

Senator BUSH. It says in this editorial, in the next to last paragraph:

According to Dr. Martin, it is perfectly proper for the banks to finance private indebtedness by creating money, but when one suggests that public debt be handled in the same manner, he alludes to the dark dangers of printing press money. Is he suggesting that the banking system should discriminate against the Federal debt? It is of course true that reckless use of bank-financed public debt would lead to inflation, but the very same stricture may be placed against bank-financed private debt.

Dr. NOURSE. Well, that is perfectly true.

Senator BUSH. I want to ask you a question about that. My impression is that these two cannot be compared, for one principal reason. In the first place, when a private borrower goes to the bank, his credit is carefully scrutinized, his profit and loss statement is scrutinized. Presumably he has to have a record of earnings which shows that he is in the black and able to stay there and get there. His balance sheet is examined.

And his whole credit position is examined and then established; whereas when the Federal Government goes—

And also, he is borrowing on a short-term basis, because the banks do not lend on a long-term basis.

Dr. NOURSE. Yes.

Senator BUSH. Now, while he is doing that to establish his credit and make a loan, somebody else is paying one back. In other words, you have a constant pay-back going on, which deflates the inflationary force of bank borrowing.

In other words, as new money is created, it is also being retired by those who are paying back.

Is that not so, so far?

Dr. NOURSE. Yes.

Senator BUSH. The difference, then, with the Federal Government, is that when it goes in, the record does not show that it pays back. The money is created by the establishment of a deposit for the credit of the Secretary of the Treasury, but it stays there, and when the time comes, it is renewed. New notes are sold; new loans are made; and the increase in the money supply remains. This has been going on over the years.

Dr. NOURSE. Yes, sir, though Federal bonds can be paid off and the national debt reduced.

Senator BUSH. So that the effect of the Government borrowing through the banks in that way is to increase the money supply and keep it increased. Is that not so?

Dr. NOURSE. Yes. I think that there is a basic difference and that is why I believe that two unlike things should not be mixed in the same system.

Now, on the other hand, they are not water-tight compartments. As the Fed says—I remember Randolph Burgess particularly saying this: "While we are free of subservience to the Treasury, we have to be aware of their problems and responsive to them."

But the distinction that you make, that they are two very different ways of handling financial matters, is the basis of my feelings that we should not merge.