

country running deficits and doing their financing through the commercial banking system.

Senator PROXMIRE. I do feel very strongly that the \$4 billion that you talk about as the unit of our free gold is not the limit. Like that, we can knock out the \$12 billion gold we require to back our currency.

Mr. ECCLES. It ought to be done now. It is overdue.

Chairman PATMAN. There is a bill pending.

Mr. ECCLES. It ought to be done right now and not wait for an emergency.

Chairman PATMAN. Mr. Eccles, I would like to ask you about the policies of the banks to invest more and more in Government bonds and tax-exempt securities. The way it used to be in this country the local bank used the power to create money to help local people, to provide credit for industry, commerce, and farming in the community.

Most of the directors were local people. Some State laws required directors to live within a certain radius of where a bank was chartered to create the money in that community.

Forty years ago we had 31,000 plus banks; now we are down to about 13,000. In other words, we have 43 banks to every 100 we had 40 years ago. Normally, in view of the growth of the population and the growth of our economy we would expect to have 100,000 banks. But instead of that, we have gone down to much fewer banks.

I do not look with favor on the trends of the banks. They are getting away from local loans and are using the power to manufacture money—which is justified if used to help local people—merely to buy not only Government bonds, but tax-exempt bonds. In the recent past the number of purchases of tax-exempt bonds by commercial banks has gone up considerably—about 17 percent, I notice, in the last few weeks.

The commercial banks now hold 25 or 30 percent of all the tax-exempt bonds in the country. I can agree that some Government securities should be held by commercial banks—that is all right up to a point. But when they invest their funds in Government bonds and tax-exempt bonds to the extent that it interferes with their ability to make local loans, doesn't it occur to you that this trend should be called to the attention of the banks, in some way, and that some effort be made to reverse this?

Mr. ECCLES. I think you have a completely erroneous and wrong conception of the whole banking system and the way it is operating and its present condition.

In the first place, the banks are pretty heavily loaned up. I think where they have branch banks, which they have in every State in the West—and the West has not slowed up in its growth and there is no area in the country that has grown like the West—the people who know will tell you that it is due, to a considerable extent, in the way the banks financed the situation.

The banks in the western part of the country with which I am familiar—as a matter of fact, I had a lot to do with branch banking in two States and helped to get the legislation in 1933—most of the banks in the West are loaned up as heavily as they should be. They have to be loaned up to enable them to pay 4 percent on savings, which many of them pay.