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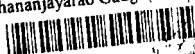
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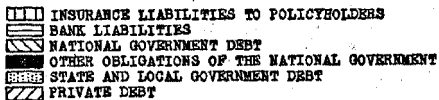
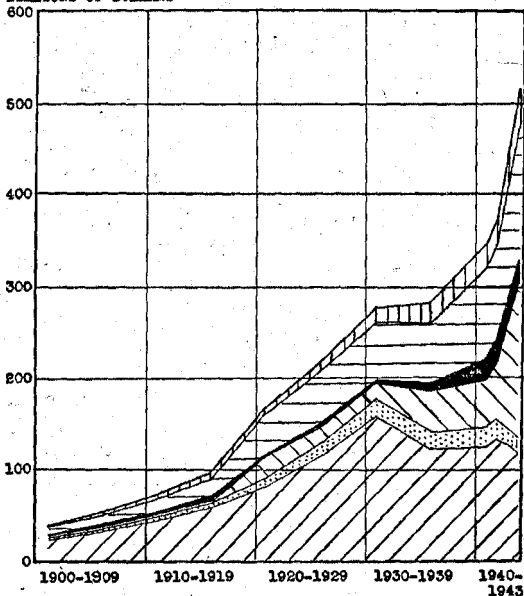
by

William I. Battin, Jr.

Arthur W. Cross, Inc.  
Newark, New Jersey

1944

BILLIONS OF DOLLARS



SOURCE: TABLE I.

DEBT IN THE UNITED STATES, 1900 - 1943

FRONTISPICE

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## PREFACE

Wage earners have good reasons for saving, well known to many who make real sacrifices in order to save. They do not make these sacrifices to finance expenditures of millions of dollars by wealthy politicians and powerful financiers. Yet that is often the result in the final analysis. When governments default, banks fail, or prices rise, savings are threatened with destruction. Thousands of persons lose their savings while the rich and powerful remain rich and powerful. That is just what wage earners desire definitely to avoid. Whether they spend or save, they want the benefits from their work.

Many thoughtful persons believe that both unemployment and losses of savings are avoidable. Some may have already developed the solutions suggested in these pages. Effective measures will, it is hoped, continue to be supported until they are put in practice.

The first essay describes a triple-reserve fund to protect small savings against the worst financial disasters. The second essay shows how to determine the prudent investment of savings in home ownership. The third essay gives an example of increasing debt which often precedes a destruction of savings. The fourth essay describes a plan to furnish full employment and check increasing debt; the result, of course, is conservation of small savings.

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# CONTENTS

	PAGE
PREFACE .....	iii
I. PROTECTION OF SMALL SAVINGS:.....	1
Precious stones and metals reserve..	3
Cash reserve .....	5
Common stock reserve .....	6
Management of savings .....	8
II. THE PROBLEM OF HOME OWNERSHIP...	12
Risks of home ownership .....	12
Costs of home ownership.....	15
Steps toward home ownership.....	19
III. DEBT IN THE UNITED STATES.....	21
IV. EMPLOYMENT FOR ALL WITH A BAL- ANCED BUDGET .....	27
Definition and purpose of the plan...	28
Illustration of the plan .....	28
Currency reserve under the plan.....	29
Redeemability of the currency.....	32
Timing of purchases for the currency reserve .....	32
Stabilization of exchange .....	32
Peacetime operation of the plan.....	33
Wartime operation of the plan.....	35
Advantages of a balanced budget....	39
Conclusions: application of the plan.	41

## PROTECTION OF SMALL SAVINGS

Small savings are funds usually accumulated by hard work and real sacrifice. They are saved for many years to buy a home, to help children obtain a college education, to aid during misfortunes like sickness or unemployment, to strengthen self-confidence, to give a feeling of importance or a sense of security, to provide for retirement, or to comfort old age. They amount as a rule to less than the saver's total earnings for four years even though they require many years of effort to save.

Insurance policies often include a savings feature in the form of a cash-surrender value. But they have great advantages as insurance and should be held for such benefits. To surrender insurance for cash is ill-advised when a savings fund has been accumulated for use.

Adequate protection for small savings must include protection of their purchasing power. Indeed safety for the purchasing power of small savings can be more important than safety for

their principal amount and income combined. As an example a savings bank may pay interest on deposits for years; yet if prices rise rapidly during the period, the good record of the savings bank will not prevent loss to depositors. The purchasing power of their savings will rapidly decrease. When the purchasing power of savings is lost, repayment of their principal amount brings little comfort.

If prices were always held from rising, the greatest safety might be found in insured bank deposits and national government bonds. In reality the safest bank deposits and government bonds are price speculations. They are speculations that prices will not rise in the future the way they have often risen in the past. History shows that prices can rise almost without limit. Widespread increases of prices mark the last days in great expansions of debt. These high-price explosions of debt cost thousands of persons the savings from years of hard work.

One of the best ways to protect savings is through proper diversification. Such diversification must concentrate on the safest assets. To put half of savings in government bonds and half in risky stock speculations is not the way to safety. Unnecessary risks of speculation may destroy the safety sought by diversification. An example of proper diversification is one-third of savings in



precious stones and metals reserve, one-third in insured bank deposits and national government bonds cashable on short notice, and one-third in the safest common stocks bought during the right time.

*Precious stones and metals reserve.*

The precious stones and metals reserve is the foundation of savings. The diamond solitaire which symbolizes love also represents concentrated purchasing power of high security. Dictators may call in all engagement rings and solitaires. They will not necessarily succeed in getting all of them. Fortunes are moved out from nations during revolutions and even after conquests by secret shipments of precious stones and metals. Rich men often keep great wealth in precious stones and metals reserve. They choose this proved foundation on which to build their security.

Precious stones have a maximum of purchasing power in a small space, but their prices fluctuate. The prices at which they can be sold are often less than their original costs. Bargains are sometimes found with diamond merchants and at reliable auctions such as those of the Provident Loan Society of New York. Some good purchases and sales can be made through newspaper advertising. Precious stone jewelry gives aesthetic returns

which may compensate for the possible losses should it be sold.

The buying and selling prices of scrap gold in the United States have been stabilized for years. Purchases can be made from local dealers within several per cent of the mint price. According to regulations under the Gold Reserve Act of 1934, any individual may own thirty-five ounces of fine gold in scrap form without a license. Collector's pieces of 14K watchcases can be gathered from scrap gold. A reserve of such pieces is easily tested by selling a few to the mint.

Platinum can be purchased without limit during peacetime from refiners and local dealers. Its price is sometimes less than that of gold and sometimes more. The spread between bid and asked prices is small, and the quantity purchased makes little difference. Platinum jewelry scrap provides an interesting collection. Pieces can be remade into jewelry for wear or for sale at retail prices. Platinum is tested easily by heating white-hot over a blue flame: when cooled it shows no tarnish.

The price of iridium varies more than that of platinum or gold. In peacetime its price is often about the same as that of platinum; but when war breaks out, the price of iridium may jump 500 per cent or more. As there is no easy test for the purity of iridium, it should be bought only from a

very reliable dealer. If purchased in large quantities samples should be taken and assayed by a skilled assayer.

Proper diversification within the reserve can include equal purchases of diamond jewelry for wear, collector's pieces gathered from scrap gold, platinum jewelry made from scrap, and iridium plate. A larger quantity of jewelry may be held since it is least likely to be called in by a dictator. It should be bought at prices easy to realize when sold. Iridium plate is most likely to be called in during a war. Nevertheless it is a good hedge against wartime price increases because its price rises early and fast. Even when called in iridium plate may bring a high price.

The precious stones and metals reserve should be the last resort for cash. The reserve should be used only when the purchasing power of other savings is gone and the need for cash is urgent.

### *Cash reserve.*

The cash reserve is the most simple portion of savings to build. One-third of it can be insured savings deposits in mutual savings banks. The insurance must be strong or it may fail when most needed. It should be guaranteed by the national government or by the commercial banks of the nation.

At least one-third of the cash reserve belongs in the Postal Savings Bank. Postal savings deposits are obligations of the national government. If the mutual savings bank deposits are not strongly insured, they might better be put in the Postal Savings Bank.

One-third of the cash reserve may be invested in national government bonds that are cashable on short notice. The interest return on such bonds when held to maturity is often higher than the interest on bank deposits. When necessary the bonds can be redeemed for cash in a few days. They are nearly as safe as a reserve of well-circulated paper currency.

The cash reserve is the working fund. The savings banks are convenient for ordinary deposits and withdrawals. If more cash is needed because of sickness or unemployment, some bonds may be redeemed. The cash reserve may then be replenished by liquidating part of the common stock reserve.

#### *Common stock reserve.*

The common stock reserve is the most complex to build. Hard and fast rules may well be followed strictly. The objective is not speculative profit but a security of purchasing power. Only the best stocks should be purchased and the cost should be a bargain price. A few rules can give

reliable standards showing when to buy stocks and what stocks to buy. Without strict observance of hard and fast rules, savings may be risked in unjustified speculation. The following rules are proved by experience:

### 1. BUY STOCKS DURING THE RIGHT TIME

- a. Buy stocks only after business activity has decreased more than one-third from the preceding high level.
- b. Delay buying stocks until at least a year after the date of the preceding high level of business activity.
- c. Spread the buying of stocks over a period of fifteen months or more.

### 2. BUY ONLY THE BEST STOCK EQUITIES

- a. Restrict purchases to the common stocks of leading corporations with well-known products.
- b. The common stocks must have paid cash dividends in each of the preceding ten years.
- c. The total of preferred stocks, bonds, and other prior obligations must be less than the sum of cash dividends distributed on the common stock during the preceding five years.

### 3. PAY A BARGAIN PRICE

- a. The market price of the stock must be less than the total of all cash dividends declared on a share during the preceding ten years.
- b. The outlook for future cash dividends on the stock must be good.

### 4. KEEP PROPER DIVERSIFICATION.

- a. Diversify purchases to at least eight stocks in different fields of enterprise.
- b. Have less than one-sixth of the common stock reserve in each field.

Strict observance of these rules will usually give more dependable results than buying on personal judgments or even expert advices. If a choice must be made from several stocks that meet the four rules, the one best-recommended by advisory services or personal judgment may be chosen.

### *Management of savings.*

The first requirement in the management of savings is a balanced budget. At least ten per cent of earned income should be budgeted for savings. This will help to rebuild savings when they are depleted by sickness, unemployment, or financial losses. With such a balanced budget and with sav-

ings divided in thirds among the three reserves, the purchasing power of savings will survive even major catastrophes.

The entire fund of savings may be kept in a safe-deposit box at the bank. If a major upheaval such as a revolution threatens, the savings may be hidden in a suitcase and carried to the safest possible place.

A dictator might call in part of the precious stones and metals reserve. Some compensation probably will be paid even by a dictator. This can be used to rebuild the reserve. For example if gold collector's pieces are called in and paid for with paper currency, the currency can be exchanged for diamonds to rebuild the reserve.

Rising prices are a serious threat to the purchasing power of most savings. The cash reserve will suffer a loss of purchasing power from a rapid rise of prices, but the triple-reserve savings as a whole will survive. No matter how high prices rise, the precious stones and metals reserve and the common stock reserve will tend to hold their purchasing power. The cash reserve can be built up in a few years with interest from bonds and deposits, plus dividends from common stocks, plus savings from earned income. In these ways the triple-reserve savings can survive any rise of prices.

Heavy taxation can seriously impair the common stock reserve. Taxes that compel the lowering of dividends tend to lower stock prices. Here again two-thirds of the triple-reserve savings are not directly affected. Moreover the common stock reserve can be rebuilt from interest, dividends, and savings of earned income. The rules for timing purchases of stocks might delay buying for several years. During this period the common stock reserve might be less than one-third of savings. The three equal reserves of savings form the standard toward which actual policies will work according to the rules.

The interest and dividend yield from the triple-reserve savings will seldom exceed three or four per cent. The holding of gold may seem absurd when it can be exchanged for stocks and bonds yielding a good return. The thought to remember is that the income from triple-reserve savings is a minor factor. Earnings from work will usually provide the main income. Any temptation to increase the yield on small savings to more than a few per cent is a temptation to lose the savings of a lifetime. The same risk comes with any temptation to jeopardize small savings by incurring debt. Safety of purchasing power for small savings is the fundamental principle to keep in mind.

The three-reserve savings fund makes a good beginning for a complete financial program. Cer-



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tainly some insurance should be carried. The problem of small-home ownership has so many features that it makes an interesting study. Ownership of a small home may sometimes be substituted for the common stock reserve. To help diversify medium-sized savings, a small business, percentage royalties, famous liquors, fine perfumes, collections of rare stamps, and art treasures deserve consideration as investments. The three-reserve savings fund illustrates what is always of major importance, the safety of the purchasing power of savings.

## THE PROBLEM OF HOME OWNERSHIP

The problem of home ownership is mainly a financial question. Were it not for this financial problem nearly every family would own a home. The financial barrier must be real, since it so often blocks the strong natural desires for home ownership. However, it may be less formidable than is generally assumed. A careful study of this barrier will indicate the best ways to surmount it and own a home.

### *Risks of home ownership.*

The risks that may cost money are not so great as they are numerous. Pessimists will exaggerate them, but only fools will deny that they exist. To list all the risks of home ownership is next to impossible. Their nature may be judged by considering some of the principal risks.

1. Title, contract, and other legal problems. The search for a clear title is only part of the legal problems in buying a home. Options to buy, contracts to build, and agreements to repair at a price are not binding unless they are stated in a

receipt for money paid. The down payment may be as little as five or ten dollars. Every contract or subcontract should be guaranteed with a bond of completion by a certain date. Specifications should be full and clear. A mortgage should include an option to pay off entirely within a few years; it should also give permission to defer payments for a year or two years. Such provisions avoid embarrassment and losses.

2. Land problems. The land of a home is not always good earth. Rock conditions sometimes raise the costs of excavating and landscaping. Filled ground may have weak substrata of ashes and junk. The drainage system may be poor and insufficient. Costs of avoiding swamps, foundation seepage, or ice cracks in concrete next to the ground may be considerable.

The topsoil may be unsatisfactory and need loads of fertilizer, sand, or loam. Grass and shrubs sometimes have a large initial cost. Other landscaping such as stone retaining walls and dead trees may cost a substantial sum, even if mere safety rather than beauty is the purpose.

3. Building problems. Water in the cellar is a common building problem. Floors may be badly braced. Building codes do not always prevent the use of poor materials and weak construction. Even strongly built walls will collapse when weak-

ened by hidden termites. Metal roofs and other flat roofs may leak beyond repair and need to be replaced. Pipes, drains, and downspouts may be on the verge of rusting out. Inadequate radiation is a house trouble difficult to detect. Noises at night due to the heating system or the staircase or the gradual settling of a house may be very annoying; and often the cost of eliminating them is high.

4. Risk of increased taxes and ordinances. The long-time trend of tax rates is up. By the end of twenty years most taxes on real estate have increased considerably. Special assessments on real estate to help pay for local improvements sometimes amount to a large sum. New ordinances put home owners to additional expenses for safety devices and changes in construction. These risks eventually raise the costs of home ownership.

5. Risk of neighborhood deterioration. When a neighborhood is only partly built-up, new houses may be built cheaper than the first homes. The whole neighborhood then tends to deteriorate. After a neighborhood is built-up, it begins to grow old. Then a gradual decline of the neighborhood often results. The decline is sometimes accelerated by zoning changes that permit business establishments and tenements.

6. Risk of vacancy and sale losses. The owner of a home may be required by a change of em-

ployment to move to another place. If the house he owns stands vacant several months, it may suffer damage and rapid deterioration. This vacancy loss exceeds normal depreciation. Sometimes an owner may be compelled by circumstances to sell his home. If he paid a good price for it, he may take a considerable loss by the forced sale. The loss can be extreme if the home has a mortgage and the real estate market is depressed.

Many of these risks will not be immediately apparent when buying a house, but they should be anticipated. They are so numerous they are likely to increase the cost of any house. The conservative policy takes the known cost of a house and increases it between ten and twenty per cent to predict the actual cost of the house. For example if the price of a house is \$7,000 and the verified costs of commissions, fees, preparations for occupancy, and all other known costs are \$300, the total known cost of the house is \$7,300. Several years after the house is bought the actual cost may be found between \$8,000 and \$8,700.

#### *Costs of home ownership.*

When the actual cost of a home is determined, the cost on a monthly basis can be compared with rent. This will show whether it is cheaper to rent or to own a home. The cost of home ownership on

a monthly basis is stand-by expense, the minimum expense of having a house available for use. The stand-by expenses of owning a home include interest, depreciation, taxes, insurance, and maintenance. They accrue whether a house is occupied or vacant. In the following analysis these expenses are all given as percentages of the actual cost of a house and lot.

1. Interest or return on investment. All the money to buy or build a home might be borrowed on collateral loans or from friends. Or part of the money might be borrowed in these ways and the rest on a mortgage. The interest is usually set at  $4\frac{1}{2}$  per cent to  $5\frac{1}{2}$  per cent of the amounts borrowed. If the buyer owns enough stocks and bonds, they might be sold for cash to buy the home. The loss of income on securities would be obvious. When part of the cost of a home is borrowed and part is raised in other ways, the expense of interest and return on investment is not so easy to determine. This annual expense may be figured conservatively at from  $4\frac{1}{2}$  to  $5\frac{1}{2}$  per cent of the actual cost of a home.

2. Depreciation. Income tax laws limit the allowance for depreciation to 2 per cent a year on brick and stucco houses and 3 per cent a year on frame houses. Actual depreciation for resale is often greater during the first few years after a house is built and less after the house is twenty

or thirty years old. The expense of depreciation should be figured at least from  $1\frac{1}{4}$  to  $1\frac{3}{4}$  per cent a year.

3. Taxes. The expense of taxes depends upon the tax rates and the assessed valuation of a house. If a house is bought for less than the assessed valuation and the total of tax rates is  $5\frac{1}{2}$  per cent, the expense of taxes will be more than  $5\frac{1}{2}$  per cent of the price paid for the house. An ample allowance for the expense of taxes ordinarily would be from  $2\frac{3}{4}$  to  $4\frac{3}{4}$  per cent.

4. Insurance. Insurance rates vary considerably, but at most their amount is relatively small. The only stand-by insurances necessary on a house are fire and public liability. Others such as wind, flood, and war damage may be carried. A liberal allowance for annual insurance expense would be  $\frac{1}{8}$  to  $\frac{3}{8}$  per cent of the cost of a home.

5. Maintenance. The expense of repairs and other maintenance for a house depends on whether brick or wood, copper or iron, tile or linoleum, and the like were used in construction. As a rule, the more expensive the construction is, the less the cost of maintenance. Painting, plastering, plumbing, replacement of downspouts, and repairs to the heating system are examples of the usual upkeep. A reasonable amount for annual maintenance would be from 1 to  $1\frac{1}{2}$  per cent of the cost of a home.

The stand-by expenses are stated as percentages of the cost of a home to permit their addition. These are the only expenses of home ownership that accrue whether a house is occupied or vacant. They are the expenses that help determine rent. Their sum will show whether it is cheaper to rent or to own a home.

STAND-BY EXPENSES OF HOME OWNERSHIP  
EXPRESSED IN PER CENT OF COST OF A HOME

Expense	Per Cent a Year
1. Interest or return on investment..	4½— 5½
2. Depreciation .....	1¼— 1¾
3. Taxes .....	2¾— 4¾
4. Insurance .....	⅛— ⅜
5. Maintenance .....	1 — 1½
Total .....	<u>9⅝—13⅞</u>

The total stand-by expense is between 9⅝ and 13⅞ per cent a year of the cost of a home. A round average of these figures is 12 per cent. This equals only ONE PER CENT A MONTH and gives the useful PER-CENT RULE: *If the monthly rent of a house is more than one per cent of the cost of a house, it is cheaper to own a home.* For example the stand-by expense on an \$8,000 house is \$80 a month. If houses like it are renting for \$90 or \$100 a month, it is a bargain to own.



The per-cent rule is useful as a guide, but other considerations may influence the final decision to rent or to own a home. Even when rent is more expensive than home ownership, a person's employment may not be permanent enough to warrant buying a house. Moreover opportunities for advancement often necessitate moving to a new location. The risks of home ownership may justify paying high rent during a speculative boom. A person with only a few thousand dollars may not wish to put all his savings in one investment. Some persons may be unable to obtain even the down payment for a house. Such considerations may control the final decision. The per-cent rule always helps to determine the reasonable rent for a house and whether it is cheaper to own a home.

### *Steps toward home ownership.*

The joys of home ownership often outweigh the financial consideration. Even the pleasures of planning to own a home are great. This planning is financially worth while as well. Books on home maintenance should be read along with books on how to buy and how to build. Problems should be discussed with friends and others who own their homes. Such interesting anticipation gives a working knowledge of the facts of home ownership.

Knowledge of home plans and construction should be broadened by visits to model homes and by tours of neighborhoods. Favorable locations may well be chosen with consideration of changes in these neighborhoods. Such trips are some of the most pleasant experiences in planning a home.

When the decision to buy or build a home is made, the need of care begins. Consulting services of an architect and a lawyer are essential for safety. The architect should check construction, appraise the worth of a house, and make suggestions for repairs and maintenance. He should give artistic plans for making the home attractive. The lawyer should prevent any legal complications. These aids more than pay their costs. They show ways to save and to avoid mistakes. They assure a home that will offer security, pleasure, and satisfaction.

Clear thinking with reference to savings and advantages helps to solve the problem of home ownership. When the facts are faced courageously and the decision to own a home results, optimism is justified. The joys of owning a home are only part of the benefits. A home gives recreation and relaxation. It provides hobbies and avocations such as interior decorating and gardening. Home ownership is a natural basis for the full life.

## DEBT IN THE UNITED STATES

Debt in the United States on December 31, 1943, as shown by Table I, was only a little more than half a trillion dollars. In other words the total debt was merely fifty-one cents times ten to the twelfth power.

Net debt is an amount substantially less than total debt and is figured by deducting part of the debt from the actual total. For example several billion dollars of national government bonds are held in the social security trust funds which are agencies of the National Government. These bonds should be deducted from the total national government debt according to the net-debt principle since they are held by national government agencies. If they and the rest of the social security trust funds were held by insurance companies, the several billion dollars of bonds would form part of the net debt of the Government. But as long as the bonds are entrusted to any agency of the National Government, according to the net-debt principle they should be excluded from net debt.

TABLE I. DEBT IN THE UNITED STATES, 1900-1943<sup>a</sup>  
(End of year figures in billions of dollars)

	1900	1905	1910	1915	1920	1925
NATIONAL GOVERNMENT DEBT <sup>b</sup>	1.0 <sup>e</sup>	.9 <sup>e</sup>	.9 <sup>e</sup>	1.0 <sup>e</sup>	24.0 <sup>e</sup>	20.0 <sup>e</sup>
STATE AND LOCAL GOVERNMENT DEBT <sup>c</sup>	1.7 <sup>e</sup>	2.3 <sup>e</sup>	3.4 <sup>e</sup>	5.7 <sup>e</sup>	8.2 <sup>e</sup>	13.3 <sup>e</sup>
PRIVATE DEBT <sup>d</sup>	26.0 <sup>e</sup>	35.5 <sup>e</sup>	47.6 <sup>e</sup>	61.3 <sup>e</sup>	81.5 <sup>e</sup>	114.9 <sup>e</sup>
Subtotal <sup>f</sup>	28.7	38.7	51.9	68.0	113.7	148.2
OTHER NATIONAL GOVT. OBLIGATIONS						
GOLD CERTIFICATES <sup>g</sup>	.2 <sup>e</sup>	.5 <sup>e</sup>	.8 <sup>e</sup>	1.6	.5	1.7
SILVER CERTIFICATES <sup>h</sup>	.4 <sup>e</sup>	.5 <sup>e</sup>	.5 <sup>e</sup>	.5	.1 <sup>e</sup>	.4 <sup>e</sup>
CURRENCY NOTES <sup>h, i</sup>	.4 <sup>e</sup>	.3 <sup>e</sup>	.3 <sup>e</sup>	.3	.3 <sup>e</sup>	.3 <sup>e</sup>
Subtotal	1.0	1.3	1.6	2.4	.9	2.4
FEDERAL RESERVE BANK LIABILITIES <sup>j</sup>	—	—	—	.6	6.0	4.8
INTERBANK DEPOSITS <sup>k</sup>	1.2 <sup>e</sup>	1.9 <sup>e</sup>	2.2 <sup>e</sup>	2.8 <sup>e</sup>	3.1 <sup>e</sup>	4.2 <sup>e</sup>
ALL OTHER BANK DEPOSITS <sup>l</sup>	7.3 <sup>e</sup>	11.4 <sup>e</sup>	15.3 <sup>e</sup>	19.1	37.0 <sup>e</sup>	49.2
NATIONAL BANK NOTES <sup>m</sup>	.3 <sup>e</sup>	.4 <sup>e</sup>	.7 <sup>e</sup>	.7 <sup>e</sup>	.7 <sup>e</sup>	.6 <sup>e</sup>
Subtotal	8.8	13.7	18.2	23.2	46.8	58.8
INSURANCE LIABILITIES TO POLICYHOLDERS <sup>n</sup>	1.5	2.3	3.2	4.2	6.4	10.1
DEBT IN THE UNITED STATES	40.0	56.0	74.9	97.8	167.8	219.5

<sup>a</sup> Source: Estimated and compiled as detailed in the footnotes with the cooperation of Miss Helen R. Hinman.

<sup>b</sup> Interest-bearing and non-interest-bearing debt of the National Government as usually reported. Omits non-interest-bearing debt when issued as currency. Source: *The World Almanac, 1944* (The New York World-Telegram, New York, 1944), p. 515 (figures estimated for end of year, 1900-1925); *Indebtedness in the United States, 1929-41* (U. S. Dept. of Commerce, Bureau of Foreign and Domestic Commerce, Economic Series—No. 21; U. S. Govt. Prtg. Office, Washington, 1942), p. 19, Table 2 (figures for end of year, 1930-1941); *The World Almanac, 1944*, p. 515 (figure for end of year 1942); figure for end of year 1943 estimated.

TABLE I. DEBT IN THE UNITED STATES, 1900-1943<sup>a</sup>  
 (End of year figures in billions of dollars)  
 (Continued)

	1930	1935	1940	1941	1942	1943
NATIONAL GOVERNMENT DEBT <sup>b</sup>	17.9	41.5	53.1	66.4	113.9	170.0 <sup>e</sup>
STATE AND LOCAL GOVERNMENT DEBT <sup>c</sup>	18.5	19.4	20.2	20.2	19.6 <sup>e</sup>	18.6 <sup>e</sup>
PRIVATE DEBT <sup>d</sup>	159.5	123.4	126.6	132.9	129.0 <sup>e</sup>	120.0 <sup>e</sup>
Subtotal <sup>f</sup>	195.9	184.3	199.9	219.5	262.5	308.6
OTHER NATIONAL GOVT. OBLIGATIONS						
GOLD CERTIFICATES <sup>g</sup>	1.8	7.7	19.8	20.6	20.6	19.6
SILVER CERTIFICATES <sup>b</sup>	.4	.8	1.7	1.7	1.8	1.6
CURRENCY NOTES <sup>b, i</sup>	.3	.8	.5	.5	.6	1.1
Subtotal	2.5	9.3	22.0	22.8	23.0	22.3
FEDERAL RESERVE BANK LIABILITIES <sup>j</sup>	4.8	10.7	22.9	24.0	28.4 <sup>e</sup>	33.8 <sup>e</sup>
INTERBANK DEPOSITS <sup>k</sup>	4.5 <sup>e</sup>	7.5	10.0 <sup>e</sup>	10.8	11.1	11.0 <sup>e</sup>
ALL OTHER BANK DEPOSITS <sup>l</sup>	53.0	49.0	65.0	70.8	88.5	105.0 <sup>e</sup>
NATIONAL BANK NOTES <sup>m</sup>	.6	(i)	(i)	(i)	(i)	(i)
Subtotal	62.9	67.2	97.9	105.6	128.0	149.8
INSURANCE LIABILITIES TO POLICYHOLDERS <sup>n</sup>	16.7	20.9	27.9	29.7	31.6	33.5 <sup>e</sup>
DEBT IN THE UNITED STATES	278.0	281.7	347.7	377.6	445.1	514.2

<sup>a</sup> Source: *Statistical Abstract of the United States, 1941* (U. S. Dept. of Commerce, Bureau of the Census; U. S. Govt. Prtg. Office, Washington, 1942), p. 238 (figures estimated for end of year, 1900-1910); *The Economic Almanac for 1943-44* (National Industrial Conference Board, New York, 1943), p. 391 (figures estimated for end of year, 1915-1925); *Indebtedness in the United States, 1929-41*, p. 19, Table 2 (figures for end of year, 1930-1941); figures for end of year 1942 and 1943 estimated.

<sup>d</sup> Private debt as usually reported. Omits liabilities of banks and insurance companies. Source: *The Economic Almanac for 1943-44*, p. 383 (figures estimated for end of year, 1900-1925, by adding 70

An extension of the net-debt principle is the owed-to-themselves point of view. According to this view, interbank deposits should be excluded from the total of bank liabilities because the banks viewed collectively owe these deposits to themselves. Billions of dollars of deposits are owed by New York City banks to banks in other parts of the United States. Increases and decreases of these deposits tend respectively to shift cash reserves into and out of New York City banks. Such interbank deposits are usually omitted from published figures on total deposits of all banks in the Nation.

A further extension of the net-debt principle excludes all bank deposits from the figure for net

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per cent to the total private long-term debt); *Indebtedness in the United States, 1929-41*, p. 19, Table 2 (figures for end of year, 1930-1941); figures for end of year 1942 and 1943 estimated.

<sup>e</sup> Estimated.

<sup>f</sup> These figures approximate the debt in the United States at the end of the year as usually reported.

<sup>g</sup> Source: *Annual Report of the Director of the Mint for the Fiscal Year Ended June 30, 1901* (Govt. Prtg. Office, Washington, 1901), p. 38; *ibid.*, 1906, p. 80; *ibid.*, 1910, p. 55; *ibid.*, 1916, p. 252; *ibid.*, 1921, p. 127; *ibid.*, 1926, p. 107; *ibid.*, 1931, p. 111; *Federal Reserve Bulletin* (Jan., 1936), p. 18; (Feb., 1936), p. 90; (Mar., 1941), p. 221; (Dec., 1941), p. 1245; (Mar., 1942), p. 229; (Dec., 1942), p. 1211; (Jan., 1944), p. 67; (Feb., 1944), pp. 153, 159.

<sup>h</sup> Source: Figures for end of year, 1900-1915, estimated from the *Annual Report of the Director of the Mint*, 1901, p. 38; 1906, p. 80; 1910, p. 55; 1916, p. 252; figures for end of year, 1920-1943, taken from the *Federal Reserve Bulletin* (Feb., 1921), p. 254; (Feb., 1926), p. 143; (Feb., 1931), p. 99; (Feb., 1936), p. 90; (Dec., 1941), p. 1245; (Dec., 1942), p. 1211; (Jan., 1944), p. 67; (Feb., 1944), p. 159.

debt in the United States on the basis of offset. Deposit liabilities of the banks are offset by their loan, investment, and cash resources. Net debt in the United States on this basis is the same whether the Government sells bonds to individuals or to banks. The great differences between selling bonds to individuals and to banks are excluded from reflection in the figure for net debt.

By similar processes of thinking the long-term debt of industrial corporations may be largely offset by their holdings of cash and government securities to figure their net debt. Indeed the Nation may be considered as a whole, and the net-debt principle extended to this grand basis. The net debt may then be viewed as very small; an amount with little significance, merely owed by

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<sup>1</sup> Since August 1, 1935, National Bank notes and Federal Reserve Bank notes have been obligations of the National Government.

<sup>2</sup> Source: Figures computed for end of year from the *Federal Reserve Bulletin* (Feb., 1916), p. 94; (Jan., 1921), pp. 117, 118; (Feb., 1926), p. 131; (Jan., 1931), p. 42; (Jan., 1936), p. 18; *Twenty-seventh Annual Report of the Board of Governors of the Federal Reserve System, Covering Operations for the Year 1940* (U. S. Govt. Prtg. Office, Washington, 1941), p. 33; *ibid.*, *Twenty-eighth* (for 1941), p. 29; *Federal Reserve Bulletin* (Feb., 1943), p. 150; (Jan., 1944), p. 64.

<sup>3</sup> Source: *Annual Report of the Comptroller of the Currency to the First Session of the Sixty-fourth Congress of the United States, December 6, 1915* (U. S. Govt. Prtg. Office, Washington, 1916), Vol. 1, p. 124 (figures estimated for end of year, 1900-1910); figures for end of year, 1915-1942, estimated from the *Federal Reserve Bulletin* (Aug., 1919), p. 784; (Jul., 1921), p. 851; (Mar., 1926), p. 209; (Mar., 1931), p. 176; (Oct., 1936), p. 780; (May, 1941), p. 458; (Dec., 1942), p. 1249; (Oct., 1943), p. 1031; figure for end of year 1943 estimated.

the Nation to itself; and more than offset by resources.

The facts remain that rapidly increasing debt is a sign of inflation, and inflation is a rise of prices that tends to destroy the purchasing power of savings. Inflation may be gradual, as in France during the twentieth century, or it may be rapid, as in Germany during 1923. Savings deposits, bonds, and currency may lose only a part of their purchasing power, or they may lose all. Inflation is usually proportioned to the amount of debt: the larger the debt, the higher the inflation of prices. Debt often increases before prices rise and in this way gives a warning sign of inflation.

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<sup>1</sup> Source: *Annual Report of the Comptroller of the Currency, December 6, 1915*, Vol. 1, p. 124, (figures estimated for end of year, 1900-1910); *Twenty-fourth Annual Report of the Board of Governors of the Federal Reserve System, Covering Operations for the year 1937*, p. 106 (figures for end of year, 1915 and 1925-1935); *Federal Reserve Bulletin* (Jan., 1944), p. 69 (figures for end of year, 1940-1942); figures for end of year 1920 and 1943 estimated.

<sup>m</sup> Source: *Annual Report of the Comptroller of the Currency, December 6, 1915*, Vol. 1, p. 124 (figures estimated for end of year, 1900-1915); figures for end of year, 1920-1930, taken from the *Federal Reserve Bulletin* (Feb., 1921), p. 254; (Feb., 1926), p. 143; (Feb. 1931), p. 99.

<sup>n</sup> Source: *The Insurance Year Book, 1929-1930, Life Insurance, 57th Annual Issue* (The Spectator Company, New York, 1929), pp. A-306, A-307 (figures for end of year, 1900-1915), pp. 494, 495 (figures computed for end of year 1920 and 1925); *The Spectator Insurance Year Book, 1941-1942, Life Insurance Volume, 69th Annual Issue* (The Spectator, Philadelphia, 1941), pp. 138A, 139A (figures computed for end of year, 1930-1940); *ibid.*, 1943-1944, *71st Annual Issue* (1943), p. 138A (figures computed for end of year 1941 and 1942); figure for end of year 1943 estimated.



## EMPLOYMENT FOR ALL WITH A BALANCED BUDGET

This cash plan of employment is a plan to balance the national budget. A balanced budget is made possible by the maintenance of full employment. In addition, the plan supplies large cash reserves and government revenues so that a balanced budget becomes the best policy for a nation.

The cash plan of employment has proved workable. A good example is the return of general prosperity after the gold discoveries of 1849. In December 1848, business activity in the United States was below average. Many persons were out of work. Then the mining industries were expanded and thousands of persons obtained employment. Some went to work in mining, others in related industries, and even more in general business which benefited from the expansion of mining.

Large amounts of gold, silver, and copper were added to the currency. By December 1853, employment had increased substantially; and business activity was more than ten per cent above average. Such favorable conditions make possible large government revenues and a balanced budget.

*Definition and purpose of the plan.*

The cash plan of employment is a currency reserve system that provides for a balanced budget. In fact a balanced budget is the true purpose of the plan. Maintenance of employment is just one of the methods that enable a nation to balance the budget. Full employment is fostered by building up the currency reserve of a nation.

This cash plan discredits the excuse that unemployment justifies unbalanced budgets. If a political machine is loading a government with debt, unemployment will not be a legitimate reason. Full employment can be maintained by the cash plan.

With full employment provided, a balanced budget is reasonable. Even the maximum effort of a war is possible under the cash plan. The war effort may be viewed in its financial aspect. Armed forces and war industries require expenditures of billions of dollars. Heavy taxes can curtail non-essential spending. The cash plan equates these factors without retarding productive efforts.

*Illustration of the plan.*

A simple illustration will show the working of the plan. This illustration begins with business depression and widespread unemployment in the

United States. The first measure would be a large increase in United States Treasury holdings of copper and nickel. Government purchase contracts with producers would require operation of mines at capacity. In return the Government would agree to buy copper and nickel at set prices that would yield reasonable profits. The Treasury would pay for these metallic reserves with issues of United States currency.

The problem of unemployment at copper and nickel mines would be solved. Relief expenditures for the miners could be curtailed. Tax revenues from the mines would be increased. With reference to these mining areas the budget would be balanced.

#### *Currency reserve under the plan.*

If this plan proves beneficial with reference to copper and nickel, it might be extended to other metals. Iridium is only one of a number of metals that are imported. If the Treasury had large reserves of these metals, the Nation would be in a strategic position to bargain with foreign exporters. Accordingly domestic mines of these metals should operate at capacity during a business depression to supply such reserves.

Contracts could be negotiated with foreign exporters when prices are down. When international

cartels put prices up more than double, purchases from foreigners could be stopped. The accumulated reserves could be sold to citizens for use within the Nation.

Another main division in an adequate currency reserve embraces essential war metals. The advantage of large currency reserves in essential war metals has received little recognition. War requires at once huge quantities of essential metals, and reserves of these should be built up during peace when manpower and time are available. The currency provides means to finance such stock piles. The essential war metals at the same time add to the metallic reserve for the currency. A complete currency reserve for this modern age should be at least one-tenth aluminum. Other essential war metals include platinum, pig iron, and lead. Without large supplies of these metals in reserve the Nation is not fully prepared.

Metallic currency reserves fall into three main divisions: (1) coinage metals, (2) import metals, (3) essential war metals. Currency reserves of coinage metals should be at least twelve times the amount of coin in circulation. A large part of these reserves should consist of coin ready for circulation to meet abnormal demands. Such coin reserves should be sufficient to counteract a disappearance of coin from circulation.

Currency reserves of metals that must be imported should equal at least three years' consumption. These are large enough reserves to place the Nation in a strong bargaining position when dealing with international cartels. Currency reserves of essential war metals should be sufficient for a seven-year war. Shortages of these essential metals can be disastrous; therefore reserves should always be more than adequate.

Some currency reserve metals fall into more than one division. Nickel, for example, is a coinage metal and also an essential war metal. Iridium is an essential war metal and is largely imported. The metallic currency reserve may be defined in terms of the metals comprising it. No single metal should form more than thirty per cent of it. Every one of the following metals should be included in the currency reserve:

- Gold
- Silver
- Nickel
- Copper
- Iridium
- Platinum
- Lead
- Iron
- Aluminum

*Redeemability of the currency.*

Any citizen could demand redemption of currency in one or more of the metals when available from the currency reserve. The redemption price would equal the cost of the metal to the Government plus seigniorage.

*Timing of purchases for the currency reserve.*

The signal for expansion of the currency reserve would be a fifteen per cent decrease in employment. The Treasury should open bids to supply metals. All bids lower than the average price for a metal during the preceding year should be accepted. Purchases should continue at these prices until employment increases fifteen per cent.

The mint prices of coinage metals are regulated by statute. The mint selling price of any other metal in the currency reserve should be set by law at double the average cost of the metal to the Treasury. The difference between the price paid by the Treasury and the mint selling price for a metal should be reckoned as seigniorage and should be held as a surplus reserve available for war financing.

*Stabilization of exchange.*

The Exchange Stabilization Fund should be continued. Seigniorage on gold could be made sufficient to strengthen the Fund. The Treasury buy-

ing price for gold should be set at \$20.67 an ounce. The Treasury selling price could be double this or \$41.34 an ounce. The exchange value of the dollar would then be regulated in terms of exchange without fixing the price of gold.

Any nation seeking to stabilize its currency in relation to the dollar could buy and sell gold for this purpose. The world market price of gold would not be fixed around \$35.00 an ounce, but would vary with supply and demand between \$20.67 and \$41.34 an ounce. Such policies would relieve the Treasury and the Exchange Stabilization Fund from gold transactions involved in rigidly fixing the price of gold. This increased freedom would strengthen the Treasury and the Fund in dealing with foreign currencies. The Fund could concentrate on stabilization of exchange.

*Peacetime operation of the plan.*

Peacetime operation of the cash plan of employment can be illustrated by assuming the plan in force beginning December 31, 1932. At that time unemployment was widespread and many mines were operating at only fractions of capacity. The Government would have begun a program of expansion in the currency reserve. The quotas of additions to this reserve would have been the largest possible by pushing production. The Treasury would have issued sufficient currency to pay the cost of these additions to the currency reserve.

TABLE II. PATTERN FOR BALANCE SHEET  
OF THE CURRENCY RESERVE,  
DECEMBER 31, 1937

ASSETS		LIABILITIES AND SURPLUS	
METALLIC RESERVES		CURRENCY IN	
<i>at cost</i>		CIRCULATION	\$15,000,000,000
Gold	\$ 4,000,000,000	SURPLUS	14,000,000,000
Silver	500,000,000		
Nickel	1,000,000,000		
Copper	1,500,000,000		
Iridium	500,000,000		
Platinum	500,000,000		
Lead	1,000,000,000		
Iron	3,000,000,000		
Aluminum	2,000,000,000		
SEIGNIORAGE OF CURRENCY RESERVE	14,000,000,000		
PREPAREDNESS CORPORATION STOCK	1,000,000,000		
TOTAL	<u>\$29,000,000,000</u>	TOTAL	<u>\$29,000,000,000</u>



Table II shows the growth in the currency reserve that might result from such an expansion program. By December 31, 1937, the currency in circulation might be as much as \$15,000,000,000 with a full-cover metallic reserve. Large reserves of import metals and essential war metals would be held. The stock in Preparedness Corporation, a leader of war industry, shown in Table II would be bought with currency issued on the basis of seigniorage. This corporation would specialize in research and development of war production.

The increased currency should not be considered inflationary since it is backed by a full-cover metallic reserve. The reserve on December 31, 1937, shown in Table II would be sufficient to cover and redeem \$28,000,000,000 of currency. Any part of the currency could be redeemed and retired if necessary to prevent inflation.

#### *Wartime operation of the plan.*

To prepare for war and fight it out, the currency reserve would be loaned to war industries. The metals would be formed into planes, tanks, ships, and guns. In return for loans of metals, the industries would contract to repay equal quantities of metals during a period of time after the war. The balance sheet of the currency re-

TABLE III. PATTERN FOR BALANCE SHEET  
OF THE CURRENCY RESERVE,  
DECEMBER 31, 1941

ASSETS		LIABILITIES AND SURPLUS	
METALLIC RESERVES		CURRENCY IN	
<i>at cost</i>		CIRCULATION	\$35,000,000,000
Gold	\$ 5,000,000,000	SURPLUS	25,000,000,000
Silver	500,000,000		
Nickel	300,000,000		
Copper	200,000,000		
Iridium	50,000,000		
Platinum	50,000,000		
Lead	100,000,000		
Iron	200,000,000		
Aluminum	100,000,000		
METALS DUE FROM			
INDUSTRIAL			
CORPORATIONS			
Gold	1,000,000,000		
Silver	500,000,000		
Nickel	1,700,000,000		
Copper	2,800,000,000		
Iridium	950,000,000		
Platinum	950,000,000		
Lead	1,900,000,000		
Iron	4,800,000,000		
Aluminum	3,900,000,000		
SEIGNIORAGE			
OF CURRENCY			
RESERVE	25,000,000,000		
PREPAREDNESS			
CORPORATION			
STOCK	10,000,000,000		
TOTAL	<u>\$60,000,000,000</u>	TOTAL	<u>\$60,000,000,000</u>

serve on such a wartime basis is shown by Table III.

During the war the Preparedness Corporation would expand to the limits of available resources. The Corporation would subcontract orders to use the facilities of existing industries. In addition it would construct new factories needed in the war effort. The resulting balance sheet of the Preparedness Corporation on a wartime basis is illustrated by Table IV.

TABLE IV. PATTERN FOR BALANCE SHEET  
OF PREPAREDNESS CORPORATION,  
DECEMBER 31, 1941

ASSETS		LIABILITIES AND CAPITAL	
CASH	\$1,000,000,000	ACCOUNTS	
ACCOUNTS		PAYABLE	\$ 900,000,000
RECEIVABLE	500,000,000	TAXES ACCRUED	800,000,000
INVENTORY—		DIVIDEND PAYABLE	300,000,000
leased to		COMMON STOCK	
Government		held by currency	
Planes	1,000,000,000	reserve	10,000,000,000
Tanks	750,000,000		
Guns	500,000,000		
Ships	750,000,000		
Trucks	500,000,000		
AIRCRAFT			
FACTORIES	3,000,000,000		
AUTO AND TANK			
FACTORIES	2,000,000,000		
SHIPBUILDING			
YARDS	1,000,000,000		
GUN FACTORIES	1,000,000,000		
TOTAL	<u>\$12,000,000,000</u>	TOTAL	<u>\$12,000,000,000</u>

In order to combat inflation the Government should levy substantial wartime taxes. These will curb non-essential spending while they help to finance the war. Graduated sales, income, inheritance, and social security taxes should all be applied for large yields. Sales taxes should be graduated to place their burden on luxury goods and high-price lines of other goods. For example the sales tax on low-price perfumes might be 20 per cent compared with 80 per cent on high-price perfumes. Sales taxes on automobiles might be graduated from 10 per cent on low-price cars to 30 per cent on high-price cars, while those on overcoats might be as moderate as 3 per cent to 8 per cent.

If necessary to prevent inflation, the reserve requirements for banks could be strengthened. For example the minimum requirement of legal reserve might be twenty-five per cent of deposits, the requirement in the National Bank Act of February 25, 1863.

These suggestions are only part of a complete plan to block inflation and balance the budget. A comprehensive plan would have many features besides large reserves and adequate taxes. Rationing and price controls are useful. Employment training and placement are fundamental. Factors such as these may involve the whole economy of the Nation.

Certainly ten or twenty billion dollars of seigniorage would be insufficient to finance a major war. The cash plan of employment is only one part of a balanced-budget war program. The Preparedness Corporation of this plan would be merely the research and production pilot of nation-wide industries. The cash plan for its part would provide many billions of dollars of essential war materials. It would supply large cash reserves to facilitate payments of heavy taxes. Moreover it would yield many billions of dollars to help finance the war. In such ways the cash plan makes a balanced budget the best national policy.

*Advantages of a balanced budget.*

With this cash plan for a balanced budget the maximum war effort is attainable. A balanced budget through proper taxes curtails excess purchasing power that might lead to reckless spending. Problems of price control are simplified. The Government is in position to direct spending toward the winning of the war.

A balanced budget aids in restricting wartime millionaires. Profiteers can be exposed and prosecuted most effectively when the finances of the Nation are stabilized and controlled. If the budget is not balanced, it is impossible to prevent some persons from making wartime fortunes.

Politicians may promise to prevent the growth of wartime fortunes, but they cannot possibly keep this promise while they vote for issues of billions of government bonds to individuals and corporations. Thousands of persons will sacrifice their all while others get rich quickly.

An unbalanced budget often defrauds small savers. By hard work and sacrifice a wage earner can save several thousand dollars. In a few years of unbalanced budgets the Government may issue billions of dollars to other persons, who suddenly become rich.

In comparison with the fortunes of these new-rich people the savings of the wage earner appear small. His thrift looks like the hard way not followed by most smart people. When he started to save, he considered a thousand dollars a large sum of money hard to accumulate. By the time years of saving yield him his thousand dollars, ten-thousand-dollar fortunes are common. He is worse off than he was in comparison with others.

The final blow to this wage earner comes when he has to spend his savings. Prices are found high compared with what he was first paid. Often a large part of the purchasing power of his savings has been lost.

A balanced budget gives small savers a good assurance that savings will retain purchasing

power. This builds confidence in the currency. Moreover such a budget can avoid the injustice of some persons growing wealthy from a war in which others are making supreme sacrifices. For these reasons a balanced budget is the right way to inspire a whole-hearted maximum war effort in the Nation.

*Conclusions: application of the plan.*

The cash plan of employment has an immediate application as a measure of fiscal policy. If budgets are unbalanced, the reasons for the deficits should be examined critically. Widespread unemployment in mining areas cannot justify large issues of government bonds when employment for all is obtainable by the cash plan,

The cash plan provides a full-cover reserve for the currency. Issues of currency can be limited by law to the amount of metals on hand or under contract, figured at the mint selling prices. In time of war all the reserves on hand of some metals might be required for war production. They could be loaned to war industries in exchange for contracts to return equal quantities of the metals after the war. These contracts for metals plus any metals on hand would always provide the full-cover reserve. The reserve shown in Table III would be sufficient for \$50,000,000,000 of currency.

In addition to the advantage of a full-cover reserve, the cash plan supplies adequate currency. Issues of currency are not limited by silver reserves or some ratio to gold reserves. When currency in circulation is inadequate, it can be increased until individuals and corporations have plenty of cash.

The greatest benefit from the cash plan of employment is a balanced budget. A nation that runs on deficits is headed for disaster. The cash plan shows how the budget can be balanced. Indeed this is the fundamental purpose of the plan.