normal level the cost would greatly exceed $20.67 per ounce.

While it is true that much of the gold is at present being produced at a greater cost than $20.67 per fine ounce, and many properties, when depreciation and depletion are considered, are being operated at a loss, it would be erroneous to say all are losing money. But as the only mines that can continue work are those containing high-grade values that can be selected, the amount of gold produced is rapidly decreasing. The cost per ounce is not a proper unit for comparative purposes. For example. Ore returning $4.15 per ton would take 5 tons to produce a fine ounce. The normal cost of mining at $3 per ton would make the cost of prducing the ounce $15. With mining cost at $5 per ton it would cost $25 per fine ounce produced. So the miner can no longer work $4 ore, but must either stop operating or where possible select ore that runs $6.90 per ton, so that 3 tons will produce an ounce, which at $5 per ton cost will make the cost of the ounce $15.

Such selective mining greatly increases the costs and sometimes spells the ruin of a mine and greatly curtails production. Mining must be confined to the comparatively small bodies of higher-grade ore alone. So while the cost per ounce may not be increased, the number of ounces must greatly decrease. Production will continue to fall as the volume of mining is decreased, due to the exhaustion of high-grade ore.

The conditions in Colorado are even more serious than in California, as evidenced by the decline from $22,530,800 in 1915 to $9,736,400 in 1919.

The stoppage of development work and prospecting for new properties, together with the continued closing of mines from exhaustion of high-grade ore, means the ultimate end of the gold-mining industry in the United States.

In my opinion we shall be fortunate if we reach in 1920 the estimated production of $40,000,000.

In the years to follow I believe lies our grave danger unless some remedial steps are taken immediately.

The present gold reserve is much like a comparatively full reservoir from which is being drawn off a much greater volume of water than the feeding streams supply. Instead of using every effort to increase the flow of these supplying streams before disaster comes, they are allowed to decrease without apparent concern. The end is not difficult to forecast.

The question is not one of subsidizing one industry at the expense of another. The unfortunate position of the individual producer of gold is only one of the factors of the problem. The question that must be faced is the sure destruction of the Nation's power to produce gold.

The CHAIRMAN. I will say to the gentlemen, they will be permitted to extend their remarks, and those who have not had an opportunity to address the committee will be given the privilege of filing whatever statements they desire for insertion in the hearings.

(The committee thereupon adjourned.)

ADDENDA.

WASHINGTON, D. C., *May 25, 1920.*

Hon. JOSEPH W. FORDNEY,
Chairman Committee on Ways and Means,
Housse of Representatives, Washington, D. C.

DEAR SIR: As I have heretofore advised you, I am interested in the bills above mentioned, and a representative of my office was present at the hearing held to-day prepared to make a brief statement in support of H. R. 14099. However, he was unable to do so owing to lack of time, and in accordance with the privilege extended by your committee I herewith submit a statement relative to the matter, and respectfully request that it be incorporated in the report of the hearing.

The bill (H. R. 14099) was introduced by Hon. L. W. Fairfield, and, as stated by him at the hearing, he did so at my request. In requesting Mr. Fairfield to introduce this bill and in submitting this statement in support of the bills referred to, I am representing the Abangarez gold fields of Costa Rica, an American company with its executive offices at 17 Battery Place, New York City.

I was notified late yesterday that the hearing would be held. I immediately communicated that fact to the officers of the company in New York, but was advised that it would be impossible to send a representative from New York to be present at the hearing. I am not a practical miner and am not acquainted with all of the details concerning the operations of the company, therefore I must necessarily make my statement somewhat general.

As indicated by the name, the Abangarez gold fields of Costa Rica are producers of gold in the country of Costa Rica. The company is probably the largest producer of gold in Latin-American countries. It is the only exporter of gold of any consequence from Central American mines and the largest exporter of gold from Latin-American countries. The company's output to-day is about $60.000 a month, and now averages about half a million dollars annually. Most of the mines are only trading dollars at the present time, owing to the fact that the cost of production exceeds the price of gold in the case of all except the very high-grade ores. If provision can be made as is sought to be done by bill H. R. 14099, whereby it would be profitable to treat the low-grade ores which it is not now profitable to treat, it is believed that the company's production would be increased to a million dollars annually.

I understand that the company's exports of gold from Costa Rica are imported into the United States and sold to the United States Mint. With the proper development of its mines the company estimates that its sales to the United States Mint in the future will amount to at least $1,000,000 a year.

A statement has been presented to your committee to the effect that the production of gold in the United States during 1919 was approximately $58,000,000. Thus it is seen that the gold produced and imported by this one company bears a very substantial ratio to the entire gold production of the United States.

The purpose of H. R. 13201 is to protect the monetary gold reserve of the United States. To do this it is proposed to levy an excise tax on gold used for other than monetary purposes and out of the fund thus created to pay a premium to the producers of newly mined gold in the United States.

H. R. 14099, introduced at my request, follows almost word for word the language of the other bill, except that the necessary changes have been made so as to make the provisions regarding the payment of the gold premium apply as well to American citizens and corporations producing gold in foreign countries and importing that gold to this country and selling it to the United States Mint. To accomplish that purpose the bill H. R. 14099 changes H. R. 13201 in the following respects: In the title following the word " States," in the third line, the following words are inserted " including gold produced in foreign countries by American citizens or corporations."

On page 3, line 25, following the word " possessions," the following is inserted: " and to American citizens or corporations producing new gold in foreign countries."

On page 4, line 23, after the word " possessions," there is inserted " and every American citizen or corporation producing gold in foreign countries."

And on page 6, line 18, following the numerals "1920," there is inserted "and every American citizen or corporation so producing newly mined gold in foreign countries on and after said date."

I am heartily in favor of the result sought to be accomplished by said bill, namely, the protection of the monetary gold reserve of the United States. There is no question but that unless something is done in this country, the same as has been done in England, to help the production of gold, we will not be able to keep up the gold standard. But the monetary gold reserve of this country is maintained not only by the production of new gold in this country but also by the importation of gold from abroad. It seems to me obvius that it wuld be a mistaken policy for Congress to attempt to stimulate the production of gold in this country without taking similar action to affect the production of gold in fields now supplying this country with gold, because such action would tend ultimately to deplete the domestic sources of supply, which would place this country in a similar position to Great Britain, who, it is said, was forced into the Boer War in her anxiety to control the gold supply.

The same purpose would no doubt be accomplished by so amending the bill H. R. 13201 that it would apply to all newly mined gold produced in the United States or imported into the United States. However, one of the means provided in the bill for stimulating the gold production is to pay a gold premium or subsidy to gold producers; and it is not believed that Congress would favor the payment of subsidies to citizens and corporations of foreign countries. Therefore, the amendments above mentioned are limited to American citizens and corporations.

It is the professed policy of this Government to stimulate American foreign trade, which no doubt includes the investment of American capital in foreign countries, especially in the development of the resources in the American countries to the south of us. It is therefore submitted that to make these suggested changes in the original bill will directly contribute toward the carrying out of the primary purpose of the bill, namely, to provide for the protection of the monetary gold reserve, and will also encourage the development of an American industry abroad as well as the industry in this country.

It might be said that an objection might be raised against so extending the provisions of the bill on the ground that it would be very difficult to provide regulations for such American corporations abroad. It must be borne in mind, however, that the gold premium is not paid at the time of the production of the newly mined gold, but is paid on a certificate issued by the director of the mint when the gold is sold to the mint. The premium is paid only on the gold actually brought to this country and sold to the mint. Therefore there would be no more difficulty in ascertaining the correct amount of the premium than there would be in the case of a domestic mine. In the original bill the matter of determining when and where the domestic gold was produced is determined by the affidavits and certificates of the producer. Surely the officers of American companies operating abroad can be trusted to make as correct affidavits and certifictes as the officers of corporations operating in this country. And if it be desirable to incorporate provisions for the investigation of books, etc., of companies operating in this country, it is very simple to extend the same provisions to companies operating abroad, either by providing for the submission of such books to the American consul or by requiring such books to be submitted to the director of the mint, or other treasury official, before the gold premium certificate is issued.

Objetion might also be raised that it is difficult to determine what are American corporations. That can easily be disposed of either by providing that it shall be governed by regulations to be adopted by the Treasury Department, or by inserting a provision in the bill similar to the provision in the shipping act to the effect that to be deemed an American citizen a corporation must be organized in this country, must have American citizens as officers, and must have a controlling interest in its stocks and securities owned by citizens of the United States.

At the hearing held to-day some question was raised regarding the constitutionality of th bill. I respectfully submit that Congress has the same power to pass this bill for the protection of the monetary gold reserve as it had to pass the bill which is now law limiting the price of gold to $20.67 per ounce. Congress is given power by the Constitution to pass laws for the coinage of money, and is also given the implied power to pass all laws necessary to carry into effect the expressed power. Clearly the power to protect our monetary gold reserve is a necessity incident to the power to coin money, and if Congress sees fit to levy an excise tax and pay a subsidy for the purpose of protecting that monetary gold reserve, it is within its constitutional power in so doing.

To briefly summarize, I therefore respectfully submit:

1. That the situation is such that Congress should take some action to protect the monetary gold reserve, and that the bill, H. R. 13201, is a proper bill for that purpose.

2. That if a gold premium be paid to the producers of gold in this country, a like provision should be extended to American citizens and corporations so producing gold abroad, since such action would assist in carrying out the purpose of the bill and would also promote American foreign trade.

3. That any objections to so extending the provisions of the bill on the ground of the difficulty of administration are without foundation.

4. That Congress will be within its constitutional power in passing such a bill.

Therefore it is hoped that your committee will report favorably the bill H. R. 13201, incorporating the changes sought to be made by the introduction of H. R. 14099.

Respectfully submitted.

WALTER S. PENFIELD.

ADDITIONAL STATEMENT OF H. N. LAWRIE, ECONOMIST, AMERICAN MINING CONGRESS, ON H. R. 13201.

GOLD STOCK OF THE UNITED STATES.

[Charts 1, 2, Table 1.]

The total gold stock of the United States increased from $1,815,976,000 on December 31, 1914, to $3,080,510,000 on December 31, 1918, a gain in four years of $1,264,534,000, or 69.6 per cent. This increase was due largely to the excess of gold imports over exports as a result of the trade balance made favorable by the war exigencies of Europe. Since our entrance into the war, however, and more particularly since the embargo on the exportation of gold was lifted in June of last year, the exports have greatly exceeded the imports of gold, which had reduced the gold stock of December 31, 1918, to $2,787,714,000 on December 31, 1919, a loss of $292,796,000 for the year, or 9.5 per cent.

On December 31, 1914, the gold reserve in the United States held by the Federal reserve banks amounted to 13.3 per cent of the total United States gold stock, while on December 29, 1916, it amounted to 25.7 per cent, and on October 31, 1919, to 70 per cent. During the year 1917 a rapid increase in the Federal reserve gold reserve took place, rising from $736.236 on December 29, 1916, to $1,621.905,000 on December 31, 1917, a gain of $885,669,000 or 120.3 per cent.

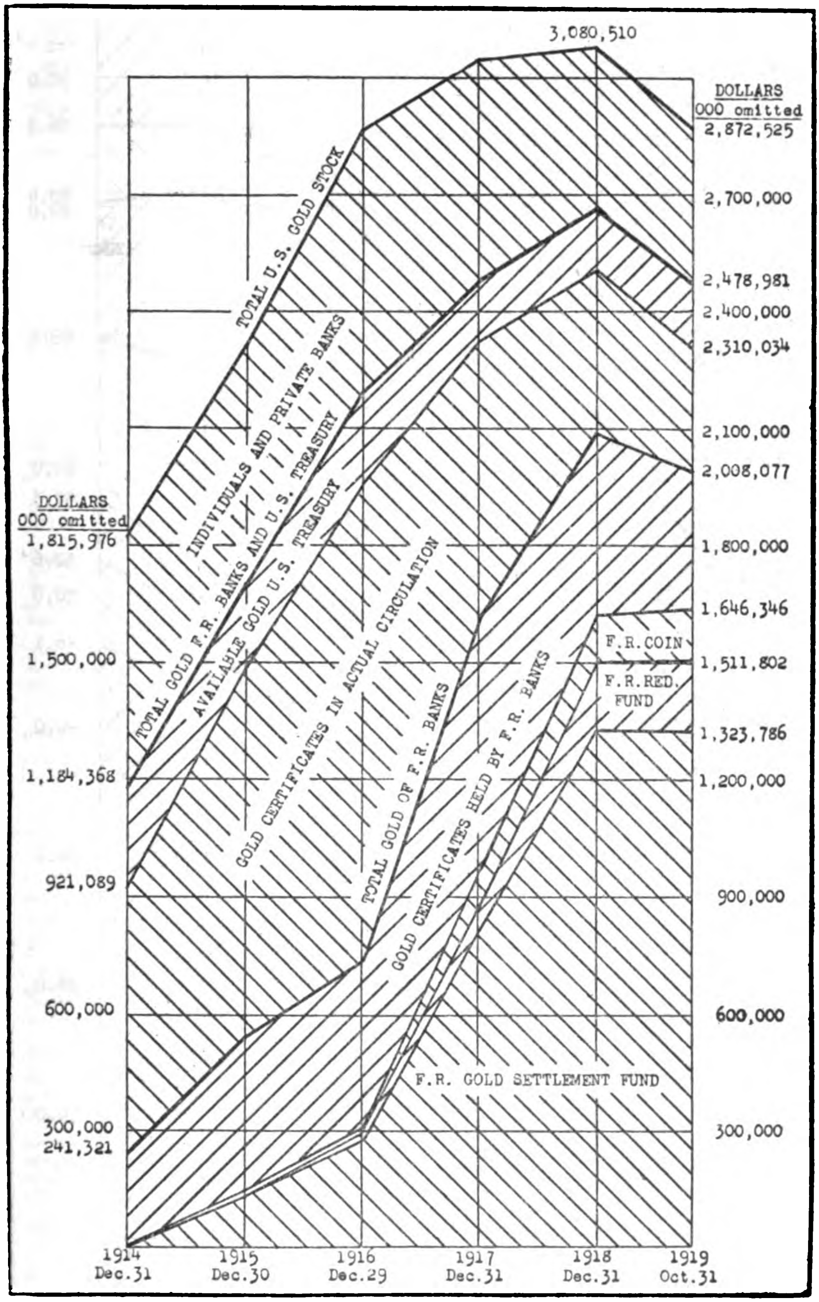
GOLD CERTIFICATE RETIREMENT.

During the same period the gold certificates in actual circulation recorded a correspondingly rapid decline from $1,223,609,000 on December 29, 1916, the maximum circulation, to $700,140,000 on December 31, 1917, an amount of $523,463,000, or 43.8 per cent. Of this amount $302,869,000 was withdrawn from circulation altogether and $229,594,000 was added to the gold-reserve holdings of the Federal reserve banks. With this retirement of the gold certificates from circulation came an increase of $538,335,000 in the Federal reserve gold settlement fund, or 197 per cent, which on December 29, 1916, was $273,050,000, and on December 31, 1917, $811,385,000. A year later, on December 31, 1918, this fund reached an apex at $1,331,911,000, an increase of $520,526,000, almost equal to that of the previous year. While the Federal reserve coin holdings and redemption fund have been expanded for the 10 months eneding October 31, 1919, the gold-settlement fund has declined $8,125,000 and the holdings of gold certificates $103,999,000. On December 29, 1916, the gold certificates in actual circulation amounted to $1,223,609,000, or 42.7 per cent of the entire United States gold stock, and on October 31, 1919, to but $301,957,000, or 10.5 per cent.

The United States Treasury holds sufficient available gold (from $150,000,000 to $250,000,000), free from all encumbrances, wherewith to meet an emergency demand. For it to hold more idle gold would be to entail a heavy loss of interest, while it may be used so profitably in the channels of industry and commerce.

FLOATING GOLD DIMINISHES.

On December 29, 1916, the gold outside of that held by the Treasury and Federal reserve banks (in the hands of individuals and private banks)



amounted to $669,550,000, or 23.4 per cent of the total United States gold stock. This was the high point, from which this item had progressively

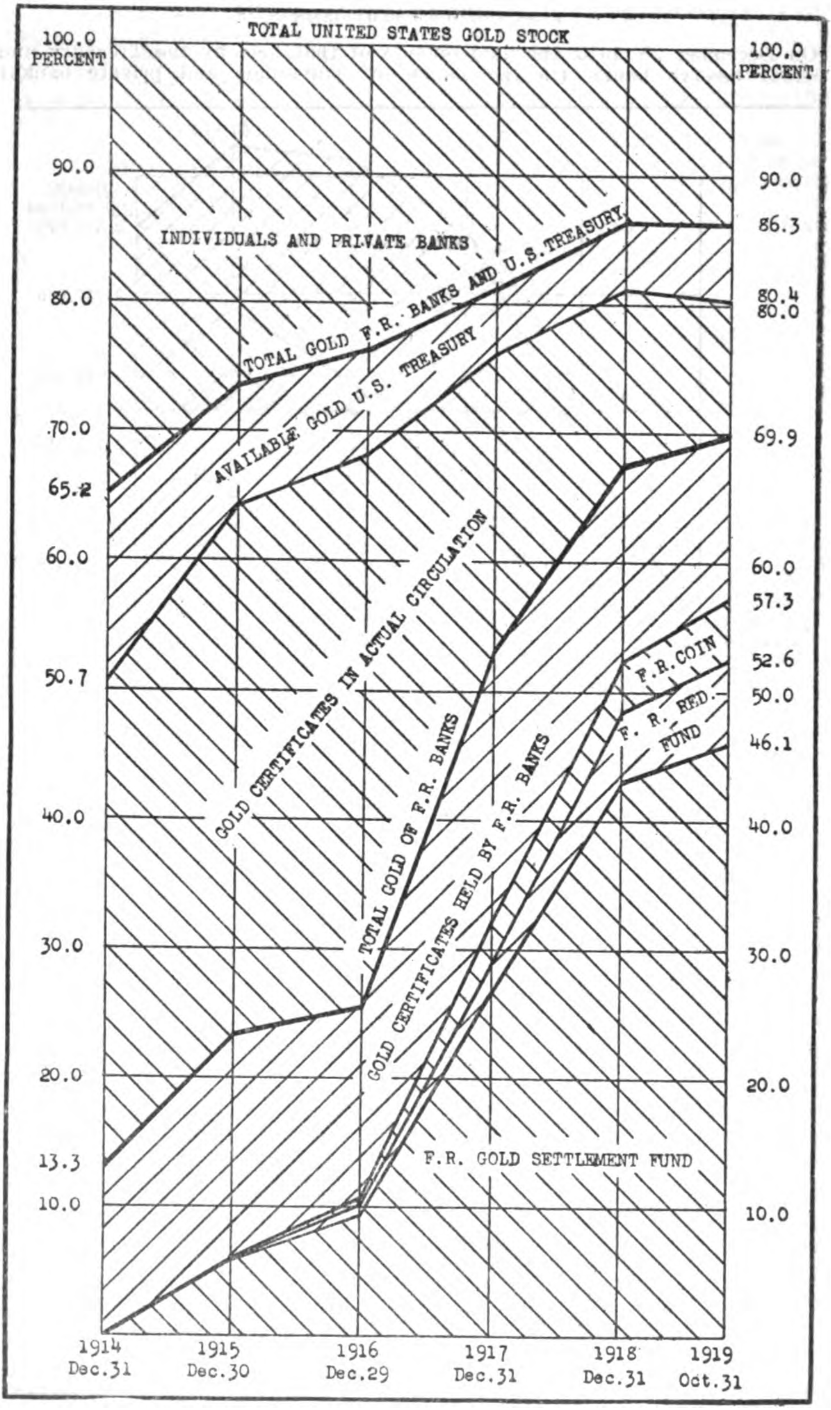


CHART 2, TABLE 1.—Percentage disposition of gold stock of United States.

declined to $393,544,000 on October 31, 1919, a reduction of 41.2 per cent, or to 13.7 per cent of the total gold stock, the Treasury and Federal reserve banks holding the balance of 86.3 per cent. This indicates how successfully and rapidly the floating gold in the country has been brought under Government control. There is now, however, so small an amount of gold outstanding that the possibilities of still further augmenting the Federal gold reserve from this source are more limited.

The gold stock of the British Empire is being augmented by new production from its mines, which in 1918 amounted to $250,000,000, while the gold stock of the United States in 1919 was depleted by consumption of gold in manufactures and the arts in excess of domestic production. Even as a creditor nation this depletion should not be allowed to continue.

TABLE 1, CHARTS 1 AND 2.—*Dollar and percentage disposition of the gold stock of the United States.*

[Computed from United States Treasury and Federal Reserve bulletins; 000 omitted.]

Gold coin and gold bullion held by—	Dec. 31, 1914.		Dec. 30, 1915.		Dec. 29, 1916.	
	Dollars of gold.	Per cent of total.	Dollars of gold.	Per cent of total.	Dollars of gold.	Per cent of total.
United States Treasury for Federal reserve banks as gold-settlement fund	....	....	134,153	5.80	273,050	9.53
United States Treasury as redemption fund against Federal reserve notes	371	0.02	1,773	.07	17,079	.60
Federal reserve (vaults)	....	....	[1] 12,046	.52	20,689	.72
United States Treasury to redeem gold certificates held by Federal reserve banks	[2] 240,950	13.27	[3] 394,440	17.06	425,418	14.85
Total gold reserve in United States held by Federal reserve banks	241,321	13.29	542,413	23.45	736,236	25.70
United States Treasury to redeem gold certificates in actual circulation	679,768	37.43	946,496	40.93	1,223,609	42.71
United States Treasury as available gold	263,279	14.50	214,608	9.28	235,447	8.21
United States Treasury and Federal reserve banks	1,184,368	65.22	1,703,517	73.66	2,195,292	76.62
Individuals and private banks exclusive of gold certificates (6)	631,608	34.78	608,927	26.34	669,550	23.38
Total gold stock of United States	1,815,976	100.00	2,312,444	100.00	2,864,842	100.00

Gold coin and gold bullion held by—	Dec. 31, 1917.		Dec. 31, 1918.		Oct. 31, 1919.	
	Dollars of gold.	Per cent of total.	Dollars of gold.	Per cent of total.	Dollars of gold.	Per cent of total.
United States Treasury for Federal reserve banks as gold-settlement fund	811,385	26.68	1,331,911	43.23	1,323,786	46.08
United States Treasury as redemption fund against Federal reserve notes	60,789	2.00	169,577	5.50	188,016	6.54
Federal reserve (vaults)	103,719	3.41	119,115	3.87	134,544	4.73
United States Treasury to redeem gold certificates held by Federal reserve banks	646,012	21.25	465,630	15.12	361,731	12.59
Total gold reserve in United States held by Federal reserve banks	[4] 1,621,905	53.34	[5] 2,086,233	67.72	[6] 2,008,077	69.94
United States Treasury to redeem gold certificates in actual circulation	700,146	23.02	419,682	13.62	301,957	10.51
United States Treasury as available gold	148,442	4.88	157,662	5.12	168,947	5.88
United States Treasury and Federal reserve banks	2,470,493	81.24	2,663,578	86.46	2,478,981	86.33
Individuals and private banks exclusive of gold certificates (6)	569,946	18.76	416,932	13.54	393,544	13.67
Total gold stock of United States	3,040,439	100.00	3,080,510	100.00	2,872,525	100.00

1 Gold coin held by banks only.
2 Contains small amount gold coin and bullion.
3 Includes small percentage of gold coin held by agents.
4 Excludes gold coin held by foreign agents, $52,500,000.
5 Excludes gold coin held by foreign agents, $5,829,000.
6 Excludes gold coin held by foreign agents, $129,923,000.

EXPANSION OF FEDERAL RESERVE NOTE CIRCULATION.

[Chart 3, Tables 2, 3.]

The process of withdrawing the gold certificates from circulation and placing either the certificates or the gold released to the reserve credit of the Federal reserve banks, which took place during 1917, is more effectively illustrated by the fact that of the total gold certificates and Federal reserve notes in circulation the gold certificates amounted to 81.6 per cent on December 29, 1916, while they amounted to but 36 per cent on December 31, 1917. This process has since continued, so that on October 31, 1919, the percentage of gold certificates in circulation amounted to 9.9 per cent and the Federal reserve notes in circulation to 90.1 per cent.

The per capita gold certificate circulation increased from $6.801 on December 31, 1914, to $11.847, or 74 per cent, on December 29, 1916, the highest point. The Federal reserve note circulation on the same date was $2.666 per capita and the gold cover was $1.91 for every Federal reserve dollar in circulation, while the gold cover of the gold certificate is always 100 per cent. On December 31, 1917, however, the early effect of credit and currency expansion to satisfy war requirements is shown by the fact that the amount of gold certificates in circulation had fallen to $6.639 per capita, or nearly 50 per cent, and the Federal reserve notes in circulation had increased to $11.871 per capita, an increase in the combined circulations of nearly 28 per cent. The Federal reserve note gold cover on that date was 97 cents in gold bullion.

GOLD COVER.

During the year 1918 came the peak of the load of war finance, with its consequent credit expansion. The effect was still further to force the gold certificates out of circulation and into the gold reserve of the Federal reserve banks, where, under the elasticity of the Federal reserve act, it could be combined with high-grade securities, based upon the actual production of the country, and thus become the basis upon which the currency, in the form of Federal reserve notes, could be expanded.

The gold certificates in circulation had declined from $6.639 per capita on December 31, 1917, to $3.932 on December 31, 1918, or 40 per cent, and the Federal reserve notes had expanded from $11.871 per capita to $25.158, or 112 per cent. On December 27, 1918, there were $2,685,244,000 of Federal reserve notes in circulation, with a gold cover of 60 cents for every Federal reserve dollar. The Federal reserve note circulation increased for the 10 months ending October 31, 1919, by $67,632,000 and the gold cover declined to 57 cents. On December 26, 1919, two months later, the Federal reserve note circulation had expanded to $3,057,646,000, an amount of $304,770,000, or 10 per cent, which, coupled with the decline in reserves, forced shrinkage in the gold cover of the note to 50.3 cents, or approximately 11.61 grains of gold per dollar. The Federal reserve act requires that 40 cents in actual gold be held in reserve against every Federal reserve dollar note in circulation, so that there is still a margin of 10 cents in the gold cover from the legal limit. While the currency is readily redeemable in gold at par, and is, therefore, sound, it is apparent that here lies a definite limitation to the possibilities of further expansion in the note circulation. At the present rate of gold exportation the gold reserves will be substantially reduced this year, and, therefore, to maintain the present gold cover of the Federal reserve note, it will become necessary to contract the note circulation.

INFLATION CAUSE AND NOT EFFECT OF HIGH PRICES.

The expansion of our credit structure, involving, as it has, an expansion in the volume of currency in circulation, has contributed largely to the depreciation of the purchasing power of the dollar. This fact is demonstrated by the following index numbers of wholesale prices in the United States for all commodities, as estimated by the Bureau of Labor Statistics and based upon the average price for 1913 as 100:

December:	
1914	97
1915	105
1916	146
1917	181
1918	206
October, 1919	223

There is no limit to the amount of credit and currency that can be absorbed on a rising price market for the reason that every increase in the amount of credit created or currency emitted is absorbed by a further increase in commodity prices. It is also true that an inflation in the volume of credit and currency beyond the actual requirements of industry operates, first, to discourage thrift by the destruction of savings; second, to decrease the per capita output and thereby decrease aggregate production; third, to increase the demand for all commodities by competitive bidding; fourth, to divert capital and labor from the production of essentials to the production of nonessentials, and by this process still further to accelerate the increase in prices of living necessaries; and fifth, to develop an artificial plane of living not conducive to health, happiness, and prosperity. To the depreciation in the purchasing power of the dollar is due largely the great variation in compensation for the services rendered by different groups of our people during the past four years. These inequalities have become more accentuated and oppressive as the prices of commodities have risen, and during the past year the burden has become unbearable to a large percentage of the population.

DEFLATION THE CURE.

It has been authoritatively stated that, while the value of raw materials and manufactured articles produced during the year 1919 was the greatest in the history of the country, the physical volume proved to be smaller than any year since 1916. This and other symptoms which have been prevalent for some time past confirm the fact that inflated credit and currency have been fundamentally the cause and not the effect of high prices. The cause can be removed only by contracting the credit structure and correspondingly decreasing the volume of currency in circulation. To contract credit without contracting the currency will accentuate these ills by increasing purchasing power beyond the limits actually required for production, leaving a surplus for free spending and speculation. This process of contraction should operate gradually over a number of years in order to permit industry to adjust itself to the changing conditions without loss of production.

FOREIGN DEMAND FOR GOODS MUST BE MET.

The increased foreign demand upon our productive resources, as evidenced by the large volume of our exports during 1918, exercised some influence in forcing prices up. The effect of this increased demand in prices was accentuated by a decrease in production during 1919 which resulted largely from the inflation of credit and currency and shorter hours of work with less output per hour. A suggestion has been made that we should limit our exports to Europe, with a view to increasing the available supplies in this country and thereby lower prices. At this time such a policy is shortsighted from a business standpoint and does not measure up to our humanitarian, political, or economic standards. The progressive American way to solve the problem of lowering prices is to compensate for the influence of inflation by a broad public accommodation to deflation by liquidating loans and paying bills to relieve the banks of the burden, working harder and longer hours, buying less nonessentials and only the required living necessaries, consuming all things without waste, and introducing machinery to increase per capita output, especially in the farming industry, whence comes the fuel to operate the human engine of the Nation.

PREMIUM TO OFFSET LOSS OF PURCHASING POWER.

The man with an income of $2,000 in 1914 found, on October 31, 1919, that this income had automatically been reduced in purchasing power to $870 in terms of all commodities. The economic stress upon the gold-mining industry is precisely the same as upon the man with a fixed income over this period, for the reason that the price of gold has remained stationary at $20.67 per ounce, while its purchasing power had declined, in accordance with the above index numbers, from $21.31 in December, 1914, to $9 in October, 1919. To this extent the price of commodities has become disassociated from the gold standard.

Gold stands alone as being the one commodity the price of which has not advanced, while the prices of all other commodities have advanced to an amount commensurate with the cost of their production. The gold-mining industry will be completely shut down if forced to await the gradual process of readjustment while the dollar is regaining its purchasing power, and consequently temporary

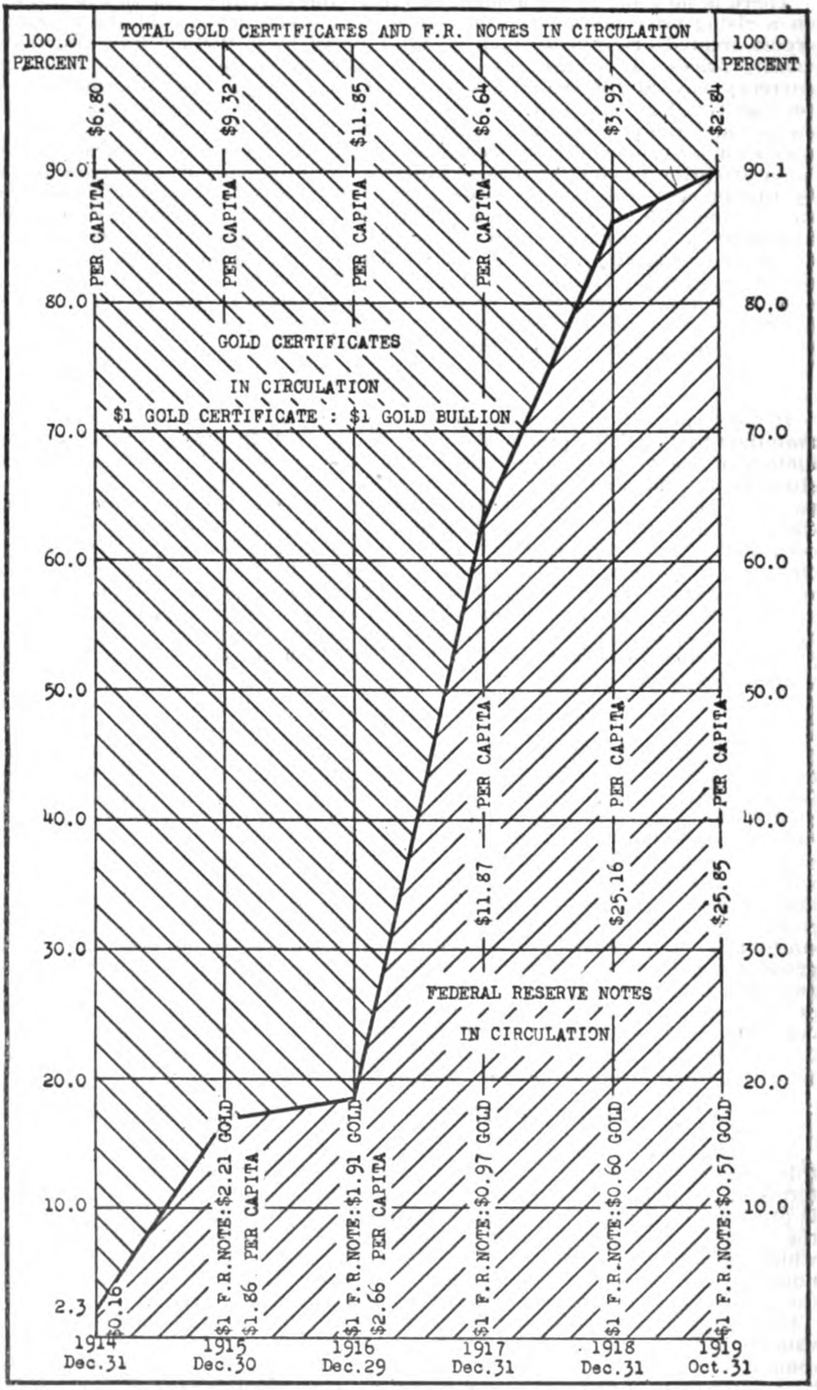


CHART 3, TABLES 2 AND 3.—Ratio of gold certificates to Federal reserve notes in circulation, amounts per capita, and the gold cover of the Federal reserve note.

means must be provided for adjusting this economic equation so as to maintain the normal production of new gold. If a man's prewar income is not sufficient for him to maintain himself and family it must be increased so as to make it possible for them to live. In the same way the gold miner must receive an increased amount for his product which will enable him to produce the metal.

TABLE 2, CHART 3.—*Ratio of gold certificates to Federal reserve notes in circulation and amounts per capita.*

[Compiled and computed from United States Treasury reports and Federal Reserve bulletins. 000 omitted.]

Date.	Gold certificates in circulation.	Federal reserve notes in notes in circulation.	Total gold certificates plus Federal reserve notes in actual circulation.	Percentage of gold certificates to total.	Percentage of Federal reserve notes to total.	Population of United States.	Per capita gold certificates in circulation.	Per capita Federal reserve notes in circulation.
Dec. 31, 1914...	$679,768	$16,027	$695,795	97.70	2.30	99,875	$6.801	$0.160
Dec. 30, 1915...	946,496	189,026	1,135,522	83.35	16.65	101,577	9.318	1.863
Dec. 29, 1916...	1,223,609	275,353	1,498,962	81.63	18.37	103,287	11.847	2.666
Dec. 31, 1917...	700,146	[1] 1,246,488	1,946,634	35.97	64.03	105,006	6.639	11.871
Dec. 31, 1918...	419,683	[2] 2,685,244	3,104,927	13.52	86.48	106,733	3.932	25.158
Oct. 31, 1919....	301,957	2,752,876	3,054,833	9.88	90.12	106,481	2.835	25,853

[1] Dec. 28. [2] Dec. 27.

TABLE 3, CHART 3.—*Ratio of the gold cover to the dollar of Federal reserve notes in circulation.*

[Compiled and computed from Federal Reserve bulletins. 000 omitted.]

Date.	Total reserves.	35 per cent of total net deposits.	Gold reserve held against Federal reserve notes after setting aside 35 per cent against net deposits.	Federal reserve notes in circulation.	Ratio of gold cover to the dollar of Federal reserve notes in circulation.	Ratio of the gold dollar to the Federal reserve notes in circulation.
Dec. 31, 1914..................	$267,899	$89,606	$178,293	$16,027	$11.12:$1	$1:$0.09
Dec. 30, 1915..................	555,938	137,986	417,952	189,026	2.21: 1	1: 0.45
Dec. 29, 1916..................	753,774	227,733	526,041	275,353	1.91: 1	1: 0.52
Dec. 28, 1917..................	1,720,768	510,298	1,210,470	1,246,488	0.97: 1	1: 1.03
Dec. 27, 1918..................	2,146,219	543,512	1,602,707	2,685,244	0.60: 1	1: 1.67
Oct. 31, 1919..................	2,205,592	647,681	1,557,911	2,752,876	0.57: 1	1: 1.77

RELATION OF FEDERAL RESERVE NET DEPOSITS TO NOTE LIABILITY.

[Chart 4, Table 4.]

On November 24, 1916, the Federal reserve net deposits were $620,128,000, and a year later—November 30, 1917—this item amounted to $1,595,512,000, an increase of $975,384,000, or 157.3 per cent. On the same dates the Federal reserve note circulation was, respectively, $240,448,000 and $1,056,983,000, which shows an increase of $816,535,000, or 339.6 per cent. While on November 24, 1916, the note liability amounted to 27.9 per cent of the total net deposit and note liabilities, on November 30, 1917, it increased to 39.8 per cent, due to the fact that the rate of expansion in the note circulation was over twice that of the net deposits. From November 30, 1917, to November 29, 1918, the amount of increase in the net deposits was $72,771,000, or 4.5 per cent, and the increase in the note circulation, $1,511,693,000, or 143 per cent. This great disparity between the rates of increase in net deposits and note liabilities increased the percentage of the note liabilities to the total from 39.8 per cent on November 30, 1917, to 60.6 per cent on November 29, 1918.

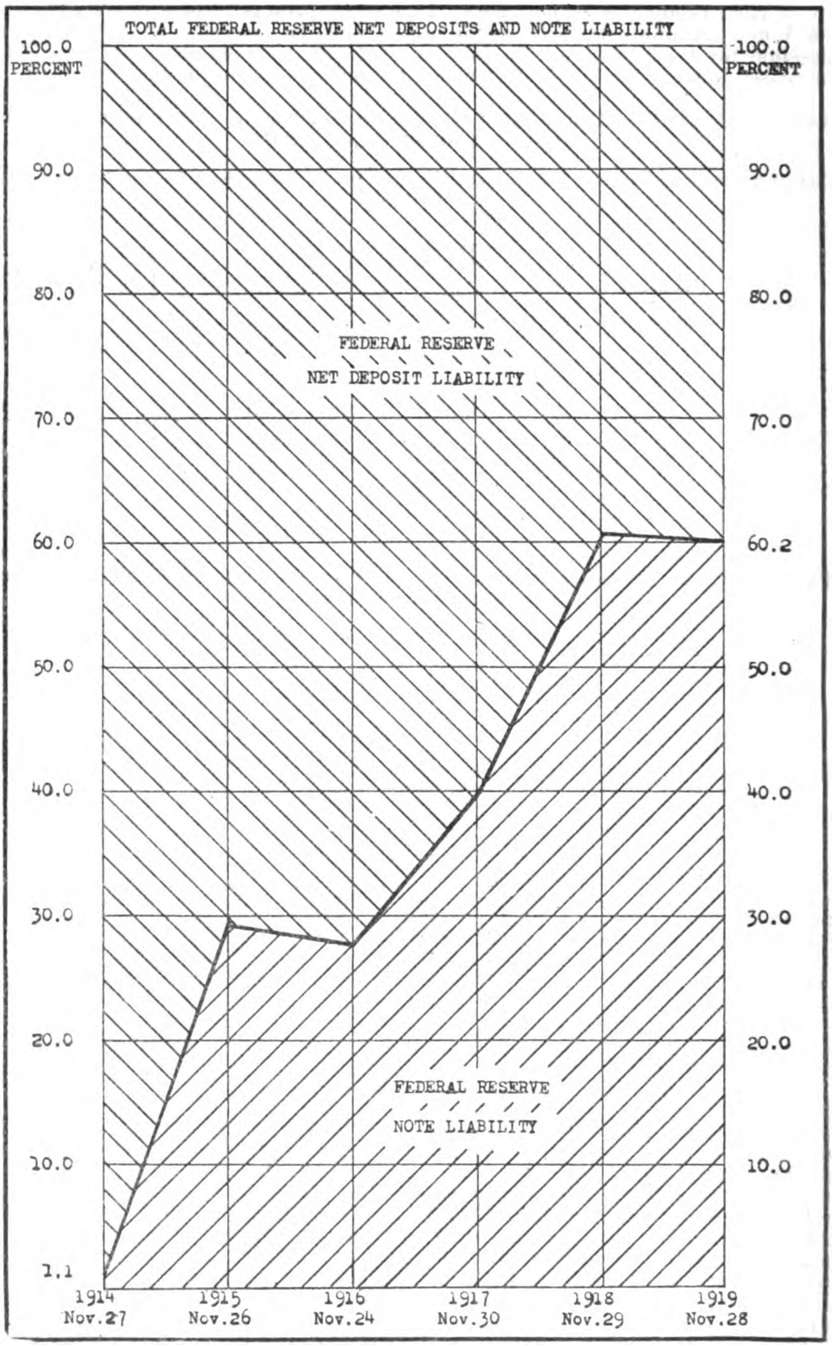


CHART 4, TABLE 4.—Ratio of Federal reserve net deposits to Federal reserve note liability.

During the year since the armistice was signed the increase in net deposits to November 28, 1919, amounted to $221,116,000, or 13.2 per cent, and the note circulation an amount of $283,601,000, or 11 per cent. It is apparent that these rates of increase being so nearly the same, there has been no change in the relationship between the net deposits and note circulation during this year.

On December 26, 1919, a month later, the net deposits had declined to $1,704,470,000, a decrease of $184,929,000, or 9.7 per cent, while the note circulation increased to $3,057,646,000, an amount of $205,369,000, or 7.2 per cent. Of the total net deposits and note liability, the latter amounted to 64.2 per cent on December 26, 1919, recording an increase of 4 per cent from November 28, 1919, while the net deposit liability had decreased to 35.8 per cent. To gradually reduce the note circulation will establish a better equilibrium between deposit and note liabilities.

TABLE 4—CHART 4.—*Ratio of Federal reserve net deposits to Federal reserve note liability.*

[Compiled and computed from Federal Reserve bulletins. (000 omitted.)]

Date.	Total net deposits and Federal reserve note liabilities.	Deposits, net.	Percentage of net deposits to total net deposit and Federal reserve note liabilities.	Federal reserve notes in circulation.	Percentage of Federal reserve notes in circulation to total net deposit and Federal reserve note liabilities.
Nov. 27, 1914	$251,968	$249,268	98.9	$2,700	1.1
Nov. 26, 1915	564,203	398,899	70.7	165,304	29.3
Nov. 24, 1916	860,576	620,128	72.1	240,448	27.9
Nov. 30, 1917	2,652,495	1,595,512	60.2	1,056,983	39.8
Nov. 29, 1918	4,236,959	1,668,283	39.4	2,568,676	60.6
Nov. 28, 1919	4,741,676	1,889,399	39.8	2,852,277	60.2

FEDERAL RESERVE WAR PAPER DISCOUNTS.

[Chart 5, Table 5.]

On November 24, 1916, the Federal reserve banks had $122,953,000 worth of bills on hand, of which $20,501,000, or 16.7 per cent, were discounts. On June 29, 1917, the Federal reserve banks reported war paper discounts in the amounts of $25,546,000, which on November 30, 1917, amounted to $405,608,000. On the latter date, the total discounts were $756,398,000, of which the war paper discounts amounted to 53.6 per cent, and the total bills on hand were $961,952,000, an increase of $838,999,000, or 682.3 per cent, since November 24, 1916. The total discounts on this latter date amounted to 42.16 per cent of the total bills on hand. These facts show how rapidly our financial structure was forced to expand in accommodating the extraordinary burdens of war, the volume of which was to be so much greater in the year 1918.

From November 30, 1917, the total bills on hand had increased to $2,190,536,000, an amount of $1,228,584,000, or 127.7 per cent. This was the same period during which the gold certificate retirement was most rapid and the extension in the volume of the Federal reserve notes in circulation so great.

On November 29, 1918, the total discounts had increased to $1,815,195,000 and represented 82.86 per cent of the total bills on hand; the war paper discounts had increased to $1,412,511,000, an amount of $1,006,903,000, or 248.3 per cent. While on November 29, 1918, the war paper discounts amounted to 64.02 per cent of the total bills on hand, they amounted to 77.8 per cent of the total discounts.

On November 28, 1919, a little over a year after the armistice had been signed, the bills on hand had increased to $2,709,804,000, an amount of $519,268,000, or 23.7 per cent, while the total discounts had increased to $2,214,209,000, an amount of $399,014,000, or 22 per cent, and the war paper discounts had increased to $1,736,033,000, an amount of $323,522,000, or 22.9 per cent. The total discounts on this date amounted to 81.71 per cent of the total bills on hand, a decline of 1.15 per cent from November 29, 1918, and the war paper discounts declined only 0.04 per cent during the same period. On this same date, the war paper discounts amounted to 78.4 per cent of the total discounts, an increase of 0.59 per cent for that year.

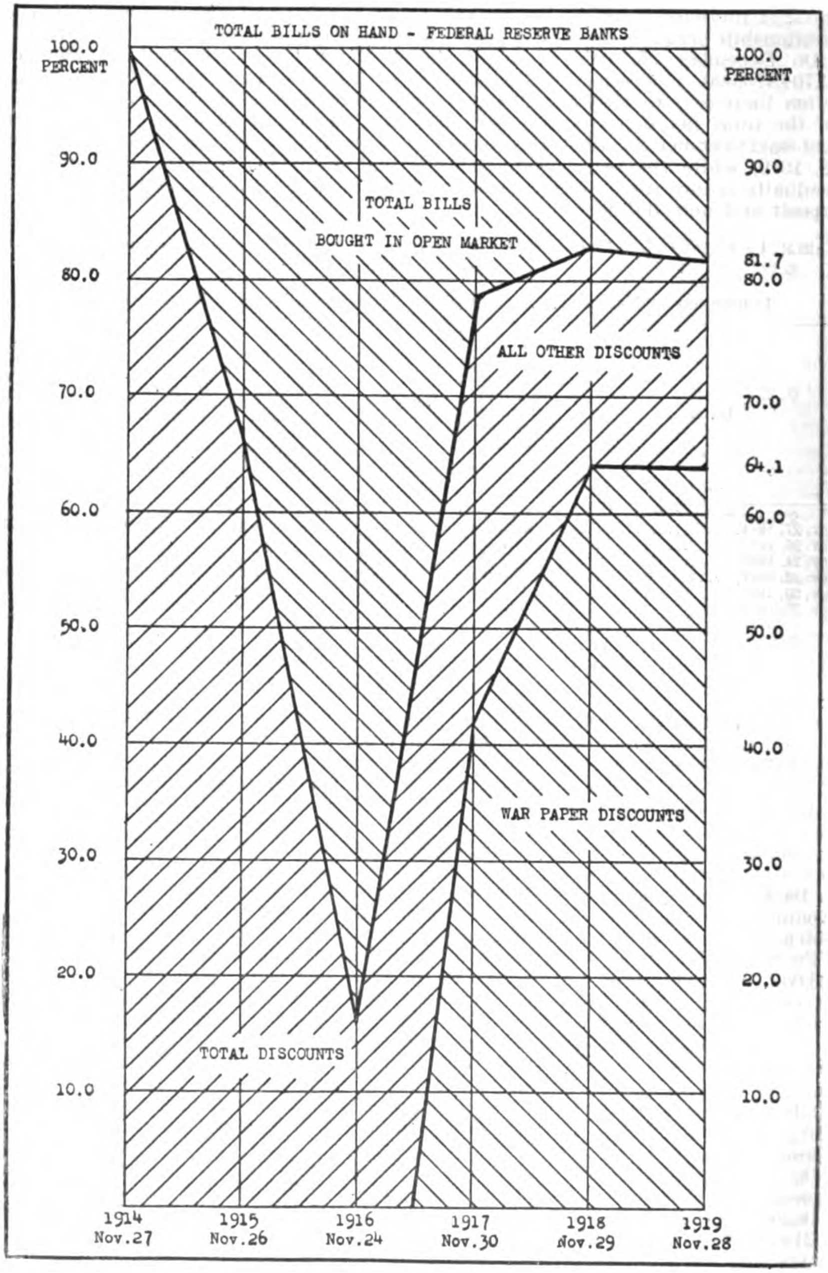


Chart 5, Table 5.—Ratio of the total and war paper discounts of the Federal reserve banks to the total bills on hand.

REDUCTION OF WAR PAPER CREDITS.

The October Federal Reserve Bulletin estimated that on June 30, 1919, all banks held a total of $6,500,000,000 of Government war obligations, including Liberty bonds, Victory notes, and Treasury certificates, owned outright and held as collateral for loans. The loans represented the unpaid balances due on bonds purchased or made for other purposes and secured by them as collateral.

The reduction of $225,633,000 in the war paper holdings of the Federal reserve banks during the month between November 28 and December 26, 1919, is a favorable indication that the period of bond liquidation has begun, and it is hoped this same contraction will be made possible in the war paper holdings of all banks in the country until the burden of war paper credit shall have been removed entirely from our banking system. By this process only can there be a reduction in the volume of the note circulation and the release of a sufficient volume of credit for the progressive development of those industries, the product of which is most needed.

It is most encouraging also to note that in the two weeks ending January 9, 1920, the Federal reserve note circulation had contracted to $2,914,368,000, an amount of $143,278,000, or 4.7 per cent, and that reports were coming in from the banks throughout the country that they would still further be able to contract their note requirements. These contractions in the volume of war paper credits and the note circulations are the first evidences of a return to normal currency and economic conditions, but in order that this conservative program shall be progressive the entire banking system of the United States will need the cooperation of the public. The Federal Reserve Board has been extremely patient with the public in the matter of extending loans to facilitate the purchase of Government securities and in the extension of credit based thereon, since it did not begin to advance the discount rate until a year after the armistice was signed. The public, therefore, should not complain if the Federal Reserve Board further advances the discount rate in order to liquidate these outstanding obligations. With a return to normal credit and currency conditions there will also come relief from the present high commodity prices.

TABLE 5, CHART 5.—*Ratio of the total and war paper discounts of the Federal reserve banks to the total bills on hand.*

[Compiled and computed from Federal reserve bulletins. 000 omitted.]

Date.	Total bills on hand.	Total discounts.	Percentage of bills discounted to total bills on hand.	Total war paper discounts.	Percentage of war paper discounts to total bills on hand.
Nov. 27, 1914	$7,383	$7,383	100.00		
Nov. 26, 1915	48,973	32,794	66.96		
Nov. 24, 1916	122,953	20,501	16.70		
Nov. 30, 1917	961,952	756,398	78.63	$405,608	42.16
Nov. 29, 1918	2,190,536	1,815,195	82.86	1,412,511	64.02
Nov. 28, 1919	2,709,804	2,214,209	81.71	1,736,033	64.06

GOLD RESERVE ABSORBED BY FEDERAL BANKING AND CURRENCY SYSTEM.

[Chart 6, Table 6.]

The total reserves of the Federal reserve banks differ from their total gold reserves by an amount of about $50,000,000 to $60,000,000 composed of legal tender notes, silver, etc. The Federal reserve act requires the Federal Reserve Board to hold total reserves against net deposit liabilities of the Federal reserve banks in the amount of 35 per cent. When the net deposit liability exceeds the amount of legal tender notes, silver, etc., it is obvious that the balance of the total reserve is exclusively gold, which the Federal reserve act requires shall be held to the extent of 40 per cent of the total Federal reserve note liability.

On November 24, 1916, the total reserves of the Federal reserve banks amounted to $719,475,000, and on November 30, 1917, to $1,676,211,000, an increase of $956,736,000, or 132.1 per cent, while the combined net deposit and the note liabilities increased on these dates, respectively, from $860,576,000 to $2,652,495,000, an amount of $1,791,919,000, or 208.2 per cent. The percentage of reserves actually held against combined net deposit and note liabilities on November 24, 1916, was 83.6, while the amount required under the law was 36.4, leaving a percentage of surplus reserve of 47.2. On November 30, 1917, the

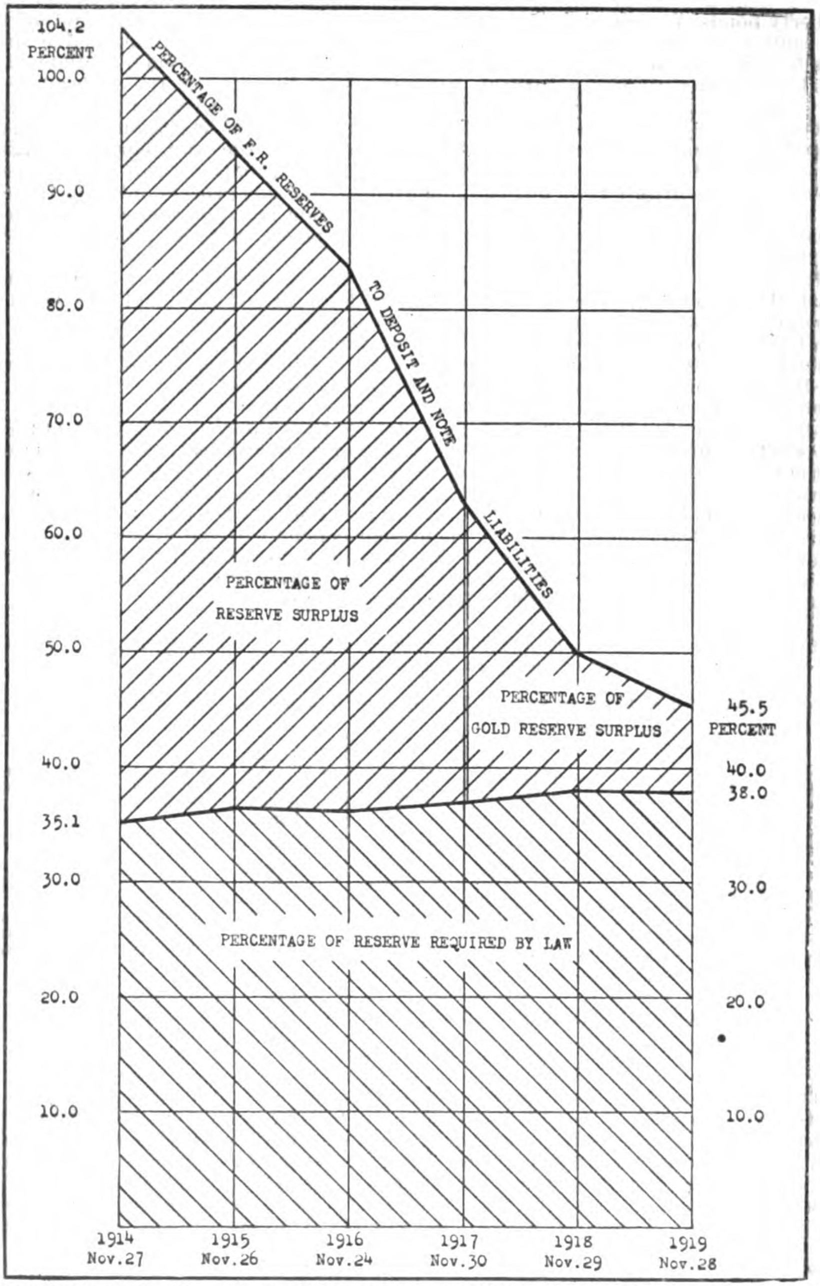


CHART 6, TABLE 6.—Percentage of Federal reserve banks' reserves to total net deposit and note liabilities and the percentage of reserve required by law.

reserve percentage actually held was 63.2, the percentage required 37, and the percentage of surplus reserve 26.2, which is but a little more than half of the reserve percentage of the year before.

On November 29, 1918, the total reserves were $2,120,371,000, an increase of $444,160,000 from November 30, 1917, or 26.5 per cent. On this date the combined net deposit and Federal reserve note liabilities totaled $4,236,959,000 showing an increase for the year of $1,584,464,000, or 59.7 per cent. This rate of expansion in the combined net deposit and Federal reserve note liabilities, which has already been shown to be due largely to the expansion in the volume of Federal reserve notes emitted, was more than twice as great as the rate of increase in the reserves, which had the effect of reducing the reserve percentage from 63.2 on November 30, 1917, to 50 per cent on November 29, 1918, with 38 per cent required by law and a surplus reserve of 12 per cent.

GOLD RESERVE RATIO DECLINED SINCE ARMISTICE.

On November 28, 1919, a little over a year after the armistice was signed, the total reserve had increased to $2,159,666,000, an amount of $39,295,000, or 1.9 per cent, while the combined net deposit and Federal Reserve note liabilities had increased to $4,741,676,000, an amount of $504,717,000, or 11.1 per cent. Here again the increase in the net deposit and Federal reserve note liabilities, an amount in excess of twelve times the increase made in the total reserves, had the effect of forcing a still further decline in the reserve percentage to 45.5, leaving a surplus reserve of 7.5 per cent.

Notwithstanding the tremendous increase in the gold reserve of the Federal reserve banks, $1,897,196,000 being recorded between November 27, 1914, and November 28, 1919, the expansion in the combined net deposit and Federal reserve note liabilities during the same period amounted to $4,489,708,000. This illustrates how rapidly the new gold which came into the country by excess importation was completely absorbed by our Federal banking and currency system.

During the month from November 28 to December 26, 1919, the total reserves suffered a loss of $24,130,000, while the combined net deposit and Federal reserve note liabilities expanded $20,460,000. As a result, the reserve percentage actually held on December 26, 1919, declined to 44.8, a margin above the percentage required by law of but 6.8 per cent, smaller than conservative bankers would like to see it.

Theoretically we possess the gold which has swollen our gold reserves so extensively this past four years, but practically we became only the custodian of it while Europe was at arms, and hence we are morally obligated to return it to the channels of international circulation. It is apparent that this can be accomplished only by a deflation in our own note circulation, thereby releasing the gold for export, and by protecting the monetary gold stock from depletion by other than monetary uses.

TABLE 6, CHART 6.—*Percentage of Federal reserve banks' reserves to total net deposit and note liabilities and the percentage of reserve required by law.*

[Compiled and computed from Federal Reserve bulletins. 000 omitted.]

Date.	Total reserves.	Deposits, net.	Federal reserve notes in circulation.	Total net deposit and Federal reserve note liabilities.	Reserve percentage.	Percentage of reserve required.	Percentage of surplus reserve.
Nov. 27, 1914	$262,470	$249,268	$2,700	$251,968	104.2	35.1	69.1
Nov. 26, 1915	529,375	398,899	165,304	564,203	93.8	36.5	57.3
Nov. 24, 1916	719,475	620,128	240,448	860,576	83.6	36.4	47.2
Nov. 30, 1917	1,676,211	1,595,512	1,056,983	2,652,495	63.2	37.0	26.2
Nov. 29, 1918	2,120,371	1,668,283	2,568,676	4,236,959	50.0	38.0	12.0
Nov. 28, 1919	2,159,666	1,889,399	2,852,277	4,741,676	45.5	38.0	7.5

UNITED STATES EXPORTS AND IMPORTS OF GOLD BY FISCAL YEARS.

[Chart 7, Table 7.]

The United States had imported gold in the amount of $1,114,359,161 in excess of the exports during the three years ending June 30, 1917. Since our entrance into the war the flow of gold out of the country has been continuously in excess of the amount coming in, so that for the fiscal year ending June 30, 1918, the

gold balance against the United States was $66,438,741; for the fiscal year ending June 30, 1919, $54,211,802; and for the first half of the fiscal year 1919–20, ending December 31, 1919, the amount was $245,046,818, making a total drain upon our gold reserves of $365,697,361.

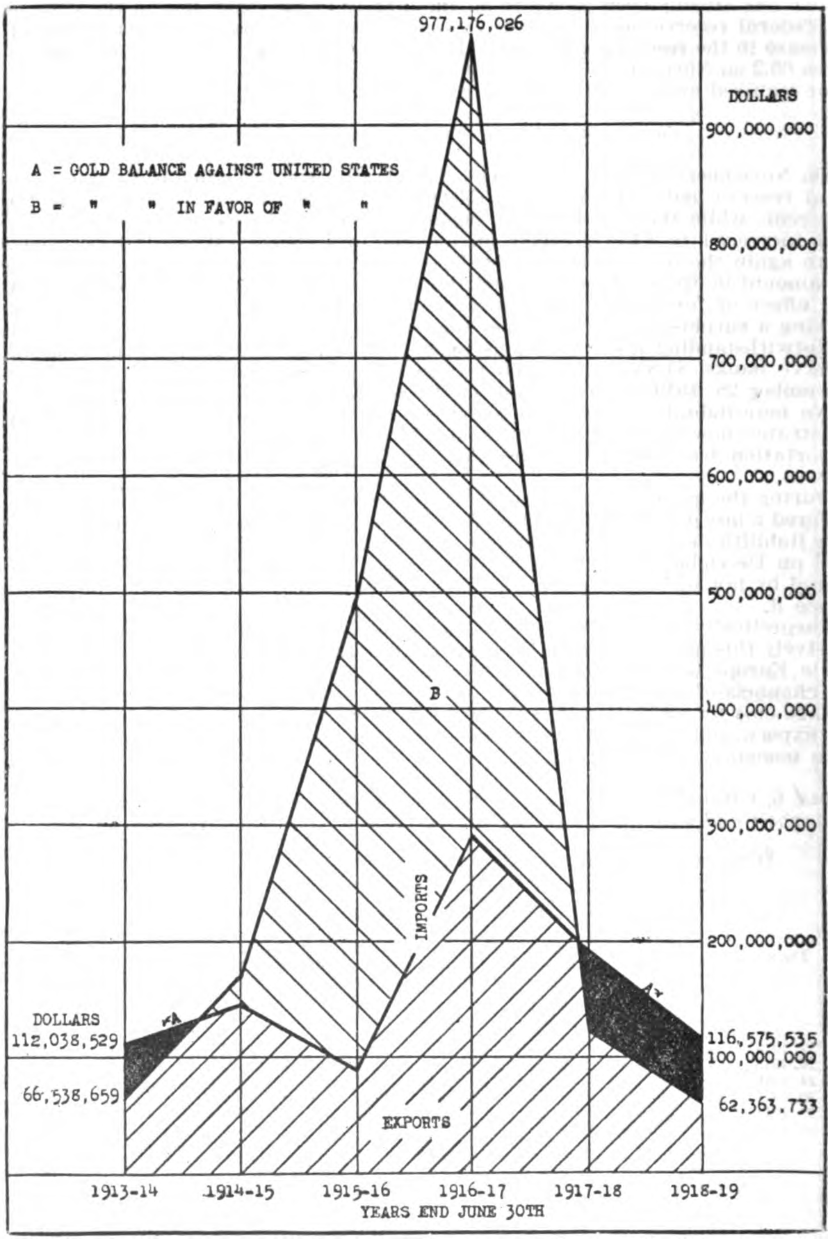


CHART 7, TABLE 7.—Gold exports and imports of the United States, fiscal years 1913–14 and 1918–19.

It will be observed that the amount of gold shipped out of the country in the last six months since the embargo on the exportation was lifted in excess of that coming in is over twice the gold balance against the United States for the

two previous fiscal years. The gold balance in favor of the United States on June 30, 1917, which amounted to $1,114,359,161, had, therefore, been reduced to $749,661,800 on December 31, 1919, or 32.8 per cent.

TABLE 7, CHART 7.—*Gold exports and imports of the United States, fiscal years 1914–19 and the first half 1919–20.*

[Compiled and computed from statistics of Bureau of Foreign and Domestic Commerce.]

Years ending June 30—	Exports.	Imports.	Gold balance against United States.	Gold balance in favor United States.
1913–14	$112,038,529	$66,538,659	$45,409,870	.....
1914–15	146,224,148	171,568,755	.....	$25,344,607
1915–16	90,249,548	494,009,301	.....	403,759,753
1916–17	291,921,225	977,176,026	.....	685,254,801
Total three war years, 1914–17	528,394,921	1,642,754,082	.....	1,114,359,161
1917–18	190,852,224	124,413,483	66,438,741	.....
1918–19	116,575,535	62,363,733	54,211,802	.....
Total five years, 1914–19	835,822,680	1,829,531,298	120,650,543	993,708,618
First fiscal half 1919–20	271,135,538	26,088,720	245,046,818	.....
Total five years and one-half	1,106,958,218	1,855,620,018	365,697,361	748,661,800

UNITED STATES EXPORTS AND IMPORTS OF GOLD BY CALENDAR YEARS.

[Chart 7A, Table 7A.]

While the fiscal year periods presented above coincide almost precisely with the commencement of the European war, our entrance into the war, and the removal of the war embargo on the exportation of gold, the calendar year exports and imports of gold are essential in determining their influence upon the gold stock of the United States, the data for which were previously presented on the calendar-year basis.

In the calendar year 1914, the exports of gold from the United States exceeded the imports by $165,228,415, an amount which was paid in settlement of our adverse trade balance. In 1915, however, the imports exceeded exports by $420,528,672, indicating that the period of American security liquidation had ceased and that Europe was forced to pay gold in settlement of the adverse trade balance arising from her war requirements.

Gold importation reached the high point in the calendar year 1916, at $685,990,234, with exports of $155,792,927, leaving a balance in favor of the United States of $530,197,307. From this, the gold balance in our favor declined to $180,570,490 in 1917 and to $20,972,930 in 1918. For the calendar year 1919, free from war activities and the gold embargo, $368,144,545 of gold was exported and $76,534,046 was imported, leaving a loss by excess exportation of $291,610,499. The gold exports for 1919 exceeded the exports of $41,069,818 in 1918 by $327,074,727, or nearly 800 per cent.

To summarize the entire period of the last six calendar years, it will be found that the United States increased her gold reserve for the years 1915, 1916, 1917, and 1918 by a total of $1,152,269,399, while during the years 1914 and 1919 the gold balance against us was $456,838,914, leaving $695,430,485 as the net gain for the entire period. The loss by excess exportation for 1914 and 1919 amounted to 39.6 per cent of the gain made during 1915, 1916, 1917, and 1918, and indicates to what extent our gold reserve has vanished.

ALLOCATION BY COUNTRIES.

According to a statement of the Federal Reserve Board, most of the 1919 imports came from Canada and Hongkong, while the gold exported went to Japan, $94,114,189; Hongkong, $40,045,266; China, $39,109,769; British India, $34,300,660; Argentina, $56,560,000; and Spain, $29,778,000. Including gold that was shipped to other countries in the Far East, about 60 per cent of the total gold exported went to oriental countries credited with the habit of hoarding the precious metals, thereby withdrawing them from monetary use. Now that the monetary gold reserve of the world is under so severe a strain in meeting the financial requirements imposed upon it, it would seem advisable to send as little gold as possible to such countries. This may best be accomplished by restricting our imports from the Orient to the amount of goods they purchase from us.

The German Government made a payment during the year of some $172,000,000 in gold for foodstuffs bought in the United States, the deposit for which was arranged by the Federal Reserve Board in London, thus saving the cost of transportation. This deposit had been reduced by sales to $134,320,000 on December 26, 1919, an amount which, deducted from $291,610,499, leaves $157,290,499 as the net loss of gold during 1919 by exportation.

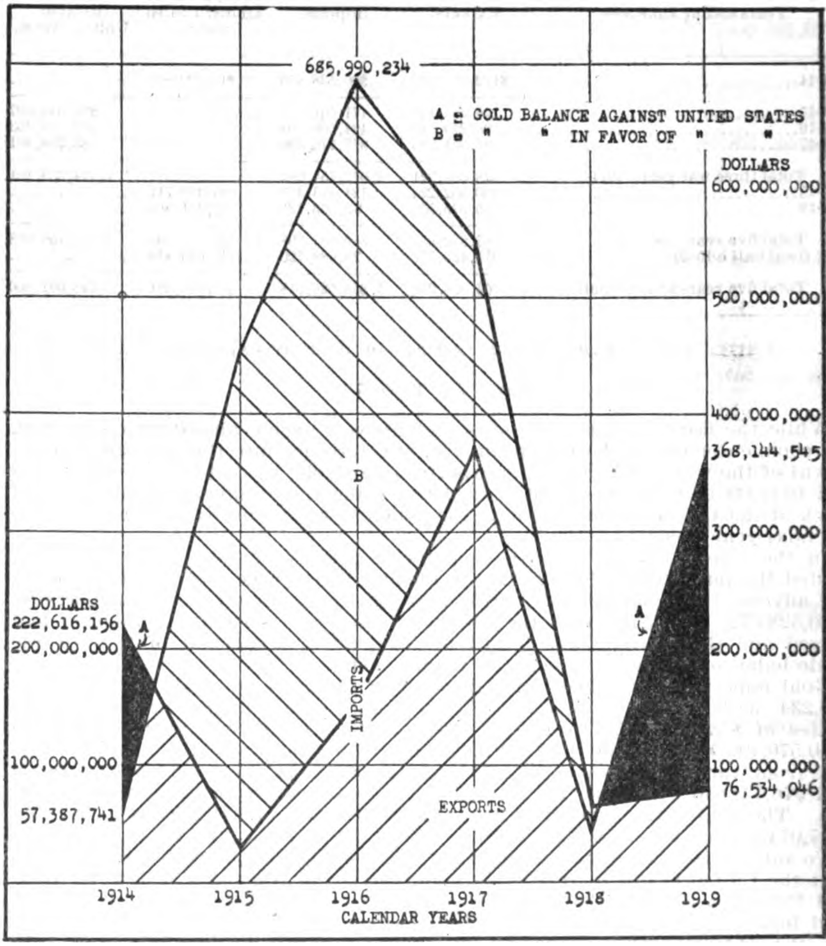


CHART 7A, TABLE 7A.—Gold exports and imports of the United States, calendar years. 1914–1919.

INTERNATIONAL TRADE DEMANDS CONTINUED GOLD EXPORTS.

Notwithstanding the heavy trade balances which have been in our favor, we not only have not been receiving gold but have been obliged to provide credit in order to make sales. This condition probably will continue, because of the limited gold reserves of the countries with whom we are transacting business, and indicates that the exportation of gold next year will probably even more greatly exceed the importation of gold. It should be noted that our gold reserve, even though it has become so completely absorbed by the financial system in meeting the obligations of war and reconstruction, is swollen beyond its normal limits.

It is evidently in our interest gradually to return as much as possible of the gold we so recently acquired to the countries from whence it came, in order that by thus strengthening their domestic financial position it will reduce the present excessive depreciation of their exchanges. The exchanges of European countries are now so depreciated that our export business is threatened, and this necessarily imposes upon us the responsibility, from a business standpoint, of further releasing gold and goods and of being content to extend credit until the industries of those countries are able to balance the trade equation in terms of goods.

The United States to-day owns approximately one-third of the monetary gold reserve of all nations and is expected to sustain the credit structure of the world. The depletion of our monetary gold reserve, either by excessive use in manufacturing or by the curtailment of production, necessarily will limit that commercial supremacy to which the United States is entitled by virtue of its natural resources, business sagacity, and industrial efficiency. If we expect to maintain our present supremacy, the production of new gold must not be allowed to continue to decline.

TABLE 7A, CHART 7A.—*Gold exports and imports of the United States, calendar years 1914–1919.*

Calendar year.	Exports.	Imports.	Gold balance against United States.	Gold balance in favor United States.
1914	$222,616,156	$57,387,741	$165,228,415	
1915	31,425,918	451,954,590		$420,528,672
1916	155,792,927	685,990,234		530,197,307
1917	371,883,884	552,454,374		180,570,490
1918	41,069,818	62,042,748		20,972,930
1919	368,144,545	76,534,046	291,610,499	
Total	1,190,933,248	1,886,363,733	456,838,914	1,152,269,399

GOLD PRODUCTION OF THE WORLD.

[Chart 8, Table 8.]

The gold production of the world reached its high point in 1915 at $469,000,000, from which it had declined to $381,000,000 in 1918, a loss of $88,000,000, or 18.8 per cent. During the same period the gold production of the British Empire declined from $299,000,000 to $249,000,000, a loss of $50,000,000, or 16.7 per cent; while the United States' production of $101,000,000 in 1915 declined to $69,000,000 in 1918, a loss of $32,000,000, or 31.7 per cent; and the production of all other countries declined from $69,000,000 to $63,000,000, a loss of $6,000,000, or 8.7 per cent.

These facts demonstrate that the decline in the gold production of the United States for these three years has been about twice as great proportionately as that of the British Empire and nearly four times as great as the decline in the combined gold production of Russia, South and Central America, Mexico, and all other countries. This denotes the extreme economic pressure to which the gold-mining industry of the United States was subjected on account of the existing international situation and reflects the volume and rapidity of the financial mobilization of the United States upon entering the war. The effect was much more acute here than it was in some other countries that had felt the pressure from the beginning in 1914.

The Russian gold production for 1915 was $26,000,000 and in 1918 $12,000,000, a drop of $14,000,000, or 53.8 per cent, which indicates more eloquently than anything else the effects of bolshevism. The South and Central American States show a decline over this same period of from $17,000,000 to $16,000,000. Notwithstanding the fact that much of the gold in these countries is produced as a by-product recovered from the production of copper ores (the production of which no doubt was stimulated during the war period), it is evident that the mines producing gold as a chief product must have been affected by the serious economic strain which has been prevalent throughout the world.

The Mexican crisis in gold production occurred in 1915 and happened to coincide with the year in which the high point of the world's gold production took place, evidencing the chaos in which the Mexican Government found itself at the beginning of the revolution. The production was a little over $6,000,000 in 1915, and in three years it had increased to nearly $17,000,000, a gain in output of 183 per cent. The 1918 production is still $7,500,000 under that of 1912.

1919 PRODUCTION.

A recent estimate places the gold production of the world for 1919 at $350,-000,000—$31,000,000, or 8.1 per cent, less than for the preceding year. With this

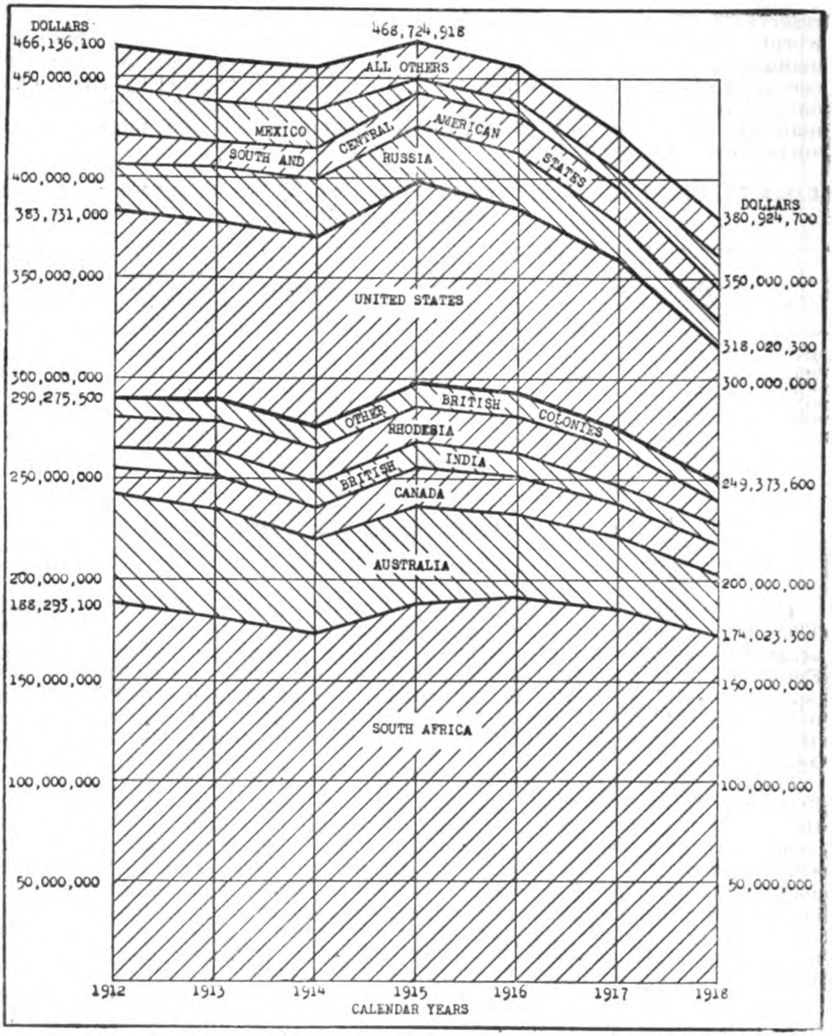


CHART 8, TABLE 8.—Gold production of the world, calendar years 1912–1918.

loss for 1919, the total amount of the decline in the world's gold production for the past four years was $119,000,000, or 25.4 per cent. Of this total loss for 1919 of $31,000,000, $18,000,000 may be allocated to the British Empire and $10,-000,000 to the United States, the remaining $3,000,000 being the anticipated loss in production for the gold mines of other countries. The loss in British production probably would be still greater were it not for the fact that Great Britain released the gold producers from all restrictions with reference to the sale of gold, which had been in effect during the war period, thus permitting producers to dispose of their gold at a premium in the London market. This has enabled the British gold producer to benefit by a premium of some 15 to 25 per cent based upon the depreciation of exchange since July, when the restrictions were removed.

GOLD MARKETS AND PREMIUMS.

It was anticipated that British gold would be sold in this market and London exchange purchased, but an analysis of the imports of gold into this country does not indicate that any amount of newly produced gold has been sold here. Furthermore, we have sold for export to Europe for manufacturing purposes during 1919 gold bullion in excess of $14,500,000, which is indicative of the high premium paid in London and Paris for the metal. It is evident that with the European exchange so greatly depreciated the gold market in the United States is not free to the European buyer. The manufacturing jeweler in Paris would have to pay some 100 per cent premium for the metal purchased in this market, plus the cost of freight and insurance. That the jewelry trade of Europe can afford to pay such high premiums for metal bought in the United States is proof that European countries are safeguarding their monetary gold reserves from depletion by industrial use. The gold market of the United States is free only to the consumers of gold in the United States and other countries whose exchange is not below par with the dollar. The American gold producer can not, of course, take advantage of this premium, for the reason that he does not obtatin his supplies either in Great Britain or France, and, therefore, can not use British or French exchange.

While the British gold producer will feel the beneficial effect of this premium, it must be considered unsatisfactory as a permanent basis for the stimulation of production, because it varies to such an extent with every fluctuation in exchange.

TABLE 8, CHART 8.—*Gold production of the world, calendar years 1912–1918.*

[Compiles and computed from United States Mint reports.]

	1912	1913	1914	1915	1916	1917	1918
South Africa	$188,293,100	$181,885,500	$173,560,000	$188,035,156	$192,182,902	$186,503,400	$174,023,300
Australia	54,509,400	53,113,200	46,710,200	48,988,177	40,408,755	35,945,500	29,268,600
Canada	12,648,800	16,598,900	15,925,000	18,977,901	19,234,976	15,200,000	14,687,900
British India	11,055,700	12,178,000	11,378,400	11,522,457	11,206,509	10,756,800	10,028,200
Rhodesia	14,226,900	14,274,700	17,423,100	18,915,324	19,232,165	17,245,000	13,051,300
Other colonies	9,545,600	11,870,800	11,782,000	12,387,163	11,620,705	10,951,600	8,314,300
British total	290,279,500	289,921,100	276,996,700	298,824,178	293,886,012	276,602,300	249,373,600
Increase or decrease per cent	....	−0.1	−4.0	+7.8	−1.6	−5.9	−9.8
United States	93,451,500	88,884,400	94,531,800	101,035,700	92,590,300	83,750,700	68,646,700
Increase or decrease per cent	....	−4.9	+6.3	+6.9	−8.3	−9.5	−18.0
Russia	22,199,000	26,507,800	28,587,000	26,322,746	26,322,746	18,000,000	12,000,000
South and Central America, per cent	14,956,100	13,020,700	14,775,700	17,135,841	18,097,224	17,156,600	15,795,900
Mexico	24,500,000	19,308,800	19,308,800	6,559,275	7,690,707	9,000,000	16,824,700
All others	20,750,000	22,298,300	21,476,600	18,847,178	18,419,056	19,080,600	18,283,800
Total	82,405,100	81,135,600	84,148,100	68,865,040	70,529,733	62,237,200	62,904,400
Increase or decrease per cent	....	−1.5	+3.7	−18.1	+2.4	−10.3	+1.1
World total	466,136,100	459,941,100	455,676,600	468,724,918	457,006,045	423,590,200	380,924,700
Increase or decrease per cent	....	−1.3	−0.9	+2.4	−2.5	−7.3	−10.1

GOLD PRODUCTION OF THE UNITED STATES.

[Chart 9, Table 9.]

The gold production of the United States reached its high point in 1915, at $101,000,000, from which it had declined to $58,500,000 in 1919, in accordance with an estimate just published jointly by the United States Geological Survey and the United States Mint, a loss of $42,500,000, or 42.1 per cent.

This estimate allocates the gold production for 1919 by States. In the order of their percentage of decline we find that Nevada produced in 1919, $4,754,600, a loss of $7,079,100 from the production of 1915, or 59.8 per cent; Colorado, $9,736,400, a loss of $12,794,400, or 56.8 per cent; Montana, $2,461,700, a loss of $2,516,600, or 50.5 per cent; Alaska, $9,036,300, a loss of $7,673,700, or 45.9 per cent; the gold production from all other States and possessions of the United

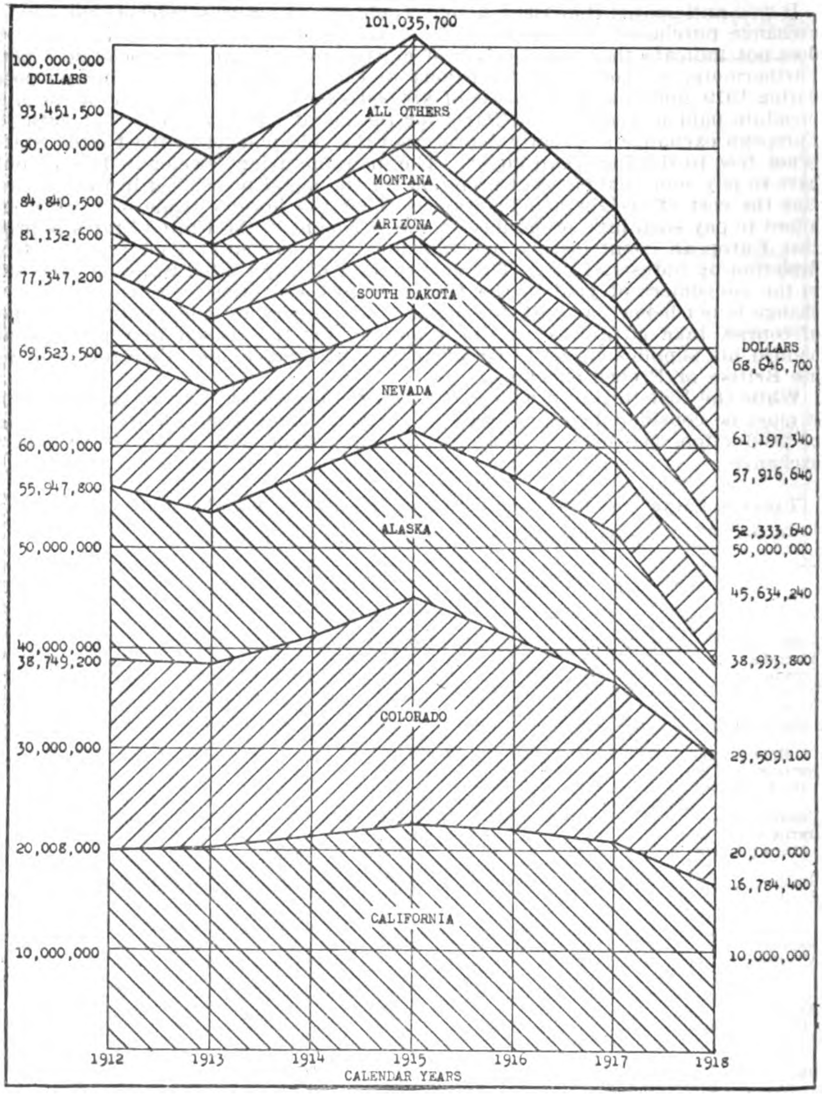


CHART 9, TABLE 9.—Gold production of the United States, calendar years 1912–1918.

States, $5,675,700, a loss of $4,800,400, or 45.8 per cent; South Dakota, $5,267,600, a loss of $2,135,900, or 28.8 per cent; California, $17,380,000, a loss of $5,167,400, or 22.9 per cent; and Arizona, $4,176,500, a loss of $379,400, or 8.3 per cent.

The high percentage of loss in production of the States of Nevada, Colorado, and Montana, is due in part to the difficulty in obtaining labor and also to the complexity of ore treatment, which involves the use of chemicals the price of which has advanced rapidly. In Alaska the high percentage of loss can be accounted for largely by its remoteness from the States, involving transportation difficulties, and also to the heavy drain that the war made upon the labor resources of that Territory. In South Dakota, over 95 per cent of the gold production normally has been produced by the Homestake mine, which was forced to close down in September, and the heavy decline in the output is due largely to this fact. A large proportion of the gold output of California comes from placer deposits, the recovery from which involves less labor than from lode mining. Labor is not as difficult to procure in California, because it is rapidly drawn from the interior States to the seaboard for other industrial purposes. In a large measure these facts account for the comparatively lessened decline in the gold output of California.

COMPARISON OF GOLD PRODUCTION 1918-19.

The gold production of the United States in 1918 was, in round numbers, $68,500,000, the loss recorded in 1919 being slightly in excess of $10,000,000, or 14.6 per cent. This large decline in the gold production for 1919 is evidence that the economic pressure to which the gold-mining industry had been subjected during the war has continued since the signing of the armistice. The increased cost of commodities and the advances in wages which have taken place during this past year have increased the cost of producing the new gold ounce.

The heaviest declines for 1919 from the year previous were recorded in the States of Nevada—$1,945,840, or 29 per cent; Arizona, $1,406,500, or 25.1 per cent; Montana, $819,000, or 25 per cent; Colorado, $2,988,300, or 23.5 per cent; and South Dakota, $1,431,800, or 21.4 per cent.

To the decline in the output of base metals for 1919 may be attributed the decline in the production of by-product gold, which contributed to a certain extent to the lessened production for that year. It is evident from this serious condition of the gold-mining industry, as reflected in the reduction of nearly 50 per cent of the output in a period of four years, that rapid and heroic methods will have to be used in order to prevent a still greater depletion of the industry during the year 1920.

TABLE 9, CHART 9.—*Gold production of the United States, calendar years 1912–1918.*

[Compiled from United States Geological Survey statistics.]

Calendar years.	California.	Colorado.	Alaska.	Nevada.	South Dakota.
1912	$20,008,000	$18,741,200	$17,198,600	$13,575,700	$7,823,700
1913	20,241,300	18,109,700	15,201,300	11,977,400	7,214,200
1914	21,251,900	19,902,400	16,547,200	11,536,200	7,334,000
1915	22,547,400	22,530,800	16,710,000	11,833,700	7,403,500
1916	21,980,400	19,185,000	16,124,800	9,064,700	7,471,700
1917	20,929,400	15,974,500	14,671,400	6,932,500	7,372,900
1918	16,784,400	12,724,700	9,424,700	6,700,440	6,699,400

Calendar years.	Arizona.	Montana.	All others.	Total production.
1912	$3,785,400	$3,707,900	$8,611,000	$93,451,500
1913	4,101,400	3,320,900	8,718,200	88,884,400
1914	4,568,900	4,143,600	9,247,600	94,531,800
1915	4,555,900	4,978,300	10,476,100	101,035,700
1916	4,092,800	4,328,400	10,342,500	92,590,300
1917	5,180,600	3,673,200	9,016,200	83,750,700
1918	5,583,000	3,280,700	7,449,360	68,646,700

INFLUENCE OF ECONOMIC STRESS ON COST OF GOLD PRODUCTION.

[Chart 10, Table 10.]

In 1912 the hypothetical quartz gold mine, which has been chosen as an example, yielded $12 per ton, and the total cost of production was $7 per ton. The cost of production per ounce was $11.70, and the profit $8.30 per ounce.

The depreciating value of the ore with depth, and the increased cost of production with depth, are factors frequently encountered in gold mining, and both operate to increase the cost of production regardless of any change in the

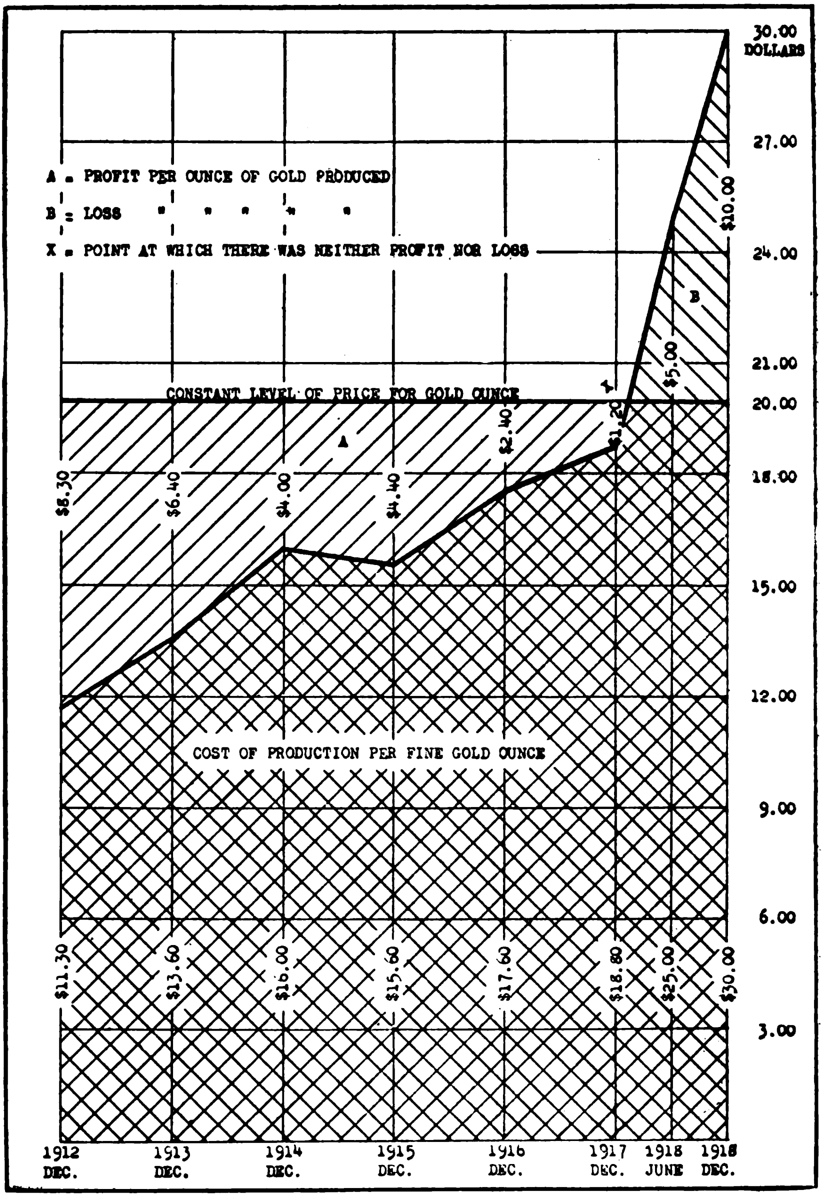


CHART 10, TABLE 10.—Influence of economic stress on cost of production per fine gold ounce (type example).

economic conditions. As a consequence, in 1913 there has been assumed a recovery of $11 per ton at a cost of $7.50 per ton. In this case there is a production cost per ounce of $13.60, and the net profit is $6.40 per ounce. For 1914 there has been assumed a recovery of $10 per ton and a cost of production of $8.50, which combine to make a cost of $16 per ounce and a net profit of $4 per ounce.

At this time the management realized that the company was rapidly approaching the economic limit, and, though operating on a 3,000-ton basis per month, decided to reduce the cost of production by increasing the output to 6,000 tons per month. In 1915, therefore, with a double output, there has been assumed a recovery of $9 per ton and a cost of production of $7 per ton, which indicates a reduction in the cost of recovery from the previous year of $1.50 per ton and gives a cost of production of $15.60 per ounce, with a net profit of $4.40 per ounce.

PRODUCTION COST EXCEEDS FIXED PRICE OF $20.67 PER OUNCE.

From that time on it is necessary to consider the third component of economic pressure. The sharp decline in the purchasing power of the dollar, both with respect to labor and material, began to be felt. This was attributable to the fact that the country was under a severe pressure to obtain war materials at a rapid rate, which forced an expansion of credit and corresponding inflation of currency. These factors combined to cause automatically a rise in commodity prices. The economic pressure became intense in 1915, and in 1916 the cost to produce an ounce of gold was $17.60 and the net profit per ounce had fallen to $2.40. In that year the recovery was $8.50 per ton and the cost of production had increased 50 cents, to $7.50 per ton. In 1917 the same amount of $8.50 per ton was recovered, but the total cost of production had risen 50 cents, making it $8 per ton, and the total cost per ounce was $18.80, leaving a profit of $1.20 per ounce. In June, 1918, six months later, the total amount recovered was $8 per ton, and the total cost of recovery was $10 per ton, provided the mine had continued operation. Many properties shut down at that time, which was wise business policy. In June, 1918, there was, therefore, a total production cost of $25 per ounce of gold, which, it is apparent, would have made a net loss of $5 per ounce. In December, 1918, six months later, the assumed recovery is $8 per ton, and the cost of operation had risen to $12 per ton, an increase of $2 per ton over the cost in June. Had the mines continued to operate in December, 1918, the cost of producing an ounce of gold would have been $30, or a net loss of $10 per ounce. With the increased price of labor and commodities since December, 1918, the economic pressure to which the gold-mining industry has been subjected has become still more intense.

TABLE 10, CHART 10.—*Influence of economic stress on cost of production per fine gold ounce (type example).*

Month and year.	Monthly output.	Gold recovered per ton.	Gold recovered.	Total cost per ton.	Total cost for month.	Profit or loss for month.	Total cost per gold ounce.	Profit or loss per ounce.
December:	*Tons.*		*Ounces.*					
1912	3,000	$12.00	1,800	$7.00	$21.000	+$15,000	$11.70	+$8.30
1913	3,000	11.00	1,650	7.50	22,500	+ 10,500	13.60	+ 6.40
1914	3,000	10.00	1,500	8.50	24,000	+ 6,000	16.00	+ 4.00
1915	6,000	9.00	2,700	7.00	42,000	+ 12,000	15.60	+ 4.40
1916	6,000	8.50	2,550	7.50	45,000	+ 6,000	17.60	+ 2.40
1917	6,000	8.50	2,550	8.00	48,000	+ 3,000	18.80	+ 1.20
June, 1918	6,000	8.00	2,400	10.00	60,000	− 12,000	25.00	− 5.00
December, 1918	6,000	8.00	2,400	12.00	72,000	− 24,000	30.00	−10.00

The above data represent a type example of a medium-grade gold-quartz mine and take into consideration the economic factors over this period of time. The whole numbers are used to simplify the presentation, and the price of $20 for the gold ounce also simplifies the calculations. Many properties in 1914, working on a narrow margin of profit, were forced to enlarge their scale of operations, as did this one. At this time wages were reasonable, prices for supplies had not passed the economic limit, and these facts combined account largely for the increase in the gold output of the United States which was recorded in 1915.

THE INCREASED COST OF GOLD-MINING SUPPLIES.

[Chart 10A.]

In June, 1918, the gold producers of the United States reported the increased costs of the following list of supplies, which were averaged for the industry and are herewith presented. A more concrete conception of the increased cost of gold mining may be obtained from an examination of these facts:

	Per cent.
Fuel oil and coal	47.7
Mine timber	52.6
Dredging supplies	80
Mill supplies	80
Powder	80.8
Nails	87.3
Fuse	89.8
Pipe	95
Caps	105.4
Drill steel	106.4
General steel	110.3
Average increased cost June, 1918	85

The index price of all commodities has increased since June, 1918, and therefore allowance should be made for the increased cost of these supplies since that date, which would bring the average increase well over 100 per cent at the present time.

The cost of supplies varies greatly, in accordance with the location of the mine, the item of freight often entering into the cost as one of the principal factors, particularly in the more remote districts of Alaska. For this reason the cost of gold production in some of the more remotely located but important districts far exceeds the average cost for the United States. Any constructive measure to maintain our normal gold production must be based upon the cost of production at our low-grade, large-tonnage mines, which in the aggregate have been such large producers of the metal.

HIGH-GRADE ORE RESERVES BECOMING RAPIDLY EXHAUSTED.

The major portion of the gold output is now coming from extremely high-grade ores and placer deposits, the lower-grade operations having long since been shut down. These high-grade ore reserves are very limited in tonnage in lode mines and yardage in placer mines and are becoming rapidly depleted. Exploration work, which under normal conditions blocked out ore from two to three years in advance of mining and milling operations, has ceased, and the producer has been forced to limit exploration work to his immediate needs of ore tonnage for the month. Many veins of medium to lower-grade ore have stringers of high-grade ore, usually on one of the walls. These high-grade stringers are being mined, leaving the remainder of the ore in the mine. It is obvious that this method of mining is very wasteful, as it costs more to mine narrow widths. Selective mining, further involves much waste of ore mined, but which will not, under present conditions, pay to mill. The ore left in the mine is of poorer grade than if the high-grade ore had been mined with it, and hence will have to bring a higher premium in order to make possible the recovery of its gold content. Any constructive measures which may be adopted for the maintenance of the gold output of the United States must be based upon the costs of recovering gold from our low-grade deposits of large tonnage, from which has been derived so large a proportion of the gold output.

Since so much capital invested in the gold-mining industry has already been destroyed, new capital can not be found to develop a gold mine under the present conditions. Without the encouragement of capital the activities of the prospector, which fundamentally underlie the maintenance of the entire mining industry, have been diverted from gold prospecting into other and more attractive channels. It will, therefore, be necessary to make the gold-mining industry an attractive investment in order that the prospector may be induced to return to the work of discovering new gold deposits, which have been becoming less numerous during the past four years of economic stress.

MANY MINES WILL BE ABANDONED PERMANENTLY.

Once shut down, all mines suffer great deterioration. Deep mines, with extensive underground development, fill with water, the cost of removing which may be so great as to cause the permanent abandonment of the property, although there may be considerable tonnage of excellent ore, which under ordinary conditions could profitably be mined. Over short periods of time the timber rots, and since 1915 little retimbering has been done, so that many gold mines are in a dangerous condition from this neglect forced upon the operator by economic stress. Dredges used in placer mining can not be shut down without heavy depreciation. Most manufacturing plants may be shut down and reopened without suffering such heavy and sometimes prohibitive losses. In this regard the operation of a gold mine differs from that of any other industrial operation.

During the war the gold producer was urged by the Government for patriotic reasons to continue operations, as gold was considered a war necessity. Gold mine supplies were put on the preferred shipping list, and Congress passed an act to relieve the gold-mining industry from the burden of the excess-profits tax. Had it not been for the relief from this tax, the output for 1919 would have been very much less, but the effect has been more rapidly to exhaust the high-grade deposits, which have been heavily drawn upon during the past four years. Many mines have been altogether shut down during the last three years; many others that have continued operations are doing so either without profit or at a loss. It is obvious, therefore, that since no profits were made upon which to pay an excess-profits tax, the law relieving the producers of this necessity was inoperative and did not tend to stimulate production.

GOLD CONSUMPTION IN MANUFACTURES AND THE ARTS.

[Chart 11, Table 11.]

The consumption of gold in the arts shows a progressive increase from $31,476,091 in 1908 to $45,520,032 in 1914, an increase of $14,043,941, or about 44.6 per cent. In the year 1915, due to the uncertainty as to what responsibilities we would have to assume in the war and the general business lethargy, the gold consumed in the trades declined some $18,000,000 to $37.820,027. At the beginning of 1916 gold began to flow rapidly into this country, together with a large volume of war orders, which stimulated the pulse of our entire industry and made for generally prosperous times. For 1916 and 1917 the gold sold for use in manufactures and the arts was $51,061,187 and $52,915,641, respectively.

On account of this tremendous increase over 1915 of some 36 per cent for each of those years, our financial authorities suspected that gold was being hoarded, and, in 1918, which the Nation was confronted with large and uncertain financial responsibilities, placed an embargo on gold and issued restrictions with reference to allocating gold to the trades. Had it not been for these restrictions the consumption of gold in the trades in 1918 probably would have far exceeded the amount of $52,409,740, although this figure represents a decline of about $500,000 from the previous year.

1919 TRADE CONSUMPTION EXCEEDS PRODUCTION.

The actual sales of gold bars to the trades during the calendar year 1919, made by the New York, Philadelphia, San Francisco, and Denver offices of the United States Mint Service, totaled $76,837,600. This estimate does not include $20,359,613 of old gold which was refined and returned for consumption in the manufactures and the arts during 1919 by the New York assay office alone. To this amount has been added $3,500,000 to allow for the gold coin used for manufacturing purposes, thus making a total of $80,337,600, an increase of $27,927,860, or 53.2 per cent over the 1918 trade consumption. For the first time in the history of the country gold was exported to Europe for manufacturing purposes. Of the total sale of gold bars to the trades during 1919, which amounted to $76,837,600, $14,538,119 was exported for manufacturing purposes. The production of new gold during 1919, as reported by the United States Mint, was $59,488,800, an amount which failed to equal that consumed by the trades for manufacturing purposes by $21,848,800, or 37.4 per cent. In 1915, $63,215,673 was the highest amount produced in excess of that consumed in the trades for the past decade, which amount has declined progressively until, in 1918, the surplus was but $16,236,960, due entirely to a decline in production, since the amounts of gold consumed in the trades are practically equal for the years 1916, 1917, and 1918. This last year, however, due to a continued decline in the gold production, coupled with a still greater increase in the consumption of gold in the arts, a shortage has occurred for the first time in the history of the country.

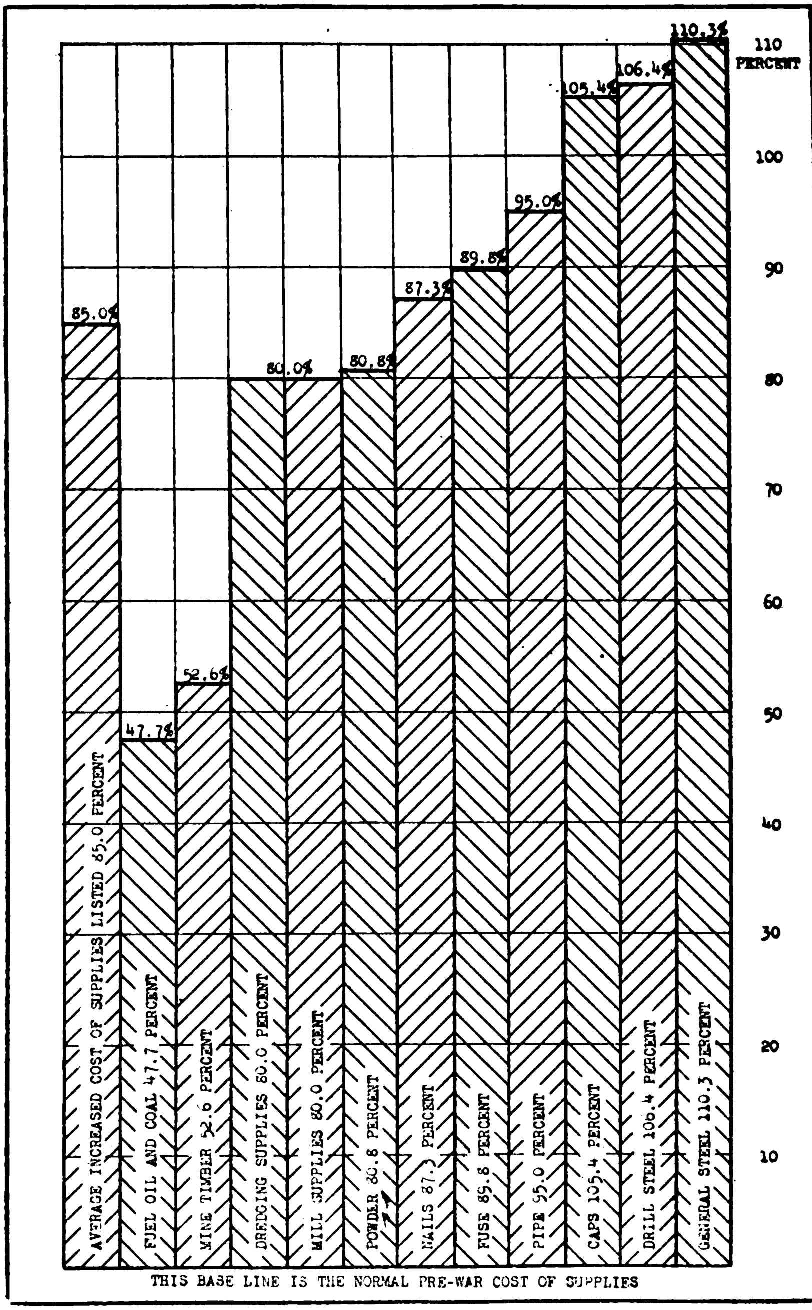


CHART 10-A.—Percentage increase in cost of gold-mining supplies in June, 1918, over normal prewar costs.

In the event that the conditions which produced the economic pressure which was forced and will continue to force a decline in the gold output will, on the other hand, be in favor of an expansion in the jewelry trade and the volume

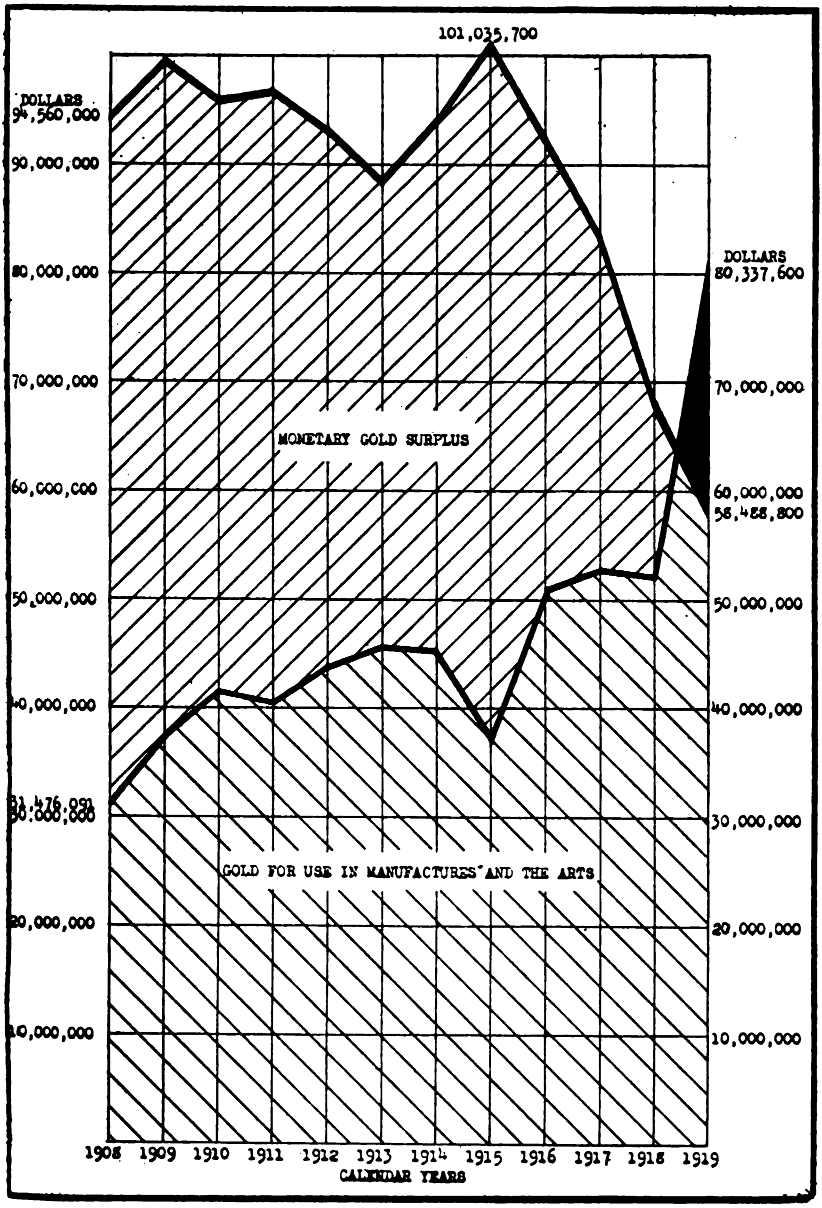


CHART 11, TABLE 11.—Gold production of the United States and gold furnished for use in manufacture and the arts, calendar years 1908–1919.

of gold consumed therein, and that, therefore, with the same economic conditions continuing through 1920, the consumption of gold in the arts probably will be more rather than less than that of 1919. With the same consumption in the arts, the estimate of $40,000,000 as the production for 1920 will leave a deficiency in excess of $40,000,000 this year.

COINAGE DESTRUCTION.

Ever since 1885, the sum of $3,500,000 has been allowed by the United States Mint to represent the United States gold coin destroyed for manufacturing purposes. There is little question but that an exact canvass of the situation would show that this amount has been greatly exceeded in recent years. In the opinion of many familiar with the jewelry business, the estimate of monetary destruction should not be placed at less than 10 per cent of the actual sales, or approximately $8,000,000 for 1919, while others are inclined to believe that it may far exceed this figure. Any excess above $3,500,000 to allow for the gold coin destroyed would have to be added to the estimate of $80,337,600 for 1919, in order to arrive at the total amount of gold consumed in manufactures and the arts.

TRADES FIND GOLD CHEAPER THAN LABOR.

It is interesting to know some of the reasons for this recent increase in the consumption of gold in the arts.

1. The restrictions allocating gold to the trades, which were in force during the war period, were removed, which made it possible for the jewelers to obtain an unlimited supply of gold for their use, at the prewar price of $20.67 per ounce.
2. The trend of the jewelry business has been toward the larger production of machine-made jewelry, which necessitates the use of very much heavier material to work upon.
3. The trade has been unable to keep pace with the rapidly increasing demand for jewelry, and never has the demand been so great for "decorative" dental work.

The jewelry trade, by installing machinery requiring heavier material to work upon, has, therefore, found it cheaper to substitute gold for labor. The gold producers have found that it has cost them more to produce the metal than they can obtain for it. These two statements confirm the same fact, but it is obvious that the jeweler could not afford to substitute gold for labor so freely if he paid the present price of its production. This condition is providing a profit to the manufacturer of gold to which he is not reasonably entitled, while the producer of gold sustains a corresponding loss, which he can not continue to bear. In the interests of manufacturer and producer alike, the two sides of this equation must be equalized, and the excise and premium proposal seems the most direct and least objectionable way to accomplish this result.

CHART 11, TABLE 11.—*Gold production of the United States and gold furnished for use in manufactures and the arts, calendar years 1908–1919.*

Calendar years.	Total mine production.[1]	Total consumed in arts, etc.[2]	Monetary surplus.[3]
1908	$94,560,000	$31,476,091	+$63,083,909
1909	99,673,400	37,628,769	+ 62,044,631
1910	96,269,100	41,787,152	+ 54,481,948
1911	96,890,000	40,834,292	+ 56,055,708
1912	93,451,500	43,977,257	+ 49,474,243
1913	88,884,400	45,864,066	+ 43,020,334
1914	94,531,800	45,520,032	+ 49,011,768
1915	101,035,700	37,820,027	+ 63,215,673
1916	92,590,300	51,061,187	+ 41,529,113
1917	83,750,700	52,915,641	+ 30,835,059
1918	68,686,700	52,409,740	+ 16,236,960
1919	58,488,800	[4] 80,337,600	− 21,848,800

[1] Statistics U. S. Geological Survey 1908–1919.
[2] Statistics U. S. Mint 1908–1918.
[3] The remainder of the newly produced gold after satisfying manufacturing requirements.
[4] Includes actual sales of New York, Philadelphia, San Francisco, and Denver offices of U. S. Mint and $3,500,000 to cover gold coinage destroyed.

SEGREGATION OF THE ORIGIN OF GOLD AS A BASIS FOR ESTIMATING FUTURE DECLINES.[1]

[Chart 12, Table 12.]

The average total United States mine production of gold for the decade 1908–1917 was $92,457,551, and for 1918, $66,162,130, a decline of $26,385,421, or 28.5 per cent. The average total mine production of gold derived exclusively from siliceous ores for the decade was $61,189,760, and for 1918, $41.909,673, a decline of $19,280,087, or 31.5 per cent. The average total production of gold from the washing of placer gravel for the decade was $23,331,756, and for 1918, $15,695,-637, a decline of $7,636,119, or 32.8 per cent.

The total mine production of gold has continuously declined from 1915, while slight increases were recorded in the placer and by-product gold output for 1916 and slight decreases in both of these sources for 1917, showing beyond question that the decline for these two years was due entirely to the depreciated output from siliceous ore operations. This condition may be attributed to the cost of labor, which is a larger factor in the production of gold from siliceous ore than it is in the operation of placer deposits, and by-product gold would be produced regardless of the cost, as that is borne by the base metals contained. It is to be noted, however, that the placer-output decline for 1918 from the decade average is greater than the decline of the 1918 siliceous-ore output from the decade average. It is difficult to account for this in any other way than that labor is very difficult to obtain and that the economic pressure has become so intense as to force the shutting down of placer operations, and that from this time on we may look for a still greater curtailment of output from this source unless relief is provided.

BY-PRODUCT GOLD INSUFFICIENT.

The average total mine output of gold produced as a by-product from base ores for the decade 1908–1917 was $8,026,035, and for 1918, $8,556.820, an increase of $530,785, or 6.6 per cent. This increase can readily be accounted for by the increased production of base ores during the war period.

The production of by-product gold remains fairly constant and does not, as it would be supposed, vary directly with an increase in the production of base metals. This is due to the fact that the large tonnages of extremely low-grade ores which are being worked at the present time, and which have contributed so extensively to increase the base metal output, contain but infinitesimal quantities of gold. By-product gold will never greatly influence the total gold production of the United States.

Gold derived from siliceous ores contributed 66.1 per cent; gold produced from the washing of placer gravel, 25.2 per cent; and gold resulting as a by-product from the smelting of the base ores of copper, lead, and zinc but 8.7 per cent of the total average mine production of gold for the decade 1908–1917. In 1918, due to the rapid decline in gold output of siliceous ores and from placer gravel, combined with a less rapid decline in the output of by-product gold, we find that siliceous ore gold supplied in that year only 63.3 per cent; placer gravel gold, 23.7 per cent; and by-product gold, 13.0 per cent of the total mine production.

The year 1916 records the high point in the production of by-product gold at some $10,600,000, which coincides with a record production of copper in that year. The corresponding production in 1918 was about $8,500,000, a decrease of $2,100,000, or approximately 20 per cent. In 1919 there was a decline in the base metal output, which is reflected in the $10,000,000 reduction in the gold production of the United States for that year. It is conservative to estimate that the production of by-product gold in the United States for many years to come will not exceed $8.000,000, and that this would become the maximum gold output of the United States in the event that mining operations dependent upon gold as the chief source of value were forced to shut down.

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[1] The United States mine production of gold includes only the production of continental United States, the origin of which has been specified as coming from siliceous ores and placer deposits, or as a by-product from the smelting of base ores. This accounts for the difference of from two to three million dollars between the mine production and the total gold production of the United States.

MONETARY RESERVE TO SUFFER HEAVIER LOSS IN 1920.

Assuming that no relief is given the industry and that the same economic pressure is continuous for this year, it is estimated that the gold production

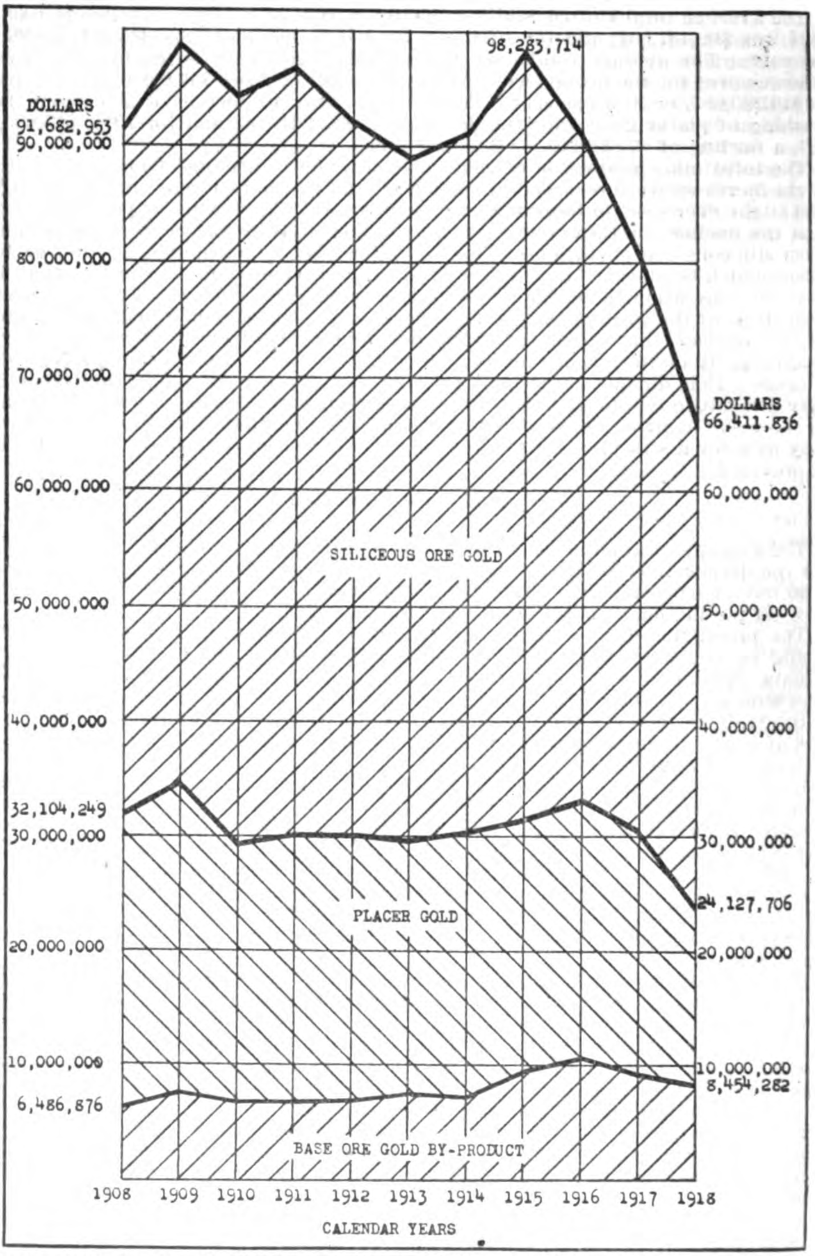

CHART 12, TABLE 12.—United States mine production of gold in dollars, segregated as to origin, calendar years 1908–1918.

for 1920 will probably not exceed $40,000,000, composed of a liberal estimate of by-product gold of $8,000,000, together with an output from siliceous ore and placer gravel of $32,000,000.

It is evident that the conditions which produced the economic pressure which has forced and will continue to force a decline in the gold output, will, on the other hand, be in favor of an expansion in the jewelry trade and the volume of gold consumed therein, and that, therefore, under the same economic conditions continuing through 1920, the consumption of gold in the arts probably will be more rather than less than that of 1919 ($80,338,000). There was not sufficient newly produced gold to satisfy the manufacturing and trade requirements by $21,850,000 for 1919, and this shortage will amount to about $40,000,000 for 1920.

Unless satisfactory means are provided which will insure the maintenance of the normal gold production of the United States, the monetary gold reserve will become more seriously depleted by this excess consumption in manufactures and the arts. To maintain our domestic and international financial position the monetary gold reserve should be protected effectively from depletion by other than monetary uses.

TABLE 12, CHART 12.—*United States mine production of gold in dollars, segregated as to origin, calendar years 1908–1918.*

[U. S. Geological Survey statistics. Excludes Philippines and Porto Rico.]

Calendar year.	Total mine output.	Siliceous ore output.	Per cent of total.	Placer output.	Per cent of total.	Base ore by-product gold.	Per cent of total.
1908	$91,682,953	$59,578,704	65.0	$25,617,373	28.0	$6,486,876	7.0
1909	99,189,947	64,341,781	64.9	27,036,705	27.2	7,811,461	7.9
1910	94,778,348	65,313,092	68.9	22,515,889	23.8	6,949,367	7.3
1911	96,860,352	66,369,199	68.5	23,415,168	24.2	7,075,985	7.3
1912	92,310,296	62,111,916	67.3	23,019,633	24.9	7,178,747	7.8
1913	89,118,410	59,222,751	66.4	22,238,424	25.0	7,657,235	8.6
1914	91,329,443	60,793,236	66.6	23,109,683	25.3	7,426,524	8.1
1915	98,283,714	66,404,089	67.6	22,272,501	22.6	9,607,124	9.8
1916	91,307,630	57,799,310	63.3	22,881,663	25.1	10,616,657	11.6
1917	80,624,484	49,963,517	62.0	21,210,587	26.3	9,450,379	11.7
Average, 1908–1917	92,547,551	61,189,760	66.1	23,331,756	25.2	8,026,035	8.7
1918	66,411,836	42,284,130	63.7	15,673,424	23.6	8,454,282	12.7
Per cent decrease 1918 from decade average	[1] 28.2	[1] 30.9	....	[1] 32.8	....	[2] 5.3	....

[1] Minus. [2] Plus.

PART 2.

PROTECTION OF THE GOLD RESERVE.

COMMITTEE ON WAYS AND MEANS,
HOUSE OF REPRESENTATIVES,
Washington, D. C., Friday, May 28, 1920.

The committee met at 10 o'clock a. m., Hon. Joseph W. Fordney (chairman) presiding.

The CHAIRMAN. Mr. Lehlbach, would you like to be heard on this McFadden bill?

Mr. LEHLBACH. I would like to be heard, and other gentlemen here also want to be heard.

The CHAIRMAN. We will limit the hearing on the McFadden bill to one hour.

STATEMENT OF HON. FREDERICK R. LEHLBACH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY.

Mr. LEHLBACH. Mr. Chairman and gentlemen of the committee, before going into the merits of H. R. 13201, the situation with reference to this bill of those who are opposed to its consideration and enactment is this: We understood—not by reason of any official action of the committee, but nevertheless we received the impression—that in view of the stress of the business before this committee and in view of the drawing to a close of the session, that the committee would in all likelihood not give consideration to the measure at the present time.

The CHAIRMAN. What leads you to believe that?

Mr. LEHLBACH. Conversations I have had with members of the committee and, possibly——

Mr. GARNER. Past performances of the committee. I think your conclusion is correct.

Mr. LEHLBACH. But we did receive this assurance, or at least I took it as an assurance, from the chairman and other members of the committee, that if this matter was to be given consideration, ample notice would be given to those in opposition to present their views on this bill. Now, as far as I know, the only notice that I received, although I was to be notified or thought I was to be notified, on behalf of my constituents, the great number of my constituents who were interested—I received notice informally over the telephone, from a member of the committee who knew personally I was interested, that this hearing was to be held this morning. I received this notice some time in the afternoon yesterday. I wired certain people who I knew were interested, the national and executive officers of the jewelers' associations, and they hurriedly prepared and got here this morning. But, as far as I know, they are not in a position adequately and completely and thoroughly to go into an analysis of the bill and show its probable effects, and present their views in a manner which the subject justifies.

Mr. BACHARACH. May I interrupt you? The first notice that I received of this matter was yesterday, when I immediately called up your office. You are absolutely correct in your statement that the chairman was to notify you.

Mr. LEHLBACH. A bill of such wide-reaching import as this, that affects everybody that uses gold in the arts, for mechanical purposes as well as ornamental purposes, etc., ought not to be reported out by the committee without a reasonable and fair opportunity to those who are interested in the matter, in an exhaustive and thorough manner to present, for the consideration of the members of the committee, their views.

It seems to me, therefore, it is a very modest and reasonable request to make that the committee at the conclusion of this hearing defer any action on the matter until at some future date an opportunity adequately to present the case on the part of those opposed to this bill is afforded.

The CHAIRMAN. Kindly tell us what you think about the bill.

Mr. LEHLBACH. I think it is a wonderful bill. We, I presume, are on a gold standard; every obligation of the Government is payable in gold or something that is the equivalent of gold. That is elementary. This is a proposition that anybody who mines gold may present it to the Treasury of the United States and get for an ounce of that gold an ounce and a half of gold back.

The CHAIRMAN. That is not what the bill says.

Mr. LEHLBACH. The bill says there shall be paid $20.67 for an ounce of gold, which is the value of that gold when coined, and you will get in addition to that $10, and that $10 is payable in gold. He gets an ounce and a half of gold for an ounce.

The CHAIRMAN. That is not what the bill says at all. It is only in the case it is used in the arts and manufacturers that he gets it.

Mr. LEHLBACH. That is when he pays it; it is not when he gets it.

The CHAIRMAN. The bill does not give an additional price for that gold unless that gold is used in the arts and manufactures, does it? If it is used for coinage, he gets no more for the gold?

Mr. LEHLBACH (reading):

That every person or corporation so producing newly mined gold from any mine within the United States or its possessions on and after May 1, 1920, and who shall deliver the same to the United States mint or its authorized agencies as herein provided shall be paid therefor the sum, amount, or consideration as now provided by existing law, and in addition thereto shall be entitled to receive on the certificate issued by the director of the mint as herein provided the additional sum of $10 for every ounce of fine gold so mined and delivered to the United States mint or its authorized agencies: *Provided*, That no gold bullion in any form whatever shall be issued or delivered to such gold producer in payment of, or in exchange for, any such newly mined gold delivered as herein provided.

The CHAIRMAN. Read the whole bill.

Mr. HAWLEY. Is not this the situation, that unless some gold is used in the arts and the tax is paid on that gold this additional $10 will not be paid? The money to be paid to the miner of gold must be derived from the tax on the gold?

Mr. LEHLBACH. This does not put a limit on that. Section 4 says "From the gold premium fund and any other funds in the Treasury of the United States."

Mr. HAWLEY. I think if you will read the bill, you will find that is not correct.

The CHAIRMAN. It does not apply to gold used in coinage; it only applies to gold used in the arts and manufactures, that is all.

Mr. LEHLBACH. That is the gold upon which the tax is placed. But how is it to be determined?

The CHAIRMAN. You read the whole bill and you will find out.

Mr. LEHLBACH. It is a pity a bill is to be reported when those who have serious opposition to it have not had the opportunity between the time they received notice of the hearing and the time when they must present their views even to digest and analyze the bill.

Mr. GARNER. Did you give notice to the clerk and chairman of the committee you wanted to be heard when this matter was considered?

Mr. LEHLBACH. I did.

Mr. GARNER. And you were not notified?

Mr. LEHLBACH. I was notified by Mr. Bacharach.

Mr. GARNER. Were you notified by the clerk of the committee or the chairman?

Mr. LEHLBACH. I was not.

The CHAIRMAN. The chairman asked Mr. Bacharach to notify you and you are here. Now, what is the complaint about the notice?

Mr. LEHLBACH. The notice was not ample.

Mr. BACHARACH. I want to state this——

The CHAIRMAN. Just a minute. You have made your statement. You said you were not notified of this hearing this morning.

Mr. BACHARACH. I said Mr. Lehlbach and myself were to be notified. I had men who intended to come over here from New York when this bill was to be heard and I have not had an opportunity to get in touch with them.

The CHAIRMAN. The gentleman here from New Jersey said I had agreed to notify them, and I guess I did overlook the matter. But there are so many of these requests, unless I have them in writing I am likely to forget. And I regret exceedingly if I have failed to notify anyone who wanted to be here, because there is no disposition on my part not to notify anybody and everybody who wants to be heard, because we want to have a fair hearing. But we are occupying time now which should be devoted to a discussion of the merits of the bill.

Mr. LEHLBACH. I do not intend to take any time in a discussion of the merits of the bill, except to suggest this: That if by this bill the market value of gold is $30 an ounce and if this bill has any real effect, it would be—you are coining that gold to be used as a circulating medium at $20 an ounce, and it would have the effect of still further cheapening your money, when that is what this whole world is suffering from—cheap money and high prices. You are attempting to increase what the world is already suffering from—cheap money—by still further depreciating the circulating medium.

The CHAIRMAN. There were several people here on this bill, and this is what was stated by them. I am not stating my opinion about it, but those gentlemen who represent the gold-mining interests of the country pointed out that the production of gold in this country fell, last year, from $101,000,000 to $58,500,000, because 42 per cent of the capital invested in the gold mines of the country is out of business, for the reason that the value of gold has not increased and it is the only commodity in the country that has not increased, while the cost of production has gone up in proportion to the cost of production of everything else in the country. Therefore, it was their opinion that the production of gold was diminishing, because of the fact there is no profit in the gold-mining business in this country; they are getting no more for their product to-day than they did before the war, although it is costing them twice as much to produce.

Mr. LEHLBACH. Is not that the effect of economic laws that work automatically, and by attempting to correct evils under which we are suffering? The trouble is there is too much gold in comparison to the stuff people can use in the world to-day, and consequently prices are high and money is cheap.

The CHAIRMAN. I do not know of anybody who has too much gold. I do not know of any country in the world that has too much gold.

Mr. LEHLBACH. I think so. I think the world has too much gold in comparison with the production of everything else.

The CHAIRMAN. The stenographer can not get your argument about this and mine at the same time, and if you will let me talk, I am trying to tell you why this bill is here.

Mr. LEHLBACH. I thought I was being heard, of course.

The CHAIRMAN. They are of the opinion that the gold is used in the arts and manufactures; if an extra charge could be made for that it would open up more gold mines and they would produce more gold in this country, and there is so much needed in this country and all over the world. That is their argument. You did not hear their arguments; I did, and I am telling you what they say.

Mr. LEHLBACH. The answer is we would be better off if there was less gold in comparison with useful and consumable products.

The CHAIRMAN. That is your opinion?

Mr. LEHLBACH. That is my opinion.

The CHAIRMAN. That we would be better off with less gold in the country than we have?

Mr. LEHLBACH. In the world, in comparison with the stuff the world buys.

Mr. GARNER. In your district—you come from Maryland?

Mr. LEHLBACH. No, sir; I come from New Jersey.

Mr. GARNER. If there is any kind of business up in New Jersey that is not prosperous, you get up some scheme and bring it down here and have a hearing. What we are here for is to make business prosperous, whether it is mining or anything else, and if you have a business up in New Jersey that is not prosperous get up a bill and bring it here.

Mr. LEHLBACH. I have not discussed the merits of the bill, because I have not had an opportunity to analyze and study and compare it.

The CHAIRMAN. You spoke of the chairman not giving sufficient notice——

Mr. LEHLBACH. I do ask this, and I hope the committee will give my request due consideration—that before action is taken by the committee on this bill an opportunity to those who are in opposition to the bill to exhaustively and thoroughly present their opposition be accorded.

The CHAIRMAN. Your request will have consideration.

Mr. RAINEY. We are going to do that if we can. This is an important question and we are anxious to finish it, if we have to stay here all summer, as far as I am concerned. Some of them, however, do not feel that way about it.

Mr. GREEN. There are some people, as you are doubtless aware, who think we are not really on a gold basis; that we are only nominally on a gold basis. I have been a little inclined that way myself, and I have wondered if that was not the real trouble, that we had issued so much paper money that we had got off a gold basis. Have you ever given any consideration to that?

Mr. LEHLBACH. The inflation of the credit currency, etc., to which I presume the gentleman alludes, is nevertheless supposed to be based upon gold, and when it is not it will blow up. If that suspicion becomes a certainty in the minds of the people, why we will soon be on a gold basis.

Mr. RAINEY. I wish you would come back again some day and scold the chairman some more; he needs it.

The CHAIRMAN. I am getting considerable scolding at home and I do not care for it here.

STATEMENT OF MR. HARRY C. LARTER, OF NEW YORK, REPRESENTING THE JEWELERS' VIGILANCE COMMITTEE.

Mr. LARTER. We appreciate what Mr. Lehlbach has said in reference to the short notice, and we understand the situation, Mr. Chairman, and we are accepting it courteously. We won't take up much of your time. We have one or two important witnesses we want to try to have heard.

In connection with this matter, we had thought that the letter from the Secretary of the Treasury to you, Mr. Chairman, under date of April 6, in which they express their opinion in reference to this bill and also the fact that the special committee appointed in reference to the investigation of gold, which made an exhaustive report under date of February, 1919, in which they stated it was therefore the judgment of this committee that no steps should be taken by the Government to stimulate or promote the production of gold, and this was indorsed by British authorities, that this question would not come up.

Mr. RAINEY. Who composed that committee?

Mr. LARTER. The committee was composed of Mr. Albert Strauss, chairman of the Federal Reserve Board; Edwin F. Kay; Raymond T. Baker, Director of the Mint; Emmet T. Doyle; and Pope Yeatman. They made an exhaustive study of this question and reported adversely to any idea of the production of gold being stimulated. It is now months after the war, and business men, I think I am safe in saying, had hoped that the peak in taxes had been reached and there would be less taxes instead of more.

Mr. RAINEY. That is a vain sort of hope.

Mr. LARTER. I am afraid so, in some cases. We think this bill is legally, financially, and commercially wrong. We do not propose to go into the details this morning, but we want to leave with you two important facts, and we have with us two gentlemen who are qualified to speak; one, Mr. Niemeyer, a member of the firm of Handy & Harman, refiners and smelters, one of the largest concerns in the country. He simply wants to drive home or leave with you the thought about some figures that are being used and that are misleading as to the actual amount of gold consumed in the arts and manufactures. The second gentleman is Mr. Robert B. Steele, who has had the honor of appearing before you before, as the gold and silver administrator, during the war. He will take up another phase of this bill.

STATEMENT OF MR. G. H. NIEMEYER, OF NEW YORK CITY.

Mr. Niemeyer. Various facts have been presented in reference to the production and consumption of gold which, while they may be made honestly, while they may be presented honestly, might be misleading. Various statements have been made quite generously to the effect that the consumption of gold is actually in excess of the production. That has been a general statement. I should like to present the figures given by the Director of the Mint, the last authoritative figures on this subject which are available, covering the year 1918. During that year the production of new gold in the United States was $68,646,700 in value. The new gold issued by the assay offices for consumption in the arts, presumably, was $29,392,395, or less than 43 per cent of the actual gold production. While the figures presented by the director indicate that $52,409,740 worth of gold were supposedly used in the arts, of that amount $19,517,000 was what he chooses to call old material or reissued gold. For example, anyone in the refining or smelting business, or even a manufacturer of gold, finds it necessary to return to the assay offices considerable gold which he has worked into certain forms to be rehandled and refined. That is then charged by the assay office as against gold issued, of course, but it is used over and over again. It might be used a dozen times or more. And that amounted, as I say, to $19,517,000 during the year 1918, or a very considerable percentage of the total amount used.

In addition there is a small matter—the coin destroyed by the Director of the Mint since the law passed in the year 1884. It has never been changed since that time. There was a time when the jewelry industry used quite a bit of gold, and the dental industry, as well as the optical industry, but they no longer use very much coined gold. That figure is $3,500,000. But it is problematical as to whether that amount of gold coin actually finds its way into the arts and is actually consumed.

I should like to refer a moment to the figures presented by the director covering the last 10 years, the period from 1909 to 1918, inclusive. The production during that period was $915,723,600. The new gold issued and supposedly used in the arts was $208,607,385, or slightly more than $20,000,000 per annum. The consumption in the arts during 1919 being $29,000,000 it would seem that the consumption was slightly more than $9,000,000 for that year in excess of the average for the 10-year period. And the proportion of the use of gold in the arts is certainly a very negligable quantity.

The Chairman. If you will permit me to give you some figures that have been given to the committee on that line——

Mr. Niemeyer. Yes, sir.

The Chairman. With the bill presented by Mr. McFadden, he sent some statistics here in which it is stated that in 1919 the gold sold by the United States Mint for consumption in manufactures and the arts was $76,837,600; usual estimated gold-coin destruction,

$3,500,000; total gold sold and coin destroyed for use in the manufactures and arts, $80,337,600, or $21,848,000 greater than the production of gold in the country last year.

Mr. NIEMEYER. Mr. Chairman, I can not, of course, comment on those figures, because they are not official. Those figures have not been issued officially. If any one has those figures, they may be based on absolute facts—I can not deny but what they are—but they are not publicly available, because we have asked for the 1919 figures and have been told they are not as yet available.

The CHAIRMAN. Those are the figures given by Mr. McFadden the other day.

Mr. NIEMEYER. Yes, sir. I can not say a word in reference to them, because they are not public property at the moment.

The CHAIRMAN. I do not know whether they are official or not, but they were given to the committee and if those figures are correct it is a very startling situation.

Mr. NIEMEYER. The point I would make is a fact very often overlooked, and that is this vast sum of gold that is constantly being turned into the arts is considered new gold, usually; whereas, as a matter of fact, $20,000,000 worth of gold, quite some item, is in the form of old gold, to be used over and over again and, therefore, should not be charged against the production of the new gold.

Mr. WATSON. What percentage of old gold is employed in the arts in comparison with the new gold?

Mr. NIEMEYER. As $30,000,000 is to $52,000,000. I beg your pardon; that is not correct. The old gold was $20,000,000 and the total consumption was $52,000,000.

Mr. WATSON. $30,000,000 of old gold is turned back in the arts?

Mr. NIEMEYER. $20,000,000.

Mr. GREEN. About two-fifths of the gold used in the arts, then, according to your computation, is old gold?

Mr. NIEMEYER. According to the Director of the Mint's computation, if you please, because those are authoritative figures I am quoting. You will find them right here in the Director of the Mint's report.

The CHAIRMAN. The gentleman did not give as part of these figures this gold reused; he states that the $76,000,000 is gold sold by the mints for the arts and manufactures.

Mr. NIEMEYER. Yes, sir.

Mr. WATSON. Do you know the percentage of loss in melting old gold? For instance, you take 100 ounces of old jewelry to the mint and you receive a certificate; when you return for your gold, what percentage is lost?

Mr. NIEMEYER. Our customers very often ask that question. Being refiners, we find it is rather difficult to answer. You can not make a blanket statement to cover that point, because the character of the material has a great deal to do with it. Much of it goes up the chimney, much is lost on the floor and swept out. There is no way you can tell how much the actual gold loss would be in the manufacturing processes. But the fact remains that the gold is actually not lost; no matter in what form it is used, the great majority of it still remains with us in some form or another as part of the wealth of our Nation. I would like to have you gentlemen bear that in mind, that the gold can be reconverted in most cases and it is not actually destroyed. A part of it may be, but the greater portion of it remains part of our wealth.

Mr. Green. Have you any estimate as to how much is used in dentistry?

Mr. Niemeyer. No; I do not think I would care to touch on that point, because I am not familiar enough with the actual percentage.

Mr. Hawley. Proponents of the bill state that this is a commodity the value of which is not dependent upon the ordinary rules of supply and demand, as it is the monetary standard of the country and has a fixed price.

Mr. Niemeyer. Yes, sir.

Mr. Hawley. They complain that the price they receive for their output bears no determinant relation from time to time with the cost of producing the material.

Mr. Niemeyer. Yes, sir.

Mr. Hawley. And they are asking that the legislation be enacted so that those who use the material for manufacturing purposes should pay the cost of the raw product that they use.

Mr. Niemeyer. Yes, sir.

Mr. Hawley. I would like to have you comment on that. Are the men who are manufacturing gold into jewelry or any other salable commodity paying approximately the cost of production of the raw material that they use in manufacture?

Mr. Niemeyer. If the gentleman will permit, a man much more able to talk on that subject will address you on the question of a subsidy.

Mr. Hawley. If some one in your behalf would comment on that I would be glad to hear it.

Mr. Larter. There is just one point of Mr. Niemeyer's testimony I would like to drive home—that the figures quoted as to the amount of gold used in the arts is not all new gold. A large percentage is remelted, old gold, sent to the assay office. Please bear that in mind.

The Chairman. Can you give the committee that percentage?

Mr. Larter. The only available figures from the assay office are for 1918. You have some figures on 1919 that we have not been able to get, because they are not published. The available figures show in the year 1918 there was $52,000,000 of gold issued by the assay office, and $19,000,000 of that was old gold, remelted.

Mr. Timberlake. Why is it that you have not the 1919 figures? Have you made any effort to secure them?

Mr. Larter. Oh, yes; but the Director of the Mint has not been able to compile them. Usually they are issued in July.

Mr. Timberlake. I understand they are here in the room and have been available for some time and that there is a party who will be able to furnish those exactly to the committee. And I wondered why you had not been able to secure them.

Mr. Niemeyer. We asked for them, but have not received them.

Mr. Timberlake. They are in the room and there will be a party who will present them, so I am informed.

Mr. Larter. We would like very much to get them.

Mr. Niemeyer. Just one point: It has further been stated that the large amount of old gold that has been reused or reworked during the past few years is largely due to the fact that because of patriotic reasons the people gave up their gold jewelry and contributed large amounts. I venture to say that out of the eighteen or nineteen millions in 1918 a very negligible amount was received from those sources.

The CHAIRMAN. Permit me to say I was in error a while ago when I said that the production of gold has decreased from $101,000,000 to $58,000,000 in one year. I was in error. It was from 1915 the production of gold was $101,000,000, and in 1919 it was $58,000,000. Those figures apparently are official, because in this statement Mr. McFadden gives the total amount of gold in the world, the production per year, and the amount used in the arts and for coinage; a complete statement. He gives a long list of figures and gives the rates. So that they must be official.

Mr. NIEMEYER. I can not doubt that statement. I believe I made that statement before, but that they were not available to us and have not been up to the present time.

Mr. MARTIN. Mr. McFadden is in the room and why not let him state it right now?

The CHAIRMAN. We will ask him, "Total United States gold stock, May 1, 1919," etc.: Are these figures official?

Mr. MCFADDEN. I think they are, and what I was going to suggest to you now, for the benefit of the committee, is that Mr. Lawrie has the official figures here; and I think, inasmuch as those figures have been questioned, that you gentlemen should have the official figures now. And I am going to ask to call upon Mr. Lawrie to give you the official figures.

Mr. LARTER. We do not want to be misunderstood. We are not questioning the figures. We want to raise the point, which I think Mr. Lawrie has not got—we could not get them—the amount of old gold the assay office took in and reissued in 1919.

The CHAIRMAN. You say it is $19,000,000.

Mr. NIEMEYER. In 1918. All the figures given are for 1918; the calendar year 1918 are the figures I have used—the last report issued by the Director of the Mint, which usually is issued in June.

ADDITIONAL STATEMENT OF MR. H. N. LAWRIE, ECONOMIST AMERICAN MINING CONGRESS.

Mr. LAWRIE. I just want to put this official data in the record which these gentlemen claim is so difficult to obtain, because I have had no difficulty in obtaining it whatever. The assay office in New York is very conveniently situated to the jewelers and those in charge are very accommodating in giving out this data. I have a letter here signed by the acting superintendent of the New York assay office, under date of January 9.

The CHAIRMAN. Of this year?

Mr. LAWRIE. January 9, 1920, in which he states:

In compliance with request of your letter of the 8th instant, I am forwarding you the amount of gold bars exchanged for gold coin during the calendar year 1919:

Domestic	$59, 811, 501. 65
Export	14, 538, 118. 47
Total	74, 349, 620. 12

That does not include the gold that was refined by the New York assay office. I have a statement here from the same gentleman in the United States office in New York that during the calendar year 1919 $20,359,612.77 was paid in gold bars on warrants for the refined old gold that was sent to them for refining, which has to be taken as an additional amount to the amount already stated in the letter from the assay office.

There are three other offices that disburse gold in this way to the arts and trades. I have a letter here from the Philadelphia assay office, dated January 2, 1920, signed by the Acting Superintendent of the United States Mint at Philadelphia:

Replying to you letter of December 29, I beg to say that this mint disbursed fine gold during the calendar year 1919 as follows:

Exchanged for gold coin	$1,384,550.88
Paid fine gold for gold contained in deposits	671,345.68
Making a total of	2,055,896.56

Now, from the Denver office I have this telegram:

Value gold bars issued for use in arts and manufactures last year, $50,026.35.

That telegram is dated January 2, 1920. Now, the Director of the Mint, at my request, wired the San Francisco office and they reported, and it was reported back to me. The official telegram is in the office of the director. The amount disposed of by that office during the calendar year 1919, was $373,031 gold bars exchanged for gold coin.

Mr. STEELE. I would like to ask Mr. Lawrie if he is prepared to state if those amounts which he states were given out in exchange for gold coin in New York and San Francisco were for use in the arts?

Mr. LAWRIE. That is the opinion expressed by those who made the sales.

Mr. STEELE. Officially?

Mr. LAWRIE. That is what they write us.

Mr. STEELE. I do not think it is official.

Mr. LAWRIE. I say that is the opinion they have expressed.

Mr. STEELE. I do not think it is official, because I will say from my knowledge of the amount of gold used in the arts I know those figures are preposterous; they are out of all reason. And the amount of old gold involved in those figures is a very large proportion. I think the only statement that you read showing the amount of old gold or reworked gold turned out by any of those Government depositaries was from the Philadelphia Mint. It amounted not to 40 per cent, but it amounted practically to 50 per cent—being $650,000, I think, out of $1,300,000 of the gold reported sold.

Mr. LAWRIE. What have you to say as to this figure they report at the New York assay office of $20,359,612 exchanged for old gold refined on warrants. What have you to say of that figure, Mr. Steele?

Mr. STEELE. I think that is under, probably, the percentage I would expect; I do not know.

Mr. LAWRIE. That is in excess of these other sales that have been made in exchange for gold coin.

Mr. STEELE. I would like to explain that when gold is withdrawn from the New York assay office, the destination of that gold is always very carefully sought. The people who withdraw the gold there are asked particularly where that gold is going to or for what it is to be used. They ask whether that gold is going to be for export; if so, for what country and who are carrying on the transaction; whether it is going into the arts or for what purpose it is going to be used. That has been done always for a number of years. And I can not believe the figures Mr. Lawrie quotes do not include a large amount of gold for reworking and for export.

The CHAIRMAN. Mr. Lawrie, those figures you claim are official?

Mr. LAWRIE. These figures are over the signatures of the gentlemen who made the sales at those various offices.

Mr. FREAR. And do they make a statement in regard to the old gold to which you refer?

Mr. LAWRIE. Yes; they make a statement as to the old gold refined.

Mr. FREAR. Have you read that statement?

Mr. LAWRIE. The New York assay office returned and refined $20,359,612; upon warrants for the old gold turned in by them during the calendar year 1919, and that that was not included in the figures of gold bars exchanged for gold coin or certificates sold from that office during that calendar year. This is a situation that you can not point to the figures in past years; it is a situation that has grown very rapidly. The data must necessarily be brought up to the minute in order to get the facts pertinent to this subject.

Mr. LARTER. We inquired where we thought was the proper place, to the Director of the Mint, for all those statistics in 1919, and when we inquired we could not get them. We would like to ask the privilege of getting the figures so as to present them to you in this hearing.

The CHAIRMAN. We would be glad to have any information you can give us on the subject.

STATEMENT OF MR. ROBERT B. STEELE, OF NEW YORK, N. Y.

Mr. STEELE. I am a manufacturer of platinum jewelry.

Mr. GREEN. That is a class the members of the committee are not very much acquainted with.

Mr. STEELE. Some of them know it pretty well.

The CHAIRMAN. Mr. Steele, we will be glad to hear what you have to say on this matter.

Mr. STEELE. This question of the stimulation of gold production is not a new one; it was the first problem that was brought to my attention when I was called to Washington during the war and when the situation was so very bad that it was necessary to restrict the use of gold by the arts, in view of the domestic and international situation. They not only had to restrict the use of gold by the arts but, as you all know, there was a stringent ruling against exports except under very careful supervision of the Federal Reserve Board.

At times when this question of gold legislation has come up, I have had the privilege of knowing the attitude of the Federal Reserve Board and of the Treasury toward proposed gold legislation, and their attitude has been a very consistent one and one that they have adhered to very strongly up to the present time. And I think that you will find their attitude is the same now as it was during the war, with this difference, that whereas then the situation was considered to be very bad, to the extent that exports were forbidden and the restrictions on the use of the metal were very severe, even aiming at the complete cutting out of the industries from any use of gold, to-day the same financial authorities do not feel it necessary to either restrict exports or to restrict the use of gold in the arts.

Their feeling was this, I think, at the time this report was made of the committee that was read to you: I remember Mr. Strauss making the statement to me that inasmuch as gold is the basis of the value of everything on the face of the earth, inasmuch as most of the civilized nations of the world are on a gold basis or on a gold standard, that he could not conceive (while he admitted and the others of the officials admitted that it was hard luck for the gold miners that the cost of their supplies and of their labor made it less profitable to mine gold) and the others agreed with him, how you could make one horse into two horses. In other words, he could not conceive how it was possible for any nation to advance the value of gold, which was the unit—which was the basis of the unit of value.

Also, I think it was felt that the economic truth was there, that if you increased the value of the unit on which all other values are based you would necessarily and automatically increase the value of all the other things in the world whose values were based upon that unit of value.

I do not want to repeat, but I think that is the crux and the foundation stone of all gold legislation.

The CHAIRMAN. Mr. Steele, I do not want to interrupt you, but I want this point brought out: Those gentlemen who are in the gold-mining business who were here have pointed out that the cost of their production since 1915 has gone up 85 per cent, while their product has not at all increased in value. Now, you, as a jewelry manufacturer, if your cost of production had increased 85 per cent to you, if you could get no more for your product it would leave you in a rather chaotic condition, would it not?

Mr. STEELE. Yes.

The CHAIRMAN. So, if those statements are correct, the gold-mining interests of the country are in a bad financial condition, unless before 1915 their profits were excessive?

Mr. STEELE. I think, Mr. Chairman, you have hit upon a point in the matter which made this committee feel it was not desirable to pass any legislation or to recommend any legislation for the purpose of helping the gold-mining industry. They felt that in the past, before 1916 and 1917, when their costs had risen, that they had had a long series of very profitable years. And I think the published reports of the gold-mining companies of the country bear out that theory and show that to be a fact—that large profits had been made for a great many years before the war by these gold-mining companies. In addition to that, a man who has other property is in a bad way if he can not in any way avail himself of it, if he can not realize on it; but it was felt that the gold miners were in a very happy position in this respect, because if it cost them so much, owning the property and having the right to work it, to get out their product, it would certainly cost anybody who wished to steal it from them as much or more to produce. Therefore it was felt they might very well leave their product in the ground, the best safe-deposit vault in the world, without cost to themselves, without deterioration, and when the proper time came, when costs would permit them to go ahead in the natural course of affairs and develop their mines and work their mines again, that then they should do so; that in the meantime a large number of mines were producing at a profit and any stimulation of an artificial nature would merely mean a gift to those mines that were fortunate enough to be in a position to work under those conditions.

The CHAIRMAN. There is a gentleman in the room who made the statement before the committee that you could count on one hand the gold-mining companies in this country that were making money.

Mr. STEELE. Now.

The CHAIRMAN. At the present time; that the business was very unprofitable, and that 42.1 per cent of the total capital invested in gold mining in the country to-day had closed down and gone out of business. And he gave as the chief reason the fact that the cost of production had gone very high, but the value of the product had increased not at all.

Mr. STEELE. I think probably that is true, Mr. Chairman.

The CHAIRMAN. It is a pretty strong argument.

Mr. STEELE. And I think also it is true that for a long period of years previous to the last few years the gold-mining industries had a very profitable period.

The CHAIRMAN. I do not know; I was not fortunate enough to be in the business.

Mr. STEELE. I think if the figures could be produced here to show the profits made by the gold-mining industries previous to this time when the cost of production mounted, you will find they had this profitable time of operation for a long time, while they have only had a comparatively short time of difficulty.

Mr. RAINEY. Assuming that is true, would the present situation encourage them to continue mining just because they have distributed large profits in past years?

Mr. STEELE. I think there is one peculiar feature about this bill. I do not think we are prepared on such short notice to go into the bill in detail, but there is a principle here which might well be considered.

Mr. RAINEY. I am now returning to that. You were saying at the time you were interrupted that the crux of the matter from your standpoint was this, that you can not increase the value of the metal which is the basic money metal without increasing the prices of everything else?

Mr. STEELE. Yes.

Mr. RAINEY. When you do that—when you pay this subsidy to mines collected in this way—does that increase the value of the gold used by the country in the mint? Do they not still pay $20.67 for it; and when they levy a tax, do you not give it back to them in the increased value of the gold that is mined? I think that is the crux of the matter.

Mr. STEELE. My statement in regard to that was that was the crux of the matter considered by that committee at that time, that they could not increase the value of the product of the mine without in turn increasing the values of all things, as values were computed in the terms of the gold unit.

Mr. RAINEY. Does that increase the value——

Mr. STEELE. If they increased the value of the gold, if they paid more for the gold, which was the proposition at that time, a direct subsidy by the Government, or a larger price paid by the Government, I think it would have the effect of inflating the values of all things based upon that.

Mr. RAINEY. Does this subsidy increase the price of gold when they still sell it for $20.67?

Mr. STEELE. To the Government for coinage?

Mr. RAINEY. Yes.

Mr. STEELE. That is a point I would like to take up later.

Mr. RAINEY. I will be glad to have you discuss that.

Mr. LONGWORTH. What effect, in your opinion, would the passage of this bill have on the jewelry business?

Mr. STEELE. It would have a deterrent effect.

Mr. LONGWORTH. To what extent?

Mr. STEELE. It would be hard to answer that.

Mr. LONGWORTH. Is it not a fact that the quantity of the cheap jewelry has very greatly increased in the past two years?

Mr. STEELE. I think probably it has.

Mr. GREEN. There is a question there. Have the sales of all kinds greatly increased?

Mr. LONGWORTH. Cheap jewelry?

Mr. STEELE. I should say it had—not in the last few years.

Mr. LONGWORTH. In the last two years?

Mr. STEELE. Since the war ended; yes.

Mr. LONGWORTH. Does the quantity of gold in the settings of the very expensive jewelry have any effect upon the price?

Mr. STEELE. The very expensive jewelry is not made of gold, Mr. Longworth; it is made of platinum.

Mr. LONGWORTH. What effect would the rise of the price of gold have on platinum?

Mr. STEELE. I can only say the high price of platinum has had a marked effect on the sales of platinum jewelry.

Mr. LONGWORTH. Has it reduced it?

Mr. STEELE. To such an extent that the price of platinum has dropped very materially.

Mr. LONGWORTH. Is it not really the fact that the reason platinum has been so fashionable is because its price has been so much higher than that of gold?

Mr. STEELE. I have not felt so; I think there are reasons why platinum has been favored for jewelry. It has a neutral color, and it has wonderful qualities of strength and tenacity. It is a very unusual metal, far superior to gold for jewelry work.

Mr. LONGWORTH. What is the relative difference in the price?

Mr. STEELE. Gold is $20.67 an ounce, and platinum, I believe, is $85 an ounce. I understand it is $85 or $90 an ounce. It has dropped from $150 an ounce, which was the price a few months ago.

Mr. LONGWORTH. It was about $150 an ounce when you were last before the committee.

Mr. STEELE. It is now about $90 an ounce, officially, but it can be bought for $85.

Mr. LONGWORTH. Where is the supply coming from?

Mr. STEELE. A large supply came from South Africa during the war. I think a good deal is coming from Europe.

Mr. LONGWORTH. Is any coming out of Russia?

Mr. STEELE. Indirectly, probably; but I do not think there has been any direct shipments.

Mr. RAINEY. Do you know what the importations are at present as compared with the prewar importations?

Mr. STEELE. I can get those figures for you.

Mr. RAINEY. The present importations are almost equal to the prewar importations, are they not?

Mr. STEELE. I should say so because of the drop in prices.

This bill as proposed binds the Government to pay a subsidy to the producers of gold. The Government is bound to that. The Government is bound to collect a tax from the industries using gold, too; the Government is bound to that. This is paid in advance to the producer of new gold, but there is no agreement and there is no assurance on the part of the gold producers that they will produce, under such an arrangement. Let us assume even that they would make a tentative agreement to produce more under this arrangement that has been proposed in this bill. You will find that the element that has brought about this agitation has been the question of costs of production. These costs are going to do one of three things, either they are going higher, or else they are going to stay where they are, or they are going to be lower.

Mr. RAINEY. Can you think of any other way of stimulating the production of gold than by making it profitable for the miners to produce it, unless the Government takes over the mines?

Mr. STEELE. That is the only solution I can see.

The CHAIRMAN. That would create a chaotic condition, because it would certainly increase the cost of production if the Government attempted to operate the gold mines. Is not that true, Mr. Steele?

Mr. RAINEY. That does not follow, necessarily.

The CHAIRMAN. That has been our experience, that when the Government took hold it cost more money to operate than ever before, and more than if it remained in the hands of individuals or sets of individuals.

Mr. STEELE. That is something I would like to discuss later.

Mr. RAINEY. That may be true, but when the Government took over the railroads private interests could not operate them at all, and our railroads would not have been operated successfully if the Government had not taken them over.

Mr. STEELE. If it is known to the labor employed by the mines that the miners, the producers, are going to have a subsidy to stimulate their work, labor is not going to be in such a happy condition. The costs of producing are probably going to immediately rise, with the result that it is probable you will be having a deputation here before long asking for a further adjustment of this matter, although should the cost of production come down under this legislation for five years, this subsidy would still continue to be paid to the industry. On the other hand, if the costs mount and become greater, this legislation immediately becomes ineffective. If the costs should decline the subsidy would be a gift to the industry, because they not only would have their ability to produce their product for less money, but for five years they would have the opportunity of collecting this subsidy in any event.

The CHAIRMAN. We have heard these gentlemen on this bill for an hour, and we must either come back this afternoon to hear these other gentlemen who are here to be heard in regard to the bill in connection with aviation or take up that matter now. What is the pleasure of the committee?

Mr. GREEN. Under the present parliamentary situation in the House I think we are liable to have one roll call after another, and I think it would be difficult to go on with the hearing this afternoon.

The CHAIRMAN. If you will proceed for five minutes longer, Mr. Steele, then we will go on with the hearing in connection with aviation, and you will have the privilege of extending your remarks in the record, adding such data as you think would be of benefit to the committee in considering this subject.

Mr. STEELE. We feel, gentlemen, that this proposed legislation amounts to only one thing in effect, and that is a subsidy. We feel also that in addition to the vicious principle of a subsidy it embodies a still more vicious principle, and that is the principle of collecting the amount of this subsidy through Government machinery for a private industry that is to be benefited specifically from another small group of particular industries. You might call this a robbing Peter to pay Paul proposition. It embodies not only the principle of a subsidy but the principle of a subsidy to be given to a special industry and to be collected from another special industry. We have had no better guide in this matter in regard to a subsidy than the decision of Judge Cooley, of Michigan, in the Sugar Refiners' case, where he says:

> But it is not in the power of the State, in my opinion, under the name of a bounty, or under any other cover or subterfuge, to furnish the capital to set private parties up in any kind of business, or to subsidize their business after they have entered upon it. A bounty law, of which this is the real nature, is void, whatever may be the pretense on which it may be enacted. The right to hold out pecuniary inducements to the faithful performance of public duty in dangerous or responsible positions stands upon a different footing altogether. Nor have I any occasion to question the right to pay rewards for the destruction of wild beasts and other public pests; a provision of this character being a mere police regulation. But the discrimination by the State between different classes of occupations, and the favoring by one at the expense of the rest, merchandising or milling, printing or railroading, is not legitimate legislation, and is an invasion of that equality of right and privilege which is a maximum in State government. When the door is once opened to it, there is no line at which we can stop and say with confidence that thus far we may go with safety and propriety but no further. Every honest employment is honorable; it is beneficial to the public; it deserves encouragement. The more successful we can make it the more does it generally subserve the public good. But it is not the business of the State to make discriminations in favor of one employment against another. The State can have no favorites. Its business is to protect the industry of all and to give all the benefit of equal laws. It can not compel an unwilling minority to submit to taxation in order that it may keep upon its feet any business that can not stand alone.
>
> Moreover, it is not a weak interest only that can give plausible reasons for public aid. When the State once more enters upon the business of subsidies, we shall not fail to discover that the strong and powerful interests are those most likely to control legislation, and that the weaker will be taxed to enhance the profits of the stronger.

The CHAIRMAN. That was a decision of the Supreme Court of the State of Michigan in a case wherein the legislature of the State voted a bounty to sugar produced from beets raised within the limits of that State, and the court held that that was unconstitutional?

Mr. STEELE. Yes.

Mr. TILSON. Do you not differentiate at all between a subsidy which goes to the basis of values and one to an industry that is purely private?

Mr. STEELE. I think that is a legal question I could not answer. But we view this particular question not as a subsidy given to a particular interest and paid for by all the interests of the country pro rata according to the amount of their taxation, but a subsidy given to a special interest collected from special interests, which is something I think that is new in our national legislation.

Mr. HAWLEY. What do you say in answer to the proponents of the legislation who allege that you have the advantage of obtaining your product at less than the price it can be produced for, in that it is not governed by the law of supply and demand?

Mr. STEELE. I think the Treasury attitude on that question is this, that they do not feel at this time any relief is possible for the gold-mining industries. I have no right to speak for the Treasury, but I believe that is their attitude as expressed in Secretary Houston's letter, or by Mr. Leffingwell.

Mr. HAWLEY. Do you state that you are not obtaining your product; that is, your raw product for your manufactures at less than the cost of production?

Mr. STEELE. Apparently not, because I do not think it is human nature to produce something on which you are not making a profit. You know England's South African gold production has been marketed here for some time past, so there are other producing industries in the gold-mining field that are producing and sending their product to this country. There are other gold-mining companies besides the American who are finding it profitable.

Mr. HAWLEY. But the South African problem in the mining world is entirely different; there the gold producers use Kafir labor.

Mr. STEELE. I think their problem is the same as ours, because you will find that the falling off in production is not only in this country, but that condition is in the entire world; because the figures show the falling away has been entirely proportionate wherever gold has been produced, probably due to the operation of the same causes, greater costs of labor and greater cost of material.

Mr. LARTER. Mr. Chairman, we appreciate very much the opportunity you have given us this morning to present our side of this matter. We have done the best we could with the short notice we had. We have produced a short brief on the subsidy question, and I have it here for the different members of the committee. This presents our story in reference to the matter of subsidy as quickly as we could give it to you, and we would like to have it also inserted in the record. We would also like to ask the privilege of sending you some additional data, and would like, if possible, to have another hearing at some future date.

The CHAIRMAN. If you will send your additional data to us in the next two or three days, we will have it printed in the record of this hearing. We will incorporate this brief in the hearing.

(The brief referred to is as follows:)

MEMORANDUM SUBMITTED TO COMMITTEE ON WAYS AND MEANS OF HOUSE OF REPRESENTATIVES IN OPPOSITION TO M'FADDEN BILL, H. R. 13201, SIXTY-SIXTH CONGRESS, SECOND SESSION.

The purpose of the bill, as stated in the title, is:

"To provide for the protection of the monetary gold reserve by the maintenance of the normal gold production of the United States to satisfy the requirements of the arts and trades, by imposing an excise upon all gold used for other than monetary purposes, and the payment of a premium to the producers of newly mined gold, and providing penalties for the violation thereof."

This proposed legislation, if enacted, will operate in the following manner:

(1) A tax will be levied upon all gold manufactured, used, or sold other than for coinage or monetary purposes, which tax will be collected from the manufacturers or dealers.

(2) There will be paid over to every person or corporation producing newly mined gold from any mine within the United States a subsidy equal to the sum of $10 for every ounce of fine gold mined and delivered to the United States Mint.

In other words, this proposed legislation not only contemplates a subsidy to mine owners, but makes such sibsidy conditioned upon a tax levy on certain arts and industries. The legal questions involved are of the very gravest character.

In discussing similar legislation effecting a sugar sibsidy, Mr. Justice Peckham, of the United States Supreme Court, in the case of U. S. *v.* Realty Co., 163 U. S. 427, used this same expression and emphatically stated that the questions of a subsidy "are of the very gravest character."

In Field *v.* Clarke, 143 U. S. 649, Mr. Justice Harlan, of the United States Supreme Court, when likewise discussing the problems involved in the sugar-subsidy legislation of 1890. stated that—

"it would be difficult to suggest a question of larger importance or one the decision of which would be more far-reaching."

Although the Federal Constitution does not specifically prohibit the payment of bounties, it is self-evident that money is the product of taxation, and that the right to appropriate is necessarily limited by the right to tax. The earliest bounty legislated by this Nation was that paid to deep-sea fishermen during the years 1792 to 1807. The payment of these bounties was made the storm center of political differences of opinion, and whereas the constitutionality of the bounties was never directly passed upon by the courts, in each instance the repeal was necessitated by the inherent aversion of the people of the United States toward the payment of any bounty or subsidy for the encouragement, protection, or enrichment of private industry. It is apparent that where an enterprise is conducted by private persons for their own private benefit the public authorities have no control over the expenditures made by the private persons, and certainly have no share in the profits, and the enterprise is, therefore, a private one and not a public one—whether large or small and whether profitable or unprofitable.

As stated by Attorney General Olney in the income-tax cases (Pollock *v.* Farmers' Loan & Trust Co., 157 U. S., 429):

"The power to tax in its essence is the power to raise money from the public for the public."

Since 1798 State and Federal courts have consistently held that "levies for private purposes are illegal or extortion under the form of law." (See Calder *v.* Bull, 3 Dal., 386.)

However commendable the objects of the bounty may be, and however valuable the services of the recipient of the bounty may be, it is clear that public money can only be used to discharge a public liability.

In 1890 the Congress of the United States enacted the so-called sugar-subsidy legislation. This legislation was constantly in the courts during the following four or five years, and in the cases of U. S. *v.* Realty, 163, U. S., 427; Burden Sugar Co. *v.* Payne, 167 U. S., 127; and Field *v.* Clarke, 143, U. S., 649, the Supreme Court of the United States, in discussing the legislation of 1890, declined in each instance to go into the constitutionality of the legislation. The Court of Appeals for the District of Columbia, in the case of U. S. *v.* Carlisle (5 App. Cas., 138), held that this sugar-subsidy legislation was unconstitutional, on the theory that even though an indirect public benefit resulted from the subsidy, the extent of the private benefit made the use of public funds illegal. Thus the highest court of the United States which passed on this subject held this type of subsidy legislation unconstitutional.

In 1894 (see 28 Stat., 509), this particular subsidy legislation was repealed because of the great unpopularity throughout the country which attended its enactment. The most lucid and forceful exposition of the questions surrounding the constitutionality of subsidy legislation were stated in the words of that eminent jurist, Mr. Justice Cooley, as quoted in the case of the Michigan Sugar Co. *v.* Dix (124 Mich., 674):

"But it is not in the power of the State, in my opinion, under the name of a bounty, or under any other cover or subterfuge, to furnish the capital to set private parties up in any kind of business, or to subsidize their business after they have entered upon it. A bounty law, of which this is the real nature, is void, whatever may be the pretense on which it may be enacted. The right to hold out pecuniary inducements to the faithful performance of public duty in dangerous or responsible positions stands upon a different footing altogether. Nor have I any occasion to question the right to pay rewards for the destruction of wild beasts and other public pests, a provision of this character being a mere police regulation. But the discrimination by the State between different classes of occupations and the favoring by one at the expense of the rest, merchandising or milling, printing or railroading, is not legitimate legislation and is an invasion of that equality of right and privilege which is a maxim in State government. When the door is once opened to it there is no line at which we can stop and say with confidence that thus far we may go with safety and propriety, but no further. Every honest employment is honorable; it is beneficial to the public; it deserves encouragement. The more successful we can make it the more does it generally subserve the public good. But it is not the business of the State to make discriminations in favor of one employment against another. The State can have no favorites. Its business is to protect the industry of all and to give all the benefit of equal laws. It can not compel an unwilling minority to submit to taxation in order that it may keep upon its feet any business that can not stand alone. Moreover, it is not a weak interest only that can give plausible reasons for public aid. When the State once more enters upon the business of subsidies we shall not fail to discover that the strong and powerful interests are those most likely to control legislation and that the weaker will be taxed to enhance the profits of the stronger."

Following this reasoning, the State courts have consistently held that the legislature can not transform taxation for a private purpose into taxation for a public purpose by a mere declaration that it is for a public purpose. (See East Saginaw Sugar Mfg. Co. *v.* State Auditors, 9 Mich., 326; Lowell *v.* Boston, 111 Mass., 454; Clee *v.* Sander, 74 Mich., 692; McConnell *v.* Ham, 16 Kan., 228; In re Page, 60 Kan., 842; In re Stanfords Estate, 126 Cal., 112; Deal *v.* Miss., 107 Mo., 464; People *v.* Salem Township Board, 20 Mich., 492; Commercial National Bank *v.* Iola, 2 Dill., 353.)

These cases were the result of legislation directing subsidies to be paid to persons building trees over burnt districts; providing for seed grain loans to farmers whose crops were destroyed; converting payments of part of a tax on insurance contracts to be turned over to volunteer fire departments; making payments to private individuals for development of local industries, or payment of subsidies for the manufacture of special commodities, such as salt, beet sugar, etc.

All of the court decisions in this country on the question of subsidy naturally refer to the inherent question as to whether the object of the subsidy is a public benefit, and in this connection the cases consistently have held that the term "public purpose" as employed to denote objects of taxation has no relation to the urgency of the public need or to the extent of the public benefit to follow. It is, on the other hand, a term of classification merely used to distinguish the objects for which, according to general usage, the Government is to provide from those which by like usage are to be left to private inclination, interest, or liberality. Where there has been subsidy legislation, the result of which clearly was for a public purpose, although coupled with a private benefit, the legislation has been declared unconstitutional, as it was in excess of legislative authority. (See legislation enacted in Wisconsin, relating to storage of débris of mines for what was clearly a public purpose, but also resulting in private benefit. Held unconstitutional in the case of Whiting *v.* Sheboygan, 25 Wis., 167.)

The proposed legislation not only contains the inherent vice of a subsidy to a special interest but is accompanied by the un-American principle of placing a direct burden upon certain special and particular industries and arts for the benefit of separate and distinct industries to which the bounties are to be paid. During the violent and heated political discussions surrounding the proposed ship subsidies which were under discussion from 1900 to 1904, the temper of the American people was made evident in the general public disapproval of governmental subsidy to the shipbuilding interests, even though it had to be generally admitted that some action should have been taken to encourage the development of the American merchant marine. At that time, however, the second vicious principle contained in this proposed legislation was absent, and at no time in the history of the American Government has legislation ever been proposed with any degree of confidence contemplating the taxing of one industry for the specific benefit of another.

If by any chance a subsidy to be paid to gold mining operations were desirable and constitutional, the funds for such subsidy should come from the General Treasury of the people of this country on the theory that the reason for the subsidy was a prospective and contemplated benefit to the Nation as a whole. It would be a clear case of robbing " Peter to pay Paul " if the income of certain selected industries were to be converted into the treasury of other industries. Alleged or actual deficits of private corporations should in no way be replenished from the revenue of other private corporations. Even though it be assumed that these other corporations are engaged in a business coupled with a public interest, payment of the proposed premiums and subsidies would not only be an inducement toward prospective waste and inefficient management, but would place an illogical, unnecessary, and unsound financial burden upon those other industries which in no way would be a party to the profits of the gold mining industry, but in fact would be replenishing alleged operating deficits.

In closing, it is interesting to note that the proposed legislation in its present form in no way guarantees against a levy on the public generally in excess of that supplied by the manufacturers and dealers in gold articles, because it is in no way clear that the revenue received under the proposed legislation will be sufficient to pay the subsidies contained therein.

Respectfully submitted.

JEWELERS' VIGILANCE COMMITTEE (INC.).

(Thereupon, the committee proceeded to the consideration of other business.)

ADDENDA.

HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING AND CURRENCY.
Washington, May 28, 1920.

Hon. JOSEPH W. FORDNEY,
Chairman Committee on Ways and Means,
House of Representatives.

MY DEAR MR. FORDNEY: With reference to the latest hearing on H. R. 13201 before your committee this morning, in which the manufacturing jewelers placed in evidence their testimony, I wish to make the following observations, that the same may be placed in the record:

1. Complaint was made that adequate notice was not given in which they might prepare their objections to the bill. In this connection I herewith submit a letter from H. N. Lawrie, economist of the American Mining Congress, which transmits the correspondence between witness Robert B. Steele, a member of the Jewelers' Vigilance Committee, and himself, together with an extract from the Jewelers' Circular, March 28, 1920, reprinting the full text of this bill. A casual reading of this correspondence with Mr. Steele, dating back to November 11, 1919, setting forth the principles involved in this legislation which have not since been changed, is evidence that the subject of this legislation has been before the jewelers ever since it originated and became a matter of public concern.

2. No adequate reason was presented by any of the witnesses of the jewelry trade for their not having obtained accurate data with reference to consumption of gold during the year 1919, the latest figures which they placed in the record being for 1918. The figures presented by H. N. Lawrie, from official correspondence with the mint service stations, who sell and refine gold for industrial uses, were placed in the record without being successfully controverted.

3. In response to the direct question of Representative Hawley, witness Robert B. Steele admitted that the jewelry consumers of gold were receiving

their gold from the Government at the prewar price of $20.67 per fine ounce, and that this price was probably lower than cost of production under present conditions.

Had the price of gold been regulated by the law of supply and demand, it would have at least increased in price with the general average of all other commodities in the United States. The gold producers would have received for their 1919 output, which was sold to the industrial consumers for $58,500,000, an increase of 112 per cent, or an additional amount of $65,000,000. To this extent the industrial consumers of gold profited by a subsidy at the expense of the producers of gold.

Much emphasis was placed on the report of the British commission and the report of the special committee of the United States Treasury Department, both of which advocated doing nothing for the stimulation of gold production. Both of these reports were formulated at a time when there was an embargo on the shipment of gold out of this country and the gold producers of Great Britain were forced to sell their gold to the British mint. Since the lifting of the embargo, the United States has exported half a billion dollars of gold bullion and Great Britain has been paying a premium to her gold producers which has greatly stimulated the production of gold in the Empire. It is evident that conditions now are altogether different and must be remedied.

In this letter I have touched upon the salient features presented in the jeweler's testimony, none of which presented any facts in derogation to those already submitted in the first hearing.

The monetary premises upon which H. R. 13201 is based are in no way altered.

Very truly, yours,

L. T. McFadden.

(The letters referred to are as follows:)

Washington, D. C., *May 28, 1920.*

Hon. Louis T. McFadden,
House of Representatives.

Dear Mr. McFadden: In answer to the claim made by the representatives of the jewelry industry in the hearing before the Ways and Means Committee on H. R. 13201 this morning, that their time had been limited in which to fully consider the proposed bill and to formulate any arguments that they might want to make in opposition to the same, I wish to refer, for your attention, my correspondence with Mr. Robert B. Steele.

Mr. Steele is a member of the Jewelers' Vigilance Committee and during the war had full authority on behalf of the Government to allocate gold for industrial uses, the Government having provided restrictions regarding the sale of gold for such purposes. You will observe from my correspondence that as early as November 11 the subject matter of this legislation was presented to Mr. Steele, since which time no difference in the principles involved in this legislation have been made. Even a casual reading of these inclosures will satisfy the committee that the trade was fully advised. In addition I append a clipping from the Jewelers' Circular of March 31, presenting the entire text of the bill, since which time all of the jewelry trade magazines have carried items with reference to the same.

I would appreciate it very much if you would submit these letters to Chairman Fordney for his information and place them at his disposal to place in the record if he so desires.

Yours, very truly,

American Mining Congress,
By H. N. Lawrie,
Chief Precious Metals Division.

November 11, 1919.

Mr. Robert B. Steele,
New York, N. Y.

Dear Mr. Steele: While in New York I went to the mint in order to find out exactly where the export gold was sent. I inclose a copy of the shipments as reported by the United States assay office during the months of June, July, August, September, and October to foreign countries for manufacturing purposes.

I was informed that this included no gold going to Canada, as it never has been customary in that office to make this segregation, but that the bulk of the gold went to Switzerland, Paris, and London.

On behalf of the American Mining Congress, I wish to thank you for taking so active an interest in the solution of this problem, which confronts not only producers but consumers of gold in this country. I sincerely trust that the manufacturers will find the proposal of excise and bonus reasonable and will lend their indorsement to the plan in order to insure a sufficient production of new gold for their use without depleting the monetary gold reserves of the country. I shall look forward with a great deal of pleasure to receiving, at the Statler Hotel, St. Louis, your letter or wire to this effect after your meeting of the executive council. I shall be in St. Louis from the 15th to the 21st, and the gold conferences will be held at the Statler Hotel on the afternoons of the 18th and 19th.

Inasmuch as my manuscript is only an informal presentation to the conference of the facts to date, I think it would be advisable not to publish any of the information until it has been carefully reviewed by the national gold conference and a legislative policy definitely formulated, at which time I shall send you a complete review of the proceedings, together with my article and those of several bankers who are expressing themselves in the premises for publication in the jewelry trade journal. It may be that we will prepare a bulletin of the entire proceedings, in which event I shall be pleased to get the mailing list of the more important jewelers so that we may send it to them.

Thanking you for your kind consideration and the excellent interview which you allowed me, I am,

Yours, very truly,

H. N. LAWRIE,
Chief Precious and Rare Metals Division.

NEW YORK, *November 14, 1919.*

Mr. H. N. LAWRIE,
St. Louis, Mo.

DEAR MR. LAWRIE: Please accept my thanks for your letter of November 11 with inclosure.

In reference to the subject of our conversation when in New York, I regret to state that owing to the short time it has been impossible to get a general expression on the matter we talked about.

I would suggest that the matter discussed might be boiled down to the following hypothetical question: Would an industry threatened with restriction in supply of raw materials be willing to pay a bonus or premium for a full supply?

A favorable answer to the above question must be inevitable, in my opinion.

I agree with you that there should be no publicity in this matter, as a rush for metal would otherwise be started, and I shall await with pleasure the receipt of the fullest and most comprehensive report which you can favor me with, as I feel intense interest in this subject.

Do you think it would be possible to send a number of copies of the report of the conference as promptly as possible? Should you have time to make a personal report by letter I would appreciate it very much.

Very truly, yours,

ROBT. B. STEELE.

NOVEMBER 25, 1919.

ROBERT B. STEELE, Esq.,
New York City.

DEAR MR. STEELE: In conformance with our conversation of the 24th instant, I am inclosing copies of the two resolutions adopted by the American Mining Congress at their recent convention, together with a copy of the address of George E. Roberts. You have Mr. Glausen's address published in the Mining Congress Journal and my own notes upon the subject, which, with the telegram that Mr. Clausen sent to the gold conference (a copy of which I also inclose), completes the record to date.

I wish to express my appreciation for your letter and the interview which you granted me on Monday. Your cooperation in this matter constitutes a most vital link in the success of any legisaltion which may be contemplated for the protection of the gold reserve, the relief of the gold-mining industry, and the security of the trades.

I am now preparing an article for the Times Annalist, which may reach them in time to be published next Monday.

This is merely a rehash of what you already have. I shall be pleased if you will keep me informed of any information which comes to your attention which may be valuable in connection with this movement.

Cordially, yours,

H. N. Lawrie,
Chief Precious and Rare Metals Division.

March 23, 1920.

Robert B. Steele, Esq.,
New York, N. Y.

Dear Mr. Steele: It gives me pleasure to inclose herewith the first copy of the gold excise and premium bill, H. R. 13201, to leave the office.

I want to call your particular attention to the fact that the matter of collecting the excise has been left largely to the Internal Revenue Department, which will formulate rules and regulations pertaining thereto. However, if there are any oppressive specifications in the bill as drawn, which are in any way inequitable or impossible for the trade to carry out, I shall greatly appreciate it if you will let me know how these changes could be made, in which event I shall do everything in my power to rectify same.

In accordance with your previous suggestion, I have not informed the jewelry press or trade journals of this proposal, nor sent them our pamphlet, nor in any way approached them on the subject. I am prepared to send you any number of the pamphlets that you may desire for this purpose, and shall count upon you wholly to see that the jewelry press and trade journals take this matter up in a broad and fair manner, with a view to ventilating the entire subject. I would not attempt to influence the policy that the jewelry trade may assume toward this measure, but I would have you carefully consider the advantages that this bill offers in insuring an ample supply of gold to the trades at a fixed price. My own opinion is that this is a decided benefit, and one which may not be available for very long, on account of the monetary requirements of the Nation.

I wish to emphasize that I will not in any way take this matter up with the jewelry press or trade journals if you will assure me that the subject will be given the fair treatment to which it is entitled, and that they will receive the pamphlet at your convenience should you wish me to send them to you. It is indeed much better that same should emanate from your committee than from this office.

Thanking you for your kind consideration of this matter and trusting to hear from you in the near future. I am,

Cordially, yours,

H. N. Lawrie, *Economist.*

New York, *March 26, 1920.*

Mr. H. N. Lawrie,
American Mining Congress, Washington, D. C.

Dear Mr. Lawrie: This will acknowledge your letter of March 23 inclosing a copy of H. R. 13201. It is impossible for me to tell you at this time just what will be the attitude of the jewelers toward this proposed legislation, but I am putting the matter before the committee in our trade which has jurisdiction in these matters for their serious consideration.

In the meantime it will not be possible for me to express any opinion concerning this matter.

Thanking you for your courtesy, I remain,

Very truly, yours,

Robt. B. Steele.

Memorandum Submitted by the Jewelers' Vigilance Committee (Inc.) in Opposition to McFadden Bill, H. R. 13201.

INTRODUCTION.

The purpose of the bill as stated in the title is:

"To provide for the protection of the monetary gold reserve by the maintenance of the normal gold production of the United States to satisfy the requirements of the arts and trades, by imposing an excise upon all gold used for other than monetary purposes, and the payment of a premium to the producers of newly mined gold and providing penalties for the violation thereof."

This proposed legislation, if enacted, will operate in the following manner:

(1) A tax of approximately 50 per cent will be levied on all gold used in manufacture or in the arts, irrespective of whether the gold taxed was mined during the current year or decades before.

(2) There will be paid over to every person or corporation producing newly mined gold from any mine within the United States a subsidy equal to the sum of $10, or approximately 50 per cent, for every ounce of fine gold mined and delivered to the United States mint.

In other words, this proposed legislation not only contemplates a subsidy to mine owners but makes such subsidy conditioned upon a tax levy on certain arts and industries.

POINT 1.

The economic authorities of the world are opposed to any form of artificial stimulation of the production of gold.

Shortly after the outbreak of the World War and before this country entered into the conflict gold mining corporations of all parts of the world became naturally exercised by the fact that rising costs tended to lessen profits when affecting gold as a commodity. This is uniquely the fact with gold, as the selling price is automatically fixed at $20.67 per ounce in order to maintain a gold standard.

The gold producers of England early sought relief through governmental assistance. Previous to 1919 the British treasury committee, reporting on this subject, condemned once and for all the plea for such relief made by the gold mining corporations.

Reference to this action on the part of the British Government is found in that well-reasoned and illuminating report of the special gold committee appointed by the Secretary of the Treasury of the United States on November 2, 1918, which report is dated February 11, 1919, and a copy of which report is annexed hereto. (See Exhibit 1.)

On this committee appointed by the Treasury Department there was no one representing the arts and industries which it is now proposed to tax, but, on the other hand, the gold-mining corporations which are now seeking a special subsidy were adequately represented. Attention is also called to the fact that this committee, which had in its membership the Director of the Mint, a representative of the Bureau of Mines, and a representative of the Federal Reserve Board, was unanimous in its conclusions.

After discussing the relationship of larger gold production to gold reserves and the relationship of gold reserves to national financial stability the committee declared:

"The cessation of hostilities has radically changed this situation, and with the change in the situation any need of particular effort to promote or stimulate our gold production which may have existed has ceased."

And further stated:

"It is, therefore, the judgment of this committee that no steps should be taken by the Government to stimulate or promote the production of gold."

Moreover, if it should be argued that this report is now to be disregarded because it was prepared somewhat more than a year ago, we respectfully submit that the return to normal, nonwar conditions which is gradually taking place to-day adds considerable weight at this time to every argument set forth by the special Treasury committee in its report, and correspondingly reduces the force at this time of the pleas made by the gold producers for such relief in the form of a special subsidy. Moreover, the gold stringency existing during the war has disappeared, and an evidence of this fact is the removal of all previously imposed restrictions on the exportation of gold.

In addition, the present Secretary of the Treasury, Hon. Daniel F. Houston, in a letter addressed to the chairman of the Committee on Ways and Means of the House of Representatives, under date of April 9, 1920, stated the unqualified opposition of the Treasury Department to the McFadden bill, the very measure now under consideration. This letter reads as follows:

THE SECRETARY OF THE TREASURY,
Washington, April 9, 1920.

DEAR MR. FORDNEY: I received your letter of April 5, with the inclosed copy of the bill (H. R. 13201) introduced by Mr. McFadden, "to provide for the protection of the monetary gold reserve by the maintenance of the normal gold production of the United States to satisfy the requirements of the arts and trades, by imposing an excise upon all gold used for other than monetary purposes, and the payment of a premium to the producers of newly mined gold, and providing penalties for the violation thereof.

The Treasury is very much opposed to this bill. The Treasury is opposed to subsidies in general and is particularly opposed to subsidizing the gold-mining industry. I believe that the gold miners will in the long run benefit with the rest of the community from the ability of this country to maintain itself on a gold basis. In connection with the general subject I take pleasure in handing you herewith a copy of a report, dated February 11, 1919, made by a committee appointed by Secretary McAdoo to investigate the problem of production of gold.

Very truly, yours,

D. F. HOUSTON.

Hon. JOSEPH W. FORDNEY,
Chairman Committee on Ways and Means,
House of Representatives.

Furthermore, in so far as the general public's opinion has been attracted to this fantastic proposition of special class legislation, publications holding most divergent political opinions are unanimous in condemnation of the subsidy proposed. For example, see editorial in New York Tribune of May 27, 1920; editorial in New York World of May 27, 1920; editorial in Saturday Evening Post, issue of May 29, 1920 (copies of which are annexed hereto and marked "Exhibits 2, 3, and 4").

Even if there were at this time a real divergence of opinion on this subject among disinterested persons, which is not the fact, we submit that a fundamental change in our economic structure and the effect on our gold standard as contained in this measure should not be enacted without an investigation and study far more thorough and systematic than the brief hearing allotted to interested persons by the Ways and Means Committee of the House of Representatives.

POINT II.

Special interests behind this measure base their arguments in favor of a tax on the users of gold on misleading statistics.

The statements made by proponents of the measure are either to the effect that gold is "consumed" by the arts and industries or that it is "destroyed by the arts and industries." In starting out it is well to call attention to the fact that gold sold to the manufacturers and arts is neither consumed or destroyed. It is merely temporarily diverted into the channels of industry and in the end finds its way back into the national gold reserve. The very nondestructibility of the metal gold made it the base of commerce. The fact that it can not be consumed is the cause of its selection as the foundation of the world's financial structures. That gold is not consumed nor destroyed by use in the arts is clearly evident from the fact that the gold held by the Federal Reserve Board at present amounting to $1,953,103,600, approximately equals the total production of gold in the United States during the last 24 years, or from 1895 to date.

Furthermore, the proponents of this measure point with alarm to the amount of gold stated to be sold to the arts. The actual figures in this connection are as follows:

1914	$45, 520, 032
1915	37, 820, 027
1916	51, 061, 187
1917	52, 915, 641
1918	52, 409, 740

The above figures show that the increase in gold sold to the arts between 1914 and 1918 was approximately 10 per cent—not an alarming increase by any means.

The entire argument in favor of this bill is based on what has been sensationally termed a vanishing gold reserve. The actual facts can lead to no such conclusion.

The total gold stock of the United States on January 1, 1914, was $1,815,976,000. On January 1, 1920, the total gold stock of the United States amounted to $2,778,714,000 or an increase of more than 50 per cent over 1914. The statistics in regard to the gold reserves of the Federal reserve banks are likewise illuminating. On January 1, 1917, the gold reserve of the Federal reserve banks was $736,236,000. One year later, on January 1, 1918, the gold reserves of the Federal reserve banks was $1,621,905,000, or an increase of 120 3/10 per cent. The above figures certainly warrant anything but hysteria in regard to a mythical vanishing of gold. The statistics in regard to the production of gold are equally interesting.

According to the publication of the American Mining Congress, the estimated world production of gold for 1919 is $350,000,000, or, according to their own statement, 8 1/10 per cent less than the production for 1918, which was $380,924,700. We are not surprised to note that no great emphasis was laid on the fact that the world production of gold in 1918 was approximately $700,000 greater than in 1905, nor are we amazed to learn that the corporations seeking a subsidy in the proposed legislation in no way explain the reason why the curtailment of gold production in this country, in their judgment, approximated 30 per cent in 1919, whereas throughout the entire world the decrease in production, in their own judgment, would not exceed 8 1/10 per cent.

The comparisons made by the proponents of this measure as between the gold sold to the arts and the gold annually produced is entirely beside the point. The real consideration to be called to the attention of your committee is whether or not the gold annually sold to the arts materially affects the stock of gold on hand.

The operations of the United States Treasury Department with reference to gold bullion can be most readily, considered under the headings of "Acquisition" and "Disposition" of metal. The metal received by the Government originates from three major surces. First, the ore produced by the mines; second, old gold and miscellaneous scrap; and, third, the product of private refineries. To this should be added gold bullion which arrives in settlement of international trade balances.

The disposition of this metal occurs through one of two transactions. First, the purchase by a citizen of refined gold bullion from a mint or assay office, payment being made in United States gold notes, or, second, the return to its owner of gold deposited in the Treasury by him after it has been refined and its purity certified.

The results of these major operations for the fiscal year 1919 are set forth in the following table:

Balance of gold bullion in possession of mints and assay offices, June 30, 1918	$1, 738, 559. 152. 15
Receipts of bullion during fiscal year 1919	159, 390, 873. 79
Total	1, 897, 950, 025. 94
Disbursements during fiscal year 1919	95, 030, 836. 91
Balance on hand June 30, 1919	1, 802. 919, 189. 03

It will be seen that the receipts of bullion exceed the disbursements by approximately $64,000,000. Of the $95,030,836.91 disbursed only $62,777,833.41 was sold to purchasers and $23,024,553.70 returned to depositors after being refined, the balance representing for the most part interior transfers within the mint service. Nor can the entire sum of $62.777,833.41 sold by the mint officers be fairly charged to the consumption in the industrial arts and trades because a large proportion of it consisted of gold sold in the form of very large bars for the express purpose of being exported to rectify adverse international trade balances.

A still more interesting state of affairs becomes apparent when we consider the total stock of gold coin and bullion in the possession of the Government on June 30, 1919. The figures are:

Coin	$1, 222, 828, 787. 00
Bullion	1, 802, 850, 973. 72

This is an increase of $64,291.821.57 over the amount held at the close of business at the end of the previous fiscal year.

Meanwhile, during the calendar year 1918 the production of gold in the United States amounted to $68,646,700.

It will be noted that the consumption of metal in the industrial arts and trades was not so great as to prevent all but $4,000,000 of the gold produced in the United States from passing into the hands of the Government as a net increase in amount of gold on hand.

The Government is by no means solely dependent upon the production of the mines for the gold with which to meet the demands of the industrial users. A large proportion of the gold deposited in the various offices of the mint and assay service is actually purchased and acquired by the Government instead of being returned to the depositor in a refined form.

During the fiscal year 1919 acquisition of bullion by this method reached the enormous total of $126,841,719.19, or more than twice as much as was purchased by the industrial users and the exporters combined, their combined accounts totaling only $62,777,833.41.

The first of the foregoing tables shows that the total receipts of the United States Mint during the fiscal year 1919 were $159,390,873.79.

If it be true that the amount of gold produced by the mines of the United States in 1919 did not exceed $59,000,000, it is evident that approximately $100,000,000 came into the possession of the Government from other sources, namely, gold imported from foreign countries, and especially gold previously issued returned to the mint for refining and assaying. This latter factor is particularly important and pertinent to our discussion. The attempt on the part of the proponents of this bill to represent every dollar of gold issued to be used in manufacturing operations as being lost, consumed, destroyed, or otherwise eliminated as a factor in the situation, takes no account of the all important truth that the gold stock used by the trade constantly undergoes what might best be described as a process of circulation wherein the refined gold is issued by the Government to the individual, is manufactured by him into an article of trade, passes into the possession of the consumer and then eventually is returned once more to the mints; either in the form of unsalable stock for remelting or of old gold and scrap which has come into the hands of bullion dealers.

It is apparent from the above that the gold sold to the arts, alleged to be approximately $52,000,000, was less than one-third of the total gold receipts of the United States during the fiscal year 1919, and furthermore, that the increase in the stocks of gold coin and bullion in the possession of the Government between June 30, 1918, and June 30, 1919, was approximately equivalent to the total domestic production of gold during that period. In addition the amount of gold sold to the arts annually is a negligible factor when compared to the total stock of gold bullion in the possession of the mints and assay offices of the Government.

POINT III.

The proposed legislation creating as it does a subsidy is un-American and unconstitutional in that a tax on a special selected industry is proposed in order to create part of a subsidy to another industry.

The legal questions involved in this legislation are of the very gravest character.

In discussing similar legislation effecting a sugar subsidy, Mr. Justice Peckham, of the United States Supreme Court, in the case of United States *v.* Realty Co. (163 U. S. 427), used this same expression and emphatically stated that the questions of a subsidy "are of the very gravest character."

In Field *v.* Clarke (143 U. S. 649), Mr. Justice Harlan of the United States Supreme Court, when likewise discussing the problems involved in the sugar subsidy legislation of 1890, stated that "it would be difficult to suggest a question of larger importance or one the decision of which would be more far-reaching."

Although the Federal Constitution does not specifically prohibit the payment of bounties, it is self-evident that money is the product of taxation and that the right to appropriate is necessarily limited by the right to tax. The earliest bounty legislated by this nation was that paid to deep-sea fishermen during the years 1792 to 1807. The payment of these bounties was made the storm center of political differences of opinion, and, whereas the constitutionality of the bounties was not passed upon by the courts, the repeal was necessitated by the inherent aversion of the people of the United States toward the payment of any bounty or subsidy for the encouragement, protection, or enrichment of private industry. It is apparent that where an enterprise is conducted by private persons for their own private benefit, the public authorities have no control over the expenditures made by the private persons, and certainly have no share in the profits, and the enterprise is, therefore, a private one and not a public one—whether large or small, and whether profitable or unprofitable.

As stated by Attorney General Olney in the income taxe cases (Pollock *v.* Farmers Loan & Trust Co., 157 U. S. 429):

"The power to tax in its essence is the power to raise money from the public for the public."

Since 1798 State and Federal courts have consistently held that "levies for private purposes are illegal or extortion under the form of law." (See Calder *v.* Bull, 3 Dal. 386.)

However commendable the objects of the bounty may be, and however valuable the services of the recipient of the bounty may be, it is clear that public money can only be used to discharge a public liability.

In 1890 the Congress of the United States enacted the so-called sugar subsidy legislation. This legislation was constantly in the courts during the following four or five years, and in the cases of United States *v.* Realty (163 U. S. 427), Burden Sugar Co. *v.* Payne (167 U. S. 127), and Field *v.* Clarke (143 U. S. 649) the Supreme Court of the United States, in discussing the legislation of 1890, declined in each instance to go into the constitutionality of the legislation. The Court of Appeals for the District of Columbia, in the case of United States *v.* Carlisle (5 App. Cas. 138), held that this sugar subsidy legislation was unconstitutional on the theory that even though an indirect public benefit result from the subsidy, the extent of the private benefit made the use of public funds illegal. Thus, the highest court of the United States which passed on this subject held this type of subsidy legislation unconstitutional.

In 1894 (see 28 Stat. 509), this particular subsidy legislation was repealed because of the great unpopularity throughout the country which attended its enactment. The most lucid and forceful exposition of the questions surrounding the constitutionality of subsidy legislation were stated in the words of that eminent jurist, Mr. Justice Cooley, as quoted in the case of the Michigan Sugar Co. *v.* Dix (124 Mich. 674):

"But it is not in the power of the State, in my opinion, under the name of a bounty, or under any other cover or subterfuge, to furnish the capital to set private parties up in any kind of business, or to subsidize their business after they have entered upon it. A bounty law, of which this is the real nature, is void, whatever may be the pretense on which it may be enacted. The right to hold out pecuniary inducements to the faithful performance of public duty in dangerous or responsible positions stands upon a different footing altogether. Nor have I any occasion to question the right to pay rewards for the destruction of wild beasts and other public pests; a provision of this character being a mere police regulation. But the discrimination by the State between different classes of occupations, and the favoring by one at the expense of the rest, merchandising or milling, printing or railroading, is not legitimate legislation, and is an invasion of that equality of right and privilege which is a maxim in State government. When the door is once opened to it, there is no line at which we can stop, and say with confidence that thus far we may go with safety and propriety, but no further. Every honest employment is honorable; it is beneficial to the public; it deserves encouragement. The more successful we can make it, the more does it generally subserve the public good. But it is not the business of the State to make discriminations in favor of one employment against another. The State can have no favorites. Its business is to protect the industry of all, and to give all the benefit of equal laws. It can not compel an unwilling minority to submit to taxation in order that it may keep upon its feet any business that can not stand alone. Moreover, it is not a weak interest only that can give plausible reasons for public aid. When the State once more enters upon the business of subsidies, we shall not fail to discover that the strong and powerful interests are those most likely to control legislation, and that the weaker will be taxed to enhance the profits of the stronger."

Following this reasoning, the State courts have consistently held that the legislature can not transform taxation for a private purpose into taxation for a public purpose by a mere declaration that it is for a public purpose.

See East Sazinaw Sugar Manufacturing Co. *v.* State Auditors (9 Mich. 326), Lowell *v.* Boston (111 Mass. 454), Clee *v.* Sander (74 Mich. 692), McConnell *v.* Ham (16 Kans. 228), In re Page (60 Kans. 842), In re Stanfords Estate (126 Calif. 112), Deal *v.* Mississisippi (107 Mo. 464), People *v.* Salem Township Board (20 Mich. 492), Commercial National Bank *v.* Iola (2 Dill 353).

These cases were the result of legislation directing subsidies to be paid to persons building trees over burnt districts; providing for seed grain loans to farmers whose crops were destroyed; converting payments of part of a tax on insurance contracts to be turned over to volunteer fire departments, making payments to private individuals for development of local industries, or payment of subsidies for the manufacture of special commodities, such as salt, beet sugar, etc.

All of the court decisions in this country on the question of subsidy naturally refer to the inherent question as to whether the object of the subsidy is a public benefit, and in this connection the cases consistently have held that the term "public purpose" as employed to denote objects of taxation, has no relation to the urgency of the public need or to the extent of the public benefit to follow. It is, on the other hand, a term of classification merely used to distinguish the objects for which, according to general usage, the Government is to provide from those which by like usage are to be left to private inclination, interest, or liberality. Where there has been subsidy legislation, the result of which clearly was for a public purpose, although coupled with a private benefit, the legislation has been declared unconstitutional as it was in excess of legislative authority. (See legislation enacted in Wisconsin, relating to storage of débris of mines for what was clearly a public purpose, but also resulting in private benefit. Held unconstitutional in the case of Whiting v. Sheboygan, 25 Wis. 167.)

The proposed legislation not only contains the inherent vice of a subsidy to a special interest, but is accompanied by the un-American principle of placing a direct burden upon certain special and particular industries and arts for the benefit of separate and distinct industries to which the bounties are to be paid. During the violent and heated political discussions surrounding the proposed ship subsidies, which were under discussion from 1900 to 1904, the temper of the American people was made evident in the general public disapproval of governmental subsidy to the shipbuilding interests, even though it had to be generally admitted that some action should have been taken to encourage the development of the American merchant marine. At that time, however, the second vicious principle contained in this proposed legislation was absent, and at no time in the history of the American Government has legislation ever been proposed with any degree of confidence contemplating the taxing of one industry for the specific benefit of another.

If by any chance a subsidy to be paid to gold-mining corporations were desirable and constitutional, the funds for such subsidy should come from the General Treasury of the people of this country on the theory that the reason for the subsidy was a prospective and contemplated benefit to the Nation as a whole. It would be a clear case of robbing "Peter to pay Paul" if the income of certain selected industries were to be converted into the treasury of other industries. Alleged or actual deficits of private corporations should in no way be replenished from the revenue of other private corporations. Even though it be assumed that these other corporations are engaged in a business coupled with a public interest, payment of the proposed premiums and subsidies would not only be an inducement toward prospective waste and inefficient management, but would place an illogical, unnecessary, and unsound financial burden upon those other industries which in no way would be a party to the profits of the gold-mining industry, but in fact would be replenishing alleged operating deficits.

In defense of the subsidy provisions of this legislation, the proponents of the measure have contended that the subsidy is justified to counteract what they have called the present subsidy which it is alleged is paid to the arts and manufactures using gold. The reasoning on this point is, to say the least, weird. It is contended that the users of gold are purchasing their commodity for less than the actual cost of production, and that for this reason the users of gold are enjoying a subsidy at this time.

Assuming that this is true, it is certainly a fact that any undue enrichment accruing to the users of gold at present because of the fixed price of the commodity is in no way the result of a bounty or subsidy legislated by the Federal Government. This is particularly true because of the fact that the users of gold are in no way restricted for their supply to the gold-mining corporations of this country; and can purchase, as they do, from the United States Mint, or from the gold markets of the world.

POINT IV.

The proposed tax on the arts and manufactures using gold amounts to a levy of 50 per cent, and is proposed at a time when industry confidently expects gradual reduction of taxes.

The consensus of opinion of the merchants who would be affected by the taxation features of the proposed measure is to the effect that a tax of $10 per ounce on gold used in the arts would without doubt seriously affect the industries and arts affected. The cost of gold being $20.67 per ounce, as fixed by legislation, a tax of $10 per ounce amounts to 50 per cent of the cost of the raw material in the industries affected. No tax of such an extreme amount can have an effect other than that of disturbing, unsettling, and diminishing the business activities and expansion of the industries concerned.

Moreover, the business men of this country have every reason to expect a gradual diminishing of the tax burdens placed on them during the war, and could hardly be expected to bear with grace and equanimity a 50 per cent tax levy coupled with a clear declaration that such tax levy was to be turned into the coffers and surplus accounts of another and distinct industry. The industries affected would no doubt never lose sight of the fact that during the years when the gold-mining corporations were producing gold at a very low cost and amassing large profits, no reciprocal arrangement was in existence whereby the users of gold did procure a subsidy from the producers of gold who were amassing large fortunes.

POINT V.

The legislation in its present form is replete with ambiguities and unworkable provisions.

At this time no detailed criticisms of the provisions of the act will be submitted, as we can not believe that your committee will take favorable action on the bill in its present form or even if amended.

It is interesting to note, however, that the special interests behind this legislation, in the framing of the bill, have intentionally or otherwise placed the manufacturers of gold merchandise in this country at a disadvantage as compared with the manufacturers in Canada and abroad.

It can not escape the attention of the committee, we believe, that the bill as framed in no way guarantees that the proposed revenue will be sufficient to pay the proposed subsidy. Should the arts and manufactures use less gold than is produced, the difference will have to be paid from the United States Treasury and additional taxes will have to be levied therefor.

The provisions of the bill which divest Congress of the power of legislating in regard to taxes to be paid after May 1, 1925, are, to say the least, novel in the history of American legislation. We can not believe that Congress would or could confer upon a separate board the power of adjusting the taxes on users of gold as provided in section 5 of the bill.

We wonder whether the proponents of the measure were really sincere in proposing that the subsidies provided in the measure should be paid to even those producers of gold who are at present mining gold and selling same at a profit. Could the framers of this bill seriously ask Congress to pay the subsidy to those gold-mine companies which are now conducting their enterprises at a profit? Since when has Congress received authority for making gifts to special industries?

We wonder why the proponents of this measure have failed to call to the attention of the Ways and Means Committee the fact that the additional bonus paid to gold producers would immediately create a corresponding and no doubt justified demand on the part of labor employed in the production of gold for increases in wages.

Is it not evident that this legislation would again be establishing a vicious circle and that any supposed benefits from the subsidy would immediately disappear as the cost of production would mount through the increased demands of labor?

The bill as drafted entirely overlooks the fact that if costs of production should materially increase, the amount of bonus provided in the bill would certainly be inadequate if it is assumed that it is adequate at present. On the other hand, if the costs decreased, is it not self-evident that the subsidy becomes an outright gift for a fixed period of years?

CONCLUSION.

It is respectfully urged that the bill under consideration be disapproved by the committee on the grounds of impracticability, lack of necessity, and unconstitutionality. To tax one industry for the benefit of another is abhorrent to our form of government, even though the industry to be subsidized were acting solely for the public welfare, which is not the fact in this case.

All disinterested authorities agree that the artificial stimulation of gold production would greatly disturb our present free gold market. In no case in American history has a subsidy of this nature been upheld by the courts of the land.

Respectfully submitted.

JEWELERS' VIGILANCE COMMITTEE (INC.),
HARRY C. LARTER, *Chairman.*
G. H. NIEMEYER,
ROBERT B. STEELE,
Subcommittee on Gold.

JUNE 1, 1920.

EXHIBIT 1.

REPORT OF SPECIAL GOLD COMMITTEE TO THE SECRETARY OF THE TREASURY.

FEBRUARY 11, 1919.

To the honorable the SECRETARY OF THE TREASURY.

SIR: On November 2, 1918, your predecessor appointed the undersigned a committee to investigate present conditions in the gold-mining industry and to study the problem carefully and thoroughly with a view to definitely ascertaining all the difficulties confronting gold production and submitting suggestions of same and sound methods of relief.

The nature of the problem submitted to the committee was well stated in the letter of Secretary McAdoo to Delegate Sulzer, of Alaska, under date of June 10, 1918, to which reference has been made in almost all resolutions or discussions of the subject since that time. That letter is reproduced herewith.

At that time the war was at its height and there was every prospect of a prolonged war. Contrary to the belief apparently entertained in many quarters, the structure of banking credit in any country during war times does not depend very much, if at all, on the amount of gold that can be made available as a reserve for that structure. Undoubtedly the rise in prices in this country since 1914 is to a great extent due to the heavy importations of gold during 1915 and 1916, but it does not follow that the export of a corresponding amount of gold at the present time would operate to bring down prices. As a matter of fact, it is the judgment of this committee that it would not so operate until we have reached or approached normal peace conditions. In time of peace the gold reserve is undoubtedly an important factor in controlling the credit structure, but in time of war that structure is determined by other causes. This distinction is sometimes overlooked, and much inaccurate thinking is due to this oversight. Under war conditions the imperative necessity of the Government for the production of war essentials determines Government expenditures, and this expenditure can not be modified to meet the banking needs of the country; on the contrary, the banking policies of the country must conform to the fiscal policy of the Government. Under these circumstances, the only way in which the expansion of banking credits can be checked is by a reduction of civil demands to correspond with the expanding needs for Government expenditure. The credit saved through this reduction of civil demands becomes available to the Government through the purchase of Government securities or through the payment of taxes. To the extent to which such saving and resulting investment does not take place Government obligations must be taken by the banks, giving rise to credits to the Government which create additional purchasing power for the use of the Government. This additional purchasing power, in turn, competes with the demands of private individuals, driving up prices against the Government and against the civil consumer and ultimately impairs the individual's purchasing power to an amount roughly equivalent to the impairment that might better have been brought about through voluntary saving. The credit structure thus erected depends inevitably upon Government needs and upon the willingness and ability of the community to impose upon itself voluntary restraint in expenditure. In other words, the structure will be high if the community fails to save.

The results in saving achieved in the United States were remarkable, but no program of saving can be instantly put into effect, and the expansion of the credit structure that took place under these circumstances was inevitable and could not have been controlled through any reduction in the gold reserve.

This being so, and a long war being believed in prospect, it was important to maintain a strong gold reserve in order that there might be no impairment of confidence in the convertibility of our currency and in our ability ultimately to settle any international indebtedness in gold.

The cessation of hostilities has radically changed this situation; and, with the change in the situation, any need of particular effort to promote or stimulate our gold production which may have existed has ceased. There is now no danger of an impairment of confidence. The dimensions of our financial problems are becoming clear, and we know that we can without permanent strain meet any financial requirement the Government will be willing to assume. Some further expansion of credit may result from our expenditures for demobilization and readjustment, but we can look forward to a comparatively early contraction of our credit structure, with the attending circumstances of a free gold market and a gold reserve that shall once more perform its normal function of regulating credit conditions. That movement will, we believe, be both preceded and accompanied by lower commodity prices.

Under these circumstances there is, in our opinion, no need for artificial stimulation of gold production. Not only has any need therefor passed, but there have come into operation causes that will in due time restore all industry, including the mining of gold, to a normal basis. Gold mining will then become again normally profitable and respond automatically to normal stimuli.

It is therefore the judgment of this committee that no steps should be taken by the Government to stimulate or promote the production of gold.

The representatives of the gold-mining interests very properly based their suggestions for relief on the public necessity for a larger production of gold, and not on the hardships suffered by them as parties interested in an industry in which the margin of profit had been turned into a loss. They recognized that such diminishing profits and such losses were inevitable under the shifting conditions of war, and that merely as producers they had no better claim to relief than any other section of the community suffering a reduction of profits or incurring losses under the changing incidence of war conditions.

In the course of its consideration of the subject referred to it this committee has conferred with a committee appointed by the American gold conference held at Reno in August, 1918, under the presidency of Gov. Emmet D. Doyle, of Nevada; it has had the benefit of the very complete survey of the conditions of the gold-mining industry contained in the report dated October 30, 1918, of the committee appointed by the Secretary of the Interior to study the gold situation, of which Hennen Jennings, Esq., was chairman, and of the report dated Novembr 29, 1918, of the gold production committee appointed by the commissioners of the British treasury, under the chairmanship of Lord Inchcape; they have conferred with or secured the views of Prof. Irving Fisher and other eminent economists, besides which they have had referred to them a considerable volume of correspondence expressing widely varying views which had been received by the Secretary of the Treasury and the Director of the Mint.

It is interesting to note that the British treasury committee arrived at the same conclusion as that which we have reached.

We can not refrain from expressing gratification at the substantial unanimity of opinion among those whose position or experience entitled their views to respectful consideration against suggested measures of relief that would have had a tendency to undermine or upset our standards of value.

Respectfully submitted.

Albert Strauss.
Edwin F. Gay.
Raymond T. Baker.
Emmet D. Boyle.
Pope Yeatman.

Exhibit 2.

[New York Tribune, Thursday morning, May 27, 1920.]

NATIONAL DEFLATION.

The post-war period has steadily vindicated the principles of old-fashioned political economy—those so-called natural laws of production and industry for some time derided as archaic and not applicable in a society which is master of its own destiny. But events are in accord with the predictions of professors of the dismal science.

The latest information concerns what has happened to the gold supply. There is a rapid diminution, due to the closing of mines from the rise in the wage rate. The price of gold ($20.87 per ounce) does not fluctuate, but, with the wages of miners and the cost of mine supplies doubled, low-grade ore is not lifted and reduced. In 1914 the world's production exceeded 22,000,000 ounces. In 1919 it was approximately 16,000,000 ounces, and this year it will probably not exceed 14,000,000 ounces.

Thus there is automatic deflation, for a shrinking of the base contracts the credit structure it carries. A violent rise in wages shuts down mines which operate under conditions where gold making is a manufacturing industry, and under the quantitative theory of money the price pendulum should slow down and then swing the other way. The number of days or hours consumed in merger workings to produce an ounce of gold furnishes a measure of other time compensation or wages.

The effect of a decrease in gold production is, of course, not immediately felt. What counts with respect to deflation is not the annual production, but the total existent gold supply of the world available for money use. This has been about 400,000,000 ounces. So a fall off in production of 10,000,000 ounces is relatively small.

But, on the other hand, there is a regular normal increase in the demand for gold through an expansion of business. There are also the gold requirements of the arts, in recent years very heavy. Likewise, private hoarding of gold, such as now marks Europe, makes gold dead. But hoarding is offset by such dissipations as have occurred in Russia and the central nations. The treasures of the Czar and the two Kaisers are coming into circulation. Taking these factors together, it is probable the money gold stock of the world is about what it was, but will soon tend to diminish.

It is urged on the Ways and Means Committee to grant a bonus to the gold miners, or (which would be the same thing) to count their product as worth $20 an ounce. This would obviously prolong and intensify inflation. A stronger argument can be made for the contrary proposal—to lay a tax on gold mining further to reduce the gold output, and thus to achieve deflation gradually. The world now sees the evil of money too cheap, and it was most fortunate that this country did not accept Bryan's advice. If a 50-cent dollar is uncomfortable, a 25-cent one would be more so.

EXHIBIT 3.

[New York World, May 27, 1920.]

GILDING GOLD.

The Government price of gold is $20.67 a fine ounce. But representatives of gold-mining companies are complaining to Congress that at present prices of labor and material it is costing them about $30 an ounce to mine the metal. They therefore modestly ask that an excise tax of $10 an ounce be imposed on all gold taken for use in the arts and that the proceeds of this tax be turned over to them as a subsidy. Otherwise the mines may have to shut down entirely, as they are now shut down in part.

Silver used to be accounted a pretty nervy suppliant for Government assistance. But silver never asked for more than half a share with gold in the monopoly of the standard monetary market. Gold is now in exclusive possession of that monopoly, and yet demands something more. It wants an out-and-out subsidy in gold. It would gild itself at the public expense.

We already have too much gold. That is why gold is so cheap relative to labor and commodities. This is a fundamental cause of the high prices, which will never be broadly and permanently lowered until gold has relatively become more scarce and dear. To tax the sufferers from high prices for a subsidy to make gold more plentiful and cheap and prices still higher would be a pretty way to go about meeting the high-price problem.

There is no accounting for what this Congress will do, particularly in face of a presidential election. But the proper answer to the gold-subsidy beggars would be to let their mines shut down for a while. The labor there employed is more greatly needed elsewhere.

EXHIBIT 4.

[The Saturday Evening Post of May 29, 1920, p. 29.]

KING CANUTE ON THE JOB.

We are told that practically all gold producers, some Wall Street men, and a few bankers who should know better heartily indorse a proposal to require users of gold in the arts to pay $10 an ounce more for the metal than is paid by the Government for gold bullion that is to be minted. One Member of the House is even backing a measure to exempt producers of precious metals from excess-profits taxes.

The argument behind these naive proposals is that if gold miners were thus subsidized, rising production costs would bear less heavily upon them, and they would be stimulated to work mines that are not now profitable, with the result that the output of yellow metal would be materially increased. With more gold—so the argument runs—we should have more credit, more currency, more loanable funds, and cheaper money.

Apparently no consideration is given to the fact that if the first of these proposals had the force of law our gold coinage would instantly descend from its high estate and become token money, like the copper cent or the nickel 5-cent piece. That is to say, its face value would be less than its bullion value for nonmonetary purposes.

Before the war economists used to tell us that rising commodity prices were due to the increased gold production resulting from the development of the newer fields. The idea was generally accepted that as the commodity used for money became more plentiful its value would be bound to shrink when measured in terms of other commodities. In other words, the tendency—with certain reservations and modifications—was toward a steadily dwindling purchasing power.

Most of us think that the dollar buys little enough as it is. The whole world cries out for a restoration of its old purchasing power through the natural processes of orderly deflation, but in the face of this cry the proponents of artificially stimulated gold production endeavor to dam up the high tide of prices and prevent its natural ebb. King Canute and Dame Partington before them attempted to regulate the ebb and flow of the sea.

Hippocrates, father of medicine, who flourished some twenty-odd centuries ago, used to caution his students in words so indisputably wise and so broad in their application that they might well be emblazoned in letters of gold on the walls of the House of Representatives, where they would meet the eye of every amateur tax inventor, tariff tinker, and brash member of the Fixit family, who rises in his place to hurl a legislative monkey wrench into the already decrepit economic machinery of the Nation.

"At least," said this sagacious old physician, "be sure you do no harm."

The country would be better off if this wise injunction were more often heeded, but the House would no doubt deem it a curtailment of its ancient privileges if the Sergeant at Arms were stationed at the door with instructions to search every incoming Member and relieve him of concealed monkey wrenches.

PART 3.

PROTECTION OF THE GOLD RESERVE.

HOUSE COMMITTEE ON WAYS AND MEANS,
Friday, December 10, 1920.

The committee was called to order at 2.30 p. m. by the chairman, Hon. Jos. W. Fordney.

Mr. TIMBERLAKE. Mr. Loring, president of the American Mining Congress, is here and would like to make a statement.

STATEMENT BY MR. W. J. LORING, PRESIDENT OF THE AMERICAN MINING CONGRESS.

The CHAIRMAN. Give your name, address, and the business that you represent, so that we will understand you.

Mr. LORING. W. J. Loring, president of the American Mining Congress, San Francisco, Calif. Would you like to have all the positions that I occupy as well?

The CHAIRMAN. Well, if you desire to give them.

Mr. LORING. President and general manager of the Carson Hill Gold Mines Co.; president and general manager of the Pacific Coast Gold Mines Corporation, managing director Plymouth Lode Gold Mines (Ltd.), and I also hold various directorships and managing directorships in other companies.

The CHAIRMAN. All right, Mr. Loring, we will be glad to hear from you, if you will tell us how much is being produced, how much was being produced before the war in the United States, and how much is being produced now; what percentage of the producers are out of commission because of the high cost of production, and so on.

Mr. LORING. The production of gold in the United States prior to its entrance into the war in 1915 was about $100,000,000, and the production this year is estimated at less than $50,000,000. And that is due to the high cost of production, high cost of wages, and supplies and power. To work it out on a percentage basis of the mines that have closed down would be a very difficult task. The low-grade mines have all closed down. There are only the higher grade mines and those low-grade mines having a rich vein in them that are now producing.

Mr. GARNER. See if I understand you clearly. There is labor cost, the cost of supplies, and the power costs. Now, I understand about the labor and the supplies, but what increases the cost of the power?

Mr. LORING. The power companies claim that the cost of producing power is a great deal higher.

Mr. GARNER. It all goes back, as I understand it, to wages. The power companies charge more because it costs more to produce the power. It all really goes back to the supply of labor.

Mr. LORING. To the increased cost of supplies and labor.

Mr. GARNER. And as my good friend, Uncle Joe Cannon, would say. "in the last analysis," it is the labor and supplies.

Mr. LORING. That is right. Now then, to continue on the percentage basis, as I said before, the low-grade gold mines have closed down, every one of them, and that has been caused by these three items that I just referred to.

And the low-grade mines of this country are the mines that are the backbone of the gold industry, because they contain millions of tons of ore. They are already developed, equipped, and were in going condition when they were forced to close down. They closed down because they could not meet expenses in treating the ore. They had been able to do it with profit before the war and before the expenses appreciated. And in some cases the mines have been abandoned. I know of several that have been abandoned and never will be reopened, but I know others that are operating their pumps at a considerable cost in the hope that they will get relief.

And without the relief that the McFadden bill will give, a large number of these mines will go out of existence entirely, and when they do pass out of existence there will be millions of tons of ore, containing millions of ounces of gold, that will never be worked again.

Now then, so far as these mines are concerned, it would appear to me to be rather wasteful to have them pass out of existence and then search at a later date for new mines to replace those that we already know about and already have large ore reserves available. To keep alive these mines is our only motive, that they may produce the gold already in sight. They are already developed and equipped, with large reserves of gold-bearing ore, and it is difficult these days to find new mines that will replace these old mines by searching for new ones to replace those that we already know about.

The prospector has been driven from the gold areas of the United States for the same reasons that have rendered gold mining as an industry unprofitable. It is apparent that unless the industry itself was profitable no capital would be available to aid the prospector in the development of a new prospect. The gold fields of the United States after the Civil War were largely unworked. Since then large volumes of rich placer gravel and quartz-bearing ore have been removed, which seriously lessens the prospect now for the discovery of new gold-ore reserves. If our present gold-ore reserves are allowed to be wasted, because they can not be reclaimed at a later date, we can not expect with success to replace them in the future. Relief must be provided now if the present developed gold-ore tonnage is to be saved from total loss.

The CHAIRMAN. If I am correct, I saw in August, I think it was, a statement—I was on the Pacific coast at that time—that those mines in southern Alaska——

Mr. LORING (interposing). At Juneau and Douglas Island?

The CHAIRMAN. Yes; that they had ceased producing gold altogether, and the owners have purchased from the Government a large tract of timberland and have begun the production of pulp wood for paper. Those people have abandoned their mines altogether; that is, they have abandoned them for the present. as the cost of production is so high.

Mr. GARNER. Mr. Loring, would you care if I asked you a question?

Mr. LORING. I shall be glad to have you ask me any questions you may desire to.

Mr. GARNER. I agree with you, as one member of the committee, that it is desirable not to close down these mines. We should produce the gold in this country, as we produce any other commodity that is necessary for the transaction of the business of the country, but the reason that your gold production has been reduced is because it isn't worth as much as other articles that you can get for the same amount of money. There has been a disposition among the American people, and it has been reflected through its legislatures, national and State, to reduce the cost of living. That tends to make gold worth more, does it not?

Mr. LORING. Yes, sir.

Mr. GARNER. So if they succeed, and if the American people get back to normal as they were prior to the war, and the labor costs and the supplies and the power cost is reduced to the prewar cost, then you will be able to continue as before the war?

Mr. LORING. I would like to answer that—I am glad you asked the question. We never hope to get wages back to where they were before the war. Wages were very low before the war, but some other commodities, supplies, and materials will come down, but I suppose it will be 10 years before we can hope to get the cost of supplies and all other commodities and everything that goes to make up the working costs back to where they were before the war.

Mr. GARNER. You think it will be 10 year before the gold dollar will purchase as much as it did before the war?

Mr. LORING. Yes; I should say, emphatically, yes. Not only that, but such large sums of money have already been expended in the development of these mines that we are discussing now that that money is lost, because if a mine is once abandoned there is a great deal of depreciation, which is very rapid. Water will rise in them and the timbers will rot—not under water, but the timbers will rot before the water comes up to the timbers—and the surface plant deteriorates very fast. The surface plant on a mine after it has closed down for two or three years would not be worth 25 per cent of the value when it was closed, due to the evaporation of moisture from the timbers and woodwork, and rust attacks the machinery. Further than that, these large gold mines in this country are not only very finely equipped with machinery and plants, but they have a large staff of very valuable officers who understand the mine and their peculiarities, and they are all different, everyone having its own peculiarities. Those men get scattered all over the country and the first thing you know you haven't any men to start the mine up with.

The CHAIRMAN. What you are suggesting, Mr. Loring, before the committee that should be done, is——

Mr. GARNER. What is your remedy?

Mr. LORING. The only remedy I can see is the McFadden bill. It will save a part of this industry, some of it. This will be some relief; of course, it will not cover the increased costs, but we think it will save a large number of mines from destruction and total abandonment.

Mr. GARNER. This bill proposes a tax of $10 per ounce to be placed in the Treasury Department and ultimately distributed among the gold producers of the country?

Mr. LORING. Yes, sir; the producers of new gold.

Mr. GARNER. The producers of new gold?

Mr. LORING. Yes, sir; the producers of new gold.

Mr. GARNER. Those who pay the tax are the people who use the gold in the arts and sciences, or would it apply to all gold?

Mr. LORING. No; just to the arts and sciences.

Mr. OLDFIELD. Jewelry and articles of that kind?

Mr. LORING. Yes, sir.

The CHAIRMAN. If I am correct in my recollection, it was stated here last spring when we had these hearings that in the United States at the present time $75,000,000 to $80,000,000 per year were used in the manufacture, in arts and industry, is that correct?

Mr. LORING. Yes, sir; about $81,000,000 for 1919.

The CHAIRMAN. About $81,000,000 per year?

Mr. LORING. Yes, sir. The consumption of gold during 1919 was some $21,000,000 more than the production for the same period, more than the production out of the gold mines of the United States.

The CHAIRMAN. And that year we produced about $58,500,000 worth of gold?

Mr. LORING. Yes, sir.

Mr. GARNER. I did not quite understand your statement.

The CHAIRMAN. They used about $21,000,000 more of gold in the manufacture in arts and sciences in 1919 than was produced in the United States.

Mr. LORING. Yes, sir.

The CHAIRMAN. And we produced about $58,500,000 for that year.

Mr. GARNER. About $81,000,000 worth was used in the arts and sciences during the year 1919?

Mr. OLDFIELD. That all came out of the Treasury, out of the bullion? That was probably old stuff that was probably reworked; you do not mean that that came out of the Treasury?

Mr. LORING. I do not think that it was all new gold, but there was not a great deal of old gold. I think about three and one-half million dollars of it was gold coin that was used.

The CHAIRMAN. Here is a statement by some gentleman at that time. Well, without looking up who it was, the gold is not consumed or destroyed in its use in the arts, which is clearly substantiated from the fact that the gold held by the Federal Reserve Board at present amounts to $1,953,103,000, approximately, equaling the total production of gold in the United States during the last 24 years, or from 1895 to date. Well, but he does not include the importation of gold. He is speaking of the production. He states furthermore that the proponents of this measure point with alarm to the amount of gold that is going into the arts. Well, he does not include everything there and by years.

The actual figures in that connection follow: 1914, $45,520,000; 1915, $37,820,000; 1916, $54,061,000; 1917, $52,915,000; 1918, $52,409,000. Then he goes on, but he does not cover all of the points that are covered by the men that are in favor of this bill.

Mr. LORING. Now, I would like to give you a few little details in closing, about some particular cases that I am connected with that might be of interest to you.

One mine was reopened in 1914 at a cost of nearly $1,000,000. We began our milling operations in 1914. At the first the working cost was $2.89 per ton. Its cost has risen until it is $5.99 at the present time. Now, that is an extreme case.

I have another one that we expended a little over $1,000,000 upon and developed 800,000 tons of ore. That was ore before the war, and the cost for carrying on that operation has increased it until it exceeded the value of the ore by $1.58. So, we have had to close that property down, but we still keep the water out of the mine, hoping to get some relief.

The CHAIRMAN. Where is that mine situated, where is it located?

Mr. LORING. That mine is located in California; both of these mines are in California.

The CHAIRMAN. Well, the appeal that you are making to the committee, or the request, is that Congress place a tax upon the gold bullion used in manufacturing for the benefit of the producer on the gold to be distributed in the amount of gold each operator produces?

Mr. LORING. That is right.

The CHAIRMAN. In order to bring back normal production of gold?

Mr. LORING. Yes, sir.

The CHAIRMAN. The price of gold did not decrease in value, but the cost of production has more than doubled up during the war?

Mr. LORING. That is so.

The CHAIRMAN. As a result of that, all those mines are running on a smaller margin of profit?

Mr. LORING. Yes, sir.

Mr. GARNER. Mr. Loring, have you ever had an attorney look into the constitutionality of the proposition of the power of Congress to levy this kind of a tax for the purpose for which it is supposed to levy it?

Mr. LORING. I have not. Perhaps Mr. Lawrie could answer that question.

Mr. GARNER. That was just a thought which occurs to me that the Constitution says something about the power of Congress to levy taxes and the purposes for which levied. You know some of our friends sometimes levy taxes for protection, but they always put in "for revenue" so as to get by the Supreme Court, and I was just wondering whether any question of constitutionality with regard to levying taxes, Congress levying taxes on certain people for the purpose of transferring that money to some other people in the United States, had ever been raised. I do not think that I have ever heard of that kind of a proposition before. It has never come under my observation. I was just wondering whether that question had ever been raised.

Mr. LORING. I think probably Mr. Lawrie can answer that question.

STATEMENT BY MR. H. N. LAWRIE, ECONOMIST OF THE AMERICAN MINING CONGRESS.

The CHAIRMAN. Kindly give your name to the reporter and the business you represent.

Mr. LAWRIE. H. N. Lawrie, economist of the American Mining Congress.

The subject of the constitutionality of this bill was discussed briefly before the last hearing upon the adjournment of Congress, and at that time Mr. McFadden made the suggestion of an amendment for the heading of this bill which would show that it was for the purpose of levying taxes for revenue, as well as for the other purposes contained in the act. That upon the point of the constitutionality there could be very little question. Inasmuch as the Government had already fixed the price of gold it should also have power to administer and to so change it as to insure the production of new gold in the country. If the Government has the constitutional power to fix the price, I believe the provisions of this bill as above amended would be constitutional.

The CHAIRMAN. Thank you.

Mr. LAWRIE. I desire to thank you for the opportunity of appearing before the committee.

The CHAIRMAN. We want to thank you, Mr. Lawrie. Is that all?

Mr. LAWRIE. That is all unless you wish to ask me some questions. I would like to furnish you with details of certain operations that I know of, if you would like to use them.

The CHAIRMAN. If they are not too voluminous we will be glad to have them.

Mr. GARNER. You can extend your remarks in the record. He can extend his remarks in the record, Mr. Chairman, and the committee can look them over.

Mr. LAWRIE. All right.

Mr. GARNER. I want to suggest, Mr. Chairman, that if this bill is going to be taken up in executive session and gone over it might be wise for the clerk to refer the bill to the Attorney General. It does seem to me that there is some question as to the constitutionality of it, and the very fact that the proponents of the bill suggest to add, "for revenue" shows that there is some thought among themselves that might be wise to get under protection.

The CHAIRMAN. I think that would be a wise thing to do before we take it up for final consideration—to get the opinion of the Attorney General in the matter.

Thank you, sir.

Mr. TIMBERLAKE. Mr. Chairman, Mr. Callbreath, Secretary American Mining Congress, is here and Mr. Garner asked a question of Mr. Loring as to when, in his opinion, normal times would come in this country with regard to the reduction of the cost of labor, etc., and Mr. Callbreath would like to reply to that question.

The CHAIRMAN. Briefly, we would be glad to have him do that; be very brief, as we have some other gentlemen here who are to be heard.

STATEMENT BY MR. J. F. CALLBREATH, SECRETARY OF THE AMERICAN MINING CONGRESS.

Mr. CALLBREATH. Mr. Chairman, the question of when the prices will assume their old-time levels is one which compasses the economics of the world.

Our prices are fixed in gold standard countries upon the level of the gold which maintains those prices. We had in the whole world prior to the war about ten billion dollars' worth of gold. That amount has remained practically stationary and remains practically stationary now. We had in this country one and three-quarter billions of gold at the outbreak of the war. During the first two years of the war we took from Europe about one and one-quarter billions of gold so that our gold stock in 1917 amounted to about three billions of dollars, or practically one-third of the gold supply of the world. Since then we have lost by exportation about a half billion dollars of gold.

Prior to the war, with our one and three-quarters billion dollars, worth of gold and our credit money about one-sixth of what it is now, we had difficulty at times in maintaining our credit. That was illustrated very vividly by the panic of 1907. During a time when every wheel of industry was in operation and every man who would work was employed at the highest wages then known in the history of the country, out of a clear sky came a panic which wrecked business and destroyed our credit at home, and had it not been for the fact that our banks closed down their paying-teller windows and practically repudiated their obligations we would have been wrecked with a panic from which it would have been extremely difficult for the country to recover.

That panic proved that the then structure of credit was fully as as large if not larger than the then foundation of gold was able to support. Since that time we have increased the structure of credit many fold, and the present structure now sustained by our two and seven-tenths billion dollars of gold is many times greater in proportion than the credit structure based on the one and seven-tenths billions of dollars of gold before the war.

We have taken one and one-fourth billion dollars' worth of gold out of European countries, which we now have in this country. We find our business industries stagnant largely because of the fact that European nations, lacking this gold, have neither money nor credit with which to buy our materials. Europe is to-day hungry for our copper to rebuild their industries, and in this country we have large surplus stocks of copper and our production is being cut to nothing practically, because of the fact that Europe is not able to take the copper, which they need, but lack the money with which to buy.

Mr. GARNER. They have not?

Mr. CALLBREATH. They have not the money nor the credit with which they can buy. Under those conditions our industries are stagnant because European finances are not where they ought to be.

To-day, in London, British exchange is very much below par value of her gold. In other words, her money is at a discount. We have in this country been able to maintain our money at par, because we have more than our share of the world's gold supply.

The CHAIRMAN. Isn't it true that the war has destroyed a great deal of property and that——

Mr. CALLBREATH (interposing). That is true.

The CHAIRMAN. The World War has destroyed a couple of billion dollars worth of property, and because of that we have the situation which is existing to-day.

Mr. CALLBREATH. When are we going to get back to normal condition? It is going to take years to get back to normal. European nations will have to rebuild their credit and undoubtedly will draw on our gold reserve for that purpose. When that time comes we are going to have even a greater problem than we have now to maintain a free gold market and keep our currency at par. So it seems to me that it is very important that we shall maintain our gold reserves at the highest point possible to do by any reasonable means.

I do not believe that any of you gentlemen believe that wages will ever again get back to prewar levels. It certainly would mean a trail of disaster to the country if such a condition should come in a brief period of time.

The CHAIRMAN. Then, the cost of living can never get back?

Mr. CALLBREATH. No; we never will get back to the prewar prices. I have studied the matter rather carefully, and it seems to me that the most that we can hope for is to get back to about one-third above that level.

The CHAIRMAN. Cotton has gotten back to the prewar level.

Mr. CALLBREATH. True, but it is not being sold and the production of cotton is being curtailed.

Mr. COPLEY. What about wages, at the same time that we reach the level of one and one-third of the prewar rate of wages as compared with that period of the prewar?

Mr. CALLBREATH. The rate of wages will be very much above that level.

Mr. COPLEY. Very much above the one and one-third, but living expenses will be reduced to that?

Mr. CALLBREATH. They will be reduced to that point, but that will mean that the profits will be proportionately less than they are now.

The CHAIRMAN. In Germany to-day the wages are lower than they were before the war.

Mr. CALLBREATH. Well, I do not think that we can learn very much of a lesson from the situation in Germany, nor in any other country in which they are so impoverished that industry is practically paralyzed. The point I want to impress upon you gentlemen is this, that if we are to protect our credit we must have gold with which to do it. We can not get more gold from foreign countries without further decreasing their purchasing power in our markets. We have got more than our share now and we must anticipate the probable loss of some to those countries in greater need.

The CHAIRMAN. You advocate the passage of the McFadden bill?

Mr. CALLBREATH. Yes, sir; because it seems to me to be the best remedy now available. I do not say that I believe that it is a complete remedy, but that it is a remedy which will enable us to keep up the production of gold, thereby conserving our present supply of gold.

Our gold reserve seems to me very much like a tank from which we draw our supply of water with a stream flowing in at the top while we are drawing water out at the faucet. We may draw off a few barrels more than the intake supplies to-day, because we may need it, and we may not need so much to-morrow, but the continuous inflow of newly produced gold will sustain our confidence that the supply will always be sufficient.

Last year for industrial purposes was consumed $21,000,000 more gold than the mines of our country produced. I do not think we should continue to depreciate that reserve to which we look to support our credit, and that if we do, sooner or later we will get to a point where we will feel doubtful as to the sufficiency of that reserve.

The CHAIRMAN. All right.

Mr. CALLBREATH. I thank you very much.

The CHAIRMAN. Thank you.

Now, Mr. Morris is here and desires to be heard.

STATEMENT BY MR. GEORGE M. MORRIS, OF WASHINGTON, D. C.

The CHAIRMAN. Give your name and address and the business you represent to the reporter.

Mr. MORRIS. George M. Morris, Union Trust Building, Washington, D. C., representing the Manufacturing Jewelers' Association of New York.

The CHAIRMAN. Now, Mr. Morris, we want to be brief, because we have another matter to consider.

Mr. MORRIS. For this purpose, Mr. Chairman, I am representing the Manufacturing Jewelers' Association of New York; and as the members of the committee can well imagine, there is considerable opposition to a bill which proposes to tax one class of our people for the benefit of another, which is the case with this bill. I am simply representing these people for the purpose of these hearings. I think no argument is necessary at this time, but we would like to have an opportunity to be heard in opposition to the bill and I am here to ask whether that hearing could be announced now or by arrangement with the chairman.

The CHAIRMAN. Are you prepared to answer right now?

Mr. MORRIS. No, sir; I am not prepared to argue the case, I am simply representing these people, and I am not prepared to argue.

The CHAIRMAN. You may file any papers that you want to file here in opposition to the bill, and when we take it up for final consideration we will be glad to notify you and hear what you have to say.

Mr. MORRIS. And to-morrow will do to file it?

The CHAIRMAN. Yes.

Mr. MORRIS. Thank you.

The CHAIRMAN. I think that would be satisfactory to the committee. You may do that.

PART 4.

PROTECTION OF THE GOLD RESERVE.

Subcommittee on Ways and Means,
House of Representatives,
Tuesday, February 1, 1921.

The subcommittee, composed of Messrs. Timberlake, Copley, Bacharach, Garner, and Martin, met at 10 o'clock a. m., Hon. Charles B. Timberlake (chairman) presiding.

Mr. Timberlake. The committee will come to order. While we are waiting for the other members of the committee to arrive, do any of you gentlemen wish to make a statement?

STATEMENT OF MR. HARRY C. LARTER, REPRESENTING THE JEWELERS' VIGILANCE COMMITTEE.

Mr. Larter. Mr. Chairman and gentlemen, when we had the pleasure of appearing before the Ways and Means Committee some time ago when this bill was up, in fact, at the closing of the last session of Congress and ever since, we have been hard at work preparing data and have been in correspondence with the Ways and Means Committee asking that a time be given to us to appear before you. We have been under the impression that the time of the Ways and Means Committee would be so taken up with other matters at this session of Congress that they would probably not get around to the considering of the McFadden bill. We have a letter from the clerk of this committe, under date of December 23, in which he advised that we would be duly notified of the time to appear before you for a hearing, and at 5 o'clock yesterday afternoon I received a telegram stating that a subcommittee would conduct a hearing on this matter to-day at 10 o'clock a. m.

Now, this is a very large and important matter, and we have some very important witnesses and very important data which we desire to present to you, but on the notice we have had of this hearing it is simply impossible for us to present it to you this morning. We who are here have no arguments to present against this bill, and our visit here is with the earnest request that if this matter is to be considered at this session that you fix a time for us to appear before you with witnesses and data in order that the subject may be handled in a proper manner. I can not impress upon you too strongly the importance of the information we have been gathering together and the importance of the witnesses we desire you to hear on this subject.

Mr. Bacharach. Would a week give you sufficient time to get your witnesses and information here?

Mr. Larter. Yes, sir.

Mr. Timberlake. I think it is the desire of the subcommittee to get through with this matter as soon as possible but at the same time it does not desire to preclude any part of your testimony from being submitted. I supposed that this notice had been sent out on last Saturday and that you would have had sufficient time to have your witnesses and information ready for the hearing this morning, but if you did not receive the notice until yesterday afternoon I must apologize for the shortness of same.

Mr. LARTER. We accept the apology and thank you for your consideration. At the same time, however, this is a very large and important matter and we would like to be given sufficient time to have our witnesses and information here. We have been engaged for some time past in getting all our information together.

Mr. TIMBERLAKE. That being true it should not take very much time to enable you to be able to present them to the committee.

Mr. LARTER. One of our witnesses is in Georgia and there are others with whom we could not get in touch yesterday. You want, of course, to bear in mind that this bill imposes a 50 per cent tax on a very important industry and we should have the proper time in which to prepare our information for presentation to you.

Mr. TIMBERLAKE. Were not representatives of your organizations present at the former hearings and has not your side of this question already been presented?

Mr. LARTER. Only during last May, two or three days before the end of the last session of Congress and there have been changes in conditions since that time.

Mr. TIMBERLAKE. There have been changes in conditions since that time?

Mr. LARTER. Yes, sir; and we have additional data that your committee should have in regard to this subject.

Mr. MOTT. Do you not think that we should also have, Mr. Chairman, representatives from the Treasury Department; that is, experts from that department?

Mr. TIMBERLAKE. They appeared at the former hearing, Mr. Martin.

Mr. MARTIN. So did these people, but I think they ought to be here and hear the evidence.

Mr. TIMBERLAKE. They were notified of the hearing this morning.

Mr. BACHARACH. I suggest that we notify them to be here a week from to-day. I do not believe that it will make any difference, as I do not think there is any chance that this bill will come before Congress during this session, and we ought to give them time to prepare their data.

Mr. LARTER. What we would like, gentlemen—our witnesses are so important and our data is so important—is, if it is possible, to appear before the whole Ways and Means Committee.

Mr. TIMBERLAKE. That was found to be impossible at this time, and it was determined to appoint a subcommittee and to give every opportunity to those who might want to appear to give evidence in regard to the matter, and following out that idea this subcommittee was appointed. I recognize that what you say is true about the importance of the evidence and having your witnesses here and that you have not had sufficient time, only being notified of this hearing last night, and I think an adjournment for a week would be proper.

Mr. BACHARACH. I am under the impression that Judge Martin is right and that we should have the Treasury experts here at the hearing, as this is a very important matter, and I make the motion that when we adjourn this hearing to-day that we adjourn for one week and that the Government be requested to send the officials of the Treasury Department here to our next hearing, and also that the clerk of this committee notify all the people who testified at the other hearing and also those who desire to be heard at this hearing.

(Motion was carried.)

Mr. TIMBERLAKE. We will proceed to-day with any who are here and wish to be heard.

Mr. LARTER. We are not in position to present any arguments to-day at all.

Mr. TIMBERLAKE. Will it be possible for you to return one week from to-day—that is, Tuesday, February 8, 1921?

Mr. LARTER. Yes, sir; we will be here one week from to-day.

Mr. TIMBERLAKE. Mr. Lawrie, I believe you are here representing the American Mining Congress; do you wish to make any statement to-day?

Mr. LAWRIE. We have nothing further to add at this moment, Mr. Chairman.

(The committee thereupon adjourned until 10 a. m., Tuesday, February 8, 1921.)

SUBCOMMITTEE ON WAYS AND MEANS,
HOUSE OF REPRESENTATIVES,
Tuesday, February 8, 1921.

The subcommittee met at 10 o'clock a. m., Hon. Charles B. Timberlake presiding.

Mr. TIMBERLAKE. We will proceed with the hearing. I have a list of those who desire to be heard with reference to this matter and I will call first upon Mr. Niemeyer.

STATEMENT OF MR. G. NIEMEYER, NEW YORK, N. Y., REPRESENTING THE JEWELERS' VIGILANCE COMMITTEE.

Mr. NIEMEYER. I represent the Jewelers' Vigilance Committee (Inc.), of New York, who acted for the jewelry industry during the war and who appeared before the Ways and Means committee at the hearing in May in opposition to this measure. I also represent the United States Gold Leaf Manufacturers' Association and the Gold Pen Manufacturers' Association.

The first point that I would like to bring to your attention in reference to the McFadden bill is the fact that any justification there may have been for the passage of this bill has now disappeared to a very large extent. The war resulted in the raising of prices of all commodities used by the miners and also increased the demand for luxuries in the form of jewelry. National laws are readjusting conditions at this moment. For example, there is a very definite trend in the fall of wholesale commodity prices, as we find by the various reports published by the Department of Labor.

Mr. GARNER. Do you anticipate a return to prewar prices?

Mr. NIEMEYER. That is rather a difficult question to answer.

Mr. GARNER. Well, do you think the dollar bill will ever be worth as much again in purchasing power as it was before the war?

Mr. NIEMEYER. I should like to have Prof. Kemmerer answer that question when he makes his statement to you later on.

It is also a fact that there is a lessened demand for gold in the arts at this moment, and while the amount withdrawn last year was equal to that of 1919 the lessened demand was very evident at the end of the year. For example, withdrawals form the United States assay office in New York City, which supplies 85 to 90 per cent of the gold used in the arts, for the last three months of 1920 were 43.8 per cent less than the average monthly withdrawals for the first three months of the same year. Figures available for January, 1921, indicate that the withdrawals during that month were only 46 per cent of the amount withdrawn during January 1920.

In our opinion artificial stimulation of production is not needed as it is evident that the cost of the miner's supplies is being rapidly reduced and the use of gold in the arts is rapidly diminishing, and the natural economic laws will soon restore all industries including mining to a normal basis.

The second point is the matter of fraud and waste likely to result from the enactment of this measure. The incentive of a premium of $10 per ounce for all new gold mined will certainly be conductive to fraud. The bounty which makes a $20 gold piece worth for example $30 would mean that fraud could be perpetrated which would be very hard to detect. It would for instance, be easy to take a $20 gold piece, destroy its identity as a coin and drop it down the shaft of a mine. When it comes up in the bucket it would be worth $30 as new gold. Placer miners could bring in gold for which they would obtain a premium of 50 per cent of its value because gold is certainly not easily identifiable as old or new and is a metal whose high intrinsic value in comparison to its weight would make it very easy to perpetrate fraud. I would not say that reputable mining companies would do that sort of thing but it could and would be done and would mean that "mining the bounty" would become a popular American industry.

Mr. GARNER. Pardon me just a moment and let me state my own position in this matter. Now I would not be willing to pass the bill as it stands to-day, but I am perfectly willing to take your industry in reference to the matter.

Mr. NIEMEYER. That is not the particular case involved.

Mr. GARNER. No; but is involved some. How would this affect the amount of gold you are using in your industry?

Mr. NIEMEYER. We are using less gold all the time and changed economic conditions are seriously affecting our business at this moment.

The payment of the proposed bounty would certainly pay an enormous profit to mines that are now operating on a paying basis. No figures have been presented by the proponents of this measure showing mining costs but it is evident that the payment of a bounty to these mines would practically amount to a gift.

In addition, it would certainly encourage the working of the richer ore bodies and would encourage the wasteful dissipation of gold. The next point is that this bill provides a bonus to the mining companies even if the tax upon the industry does not meet the amount of the bonus or bounty to be paid to the miner. The amount of the new gold mined would undoubtedly be increased and contrawise the tax upon industry would result in a decreased consumption in the arts. Expressed in dollars and cents, the more gold produced the greater the amount of the bounty to be paid, the less gold used the smaller the revenue received.

Of course it is impossible to ascertain in advance, what proportion of the bounty would come out of the funds in the Treasury of the United States but using the 1918 figures as an illustration, it would seem that the Public Treasury might be called upon to the extent of $32,000,000.

One other matter in reference to this bill regarding which I will purposely not go into detail is that the proposed measure is replete with ambiguities and unworkable provisions and it is our opinion that the measure could not be administered in its present form.

Various authorities have given their opinions in reference to the bill in question. First of all the British gold production committee reported adversely upon such a bill to the British treasury. Their report was unanimous and their problem was as acute or more acute than ours. Then, the committee appointed by Secretary of the Treasury McAdoo reported adversely on the same thing, under date of February 11, 1919. This committee was composed of Hon. Albert Strauss, a member of the Federal Reserve Board; Hon. Raymond T. Baker, Director of the Mint; Hon. Emmett T. Boyle, governor of the State of Nevada: Hon. Edwin F. Gay, well-known economist; and Pope Yateman, Esq., one of the leading mining engineers of the United States. These gentlemen went into the matter and considered a vast amount of data submitted by representatives of gold-mining corporations.

Mr. TIMBERLAKE. What was the date of that?

Mr. NIEMEYER. February 11, 1919.

Mr. GARNER. Have you a copy of that report?

Mr. NIEMEYER. Yes, sir; there are four printed pages.

Mr. GARNER. Let us put that in the record of the hearing.

Mr. MARTIN. Was that report unanimous?

Mr. NIEMEYER. Yes, sir; then, we have a letter from the honorable Secretary of the Treasury, Mr. Houston, to the Hon. Joseph W. Fordney, under date of April 9, 1920.

Mr. TIMBERLAKE. Just prior to the hearings held last May?

Mr. NIEMEYER. Yes, sir; and in which he states that the Treasury was very much opposed to the bill and in addition in his annual report of June 30, 1920, he repeated this condemnation; also various economic authorities have been unanimous in their disapproval of it, among them Prof. Kemmerer, of Princeton University, who is here to-day and will be glad to talk to you in regard to this bounty. A special committee of the American Bankers' Association, consisting of George M. Reynolds, chairman, president of the Continental & Commercial National Bank of Chicago; Lawrence E. Sands, president of the First National Bank of Pittsburgh; and A. Barton Hepburn, chairman of the advisory board of the Chase National Bank of New York, who were in no way connected with any trade injuriously affected by the bill, presented a report which was unanimously against this bill at the annual convention of the American Bankers' Association.

Mr. GARNER. Have you that report also?

Mr. NIEMEYER. Yes, sir. In addition to that I would like to quote Mr. H. L. Slosson, of Nevada, who is a prominent mining man, president of the Middle Mines Association, and a member of the American Institute of Mining and Metallurgical Engineers. He says:

> I do not expect the McFadden bill to pass Congress. It is generally opposed by the banking interests from one end of the country to the other, and their opposition would be sufficient, even though the farmers and manufacturers did not join them.
>
> The fact is not so important as it might seem to the gold-mining industry.
>
> The most important and outstanding fact is that gold rapidly is rising in value all over the world, for it is an axiom of political economy that as prices fall, gold rises; and as prices rise, gold falls.
>
> The last few years have been crucial for the gold producer, but the tide has turned with a rush and the gold miner is coming into his own.

Now, this is the statement of a mining man whom I understand is quite prominent in mining circles in that part of the country.

We have with us to-day Prof. E. W. Kemmerer, at present professor of economics at Princeton University, and no doubt known to some of you through his connection with the Aldrich monetary commission. It is interesting to note that he was financial adviser to the United States Philippine Commission under the Taft administration and only recently under the Wilson administration was financial adviser to the Guatemalan Government. Prof. Kemmerer's connection with this committee was brought about by his opinion on this measure, expressed in 1918, which came to the attention of the jewelers' vigilance committee long before we took up any action in this matter. He has been so prominently connected with financial matters that we thought you gentlemen would be interested in hearing what he might have to say in regard to the McFadden bill. However, before Prof. Kemmerer appears I would like to have you hear Mr. Morris L. Ernst, of our counsel, who would like to present features on the constitutionality of this bill.

Mr. TIMBERLAKE. Very well, we will hear Mr. Ernst.

STATEMENT OF MR. MORRIS L. ERNST, OF MESSRS. GREENBAUM, WOLFF & ERNST, ATTORNEYS OF THE JEWELERS' VIGILANCE COMMITTEE, AS TO THE CONSTITUTIONALITY OF THE McFADDEN BILL.

Mr. TIMBERLAKE. You represent the same organization as Mr. Niemeyer?

Mr. ERNST. Yes, sir. Mr. Chairman and gentlemen, it seems to me that this is a very simple proposition, and I believe that members of the Ways and Means Committee made statements that it was never their idea or thought to use the taxing powers of Congress to tax one select group of citizens and pay over the revenue obtained from that source to another select group. It is true that the courts have sustained bounties or bonuses or taxes to be used for bonuses where there was general public benefit, as in the case of roads and also where there is an incidental public benefit such as in the construction of a railroad, and it is interesting to know that several of the States have held this to be unconstitutional merely because there was this indirect benefit. However, this class of bounty is very different; this is a class where the benefit is directly to the individual; these mining companies are to get the benefit of the taxes placed on the arts and these manufacturers. The public benefit, if any and we do not admit that there is any, is only indirect.

Now, back in 1890 you will no doubt recall that the sugar subsidy was adopted in the tariff bill, but before that legislation could even be presented to the Supreme Court the bill was repealed. The subsidy provision was repealed because of the tremendous public clamor against that type of legislation. That bounty to the sugar industry was to be an inducement for the growth of a tremendous industry in this country, but the Supreme Court stated its objection to using the taxing powers vested in Congress under section 8 of Article I of the Constitution for the benefit of any particular industry or particular group in a community. Now, couple that with the idea we have here, the most outstanding and novel idea of taking from a distinct group in a community funds that will go to the enrichment of another distinct group. There is no more reason for gold to be subsidized than for coal, which is a public necessity. There is a long line of cases cited in the memorandum which will be submitted to you. Now, it is of course recognized that certain payments may be made by the Government for the faithful performance of a public duty in dangerous circumstances, nevertheless all bounties paid to private industries are subject to condemnation, and, it is submitted, unconstitutional. A great part of the city of Charleston burned down, also a great part of the city of Boston burned down; and the legislatures of those States passed laws assisting the citizens to rebuild their homes, and the courts without any hesitation held that that type of bounty was unconstitutional, even though there was a public benefit, because the individual and private benefit was the immediate proposition.

The only case of the kind of this proposition of picking out a certain group and taxing it for the benefit of another was, I believe, in some of the Western States where the insurance companies were taxed and the money turned over to the volunteer fire departments. The idea back of that was that the fire departments should be developed, and the insurance companies had the risk which the fire departments would lessen, and by the use of the taxes the fire departments would become more efficient. Now, in this case the parties taxed were receiving an indirect and sometimes a direct benefit from the money so paid. The question went to the Supreme Court and was held to be unconstitutional.

Mr. Garner. May I interrupt to ask a question? Suppose that we revised the internal-revenue laws of the country and Congress saw fit to put a tax of $2 or $5 per ounce on this gold to obtain revenue; that would do two things—collect a tax from the people who use the arts and put gold in the Treasury; that would be constitutional, would it not?

Mr. Ernst. Taxing that unit would be.

Mr. Garner. The only thing in the Constitution is that all the taxes shall be collected uniformly throughout the country, and if our assumption is that they are collected uniformly would not that be in accordance with the law?

Mr. Ernst. There is also a clause that provides that taxes shall be used only for the public welfare.

Mr. Garner. I agree with you fully about the McFadden bill; it is not clear to me how it could be good business to tax some particular industry to give to another, but I do say that you have the right to tax an industry and that tax goes in the Treasury. I suppose that you gentlemen will come here when the internal-revenue laws are to be revised with the object of eliminating the tax on the gold used in the arts. That ought to be done; I do not think it is an essential industry. I am willing to level the tax and am willing to hear the arguments as to the advisability of assuming the gold industry is essential, and I presume we will hear you gentlemen at that time.

Mr. Timberlake. We will be glad to hear Prof. Kemmerer.

Mr. Niemeyer. In presenting Prof. Kemmerer I would like to say that he will be glad to answer any questions you gentlemen may wish to ask him under the particular economic features involved.

STATEMENT OF MR. E. W. KEMMERER, PROFESSOR OF ECONOMICS AND FINANCE, PRINCETON UNIVERSITY.

Prof. Kemmerer. Mr. Chairman and gentlemen, I would like to emphasize the point made by Mr. Niemeyer in referring to me; that is, that my interest in this whole matter is scientific. I am here representing his group, but my interest has always been that of a scientific man. Now, when this bill was originally proposed it impressed me from its economic, financial, and scientific bearing. I wrote an article on this subject for the New York Tribune which was rather widely reprinted, and took the same position that I am taking here to-day.

Mr. Timberlake. I believe that you did not appear at the former hearings, did you?

Prof. Kemmerer. No, sir; these gentlemen saw from my article the position I took, and as they looked at this gold-bounty matter in the same light they have requested me to come here to-day. The main contention that I have to make, I have summarized very briefly in a few italicized paragraphs in a brief which they will submit. What I want to do now is to pick out a few more of the salient points.

The first proposition that I want to consider is that this question of the value of the gold, its relation to the cost of living, mining, and all of that, is an international question. We have been prone, however, in this country to view it as a national question only. The gold of the world is produced mainly outside of the United States, something like 75 per cent of it in the more backward countries of the world. Something like 63 per cent is produced in Africa, Asia, and Mexico alone, and only about 20 to 22 per cent in the United States.

Now, this gold comes right into international trade, into a world market. Just as water seeks its own level, this newly produced gold seeks its level. Where the gold standard is strictly maintained, there are no restrictions on the free movement of gold. So I say that the value of gold is an international problem. Gold is the money of international trade. With it trade balances are settled, and its shipment from one country to another is one of the principal methods by which the price levels of different countries are brought into equilibrium with each other, and kept in equilibrium. The free flow of gold into and out of a country under the influence of natural economic laws is essential to the proper functioning of a country's foreign trade and to its maintenance of the gold standard. There is little or no restriction to-day on the flow of gold among the few countries still on a gold standard, and there is a considerable movement of gold between countries that have temporarily given up the gold standard under the pressure of the war. As these countries return to the gold standard the flow of gold in international trade will become more and more free.

The annual gold production in any one country is a very small part of the world's supply. Roughly speaking, the world's annual production of gold is something like 5 per cent (or, to be more exact, from 4.8 to 5.6 per cent) of the world's total supply of monetary gold. Only about 21.5, or one-fifth, of the world's annual production of gold is normally in the United States. This makes the annual production of gold in the United States equivalent to about 1 per cent of the world's total supply of monetary gold. If you are going to influence the value of gold you must influence the value of the entire available supply of gold, because the supply of gold on the market in relation to the demand is the thing that fixes the value of gold. Gold is peculiar in the respect that the supply on the market is the accumulation of ages. I have seen gold in Egypt that was probably mined over 2,000 years before Christ, the world's supply of gold is the accumulation of ages, and if you are going to fix the value of gold you must fix the value of the world's marketable supply. Our own annual production is less than 1 per cent of that supply.

The next proposition I want to make is that this bounty would fly in the face of the principles upon which the world depends for the stabilizing of the gold standard. I think we all want to maintain the gold standard, both the proponents of this bill and the opponents of the bill. Gold is different in one respect from all other commodities. The difference consists in the fact that the producer of gold has an unlimited market for his product at a price which never appreciably changes in gold-standard countries. The price of gold is fixed, not by the Government but by the fact of the gold standard itself. An ounce of pure gold will coin into $20.67, and that $20.67 may be melted down and an ounce of gold be gotten from it. The unit of value in this country is the value of 23.22 grains of fine gold, and 23.22 goes into 480 (the number of grains in an ounce) 20.67 times. No matter how depressed times are, how good or how bad, the miner can always get that price for his gold, and can always sell in unlimited quantities. He has no worry about his market. The mints will always take all the gold he brings. At the present time, with the bottom dropping out of the prices of textiles, woolens, silks, cotton, hides, and all sort of things, on account of the markets being curtailed, the gold miner can sell every ounce of gold he has mined for the former price, namely, $20.67. In other words, when the supply of any other commodity increases relative to the demand the price falls, but this is not so in respect to gold. What do we depend on in the case of gold if not on the price of gold to regulate the supply to the demand? We depend entirely on variations in costs of production. When gold is produced in large quantities the price remains the same, but the price of all sorts of other goods goes up.

Mr. GARNER. May I interrupt you? That is not necessarily so, but the increase in price of all other articles causes the price of gold to increase?

Prof. KEMMERER. The price of gold does not increase when the value of gold depreciates, and other prices rise, but the cost of producing gold increases. The value of gold, namely, its purchasing power, can not decline unless the supply of gold is increased relative to the demand by pumping into the money uses of the world paper money and bank deposit substitutes for gold on an enormous scale as we have been doing in recent years, we have greatly lessened the demand for gold through the use of substitutes in the money uses. This is an important cause of the decline in the value of gold since 1913.

Mr. GARNER. I agree with you that, unfortunately, in the last three years we have had that supply increased, but by paper money.

Prof. KEMMERER. The biggest force in the increase of general prices from 1896 to 1914 was the increased production of gold. Since 1914 the biggest force in this increase of prices has been the substitution of paper money and bank deposits for gold, the withdrawal of the gold to put in substitutes. The world's price levels have been raised to dizzy heights by this tremendous issue of paper currency and expansion of bank deposits which circulate by check. Gold to-day has only about half the value in the United States that it had in 1913.

Mr. GARNER. So far as the United States is concerned, that can be remedied to a certain extent by the banking interests.

Prof. KEMMERER. It should be remedied the world over.

Mr. GARNER. I understand that, but we can not control the world over, and I ask you now, as the author of the Aldrich bill, or one who has knowledge of it, whether or not the Federal banking system of this country has in mind any theory to decrease the circulating medium? Will that thing tend to make gold worth more?

Prof. KEMMERER. Certainly. Currency and credit contraction would tend to make the gold dollar more valuable.

Mr. GARNER. So that Mr. McFadden, who is chairman of the Banking and Currency Committee, has it in his power to influence the marketing of gold?

Prof. KEMMERER. I sincerely hope that the Congressman will not.

Mr. GARNER. I said that he had it in his power; the power is with the Federal reserve as to other control; that is, as to substitutes.

Prof. KEMMERER. It is. When gold gets cheaper because of substitutes, the price of gold in jewelry remains the same while the price of everything else goes up. This means that the prices of articles made largely of gold do not increase in times of a rising price level as rapidly as do the prices of most other things, or as rapidly as do most wages and salaries; people buy more jewelry; higher mining costs result in less gold being produced. Instead of the price of gold changing, it is the price of the materials and labor used in the mining of gold that changes. These are the forces we depend on for stabilizing the gold standard.

Instead of the price of gold changing, it is the price of the materials and labor used in the mining of gold that changes. These are the forces we depend on for stabilizing the gold standard. I have a chart here showing the movement of the price level in England for about one hundred years. Here [pointing to the chart] is a period when prices were going up and up, and here they come down. Now, the gold producers gain during a decline in general prices, their market is unlimited, the price of their product is constant, and their costs decline. When, on the other hand, general prices rise, they lose. Prices are falling now, and everything is working in their favor.

Another point I wish to make is that this measure would depress the unit of value in which contracts are made. It would, in effect, debase our monetary unit. We have great respect for the sanctity of contracts in this country. Our Government debt payable on a gold basis is over $20,000,000,000, bank deposits, corporate and municipal bonds, insurance contracts, etc., payable in gold or its equivalent amount to scores of billions of dollars. Here is a proposition to levy a tax which will give to the gold producers a bounty to stimulate gold production, and to the extent that it succeeds in stimulating gold production, namely, in increasing the supply of gold on the market, to that extent it will tend to depress the value of the dollar, and with it the value of every bank deposit, mortgage note, bond or other obligation in this country payable in gold, or in any other country on a gold basis or soon to return to a gold basis. This is a pretty serious thing. With the ups and downs of gold due to natural economic forces, a man who makes a contract or invests in a mortgage note or bonds or other securites, may be assumed to take his chances, I do not think it proper to say that he takes his chances on legislation deliberately intended to depress artificially the value of gold.

Mr. Garner. But he does take his chance on whether or not in the judgment of the Federal board it should be up or down?

Prof. Kemmerer. He does; but the varying of discount rates by central banks has been the practice of the world for generations, and the influence on price levels is temporary.

Mr. Garner. I am not criticising the Federal Reserve Board; I am merely pointing out, as I did when it was passed, that the financial stability of this country is absolutely in the hands of these men.

Prof. Kemmerer. That is true.

Mr. Garner. I was opposed to that because we put in the hands of these men that power, but I know of no way you can demonstrate such laws without doing that.

Prof. Kemmerer. That is correct. The next point I wish to make, and which I think is very vital, I am going to read from my italicised statements in this brief.

Mr. Bacharach. It is now six minutes to 11 o'clock. We all have to be on the floor of the House at 11 o'clock. Would it not be agreeable to you that we recess until 1 o'clock and you can then resume your statement?

Prof. Kemmerer. Yes, sir; that will be agreeable to me.

Mr. Timberlake. We will recess until 1 o'clock.

AFTER RECESS.

Mr. Timberlake. Prof. Kemmerer, before you continue your statement, I believe I will ask that we have placed in the record of this hearing a letter from Secretary of the Treasury, Mr. Houston. He was advised after the last hearing that they would be given an opportunity to be heard here to-day but has notified us in a letter to the chairman of the Ways and Means Committee that they had nothing further to offer. His letter is as follows:

WASHINGTON, D. C., *February 3, 1921.*

DEAR MR. CHAIRMAN: I received your letter of February 2, 1921, inclosing a copy of H. R. 13201, a bill introduced by Mr. McFadden, "To provide for the protection of the monetary gold reserve by the maintenance of the normal gold production of the United States to satisfy the requirements of the arts and trades by imposing an excise upon all gold used for other than monetary purposes and the payment of a premium to the producers of newly mined gold, and providing penalties for the violation thereof." I appreciate your courtesy in advising me that there will be a hearing on this bill on Tuesday, February 8, 1921, at 10 a. m.

The Treasury's views as to the bill have been fully stated in my letters of May 24, 1920, and April 9, 1920, copies of which are inclosed for the convenience of the committee. I think it is unnecessary for the Secretary of the Treasury to appear or to be represented at the hearing. I have nothing to add to my earlier letters, except to call your attention to the further statement of the Treasurer's views, which appears on pages 180 and 181 of the Annual Report on the Finances for the year 1920. I feel that the bill, reduced to its lowest terms, is an attack on the gold standard, and believe that the situation of which the producers of gold complain will tend to correct itself as commodity prices become adjusted and the purchasing power of the dollar increases.

Very truly, yours,

D. F. HOUSTON, *Secretary.*

Mr. BACHARACH. According to that letter he states that he sent a copy for each member of the committee.

Mr. TIMBERLAKE. I received a copy, but do not know whether each member of the committee received one or not. Now, Prof. Kemmerer, if you will, resume your statement.

STATEMENT OF PROF. E. W. KEMMERER—Resumed.

Prof. KEMMERER. The next point I wish to make is this. Inasmuch as according to the McFadden bill the bounty would have to be paid whether the tax provided an adequate revenue or not, the bounty would probably fall to a substantial extent on the general revenues of the Government. To the extent that the proposed bounty and tax would accomplish their alleged chief objects, namely, the strengthening of gold reserve, through the stimulation of the gold production, and through the reduction of the flow of gold to the industrial uses, to that same extent would they increase the financial burden placed on the Federal Government because the more gold produced the greater the Government bounty would have to be, but the less gold that goes into the industrial uses, the less revenue would the tax yield; in other words, while the bounty increases the base on which it is to be paid, the tax tends to dry up the source from which the Government obtains the revenue for paying the bounty.

For purposes of illustration, let us make the arbitrary but not unreasonable assumption that under the stimulus of the tax the production of gold in the United States would soon return to its previous maximum figure, namely, 4,887,604 ounces, the amount produced in 1915, and also let us assume that the domestic consumption of new gold in the United States (plus the equivalent of $3,500,000 of gold coin estimated to be consumed in the arts each year) on which the tax would be paid should likewise return to the figure of the year 1915, namely, approximately 1,601,300 ounces. The bounty on the amount of new gold produced on the basis of the above assumption would be $48,876,040 a year and the tax at the rate of 50 cents a pennyweight on manufactures containing this gold would be $16,013,000. On these arbitrary assumptions therefore the plan would place a charge of approximately $32,863,000 a year on the general revenues in addition to the expenses for administering the bounty and the tax.

The next point I wish to make is this. If the bounty stimulated gold production it would tend to make gold cheaper, for it would result in increased supplies being thrown on the market. To the extent that it made gold cheaper, it would make prices higher. Therefore, the more you should stimulate gold production by a bounty, the cheaper you would make gold, and the higher you would make commodity prices, including the prices of cyanides, explosives, and all other materials that go into the mining of gold. That would mean higher costs in mining gold, and the higher the costs, the more bounty needed. You have here what seems to be a vicious circle. I do not see where it is going to end. Here is the circle. Gold is so cheap in comparison with mining equipment, materials, and labor, in other words, prices are so high in the gold-producing industry, that the poorer mines are producing gold at a loss; therefore it is proposed that a bounty of $10 should be granted to the producer on every ounce. This bounty would stimulate gold production and the resulting increase in the cost of supplies and labor would tend to push up prices, including all expenses of gold mining. After May 1, 1925, the bounty could be increased. Then gold production would be further stimulated, and again prices would be pushed up requiring another increase in the bounty, and so forth, ad infinitum.

The next point I wish to make I will state in this form: The tax would be paid by Americans, but the additional gold produced would be distributed over the entitre world. You are proposing to tax a certain industry in America to obtain revenues for paying a bounty to stimulate gold production. No one, so far as I know, has proposed to combine this taxation with an embargo on gold, so we would be taxing the American people, or a special industry, to provide funds for stimulating gold production and then letting that gold go out of the country seeking its own level all over the world. We could carry the burden and the rest of the world receive most of the benefit.

Mr. GARNER. In other words, we pay a tax of 5 per cent and the world gets the benefit of 4 per cent of it.

Prof. KEMMERER. We pay $30.67 for an ounce of gold and sell it to the world for $20.67. The British committee stated that that point alone was enough to defeat such a proposal in England.

I realize that the mining industry has suffered during this period of rising prices, it was inevitable that it should, but it gained decidedly during the long period of falling prices that preceded. Now, falling prices have set in in all sorts of industries. They are nearly all suffering. The agricultural industry is suffering, the producers of copper and other ores are suffering, but the gold miners are getting their supplies at a decreasing cost and will get the same price for their products. There has been, as you all know, during recent months a pronounced and widespread reduction in prices. The Labor Bureau index numbers, which I think are the best, show a decline from an index number of 272 in the spring of last year to 189 in December. We have figures here in this memorandum showing the declines from the peak in certain commodities.

Mr. GRANGER. You take the year 1913 as the base?

Prof. KEMMERER. Yes, sir; so as to take the prewar year. These figures for individual prices were furnished by the Federal reserve bank of New York.

Mr. MARTIN. What time is that for?

Prof. KEMMERER. January 15, 1921. Some commodities declined 60 per cent and more; others, 50 per cent; etc. The decline in raw cotton is 59 per cent; in cotton goods, 56 per cent; in silk, 66 per cent; in woolen goods, 35 per cent; etc. The metal group showed a tremendous decline also—pig iron, 32 per cent; copper, 35 per cent; and lead, 48 per cent.

Mr. GARNER. And during all this time gold had its stable value?

Prof. KEMMERER. Yes, sir; and not only have these other commodity prices been going down but the producers are losing their markets. The gold market is as good as it ever was, and the miner can sell every ounce of gold he produces at $20.67. The market has not been curtailed one bit, so that the problem is solving itself. The time when the miner gains is when other prices are falling, and the present is a period of rapidly falling prices.

Now, I just want to mention one other point, namely, the attitude of economic authorities on the question. I realize that a committee of this kind does not want to take authorities; what you want are facts and arguments as to why things are so; but I think, none the less, that scientific opinion is a matter of some significance. We have had expressions from different sources. We have seen what the British committee said about the plan. They were unanimous in the condemnation of such a plan. We have found the bankers' association committee unanimously against it. So far as I know, there is not an economist of standing in the United States, at least in a university position, who favors a bill of this kind. The general attitude is that as an economic measure it is absurd.

Mr. GARNER. We have hearings here on nearly everything that comes along, especially if an influential Member of Congress comes along and wants a hearing on some bill we, of course, grant him a hearing.

Prof. KEMMERER. Mr. Garner, I believe you asked Mr. Niemeyer a question, which he referred to me, as to whether prices would return to the old basis?

Now, it is a dangerous thing to say that prices will never return to the old basis. We have a rather interesting chart here [indicating] showing prices in England. I have taken England for this illustration because they did not have a greenback period as we did. We have taken this for 100 years, and you can see from it how general prices move up and down. To say that the price level of any particular period of time will not return is not possible. It may go anywhere in the next 30 or 40 years, but taking things as they were before the war and without any new discoveries of gold I would say that the presumption is that prices will not for a long time go back to their prewar basis.

Mr. GARNER. Is it not from the reason that the country is not entirely on a gold basis and it is going to take awhile to get back to what we term the gold basis? There is so much of this paper money out that it is going to take some time to get back to an actual gold standard.

Prof. KEMMERER. Prices rose rapidly from 1896 to 1920. The problem of the rising cost of living had been with us for many years when the war broke out. Now, if there had been no war and the cost of living in the United States and in other gold-standard countries had increased for the years 1914 to 1921 at the same rate that they did for the eight years ending 1913, our price level to-day would be about 19 per cent higher than it was then.

We have put into operation since that time the Federal reserve system; we are the biggest users of gold in the world, and the Federal reserve system has reduced our legal gold reserve enormously. We are making more efficient use of gold than before the war, and I should say that as a result of economies in the use of gold and of the improvements in our currency and banking system, without the war prices would have advanced more rapidly from 1913 to 1921 than during the eight years preceding. As Europe "comes back" she will reclaim much of the gold she has sent us since 1913.

Mr. GARNER. The circulating medium will necessarily be reduced.

Prof. KEMMERER. It will have to be reduced.

Mr. BACHARACH. I believe the history of the country shows that wages have always gone up each 10 years for about 100 years?

Prof. KEMMERER. You will find this, as a rule, that when there is inflation wholesale prices rise first; then retail prices, and finally wages. Wages go up last, although in war industries they may go up first. Then, when it comes to the decline, wages lag behind retail prices, and retail prices behind wholesale prices.

Mr. MARTIN. Then wages are last to go up and last to come down?

Prof. KEMMERER. Yes, sir; that is an undoubted fact. One reason why wages seem to go down slowly is the defects in our statistics. When you have a period of depression you have unemployment; large numbers of men are thrown out of jobs; the men discharged first are likely to be the unskilled men, so that if you take the average wage statistics you will have an undue proposition of highly-paid skilled men. Men out of employment with zero wages are not included in the average.

Now, gentlemen, that is about all I have to say, but I will be glad to try to answer any questions you may wish to ask me.

Mr. NIEMEYER. I would like to say that the jewelers' vigilance committee would like to submit a short memorandum covering the principal points in regard to this matter; a report of the Treasury and a memorandum on the McFadden bill, a memorandum by Prof. Kemmerer, and the report of the committee of the American Bankers' Association.

Mr. TIMBERLAKE. Is that in the form of a brief?

Mr. NIEMEYER. These are memorandums.

Mr. TIMBERLAKE. It would not be necessary to incorporate that in the record?

Mr. GARNER. I suggest that it be handed to the committee and it can then be determined whether or not to include it in the record.

Mr. TIMBERLAKE. I have here the name of Mr. Marrian, representing the Gold Pen Manufacturers' Association. Is Mr. Marrian present, and does he desire to be heard?

Mr. NIEMEYER. Pardon me, Mr. Chairman, but Mr. Marrian has no statement to make. I stated at the beginning that I also represented the Gold Pen Manufacturers' Association, and Mr. Marrian does not wish to make any additional statement.

Mr. TIMBERLAKE. I have the name of Mr. Scardefield. Is Mr. Scardefield present, and does he wish to make any statement?

Mr. SCARDEFIELD. I have no statement to make except to indorse what has been said by Mr. Niemeyer.

Mr. TIMBERLAKE. We will hear Mr. McFadden.

STATEMENT OF HON. LOUIS T. McFADDEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA.

Mr. McFADDEN. Mr. Chairman and gentlemen of the committee, there are two or three questions I would like to propound to Prof. Kemmerer, and I have some few things which I would like to put in the record. The first is a letter under date of January 12, 1921, to the Hon. Joseph W. Fordney, chairman of the Ways and Means Committee, in which I suggested some proposed amendments to this bill.

(Letter and amendments referred to are attached hereto.)

JANUARY 12, 1921.

Hon. JOSEPH W. FORDNEY,
Chairman Ways and Means Committee,
House of Representatives, Washington, D. C.

DEAR MR. FORDNEY: My reasons for suggesting the amendments to H. R. 13201 are as follows:

The amendment to the preamble on line 4 by the substitution of the words "for revenue and other purposes" after the word "excise" is suggested in order to make more specific the reason for levying the excise tax.

The amendments as indicated on page 3, lines 2, 3, and 4, are made in order not to eliminate the gold used in corrective and restorative dental work, for the reason that only the wealthy classes can afford to have this work done and are therefore able to pay the excise tax.

The introduction of the final paragraph to section 2 on page 3 is suggested to relieve the domestic manufacturers of jewelry and other articles containing gold when these are exported. This same exemption was made from the imposition of the luxury tax now in force, for the reason that the export trade could not sustain the tax in competition with foreign manufacturers in the same market:

All of the other changes suggested are merely a matter of clarifying the bill by the use of better words.

Yours, very truly,

L. T. McFADDEN.

PROPOSED AMENDMENTS TO M'FADDEN BILL, H. R. 13201.

On line 4 of the proposed preamble to the act, insert after the word "excise," "for revenue and other purposes."

On line 2, page 3, strike out "and that all gold."

On line 3, page 3, strike out "used in corrective and restorative dental work for children."

On line 4, page 3, strike out "of both sexes not over the age of fifteen."

On page 3, insert the following final paragraph to section 2:

"That under such rules and regulations as the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury, may prescribe, the excise tax imposed under the provisions of section 1 of this act shall not apply in respect to articles sold for export and in due course so exported. Under such rules and regulations the amount of any excise tax erroneously or illegally collected in respect to exported articles may be refunded to the exporter of the article instead of the manufacturer, if the manufacturer waives any claim for the amount to be refunded."

On line 2, page 6, strike out "the monetary."

On line 3, page 6, strike out "price of $20.67 and."

On line 13, page 6, strike out the word "may" and insert the word "would."

On line 1, page 10, strike out the word "collected" and insert the word "collection."

On line 2, page 10, strike out the word "fails" and insert the words "shall fail."

On line 7, page 10, strike out the words "willfully refuses" and insert the words "shall willfully refuse."

On line 16, page 10, strike out the words "willfully refuses" and insert the words "shall willfully refuse."

That wherever "May 1, 1920," or "the 1st day of May, 1920," occur, there shall be substituted therefor "the passage of this act."

Mr. McFadden. Mr. Chairman, since the opponents of the bill have introduced the adverse report of the gold committee of the American Bankers' Association, delivered before the forty-fifth annual convention of this association, I hereby submit my reply and analysis of the said report. In order that there may be no misunderstanding as to this matter, I wish to state further that the report of the committee was not adopted by the convention and, therefore, has not been indorsed by the American Bankers' Association, and that report, together with my reply, was referred to the economic policies commission of that organization for further study and report.

(Analysis referred to is attached herewith.)

McFadden Attacks Gold Report.

ANALYSIS OF GOLD COMMITTEE REPORT PRESENTED BEFORE THE FORTY-SIXTH ANNUAL CONVENTION OF THE AMERICAN BANKERS' ASSOCIATION BY LOUIS T. M'FADDEN, CHAIRMAN OF THE BANKING AND CURRENCY COMMITTEE OF THE HOUSE OF REPRESENTATIVES, OCTOBER 21, 1920.

Gold is our standard of value and the money of bank reserves. The entire body of outstanding indebetedness, public and private, including the Liberty bonds recently issued, is payable in gold coin of the present weight and fineness. The nearly $10,000,000,000 of loans which the United States Government has made in the last two and one-half years to foreign governments are payable in this gold coin. The $3,500,000,000 adverse European trade balance created since January 1, 1919, has still to be funded. The outstanding indebtedness of nearly the entire world is contracted in gold. Outside of Asia, gold is still recognized as the unit of value and the basis of monetary systems, although in many countries the stress of war conditions and unbalanced trade have compelled a suspension of gold payments. All of these countries regard such suspension as temporary and desire to get back on the gold basis and establish their currencies in fixed relations to gold at the earliest possible date.

WORLD RESTORATION OF GOLD STANDARD.

For the United States to adopt remedial measures to maintain its normal gold production would be construed abroad not as an element of weakness, but rather as one of strength. A stimulus to domestic gold production would be regarded not only as evidence of our desire to retain the present gold standard throughout the world, but as an aid to European countries to more rapidly recover their prewar gold reserve positions. To allow the industrial consumers of gold in this country to withdraw gold from the monetary reserves of foreign countries would have a depressing effect upon the exchanges, and would delay the time when foreign exchanges would be restored to par. The diversion of gold from the monetary reserves of the nations of the world into the manufacture of articles of luxury particularly at a time when the world's gold production has so greatly declined will still further delay the financial recovery of all nations from the pressure of war finance.

The report of the gold committee states, "If at any time the bank situation calls for more gold in the United States, we can purchase it in the international gold markets far more cheaply than we can obtain it by the doubtful method of an expensive bonus on gold produced in the United States." Is it not evident that if the United States was forced to withdraw gold from the already depleted reserves of foreign countries, their purchasing power in our markets would be lessened? A still further decline in the exchanges of such countries from which the gold had been withdrawn would result. The loss of European purchasing power in the markets of the United States upon which our domestic industries depend for prosperity would occasion a loss far greater than the premium provided for in the bill, which is borne not by the public at large but directly by the consumers of gold articles—luxuries. Since the consumers of gold in the industrial arts and trades are receiving their metal at the prewar price, no reason can be assigned why they should not pay an increased cost alike with all other industries which have been forced to pay the increased cost for their raw materials.

INDUSTRIAL CONSUMERS NOW SUBSIDIZED.

The general increase in all commodities was 112 per cent in 1919 as compared with 1914, and had gold not been fixed in price so that it could have responded to the law of supply and demand, the price of gold would have at least risen to the general average of all other commodities. Industrial consumers of gold therefore profited by a subsidy of $65,500,000 or 112 per cent of the price paid, $58,500,000, for the newly produced gold which they consumed during 1919. The payment of the excise proposed upon the sale of the manufactured article containing gold will enable the industrial consumer of gold to pay more nearly the cost of production for his raw material, although he will still be subsidized in being able to obtain his metal at a price equivalent to less than half of the general average increase of all other commodities in the United States.

HEAVY FRENCH TAX.

In addition to paying the exchange discount, which in the case of the French industrial consumer of gold in 1919 amounted to over 100 per cent more in francs than the price paid before the war, the French Government has imposed a sumptuary tax for the use of gold in the fabrication of articles (other than money) of 60 francs per hectogram ($3.60 per fine ounce, par exchange) by law of June 25, 1920. The French Government has imposed a tax of 37 francs 50 centimes per hectogram of fine gold contained in articles of manufacture since 1873, and justifies this tax in a formal document transmitted by the United States Bureau of Foreign and Domestic Commerce, as follows: "Moreover, this tax, striking as it does luxury goods, or unessential articles, enters into the category of a sumptuary tax, the levying of which is admitted by all economists as a legitimate procedure." This fact is referred to for the reason that it would seem that foreign governments are exercising greater precautions to protect their monetary gold reserves than is the United States, a creditor nation from which Europe expects and should receive every assistance in restoring its monetary reserves to normal as a means of protecting the gold standard throughout the world.

PREMIUM NOT A SUBSIDY.

As compared to 1914, the purchasing power of the dollar in terms of all commodities in 1919 was 47 cents. The gold producers' ounce in 1914 had a purchasing power of $20.67, whereas during 1919 the same ounce could purchase in terms of all commodities but $9.70. Since the price of gold has been arbitrarily fixed by statute at $20.67 an ounce, the gold producer is in the same position as a person who received the same income in 1919 as in 1914 and finds that a $2,000 income has shrunken in purchasing power to $970. This is the principal reason for the decline in the gold production from $101,000,000 in 1915 to less than $50,000,000 this year. Were it not for the fact that the Government has arbitrarily fixed the price of gold, in which event the law of supply and demand does not operate, it would not be necessary to consider compensating the gold producer for a part of the decline in the purchasing power of the dollar which has taken place the last four years. The premium to be paid to the gold producer, based upon the new ounce of production, can not be construed as a bonus or subsidy for the above reason. Most of the wage increases that have been allowed by various industries and the increases in transportation rates, car fares, and for municipal gas and electric services throughout the country have been based upon the increase in commodity prices or the decline in the purchasing power of the dollar. The products of all other industries except that of the gold-mining industry have been automatically increased in price during this period, so that the cost of production is fully covered, together with a profit, by which alone future production of such commodities may be assured. If we are to maintain the normal gold production of the United States it will be necessary to take this into consideration. Gold is the only product, because it is fixed in price, that has not been able to respond to the law of supply and demand, and special provision must be made if we are to keep the gold production of the country from vanishing altogether.

FREE GOLD MARKET MAINTAINED.

The gold committee refers to the excise tax proposed as interfering with the free flow of gold into the arts, thus violating one of the basic elements of the gold standard. In another place the committee refers to the excise as a differential tax on a raw material. In this most important provision of the bill the committee has overlooked the fact that the excise is to be paid only upon the sale of the manufactured article, and not upon the bullion, which the manufacturers will receive from the mint as they always have at the fixed price of $20.67 per ounce. In this way a free gold market is maintained, and there is no interference with the free flow of gold either into the arts or from the arts into the mint. The fact that the rate of the excise is fixed at 50 cents a pennyweight for the fine gold contained can not be construed as a differential tax on the raw material, as it is simply a means by which the tax may be equitably measured and levied upon the consumers of articles containing gold, in the same manner in which the French Government has imposed its sumptuary tax.

PAPER CURRENCY INFLATION AND NOT GOLD CAUSE FOR HIGH PRICES.

The committee makes a statement with reference to the effect of gold production as follows: "Increased gold production in a period of low prices and low costs makes it easier for prices to rise again, while diminished gold in periods of high prices and high costs tends to reduce prices and costs again." This is not borne out by the facts. The gold production of the world has declined from $469,000,000 in 1915 to $350,000,000 in 1919, a reduction of 25 per cent in the last four years, and yet prices throughout the world have risen enormously. Commodity prices in this country continued to increase between May 1, 1919, and May 1, 1920, notwithstanding the loss by excess exportation from the United States of $445,000,000 in gold or 14½ per cent of the highest gold stock ever possessed by this country. Furthermore during the period when the gold reserves of foreign nations were being greatly reduced by what they sent to this country their prices advanced even more rapidly than those in this country. This indicates that the reverse of the committee's observation is true, that the depletion of gold reserve at a time when currency is rapidly expanding is mainly accountable for accentuating the increase in prices. The degree of inflation is measured by the ratio of the gold reserve to the volume of the circulating media, and it must be apparent that an increase in the gold reserve without an increase in the circulating media would reduce the degree of inflation. It must also be evident that the effect on prices of the supply of gold in active circulation is relatively small compared with that of the credit currency based on gold which is not "free," but locked up by the Treasury and reserve banks and used indirectly as the basis for a larger volume of currency. If this gold were really free and circulating, it could not be so used. The true remedy for inflation is to return the gold to circulation, from which it has been so greatly withdrawn as the basis for inflation. Of the total gold stock of the United States, which amounted on October 1, 1920, to $2,704,672,504, $2,003,072,000 was held as the gold reserve of the Federal reserve system, and thereby was tied up by the Federal reserve act, 35 per cent against net deposit liabilities, and 40 per cent against the note liabilities of the Federal reserve banks. After satisfying the reserve requirements of the net deposits there was on October 15, 1920, a gold cover of 46.6 cents for every Federal reserve dollar note in circulation, of which there were $3,353,271,000. The gold cover on October 15, 1920, of the Federal reserve note was but 6.6 cents per dollar above the amount required by law, which is closer than conservative financiers would like to see it.

DEFLATION NOT A REMEDY.

While the business affairs of the country are gradually adjusting themselves to normal it will, in the minds of most bankers and economists, be many years before the dollar will regain its purchasing power of 1914, in fact, that time may never come. Consequently, temporary means must be provided to sustain the gold-mining industry over this period of gradual readjustment. While it is true that there has been an attempt made to contract the credit structure of the country, I would call your attention to the continually increasing volume of currency in circulation and the decline in the gold reserve ratio of the Federal reserve system. While the gold ratio may improve with a contraction of the credit and currency structure of the country, we shall, on account of our adverse trade balance, be forced to lose a considerable amount of the gold which might be thereby released.

It is being demonstrated that a vast amount of inflation can not be reduced without causing hardship and loss of employment, and, therefore, is it not a proper correction to make stronger the reserves and circulating media by increasing the production and conserving the use to which the gold is put, thereby increasing the production of commodities which are so greatly needed throughout the country to-day? By this means only can the currency and credit structure of the country be deflated, while, at the same time, increasing the physical production of commodities so as to lower the cost of living, and with the idea always in view that it is the use to which money and credit are put that is the all-important thing. While the committee has urged that deflation is the only remedy for the economic pressure to which the gold-mining industry is subjected, it is evident that any process of deflation must be so gradual that it will not restore the purchasing power of the dollar in time to save the industry from complete destruction. Particularly in view of the fact that Congress has fixed the price of gold, it seems that Congress has now the power to stimulate the production of gold by creating the machinery whereby the consumer of gold in the industrial arts may pay more nearly the cost of production for his raw material, thereby enabling the producer of new gold to increase his output to meet the industrial requirements of the arts and trades, and protect the monetary gold reserve from further industrial depletion. The Government should legislate to stimulate the domestic gold supply and thus relieve the strain and send into the currents of industry the invigoration of this new gold. The process of deflation in order to serve as a solution to the gold problem would have to take place so rapidly that it would paralyze the entire industry of the country. It can not be that the committee would want to see deflation take place so rapidly. The attendant ills of a too rapid deflation can not be too strongly emphasized. Labor difficulties will become more rather than less numerous. The loss of employment alone would create a burden upon the entire public in a lessened production, which could not be borne without suffering and the impairment of health. The loss in the production of new gold to the gold reserve will still further accentuate the volume of deflation. It will be necessary also to analyze our exports of gold more carefully and to increase the production of new gold at least to satisfy the requirements of the manufactures and the arts. Our gold should henceforth go to European countries whose reserves are now depleted and not to Japan to swell its already large reserves. Gold should not be sent in such large quantities as last year to India and China, where it is hoarded and removed from international circulation. To prevent this leak of gold we must purchase no more goods in oriental countries in value than they are purchasing from us thereby leveling the trade balance.

COMMITTEE UNDERESTIMATES INFLUENCE OF SMALL AMOUNTS OF GOLD.

The committee has stated that a loss of $22,000,000 occasioned by the increased industrial consumption of gold over the production of new gold is a very small item to the monetary gold stock of the Nation. In the opinion of the committee no doubt the $80,000,000 in gold that was withdrawn from the United States Mint and coinage and used for industrial purposes during 1919 was also an excessively small amount, notwithstanding that the metal was entirely diverted from monetary use. The gold dollar in the vaults of the Federal reserve banks may serve as the basis of deposit liabilities of $2.80 and these deposits to the credit of a member bank may, in turn, serve to enable credit extension by that bank of anywhere from 7½ to 14 times that amount, or, say, $19 to $35. With reserves close to the legal minimum, therefore, every million dollars of gold lost to the monetary gold reserve means forced credit contraction of at least twenty millions. The $80,000,000 withdrawn for individual consumption during 1919 would, therefore, be equivalent, at the least estimate, of a contraction in the credit structure of the country of $1.600,000,000. It is interesting to note the comments in the reviews of several of our banks recently with reference to the marked improvement in the money market resulting from the small amounts of gold which have come in from Europe. The National City Bank statement of October makes the following reference: "One explanation of the easier tone in the money market is to be found in a moderate increase of reserves, due to importations of gold from Paris and London. The lawful reserves of the reserve banks on September 3 aggregated $2,117,957,000, and on September 24 they aggregated $2,151,594,000, an increase of some $34,000,000." In the statement of The Mechanics and Metals National Bank of October the following statement is made: "The gold coming from France is helping to increase the base upon which that credit rests." In the 10 days ending September 30 approximately $11,000,000 of gold was imported from France, which indicates what a small amount imported into the country has so great an influence on the money market. Can it be that the normal production of gold in the United States, which in 1915 was $100,000,000, would not exert a like influence on the money market, or is there some magic difference between that gold which is imported from Europe and that which may be produced in the United States? These small importations of gold ease our money market at the expense of a depreciation in French and British exchange, which reduces their purchasing power in our market.

FISHER WOULD VARY GRAINS IN DOLLAR.

The reference made by the committee to the use of the index number in the bill as a means for adjusting the excise and premium as being similar in its application to the plan of Prof. Irving Fisher for stabilizing the dollar, shows a marked lack of knowledge concerning his proposal. The index number as used by Prof. Fisher would lessen or increase the number of grains in the standard dollar from time to time, a fundamental change in the gold standard, while the index number as employed in the bill in no way changes the number of grains in the standard dollar and is used merely as a basis of comparison in order to equitably adjust the cost and price equation between the producer of new gold and the consumer of industrial gold. As used in the bill, the index number has also been used for many years as a basis for regulating wages and for adjusting costs.

AMPLE PROTECTION AGAINST FRAUD.

The committee's objection to the bill based upon the possibility of fraud arising from the difficulty of distinguishing between virgin and old gold is more serious in theory than it will prove in practice. With the cooperation of the Bureau of the Mint, the Bureau of Mines, and the Geological Survey, all of which organizations have field representatives in the gold mining districts, any successful fraud on the Government could only be on a very small and negligible scale. The affidavit of production specified in the bill and the penalty provided insures the Government every protection against fraud.

BRITISH GOLD SUPREMACY.

In 1915 the United States produced 21.5 per cent of the total world's gold output. and the British Empire 63.7 per cent. In 1919 the United States produced but 16.6 per cent of the total world's gold output, while the British Empire produced about 70 per cent. Since July 24, 1919, the British Empire has been paying an exchange premium, as high as 50 per cent, to the gold producers of South Africa, where the bulk of the British gold is produced, while in the United States no assistance has been rendered the gold mining industry. The gold producers of all British possessions are receiving the benefit of an exchange premium. This year the contribution of the United States to the gold production of the world will probably be not more than 12 per cent, about half of that which it contributed in 1915, while the stimulating effect of the exchange premium will probably increase the quota which the British Empire will contribute to 75 per cent. Whereas in 1915 the British Empire produced three times as much gold as the United States, in 1920 Britain will have produced six times as much. Are we to continue to ignore the problem of gold production in the United States, thus permitting the British Empire to gain an unquestionable supremacy?

RETENTION OF GOLD STANDARD.

It is fundamental to the reestablishment of the gold standard as the basis of world intercourse that gold mining should go on at something like its normal rate. This requires that prospecting, exploration, and development shall be carried on continually and that the industry shall invite investment upon terms fairly competitive with other industries. Gold mining under modern conditions is not an industry into which or from which capital can readily be shifted. It takes a long time to find and develop a good gold mine. It is not a casual industry, which can be suspended and resumed without serious interference with the volume of production. A considerable portion of the output always is obtained on a small margin of profit, and if such operations are suspended and the mines fill with water, they are likely to be abandoned permanently. The gold-mining industry, which has so greatly shut down in the last four years, will be completely shut down unless constructive aid is provided without delay, in which event it will take years to develop a normal output of gold at a very much greater expense. To allow the gold mines of the United States to cave in and fill with water entails a waste of developed gold resources, which in a most critical hour of financial need will cause want.

Mr. George E. Roberts, who served for 14 years as director of the mint, in a statement of December 20, 1919, made the following comment: "I fear that a low production of gold and an unfavorable outlook for the industry at a time when credit was being curtailed and prices lowered would have the effect of reviving all the monetary heresies of the past. We want to stand by the gold standard; it is the sheet anchor of enduring prosperity; but the gold standard will require a healthy gold-mining industry to sustain it."

Far from from being a danger to the gold standard the enactment of this bill will protect the monetary gold reserve and will greatly assist in retaining the gold standard during the present period of credit restriction, accompanied by declining prices. The continued depletion of the gold stock by excess exportation and industrial use will force a rapidity in deflation which will serously impair the public confidence in the Nation's finance and currency unless a normal gold output is maintained.

That is situation may be remedied without delay the Congressional consideration of this bill should be expedited. The British gold producer has been aided by the exchange premium. This bill offers a domestic solution for our own gold problem. I trust that this convention of bankers will lend the impetus of their indorsement to this bill which will protect the position of the United States as a creditor nation.

Mr. McFadden. At the hearing on December 10 Mr. Garner raised the question as to the constitutionality and urged that the committee obtain the opinion of the Attorney General as to its constitutionality before proceeding further with the hearings. It has developed that the Attorney General is prohibited by law from rendering opinions with reference to legislation in process of enactment. Since that time I have made some investigations with reference to the constitutionality of the act and herewith submit part 2 of the brief filed by W. H. H. Miller, Attorney General, and William H. Taft, Solicitor General, on October 24, 1891, in the tariff act, cases 1049, 1050, and 1052, to be found on page 64 of the brief, volume 17 of briefs, October term 1891, in the files of the clerk of the Supreme Court. This brief presents ample evidence concerning the validity of the bounty clause under the Constitution, and leaves no room for debate as to the constitutionality of the provisions of the bill (H. R. 13201) which I have introduced.

According to the latest statement of the Director of the Mint, giving the production of gold in the United States and possessions for the year 1920, gold was mined in 19 States, one territory—Alaska—and two possessions—the Philippines and Porto Rico. The bill must, therefore, be construed as having broad application to the United States as a whole rather than to any particular section thereof.

It is not in the interests of the monetary security of the Nation to allow the gold mines of the country to further disintegrate, and, therefore, the bill providing for the maintenance of the normal gold production of the United States is in the interest of the general welfare of the United States.

Quoting from the brief, "All the authorities agree that the Government may recognize a moral obligation to any class of citizens by direct appropriation, though the claim is not based on strictly legal grounds." (See Cooley on Taxation, p. 91, and cases cited in notes 1 and 2.)

Here was a case where citizens, by reason of heavy sugar duties which had existed for many years, had been induced to make large investments in the plant required for the production of sugars; and now it was proposed by Congress to remove the duties because the revenue which they produced was more than sufficient for the uses of the Government. The removal of duties would absolutely destroy fifty or sixty million dollars' worth of property invested in this industry and protected by the duties.

To enable persons whose property would thus be injuriously affected to prepare for the change, the Government was under a moral obligation to reimburse them for their loss or to permit them by a bounty to continue the business until such time as the business might be self-sustaining.

The Aldrich Act of 1900 provides that the standard dollar shall contain 25.8 grains of standard gold, nine-tenths fine, which is equal to 23.22 grains fine gold. There are 480 grains of gold in a fine ounce, which, divided by 23.22 grains in a standard dollar, fixes the price of the gold at $20.67 per ounce. And thus arbitrarily fixing the price of gold the Government has greatly penalized the producer of gold during the past five years by so greatly depreciating the purchasing power of the dollar, whereas, on the other hand, the same law is accountable in effect for subsidizing the jewelers and other consumers of gold by supplying them with gold at the pre-war price. In this respect the Government has created a moral obligation which must be taken into account.

On account of the importance of this brief in establishing the constitutionality of the act, I ask your consideration of its publication in the record.

(Brief referred to is attached hereto.)

RECORDS AND BRIEFS IN UNITED STATES CASES—SUPREME COURT OF THE UNITED STATES, VOLUME 17. OCTOBER TERM, 1891—THE TARIFF ACT CASES.

CONCERNING THE VALIDITY OF THE BOUNTY CLAUSE.

Though we are confident, for the reasons just given, that the court will dispose of this case without considering the validity of either the bounty or the reciprocity clause, we, nevertheless, feel obliged by the argument of appellants' counsel to discuss the constitutionality of those provisions.

It may be conceded that the bounty must be paid out of the Treasury of the United States from funds raised by taxation, and therefore that, unless Congress has power to levy a tax for the purpose of paying the bounty, an appropriation for a bounty is beyond its power.

Section 8 of Article I of the Constitution, which describes the powers of Congress, provides that—

"The Congress shall have power to lay and collect taxes, duties, imposts and excises, to pay the debts and provide for the common defense and general welfare of the United States; but all duties, imposts, and excises shall be uniform throughout the United States."

Under the language of Chief Justice Marshall in the case of Gibbons *v.* Ogden (9 Wheat., 199), the proper construction of this section is that the power of taxation by Congress is limited to the purposes of paying the debts and of providing for the common defense and general welfare of the United States. Such is the view of Mr. Justice Miller as shown in his recently published lectures on the Constitution. (Miller on the Constitution, p. 231.) See also Story on the Constitution, 927; Message of President Monroe to Congress, May 4, 1822, Williams's Statesman's Manual, 492–519.)

Congress has power therefore to levy duties for the purpose of providing for the general welfare of the United States. Is the provision for the payment of bounty to sugar producers, above set forth, "for the general welfare"? Appellants' counsel contend that it is not, because it is primarily for the aid of private individuals and only remotely for a public purpose, and therefore not for the general welfare.

It has been held in a number of cases, upon which appellants' counsel rely, both in this court and in the courts of the various States, that taxation must be for a public purpose, and therefore that, where it is proposed by a municipal corporation to pay money or lend credit to a private individual or company as an inducement to the construction of works within the limits of the municipal corporation, the remote consequences of benefit to the people of that corporation are not sufficient to make the purpose of the donation a public one, and laws authorizing the same are void. The leading case upon this subject is Loan Association *v.* Topeka (20 Wall., 655), where it was held that bonds issued by a city to pay a bonus to a manufacturing corporation to build its plant within that city were invalid and beyond the power of the city, even though expressly authorized by the legislature. Other cases to the same effect are numerous.

In Commercial National Bank of Cleveland *v.* City of Iola (2 Dillon, 353), Mather *v.* City of Ottawa (114 Ill., 659), Weismer *v.* Village of Douglas (64 N. Y., 91), Attorney General *v.* City of Eau Claire (37 Wis., 400), Opinion of the Justices (58 Maine, 590), Coates *v.* Campbell (37 Minn., 493), Allen *v.* Inhabitants of Jay (60 Maine, 124), the principle laid down in Loan Association *v.* Topeka has been followed on a similar state of facts. In Lowell *v.* Boston (111 Mass., 454) and Feldman & Co. *v.* City Council of Charleston (23 S. C., 57) it was held that an act of the legislature authorizing a municipal corporation to issue bonds for the purpose of raising a fund to lend to those whose buildings had been destroyed by a fire which consumed a large part of the cities was invalid because the purpose to which the money was to be devoted was a private and not a public one.

In the case of The State ex rel. James Griffith et al., *v.* Osawkee Township et al. (14 Kans., 418), an act authorizing townships to issue bonds for the relief of such farmers within their limits as had been deprived, by a total failure of crops, of all seed with which to plant for a new season, was held to be invalid, as authorizing the appropriation of public money for private purposes. (See also Parkersburg *v.* Brown (106 U. S., 487); Cole *v.* La Grange (113 U. S. 1).

The foregoing do not include all the cases on the subject, but they are sufficient to show the principle which the appellants here invoke to invalidate the bounty clause under consideration. We respectfully submit that they have no application to this controversy. They are, all of them, cases of municipal taxation, which must be for public municipal purposes. It is obvious that the establishment of a particular industry in one place by a bonus to specified private individuals is a very different object for taxation than the encouragement by the National Government of a widespread industry in many quarters of the Union for national purposes, with a view to diversifying the industries of the country and making it independent of other countries for necessities. Judge Cooley, in his work on taxation, page 71, says:

"In considering the legality of the purpose of any particular tax a question of first importance must always concern the grade of the government which assumes to levy it. The 'public' that is concerned in a legal sense in any matter of government is the public the particular government has been provided for, and the 'public purpose' for which that government may tax is one which concerns its own people, and not some other people having a government of its own, for whose wants taxes are laid. There may, therefore, be a public purpose as regards the Federal Union, which would not be such a basis for State taxation, and there may be a public purpose which would uphold State taxation, but not the taxation which its muncipalities would be at liberty to vote and collect. The purpose must in every instance pertain to the sovereignty with which the tax originates; it must be something within its jurisdiction so as to justify its making provision for it.

Again, on page 72:

"The grade of the government is also important for another reason. A municipal government is one of delegated and limited power, whose authority is generally to receive a somewhat strict construction, and which must find the purposes for which it may tax clearly confided to its charge by the State. It is not sufficient that a purpose may seem to belong properly to its jurisdiction, or that the court may believe it ought to have had authority over it; but it must be seen that the authority has been conferred in fact. It is otherwise with the State, which has all the power of taxation not withheld from exercise in the making of the State and Federal Constitutions, and in support of whose action consequently the most liberal intendments are to be made. It is otherwise with the Federal Union also, for, though its powers are, in general, like those of the State, but are limited and defined by the Federal Constitution, yet, as they concern the most important matters of Government, and relate to subjects not of domestc concern merely, but of international intercourse, and to other matters which sometimes call for broad and comprehensive views, and make a policy of liberal expenditures wise and statesmanlike, it would be neither reasonable nor prudent to subject its action in the matter of taxation to critical rules. That which it decides to be an object of public expenditure must generally be so accepted, and error in its action must be corrected by discussion and through public opinion and the elections."

The difference between what constitutes a "public purpose" for a municipality and for the Government of the United States is illustrated by reference to those acts of Congress in which direct bounties as acts of charity have been conferred by the United States upon classes of people in this country and in foreign countries. We have taken from the speech of Senator Daniel upon the constitutionality of the Blair educational bill a table, prepared by him evidently with much care and accuracy, showing the various acts of Congress by which sums of money were appropriated from the United States Treasury to assist private individuals in distress. It is found on page 2295 of the twenty-first volume of the Congressional Record, part 3, Fifty-first Congress, March 17, 1890.

Statutes at Large.		Date of approval.	Sufferers, etc.	Amount appropriated.
Vol.	Page.			
2	730	May 18, 1812	Sufferers by earthquake in Venezuela	$50,000.
3	211	Feb. 17, 1815	Sufferers by earthquake in New Madrid, Mo	Indefinite.
5	6	Mar. 19, 1836	Sufferers by fire at New York City	Do.
5	131	Feb. 1, 1836	Sufferers by Indian depredations in Florida	Do.
6	46	Feb. 19, 1803	Sufferers by fire at Portsmouth, N. H	Do.
6	53	Mar. 19, 1804	Sufferers by fire at Norfolk, Va	Do.
6	356	Jan. 24, 1827	Sufferers by fire at Alexandria, Va	$20,000.
9	207	Mar. 3, 1847	Transportation of supplies to sufferers in Ireland	Indefinite.
12	652	Feb. 16, 1863	Sufferers by Indians depredations in Minnesota	$200,000.
13	416	July 4, 1864	Sufferers by accident at arsenal, District of Columbia	$2,000.
14	364	July 4, 1866	Sufferers by fire at Portland, Me	Indefinite.
14	567	Feb. 22, 1867	Transportation of supplies South	Do.
15	24	Mar. 29, 1867	....do	Do.
15	28	Mar. 30, 1867	Sufferers in South	Do.
15	28	Mar. 28, 1867	Seeds for destitute in South	$50,000.
15	246	Jan. 31, 1868	Destitute in South	Indefinite.
16	596	Feb. 10, 1871	Transportation of supplies to France and Germany	Do.
17	51	Apr. 5, 1872	Sufferers by fire at Chicago, Ill	Do.
17	646	Mar. 12, 1872	Postmaster's losses at fire in Chicago, Ill	Do.
18	34	Apr. 23, 1874	Sufferers by overflow of Mississippi River	Do.
18	45	Mar. 13, 1874	....do	$190,000.
18	303	Jan. 25, 1875	Seeds to sufferers by grasshoppers	$30,000.
18	314	Feb. 10, 1875	Sufferers by grasshoppers	$150,000.
19	374	Mar. 3, 1877	....do	$285.40.
21	27	June 14, 1878	....do	$663.

Statutes at Large.		Date of approval.	Sufferers, etc.	Amount appropriated.
Vol.	Page.			
21	1	Apr. 18, 1879	Refrigerating ship, yellow fever	$200,000.
21	66	Mar. 5, 1880	Contributions to colored emigrants, free duty	Indefinite.
21	303	Feb. 25, 1880	Transportation of supplies to Ireland	Do.
21	306	May 4, 1880	Sufferers by cyclone at Macon, Miss	Do.
22	44	Apr. 11, 1882	Seeds to sufferers Mississippi River overflow	$20,000.
22	378	Feb. 23, 1882	Sufferers Mississippi River overflow	$100,000.
22	378	Mar. 10, 1882	.....do	Indefinite.
22	378	Mar. 11, 1882	.....do	Do.
22	379	Mar. 21, 1882	.....do	$150,000.
22	379	Apr. 1, 1882	.....do	$100,000.
23	267	Feb. 12, 1884	Sufferers by Ohio River overflow	$300,000.
23	268	Feb. 15, 1884	.....do	$200,000.
23	269	Mar. 27, 1884	Sufferers by Mississippi River overflow, unexpended balance of appropriation for Ohio overflow.	$125,000.
23	273	June 7, 1884	Sufferers by overflow of Mississippi River	Unexpended balance.
25	630	Sept. 26, 1888	Sufferers by yellow fever	$200,000.
25	631	Oct. 12, 1888	.....do	$100,000.

Senator Daniel might have added to the list an act providing for the relief of the inhabitants of San Domingo, resident within the United States, and found in want of support, which was passed as early as February 12, 1794, and appropriated $15,000 for the purpose. (6 U. S. Stat., 13. See also Story on the Constitution, sec. 991.)

If the principle were to be applied to the National Government which is now invoked by appellants on the theory that national taxation has exact analogy to municipal taxation, then every one of the acts referred to in the foregoing table would be unconstitutional and void; and yet, as we see, they cover a period of a century, nearly the whole life of our present constitutional government. It should be added that in a note to be found in 4 Elliott's Debates, 2d edition, page 431, it is stated that the act for the relief of citizens of Venezuela, which authorized the President to expend $50,000 to purchase provisions for the object, the motion to fill the blank for that amount was moved by the strictest constructionist of the Constitution the country has ever seen, Mr. Calhoun.

The illustrations above given of congressional action, which the history of a century has made constitutional, mark with emphasis the correctness of Judge Cooley's statement, that a much wider latitude with reference to expenditures is to be allowed the congress of a nation than the legislature of a State or the council of a city, and show that those authorities relating to municipal taxation, upon which counsel for the appellants rely, are not applicable to the expenditures of the General Government.

Production of sugar is possible wherever sugarcane, sorghum, beets, or sugar-maple trees will grow. As will be seen from the records of the Internal Revenue Bureau, the number of applicants for bounty under this law is about 5,000, and they are distributed over 24 States—from California to New York and from Texas to Vermont. Promotion of the industry by the bounty, therefore, is possible the country over. It is not local, but national in its operation.

It will be noted also that the sugar bounty is not payable to any particular individuals, but that, to anyone who may care to invest the time and capital in the growing and manufacture of raw sugar, the offer of the Government is open.

The principle was laid down in the case of Lowell *v.* Boston, supra, that a purpose was not a public purpose because, by affecting the private interest of a great many individuals, it would ultimately affect the public weal. With respect to municipalities and States, that can have no international relations, this is undoubtedly true, but the subject assumes a very different aspect when treated from the standpoint of the collective industries of a nation in competition with and in relation to the industries of other nations. Questions of foreign commerce and trade have always in every country been the subject of national action. So it is with any national movement toward the encouragement of diversified industries for the purpose of putting a nation in such a condition that it may have, within itself, the power of maintaining its existence, if necessary, independent of, and against the rest of the world.

The modern history of every European nation is full of instances where, both by the indirect means of the levying of duties and by the direct means of bounties, particular industries have been encouraged. To-day, with respect to the very cultivation of sugar, we have the authority of Senator Aldrich, who has made the subject a study, for saying that $45,000,000 is paid as a bounty to producers of sugar who export the same from Germany and France. (Cong. Rec., vol. 21, pt. 10, p. 9876 et. seq.) We allude to this as showing the necessity for Government interference in the encouragement of the sugar industry in this country. Such national action is required to offset the encouragement of the same industry in other countries, lest thereby we may be made altogether dependent for the supply of a necessity upon countries thus far removed. (Cong. Rec., vol. 21, pt. 10, p. 9876 et seq.)

Alexander Hamilton, when Secretary of the Treasury, made a report on manufactures, to which we shall have occasion several times to refer in a discussion of this subject. It is to be found in the third volume of the works of Hamilton, edited by John C. Hamilton, page 192. In discussing the value of manufactures to the country and their national effect, he said (p. 239):

"Not only the wealth but the independence and security of a country appear to be materially connected with the prosperity of manufactures. Every nation, with a view to those great objects, ought to endeavor to possess within itself all the essentials of national supply. These comprise the means of subsistence, habitation, clothing, and defense.

"The possession of these is necessary to the perfection of the body politic; to the safety as well as to the welfare of the society. The want of either is the want of an important organ of political life and motion, and in the various crises which await a State it must severely feel the effects of any such deficiency. The extreme embarrassments of the United States during the late war from an incapacity of supplying themselves are still matters of keen recollection. A future war might be expected to exemplify again the mischiefs and dangers of a situation to which that incapacity is still, in too great a degree, applicable, unless changed by timely and vigorous exertion. To effect this change as fast as shall be prudent, merits all the attention and all the zeal of our public councils; 'tis the next great work to be accomplished.

"The want of a navy to protect our external commerce as long as it shall continue must render it a peculiarly precarious reliance for the supply of essential articles and must serve to strengthen prodigiously the arguments in favor of manufactures."

What is here said with respect to manufactures is entirely applicable to the growth and manufacture of raw sugar. By the removal of the sugar duty, Congress found itself confronted with the danger of an absolute destruction of the domestic sugar production. The preservation of the industry in this country was as essential, from the national standpoint, as the manufactures to which Hamilton has reference, and for the same reason.

We have not argued in favor of the encouragement of the sugar industry by tariff or bounty as a governmental policy, for we fully appreciate that questions of politics and economics are not for this court to decide. The issue in the present discussion is one of power, not of policy. But it is relevant to the issue, inasmuch as the power to tax depends here on the purpose of the tax, to show that the purpose is national, and neither private nor local.

It is too late, in this year of grace 1891, for litigants to argue that the encouragement of diversified industries is not a national purpose, and, so far as Congress is concerned, therefore a public purpose.

Mr. Madison, in two letters to Joseph C. Cabell, September 18 and October 30, 1828 (Writings of James Madison, vol. 3, pp. 636–648), argues the constitutionality of a tariff for encouraging manufactures, and points out that sanction has been given to this construction of the Constitution by the General Government and by many of the State governments.

A most complete history of the construction by actual legislation and executive action of the Constitution to permit the encouragement of manufactures by a tariff framed for the purpose is contained in the speech of Thomas S. Grimke, delivered in the senate of South Carolina in December, 1828. The speech is printed in a pamphlet and bound in a collection of pamphlets to be found in the Library of Congress.

For a comprehensive view of the history of the country with reference to tariff legislation, recourse may well be had to the ninth chapter of Mr. Blaine's

Twenty Years in Congress, where the practical construction of the Constitution in favor of a protective tariff is demonstrated.

From 1789 to the present time successive Presidents have recommended and successive Congresses have enacted legislation for the encouragement of certain industries by means of taxation and for a national purpose. The second act of the First Congress of the United States, approved July 4, 1789, was an act imposing duties, which expressly recited its purpose to be the protection and encouragement of manufactures. The recital is as follows:

"SEC. 1. Whereas it is necessary for the support of government, for the discharge of the debts of the United States, and the encouragement and protection of manufactures, that duties be laid on goods, wares, and merchandise imported, be it enacted, etc." (1 Stats., 24).

The tariffs of 1789, 1812, 1816, of 1824, of 1828, of 1842, of 1861, of 1867, of 1874, and of 1883, are all repeated instances of the exercise of the power. Mr. Chief Justice Marshall said in McCullough *v.* the State of Maryland (4 Wheat., 401), where the power of Congress to incorporate a bank was under discussion:

"It has been truly said that this can scarcely be considered as an open question, entirely unprejudiced by the former proceedings of the nation respecting it. The principle now contested was introduced at a very early period of our history, has been recognized by many successive legislatures, and has been acted upon by the judicial department, in cases of peculiar delicacy, as a law of undoubted obligation.

* * * * * * *

"An exposition of the Constitution, deliberately established by legislative acts, on the faith of which an immense property has been advanced, ought not to be lightly disregarded.

"The power now contested was exercised by the first Congress elected under the present Constitution. The bill for incorporating the Bank of the United States did not steal upon an unsuspecting legislature, and pass unobserved. Its principle was completely understood, and was opposed with equal zeal and ability. After being resisted, first in the fair and open field of debate, and afterwards in the Executive Cabinet, with as much persevering talent as any measure has ever experienced, and being supported by arguments which convinced minds as pure and as intelligent as this country can boast, it became a law. * * * It would require no ordinary share of intrepidity to assert that a measure adopted under these circumstances was a bold and plain usurpation to which the Constitution gave no countenance."

What was stated by the Chief Justice with reference to the United States Bank act has equal application to the protection tariff laws. We do not propose to spend further time in a discussion of their validity. It is an issue long since finally settled.

The principle thus established necessarily justified bounties, for, in the beginning of the operation of a protective tariff, the amount of duty levied is a bounty to the domestic manufacturer, and it is with a view to such a benefit for him that it is levied. The sugar duties have always had the effect of a bounty to domestic sugar producers. Mr. Madison attempted to distinguish between a protective tariff and a bounty, holding the one to be within the power of Congress and the other not. (4 Elliott's Debates, 2 ed., 525, 526.) Judge Hare, in his work on constitutional law, justly says with reference to Madison's view upon bounties:

"Such a view may appear singular when contrasted with his support of a protective tariff as an indirect means of accomplishing an object nowhere enumerated in the Constitution. Whether money shall be raised by taxation and then laid out in bounties, or purchasers shall be compelled to pay a higher price to manufacturers than they would have to give abroad, would seem to be merely a question of form." (Hare's American Constitutional Law, 244.)

The question of the constitutionality of bounties was discussed by Mr. Hamilton in his report on manufactures, to which reference has already been made. (Works of Hamilton, vol. 3, p. 246.) Referring to the power of Congress to provide for them, Mr. Hamilton, on page 249, wrote as follows:

"A question has been made concerning the constitutional right of the Government of the United States to apply this species of encouragement, but there is certainly no good foundation for such a question. The National Legislature has express authority 'to lay and collect taxes, duties, imposts, and excises, to pay the debts, and provide for the common defense and general welfare,' with no other qualifications than that 'all duties, imposts, and excises shall be uniform throughout the United States, and that no capitation or other direct tax shall be laid unless in proportion to numbers, ascertained by a census or enumeration, taken on the principles prescribed in the Constitution'; and that 'no tax or duty shall be laid on articles exported from any State.'

"These three qualifications excepted, the power to raise money is plenary and indefinite, and the objects to which it may be appropriated are no less comprehensive than the payment of the public debts and the providing for the common defense and general welfare. The terms 'general welfare' were doubtless intended to signify more than was expressed or imported in those which preceded; otherwise, numerous exigencies incident to the affairs of a nation would have been left without a provision. The phrase is as comprehensive as any that could have been used, because it was not fit that the constitutional authority of the Union to appropriate its revenues should have been restricted within narrower limits than the 'general welfare'; and because this necessarily embraces a vast variety of particulars which are susceptible neither of specification nor of definition.

"It is, therefore, of necessity, left to the discretion of the National Legislature to pronounce upon the objects which concern the general welfare and for which, under that description, an appropriation of money is requisite and proper. And there seems to be no room for a doubt that whatever concerns the general interests of learning, of agriculture, of manufactures, and of commerce are within the sphere of the national councils, as far as regards an application of money.

"The only qualification of the generality of the phrase in question which seems to be admissible is this: That the object to which an appropriation of money is to be made be general and not local, its operation extending, in fact or by possibility, throughout the Union, and not being confined to a particular spot.

"No objection ought to arise to this construction from a supposition that it would imply a power to do whatever else should appear to Congress conducive to the general welfare. A power to appropriate money with this latitude, which is granted, too, in express terms, would not carry a power to do any other thing not authorized in the Contsitution, either expressly or by fair implication."

The question of the validity of bounties is thus as old as that of the protective tariff, and has been answered in the same way by constant legislative and exe utive action, in accordance with the views of that ablest of statesmen and jurists who penned the report on manufactures. There was a bounty provided in the first revenue law of 1789 on all salted and dried fish exported, which continued in force until the tariff of 1846 (1 Stats., 427). There was a bounty provided on the cod fisheries by the act of February 16, 1792 (2 Stats., 229). Its constitutionality was considered in the early Congresses (see 2d edtion of Elliot's Debates, vol. 4, pp. 426–428), where Mr. Madison argued strenuously against it, and yet it was passed and remained on the statute book until after Story wrote his work on the Consitution. (See Story on the Constitution, vol. 1, 991; act of Feb. 16, 1792, chapter 6; act of July 29, 1813, chapter 35, 3 Stats. 49, where all the acts respecting the bounties on fisheries are given down to 1846.)

The act of June 5, 1794, section 14, chapter 51, of the first session, Third Congress (1 Stat., 387), provided for a drawback on manufactured tobacco or snuff and refined sugar exported. The act of May 13, 1800, chapter 66, of the first session, Sixth Congress (2d Stats., 84), increased the drawback on sugar refined and on spirits distilled from molasses in the United States. This was repealed April 6, 1802. A drawback on refined sugar exported was reenacted July 24, 1813, chapter 21, first session, Thirteenth Congress (3d Stat., 36), and was repealed by the act of February 7, 1817, chapter 1.

The act of January 21, 1829, provided an additional drawback on sugar refined in the United States and exported therefrom, and the amount of 5 cents per pound was allowed; and it was provided that the drawback should continue in force until the exports of sugar should be equal to the imports of the same article. It would be useless to refer to, and to comment upon, the various statutes of the United States authorizing drawbacks upon articles exported which have continued in force to the present day. Every one of these acts is an act conferring a bounty on a particular industry. If a century's construction of the Constitution by Congress is binding on the courts, then the question of the power to tax for a bounty to particular industries is no longer an open one.

Said Senator Morgan of Alabama in the discussion of the tariff bill now in question with relation to a bounty provision:

"It is too late to dispute the power of Congress to encourage exports by advantages, drawbacks, bounties, and premiums. Our subscriptions to world's fairs and expositions, such as those of London, Paris, Sydney, Philadelphia, New Orleans, and Chicago, are justified, if at all, by the encouragement thus given to our export trade.

"The drawback we give of 90 per cent of sums already paid and covered into the Treasury on the importation of foreign material when it is manufactured and exported to foreign countries is only a bounty paid out of the Treasury to our manufacturers to induce them to foster the export trade of the country. We call it drawback, but it is simply bounty. They pay the United States for the privilege of the so-called drawback by increasing our exports.

"The fisheries bounties that so long obtained were only questioned on grounds of policy. They were rightly questioned and happily withdrawn. Still we give them free salt, and we give the like privilege to packers of meat for foreign and domestic trade. We pay premiums to shipbuilders for speed in our war vessels and extend large abatements of revenue duties to shipbuilders who furnish vessels to sail under foreign flags. (Cong. Rec., vol. 21, pt. 10, p. 9592.)"

As we have seen, bounties have not been confined to exports, and, so far as the princible which appellants seek to apply is concerned, there can be no distinction between an export bounty and one upon domestic productions, whether exported or not, because in both cases the money is primarily paid to particular individuals to aid them in their private business.

Said Mr. Justice Miller, in Loan Association *v.* Topeka (20 Wall, 655), the case upon which appellants most rely:

"It is undoubtedly the duty of the legislature which imposes or authorizes municipalities to impose a tax to see that it is not to be used for purposes of private interest instead of a public use, and the courts can only be justified in interposing when a violation of this principle is clear and the reason for interference cogent. And in deciding whether, in the given case, the object for which the taxes are assessed falls upon the one side or the other of this line, they must be governed mainly by the course and usage of the Government, the objects for which taxes have been customarily and by long course of legislation levied, what objects or purposes have been considered necessary to the support and for the proper use of the Government, whether State or municipal. Whatever lawfully pertains to this and is sanctioned by time and the acquiescence of the people may well be held to belong to the public use and proper for the maintenance of good government, though this may not be the only criterion of rightful taxation."

A course of legislation and an acquiescence of the people as old as the Nation itself has sanctioned both direct and indirect bounties for the encouragement of those industries which are closely allied with national growth and national independence, as a public purpose and as within the power of Congress.

It is hardly necessary to argue that a construction of the Constitution by Congress, contemporaneous with the adoption of that instrument and continuing to the present day, should be controlling with the courts. The principle has been too often announced by this court to require it. (See Ware *v.* The United States, 4 Wall. 618; The Laura, 114 U. S. 411; United States *v.* Hill, 120 U. S. 169.)

We have been discussing heretofore the validity of the bounty features of the sugar clause on the theory that provision of this sort was for the general welfare. There is another ground upon which it can be supported. All the authorities agree that the Government may recognize a moral obligation to any class of citizens by direct appropriation, though the claim is not based on strictly legal grounds. (See Cooley on Taxation, p. 91, and cases cited in notes 1 and 2.)

Here was a case where citizens, by reason of heavy sugar duties which had existed for many years, had been induced to make large investments in the plant required for the production of sugars; and now it was proposed by Congress to remove the duties because the revenue which they produced was more than sufficient for the uses of the Government. The removal of duties would absolutely destroy $50,000,000 or $60,000,000 worth of property invested in this industry and protected by the duties. To enable persons whose property would be thus injuriously affected to prepare for the change, the Government was under a moral obligation to reimburse them for their loss or to permit them, by a bounty, to continue the business until such time as the business might be self-sustaining.

Mr. Webster, in his speech upon the tariff of 1846 (works of Daniel Webster, vol. 5, pp. 161, 187), referring to the discussion of the tariff question in 1817 and 1824 and to the opposition of Massachusetts to the tariffs of those years, to the change in her industries since then made necessary by them, and to the equity that Massachusetts had thereby acquired in a protective tariff by such a course of legislation, said:

"Were we to stand aloof from the occupations which others were pursuing around us? Were we to pick clean teeth on a constitutional doubt which a majority in the councils of the Nation had overruled? No, sir; we had no option. All that was left us was to fall in with the settled policy of the country; because, if anything can ever settle the policy of the country or if anything can ever settle the practical construction of the Constitution of the country, it must be these repeated decisions of Congress and enactments of successive laws conformable to these decisions. New England, then, did fall in. She went into manufacturing operations, not from original choice but from the necessity of the circumstances in which the legislature of the country had placed her. And, for one, I resolved then, and have acted upon the resolution ever since, that, having compelled the Eastern States to go into these pursuits for a livelihood, the country was bound to fulfill the just expectations which it had inspired."

Mr. McFadden. You will notice in the discussion here this morning that the gentlemen avoided the question of a subsidy to the jewelers in delivering them gold at less than cost; that is a direct subsidy to the jewelers of the country. I hope the committee will pay particular attention to that phase of the matter in view of the representations made that this is a bonus to the gold miners. The fact remains that the jewelers are getting gold at less than the actual cost of production, owing to the fact that gold is used in this dual capacity.

Now, Mr. Chairman, I have here some important indorsements of this bill which I would like to have included in the record. The most important among these are the indorsements of the Colorado Bankers' Association, the Legislature of the State of California, which was adopted with but one dissenting vote, the Northwestern Chamber of Commerce at Nome, Alaska, the Cordova Chamber of Commerce, Alaska, the Mine Owners' Association at Cripple Creek, Colo., the Leadville Chamber of Commerce, Leadville, Colo., and the Idaho Bureau of Mines and Geology at Moscow, Idaho; also letters from some 40 companies citing the exact conditions surrounding their operations at the present time. Many of these companies are operating pumps to prevent their mines from filling with water, with the consequent loss of ore and damage to the mines in the hope that early legislation will be enacted by Congress. These pumping operations are sustained at considerable cost to the companies, and, since the properties themselves are not operating, it will be impossible for them to continue further unless Congress takes an active interest in the matter. On account of the fact that these letters constitute an exact record of gold mining operations I submit them for your consideration for inclusion in the record.

Mr. Garner. Speaking about including all these papers in the record, it occurred to me that we might have an executive session of the committee and after this subcommittee had reported to the full committee, it might not be necessary to go to the very large expense of having all this matter printed but if they decide to report the bill then all this matter should be included in the record.

Mr. McFadden. I will say that I have listened with great interest to the gentlemen who have made the arguments here this morning and I want to show to the committee by these papers the desperate condition these miners are in.

Mr. Timberlake. These were not incorporated in your former statement?

Mr. McFadden. No, sir; they were not; they are entirely new letters. I would say further that many of these big operators are simply holding off and standing this loss, expecting that they are going to get some relief from Congress. If it were known to these gentlemen that Congress was not going to act I believe some of them would shut down immediately, but they are continuing their operations because this matter is pending here, and they hope for some relief from Congress.

Mr. Bacharach. Have you any thought that you could pass this bill at the present session of Congress?

Mr. McFadden. I do not know.

Mr. Bacharach. We have bills that have been over in the Senate for one and a half years.

Mr. McFadden. This is a measure which is vital to this industry.

Mr. Timberlake. I think it is the opinion of all, Mr. McFadden, that it is very doubtful whether this question could be taken up by Congress at the present time, but the fact that it is pending before Congress, do you think that would influence these people who are urging the passage of this measure?

Mr. McFadden. There is no question in my mind that if this committee will report favorably on this bill it will hold out some encouragement to these people.

Mr. Bacharach. What is your thought about the argument that prices are receding and things going back somewhere nearly to normal?

Mr. McFadden. The miners, in my opinion, will not receive the benefit of anything like that for some time to come.

Mr. Garner. Do I understand that you would like the Committee on Ways and Means to determine one way or another what report they are going to make on this bill?

Mr. McFadden. I think that would aid the miners to decide as to their continuing or discontinuing their operations.

Mr. Garner. If we are going to make an adverse report you would like to know so as to advise the miners?

Mr. McFadden. I think that these miners should know. I do not need to call to your attention the decrease in production; the figures are here showing that production has greatly declined and I think that all the arguments relative to the necessity of increasing the gold supply are in the record. In addition to that I would like to call attention to some speeches made at the American Mining Congress Convention at Denver, Colo., held November 15, 1920, at which gold-mining specialists within the various gold-producing areas of the United States, after an examination of their territories, made a presentation of the facts. These addresses were abstracted in condensed form and published by the Engineering and Mining Journal, December 18, 1920. I have here a copy of the publication and no more authoritative statement could be presented to you upon this subject, and one no more comprehensive of the domestic gold-mining conditions. That this information may be before the committee, I shall appreciate your consideration in having the same published in the record.

Mr. TIMBERLAKE. Did that convention of the mining congress pass any resolution with respect to this legislation?

Mr. McFADDEN. Yes, sir; they did. They indorsed this bill.

Mr. GARNER. If I understand your argument correctly, it has been more in the way of relieving the miners of a disturbing condition rather than the production of gold for circulation.

Mr. McFADDEN. It has been primarily for the relief of the miners who were compelled to continue operations and produce at a cost in excess of $20.67, the price fixed by the Government. We feel that the fact that the price was fixed by the Government has a bearing on the situation. I think it necessary for us to produce all the gold we can, for sooner or later, when these wide reductions in prices take place, the countries of the world are going to draw on us, so it seems to me to be an economic proposition rather than to say to the miners that they must get out of business. We should do everything we can to encourage them.

Mr. GARNER. Aside from the necessities of the miners, is there any other question involved? The major proposition is the necessity of gold as a circulating medium in this country, is it not? If that latter proposition is involved, then, of course, the question of restraining the arts from using so much gold would be a matter for this committee to consider. I would like to have somebody file a brief on that subject. I do not think that gold is a necessary article for the arts. We could get along without them if the gold were actually needed for a circulating medium.

Mr. McFADDEN. I think the general position in that respect is correct and that there is no question that this world-wide use of paper money is not backed by the gold reserve of the world, and while we are the only country now on a gold basis, sooner or later the other countries will be forced to go back to the gold basis.

Prof. KEMMERER. May I ask the gentleman a question as to the annual production of gold in this country? Do you not think that the annual production of gold in the United States is a pretty small proportion of the world's supply of gold?

Mr. McFADDEN. I realize that it is, and realize what England has done for many years to stimulate the production of gold; it has made it possible to get materials, explosives, and other supplies by the operators, and while she would not come out with a bonus she has through exchange given the miners a great deal of help.

Prof. KEMMERER. That is debatable.

Mr. McFADDEN. I would like to ask Prof. Kemmerer some questions. I do not wish to take up the time of the committee, but I have here a statement by Prof. Kemmerer, as follows:

From 1913 to the peak of high prices in the spring of 1920 the cost of living in the United States more than doubled, while wholesale prices increased 72 per cent. Now, such declines in prices as have so far taken place represent but a small fraction. The gold standard is the only monetary standard with which the world is familiar, and that is suitable in ordinary times for world use because no substitute for the gold standard has been devised, and in answer to the question how far deflation could go, said that it is largely a question of the replacement of the gold reserve. Europe has so far deflated very little and

the gold reserves are insufficient to enable them to return to the gold standard, and as Europe returns to the gold standard she will reclaim much of the gold sent us since 1917 and our supply will decline to something like prewar proportions on the supposition that the world's supply will be restored to general prewar conditions, all within a reasonable time, and will result in further deflation.

That, I believe, is practically correct, is it not? Now, if as you say how far depletion should go is there a question of replacement and would it not be better to increase production?

Prof. KEMMERER. My answer to that would be that the only proper method of accomplishing that, by which we could get anywhere, is through the reduction of this highly inflated paper money and deposit currency. To-day, I suppose, according to the figures of the Director of the Mint, there are $7,500,000,000 to $8,000,000,000 worth of monetary gold in all the countries of the world. That is the supply on the market available for monetary uses. Our annual production in the United States at the maximum was $101,000,000, or about 5 per cent of the world's total annual production, or 1 per cent of the world's total gold monetary supply. Now, I can not see that an attempt by ourselves to increase the world's supply of gold to such an extent as to help this readjustment and avoid the necessity of great currency contraction to get the world on a gold basis would get us anywhere. The amount we could throw on the market would be infinitesimal at best, and we would be placing on ourselves the burden of a heavy tax and bounty in this country; $100,000,000 of new gold added to the world's supply would not be a drop in the bucket.

Mr. McFADDEN. In that connection, supposing that we kept our gold production to ourselves here entirely, what effect would that have on the situation?

Prof. KEMMERER. To keep it at home by an embargo would destroy our gold standard. Before the war, the world's gold production was increasing more rapidly than the demand for gold, and the main cause in the increase of the cost of living from 1896 to 1914 was the world's increased gold production. Our percentage of the world's gold production is small, and if our gold production had been wiped out entirely we would probably have had more stable prices than we had. If our whole gold products should be wiped out—that is, only 22 per cent of the world's annual production—I do not think it would have a big effect for a long time. The point I have in mind is that in the case of gold changes effected by small alterations in the annual gold production of one country are like changing the level of a big lake by varying the flow of a very small inlet. The annual production of any one nation is such a small part of the world's supply that it would not have an appreciable effect on it.

Mr. McFADDEN. Do you mean to infer that there is too much gold in the world to-day?

Prof. KEMMERER. I would put it in this way: The one main consideration, of course, is a stable currency. We do not want prices rapidly rising or rapidly falling, if we can avoid it. Before 1914 we were producing gold so rapidly that it was decreasing in value, and since then we have been putting in these substitutes for gold so extensively that the value of gold has been decreasing much more rapidly. Now, if you are going to stabilize prices at the present high base, if you are going to try to get a gold reserve sufficient to stabilize prices at this level in the United States, England, France, Russia, Germany, and the other European countries, you will have to turn a simply enormous amount of new gold into the money uses, many billions of dollars. I think the answer is to contract our credits.

Mr. McFadden. You think this inflation is but the effect of the increasing production of gold, how does increased production of gold affect this inflation?

Prof. Kemmerer. I should say that there is such a thing as gold inflation, and then there is paper-money inflation. A specific instance of paper-money inflation is when we had the greenbacks. Then we used paper currency almost entirely and issued it in such great excess that we got on a depreciated paper-money basis. We have another kind of inflation when on a gold basis we increase our money so rapidly that we force the gold dollar itself to become worthless as money; namely, less in purchasing power. In 1913 to 1919 we had gold inflation. We were increasing our gold and our substitutes for gold so rapidly during these years that we were having gold inflation. We withdrew our gold from active circulation and put it in the gold reserves of the banks, and in the Government Treasury. Then we inflated our paper money, putting out Federal reserve notes by the billions, and we greatly expended our bank deposits that circulate through checks. From 1913 to 1919 the physical volume of trade in the United States increased 10 to 15 per cent, while the money in circulation increased 71 per cent and bank deposits 120 per cent. The big inflation since 1913 has been due primarily to the effect of this expansion of paper money and bank deposits. In Europe most countries are not on a gold basis at all.

Mr. McFadden. How do you distinguish between bank credits and paper money?

Prof. Kemmerer. From the standpoint of prices there is no fundamental distinction. Bank deposits which circulate by check have the same effect on prices as bank notes.

Mr. McFadden. Then in your judgment so long as bank credits are extended, there is no difference from the same number of bank notes?

Prof. Kemmerer. The general effect is the same.

Mr. McFadden. When do you anticipate that the dollar will have regained its purchasing power of 1914?

Prof. Kemmerer. Price levels have been going up and down for generations. The price level was increasing in 1913, and had there been no war and had the rate of increase from 1903 to 1913 continued we would be 19 per cent higher now than we were then. If you allow for other economic factors and especially for the economies in the use of gold made by the Federal reserve system, I should say that the price level to-day, without the war, would probably be 25 to 30 per cent higher than in 1913.

Mr. McFadden. Do you think that we are going to go back to these old prices?

Prof. Kemmerer. I think we are going to go back to a level not more than 25 to 30 per cent higher than the 1913 prices, but any one of a number of things might happen to change the situation. I think that there is every prospect that some of the foreign countries will debase their units of value. Gradually Europe will take back much of the gold she has sent us since 1913 until we are reduced to something like our prewar proportion of the world's supply of monetary gold. Prices will then settle down to something like normal again.

Mr. McFadden. If the annual production of gold in the United States were to be increased and we were to export the surplus, how could it then be accountable for the inflation in this country and would it not tend to increase the purchasing power of the European countries in our country?

Prof. Kemmerer. I should think that that would be a very small factor. If we have men producing gold, that are not producing anything else, and if we increase our gold production to one hundred and twenty-five million, those men who produce the additional supply would be withdrawn from other industries and we would accordingly produce less of other things. If we should export fifty millions of gold it would be like throwing a little water on the surface of a big lake, it would not materially effect the level of the lake.

Mr. McFadden. The exporting of $50,000,000 worth of gold out of this country would effect the situation now.

Prof. Kemmerer. It would effect it temporarily. Suppose that you have a series of connected tanks, good sized tanks, and you pour a considerable amount of water into one tank, it spreads into the others and seeks its level. Pouring into the world's total gold monetary supply, an amount equal to 1 or 2 per cent, that supply would be just like throwing a supply of water in those tanks. It would distribute itself and seek its own level and part of it would come back, one hundred and fifty millions in the world's supply of eight billions would not be enough to influence materially the situation anywhere.

Mr. Martin. Mr. McFadden, what have you to say about the point that this tax would be paid and borne by Americans?

Mr. McFadden. I do not agree on that because this bonus is a bonus paid directly to the miners and does not change or effect the price of gold. It is a bonus collected from the consumers of gold in the arts and trades and paid directly to the producers of gold, and therefore does not enter into the world situation.

Prof. Kemmerer. I think that, speaking of this $20.67 as a fixed price, saying that the jewelers are getting a bounty, represents an incorrect analysis. The adoption of a gold standard itself necessarily fixes the price of gold. The United States Government practically says what any other Government with a gold standard says, simply that we must have a unit of value, and that our unit of value is a fixed weight of a gold dollar—in this instance 23.22 grains of gold. Anybody can take that much gold to the mint and receive a dollar back. To say that the price of gold is $20.67 per ounce is an identical proposition. An ounce of gold is $20.67 when coined into money, and that is what we mean by the gold standard. That has been true since 1837, when we adopted this particular weight. The Government does not "fix the price of gold." The Government merely says that anybody can bring in a quantity of gold, and that it will stamp the gold and return it to him in the form of coin. The value of a gold dollar and of 23.22 grains of gold are identical. Now, as to this being a subsidy to the jewelers, I do not see that at all.

When gold production increases, the price of everything tends to go up, and the price of jewelry tends to go up, so far as the price of labor is concerned, but the price of the gold in the jewelry does not go up at all, so that the price of gold jewelry would not go up as rapidly as the price of other articles. And that very fact that by stimulating the consumption of jewelry attracts gold out of the monetary uses into jewelry uses and tends to lessen the supply for monetary use and to bring the price level back to normal.

Mr. TIMBERLAKE. He has had a subsidy in that he got his raw material at a fixed price.

Prof. KEMMERER. The Government did not fix the price. He is not subsidized. I would say that when he buys his raw material, he is buying an article that is depreciating in value. Gold is depreciating in value when other prices are rising, and when the jeweler buys his raw material, he buys an article that is depreciating in value. He will benefit by the fact, just as the gold producer will benefit when the price level—including his costs—falls while the price of his product, gold, remains constant. Notice this other side of the question: The price of jewelry does not go up as fast as other articles when the price level is rising, but when other prices begin to fall the gold producer gets the benefit: his price is always $20.67 an ounce. That price will not fall one cent, and that will tend to hold the price of jewelry at such times above the level of other things to the disadvantage of the jeweler. Falling prices mean that the supply of gold has failed to keep pace with the demand, and that as a result gold is becoming increasingly valuable in terms of goods. In periods of falling prices natural forces, the reverse of those mentioned above, assert themselves and ultimately force prices up again by diverting large and increasing proportions of gold away from the arts and into monetary uses. When prices are falling the gold producer benefits, and when prices are rising he suffers. When prices are rising the jeweler benefits, and when prices are falling he suffers. It is simply a case of supply and demand. It only looks different when viewed in a gold-standard country from the gold producer's angle. If we were on a silver standard, it would be the same way with silver.

Mr. LAWRIE. Is gold free to respond?

Prof. KEMMERER. I should say it is. It is an important point that the annual production of gold is such a small percentage of the total supply on the market that variations in the annual production change the value of gold only very slowly.

Mr. LAWRIE. The price varies with the demand for the metal?

Prof. KEMMERER. The price of gold does not vary.

Mr. LAWRIE. The Government having fixed the price, it still defers to the law of supply and demand?

Prof. KEMMERER. The value of gold, namely, its purchasing power, varies, but not the price. Gold differs from everything else in the American market in two particulars:

(1) The man who produces it has an unlimited market at the mints for every ounce he produces.

(2) He can always get for his gold $20.67 an ounce.

The gold producer, in other words, always has an unlimited market at the fixed price of $20.67 per ounce. There is no other commodity of which this can be said. It is due to the fact that gold is the standard of value. Where the variation comes in with gold is in the costs of production. The prices of other things may go up—that of everything except gold—and it may therefore cost the miner more to produce his gold, but the price of the gold which he produces remains the same. Likewise the prices of other things may go down, including the prices of miners' cyanides, explosives, labor, etc., but the price of his product remains constant.

Mr. TIMBERLAKE. We will next hear from Mr. Lawrie.

STATEMENT OF MR. H. N. LAWRIE, ECONOMIST, AMERICAN MINING CONGRESS.

Mr. LAWRIE. I have a statement here which I will not read. It contains a summary of the facts in reference to this subject, and I would like to have it included in the record.

Prof. Kemmerer has made the statement that the increased production of gold would greatly increase the inflation and at the same time he stated that an increase in production would have little effect on the monetary situation. The percentage of gold is so small as compared with the volume of credit and currency that its effect in the monetary system has increased rather than diminished. The dollar in gold is equivalent in this country to some twenty or thirty dollars of credit—which has been issued. Deflation can be accomplished by increasing the gold reserve as well as by decreasing the volume of the note circulation.

Prof. Kemmerer's assumption that increased production of gold would increase inflation, must be based also on the assumption that an increase of credit would be issued; on the other hand, it would be possible, under the direction of our Federal Reserve Board, to keep that gold as an exportable surplus and not allow it to become the basis of currency expansion.

The matter of the bounty in this case is a very small item, and even though it should go into the gold reserves of Europe, the indirect benefits would become very much greater than the immediate costs. Gold does not respond, of course, to the law of supply and demand as do other commodities, for the reason that it is a Government price-fixed product, and this fact differentiates gold from all other commodities in the United States, the prices of which are not fixed and controlled by the Government. Had gold been free to respond to the law of supply and demand, it is quite likely, with the very extensive use of gold in the manufacturing arts during 1919 and last year, that the price of gold would have increased as a commodity.

The French Government has submitted to our Bureau of Foreign Commerce a statement with reference to the tax which has been levied in France on gold contained in fine articles of jewelry or used for other than monetary purposes. This tax was fixed in 1873 at 37 francs 50 centimes per hectogram, and has been increased by law of June 25, 1920, to 60 francs per hectogram.

Mr. MARTIN. That tax is not paid to the miners, is it?

Mr. LAWRIE. It is paid into the treasury of the country; France does not produce any gold.

Mr. MARTIN. Does it not produce any in its African colonies?

Mr. LAWRIE. I think it has a very small production in the colonies. This official statement from the French Government goes on to say that this tax, striking as it does luxury goods or unessential articles, enters into the category of a sumptuary tax, the levying of which is admitted by all economists as a legitimate procedure. It would seem that inasmuch as France has enacted and enforced an excise of this kind for so many years that it has not caused any disturbance in the monetary system. If there were any bad effects they would surely have been noticed before now. This tax is levied on the unit of fine gold contained in the article, and is similar in that respect to the imposition of the tax as stated in the McFadden bill.

Mr. BACHARACH. How much gold was produced in this country last year?

Mr. LAWRIE. The Director of the Mint has made a statement to the effect that the gold produced amounted to $49,500,000.

Mr. BACHARACH. You estimated on May 25, 1920, that the production would not be over $40,000,000, did you not?

Mr. LAWRIE. I believe I stated between forty and fifty millions.

Mr. BACHARACH. I have it here in the hearing, you said: "I estimate that the production will not be over $40,000,000 this year unless substantial relief is rendered this year." Now, what is the difference in the wage scale between May and the present time?

Mr. LAWRIE. The wage scale varies in different localities where certain kinds of gold are produced; there is placer mining and there is the quartz mining.

Mr. BACHARACH. Has there been any reduction in the wage scale?

Mr. LAWRIE. I think not, but there have been some wage increases since that time. Production would not have exceeded $40,000,000 in 1920 except for the fact that this bill was before Congress and relief was anticipated.

Mr. BACHARACH. I had a letter from a party interested in Arizona mining in which he said there had been a wage reduction of 25 per cent. However, that was not in connection with this matter.

Mr. LAWRIE. I have a statement that wage decreases have not been so great at any of the properties in Arizona. We could not gauge the wage decreases in gold-mining sections by the wage decreases in the copper districts of Arizona, as they might be more.

Mr. ERNST. Regarding the French tax of which you speak, is it not a fact that the tax was levied so as to pay the Government for services rendered, and in placing a tax on jewelry the tax is negligible in proportion to 50 per cent?

Mr. LAWRIE. Sixty francs per hectogram is equivalent to about $3.60 per fine ounce. I would hardly say that that was negligible.

Mr. ERNST. In comparison with $10 per ounce and services rendered by the Government?

Mr. LAWRIE. The fact also remains that the jewelers in Paris would have to pay now some 200 per cent more in francs for the gold used.

Mr. ERNST. You mean if he bought it in that country?

Mr. LAWRIE. It does not make any difference where he gets his gold, he has to pay that tax.

The fact also remains that these increases have been in the cost of power, which enters into the cost of gold mining very extensively, and these increases have been made during the past year.

Mr. BACHARACH. I believe it would be of interest to the committee if you could give us some information regarding the changes that have been made since you testified in May; regarding the changes that have taken place in the cost of cyanides, explosives, and things of that sort.

Mr. LAWRIE. I can get you all the figures, but they are not to be obtained except as to particular localities. Mr. Loring testified on December 10; he has large properties and is in possession of figures and gave evidence at that time showing the condition of wages and materials at three of them.

Mr. MARTIN. As a matter of fact, does it cost as much now to produce gold as it did a year ago?

Mr. LAWRIE. From the evidence that has been submitted by the producers in the statements submitted by Mr. McFadden you will find that the cost has not been appreciably reduced. It has been more than compensated, on the other hand, by increases in freight rates, which in certain localities, where they have to ship their concentrates to the smelter, the cost has even probably increased more. In South Dakota they have had increases in their power rates, due to the fact that the electrical power is generated from coal, and in California, where they supply power without the use of coal, their rates for power have increased. I am quite certain that the facts show that the drop in prices has not in any way affected the producers' cost up to this time, but, of course, it may do so ultimately.

Mr. BACHARACH. Do you make that as a definite statement that the costs are not materially affected?

Mr. LAWRIE. I think that they have not been greatly affected. Of course, we have all these items to take into account. The effect of the freight-rate increases in some localities is greater than in others, and where a mine does not have to ship its concentrates to the mill, but mills it on the spot, their freight-rate costs would be negligible as to the increase. Other companies that do not use cyanide are free from a very heavy burden, as the cost of cyanide is very high. However, I do know that unless something is done to replace the lost purchasing power of the dollar during the last four or five years to some degree a great many of the mines are going to shut down, and they will fill with water and will not be available later on. We have not the field in which to prospect that we had after the Civil War, and the question of protecting these reserves is a vital one and should be taken into account.

Mr. MARTIN. Is that not the case with every other industry? Are they not all borrowing money to try to get over this period of readjustment?

Mr. LAWRIE. These gold producers, with a fixed-price product, have been under pressure for four years, and their properties are in a state of decay.

Mr. TIMBERLAKE. We will next hear from Mr. Callbreath.

STATEMENT OF MR. J. F. CALLBREATH, SECRETARY OF THE AMERICAN MINING CONGRESS.

Mr. CALLBREATH. Mr. Chairman and gentlemen of the committee, one question propounded by Mr. Garner should be given consideration; that is, whether this proposed bill is designed for the benefit of the miners. Perhaps I come as nearly representing the mining industry as anyone else, through my connection with it as secretary of the American Mining Congress. If I were sitting in your place I would not consider any legislation specifically for the benefit of the gold miner. I do not think the gold miner is entitled to the specific relief any more than the people of any other specific industry, except as the tremendous business of gold mining becomes necessary in the Nation's affairs and prosperity. This, I think, is the question before you. We have in this country gold actually in excess of our share of the world's supply and we can expect that $1,100,000,000 of that excess will drift back to these other countries. We got that excess as a result of operations during the war, and since that time we have increased the gold supply greatly in excess of what it was before the war.

Prof. Kemmerer said the United States monetary gold supply approximates $2,800,000,000, and that approximately $1,100,000,000 of this amount is likely to flow to other countries as times become more normal. We are told that the credit money based upon our present increased gold supply is several times larger than in the prewar period. What is going to happen to our credit if we lose the $1,100,000,000 of gold, if while this gold is being withdrawn by foreign countries there is no supply flowing into the upper end of the reservoir from which we are drawing at the bottom? It is vastly important to maintain the public's confidence in the money upon which business transactions of a nation are based. The withdrawal of eleven twenty-eighths of our gold reserve without even normal production to refill the reservoir may lead the public to conclude that we will soon be in the same condition as European countries which have a depreciated currency because of an inadequate gold reserve. Germany's currency is almost worthless because it lacks gold. Italy, with a little more gold than Germany, has currency of more value. France, with more gold than Italy, has currency less depreciated. England has more gold than any of these countries, but not enough to keep her currency at par. The United States is the one of the few great commercial nations which maintains its currency at par.

Mr. BACHARACH. Japanese money is worth more than our money.

Mr. CALLBREATH. Yes, sir; Japan has a gold reserve, but to the extent that the gold base is reduced in a country, to that extent does its money become depreciated.

Mr. BACHARACH. Would it be your thought that if we did not legislate there would be no more gold produced in this country?

Mr. CALLBREATH. There would be some produced; the gold that is produced as a by-product would be produced. There are some mines which are producing gold, silver, and lead, with perhaps $2 per ton in gold and $10 or $12 per ton in some other substance.

Mr. BACHARACH. The high-grade mines would keep on producing.

Mr. CALLBREATH. There are very few high-grade mines that could continue to produce. Most of these are the placer workings in California, which will be reduced for other reasons, such as the cost of operating, the cost of power. The point I feel is this; this is a great big question which should be settled, without reference to the industry of gold production chiefly, or any other interest than the Nation as a whole. The fact that our money remains at par is based on the fact that we have more than our share of the world's supply of gold. Now, it seems that we are bound to lose that, and to get the benefit of it we should not let our gold mines die. Take what happened to silver; the price of silver for the last two years—since the passage of the Pittman Act—is higher than ever before in this country and yet the production of silver fell off last year, but the price of silver will bring that production back again; but a gold mine, once dismantled, the workings fill with water, and it can not be opened up again. I once happened to operate a mine, which is now closed, in which we produced lead, iron, and gold, and I would not say that mine was a failure at all, but that mine can never be reopened because I would not take a man in there; it would be in-inviting him to commit suicide.

Mr. BACHARACH. That was a put in mine instead of a take out mine?

Mr. CALLBREATH. No, sir; it was not. I feel, gentlemen, that you should consider this question from the standpoint of necessity to the world to keep up its gold supply.

Now, Prof. Kemmerer has pointed out, but I do not think he is consistent, that if we stimulate this gold production it will increase prices, and a few moments later said that it was a small proportion of the world's supply that it would not be noticed. Now, I have in mind that the gold supply of the world ought to be increased, as nearly as possible, in proportion to the increasing business of the world. Gold to-day performs a larger service than it did before the war, because of the rapid movement, but because of the fact that this gold is gathered into the Federal reserve banks of the country. Even with such advantages I do not believe it is possible to maintain the gold standard if we stop production, because if the total world's normal supply is about $450,000,000 per year it would take 20 years to produce the amount which is now in the monetary systems of the world.

Reference has been made to the adverse report of the gold committee of the American Bankers' Association. The fact is that two national conventions of this association passed resolutions asking for aid for the gold industry, and later on their legislative committee (of 100 members) reported favorably on the McFadden bill. I think we have the right to say that the American Bankers' Association as a whole has not declared its opposition to this bill.

Mr. BACHARACH. I move that we recess until the call of the Chair.

Mr. TIMBERLAKE. Without objection, we shall do so, but before we adjourn what shall we do with reference to incorporating this matter which has been submitted into the hearing?

Mr. BACHARACH. My thought would be that none of the printed documents or briefs be incorporated until we determine what we are going to do.

(Committee recessed until call of the Chair.)

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