THE WHITE HOUSE
WASHINGTON

November 16, 1937

MEMORANDUM FOR GOVERNOR ECCLES:

The President has asked that I forward to you for your information the attached material submitted by the Committee for the Nation.

M. H. McINTYRE
Secretary to the President

# COMMITTEE FOR THE NATION

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November 10, 1937

Hon. Franklin D. Roosevelt
The White House
Washington, D. C.

(Copy to be sent to all
Members of the Congress)

Dear Mr. President:

Since we called your attention on October 6 to the decline in basic commodity prices the situation has grown steadily more alarming. The Journal of Commerce price index of 30 basic commodities has fallen from 177.1 on March 31 to 131.6 on November 6. This is a drop of 25.7 per cent from the high point of the recovery, when basic producers' prices were, for the first time since the depression approaching parity with their costs.

Never since the post-war price readjustments of 1920-21 has there been such a rapid and far-reaching decline. The commodity price collapse has gone as far in the last seven months as it did in 18 months from July 1929 to December 1930 which precipitated the great depression. This seven months' decline is twice as great as the one in 1926-27, which brought the heads of the three principal European Central Banks to New York and Washington begging for reversal of our Federal Reserve policy. This relief was sought then, and granted, in order to help maintain the international gold standard to which Great Britain had returned in 1925 with consequences which proved disastrous to British business.

The collapse of commodity prices is today world-wide. And the United States, being the only important nation now attempting to adhre to an inflexible gold standard, finds itself in a particularly precarious position. Our corrective measures were delayed for 18 months after Great Britain abandoned the gold standard in 1931, and our recovery has lagged far behind world recovery.

While recovery has been proceeding more rapidly in other countries, we have created for ourselves new problems and intensified old ones. We have raised wages and created new tax burdens without adequately increasing our ability to pay; We have frozen costs of distribution and many fixed charges at new high levels. We have created a situation where deflation of wages and all prices down to the present level of commodity prices would set up unbearable stresses and strains of deflation.

We have, in short, recreated the problem which confronted us in March 1933. Now, as then, deflation must be stopped, and profitable prices must be restored for the producers of basic raw materials.

Continuation on the present, or a lower, commodity price level will cut deeply into farmers' spendable income, even if they grow abnormally large crops. It will mean disaster for producers of metals, oil, coal, lumber and other basic products. It will greatly increase urban unemployment this winter. It will increase taxation for relief while decreasing the ability to pay taxes.

Failure to correct promptly the present ruinous disparity between basic commodity prices and other prices and costs must result in further unbalancing the budget and making a much-dreaded inflation unavoidable. Either commodity prices must be brought up or national income must inevitably come down to correspond to the commodity price level. And with such reduction in the national income, present public and private debts can never be met.

We therefore suggest that the situation demands immediate critical re-examination of the causes of the world depression; a reappraisal of the measures which have been used to combat it; rejection of those policies which have failed, and fearless application of those measures which, in the light of experience here and abroad, give the best promise of present and permanent relief.

When conditions were at their worst in 1932 a group of American business men, with the cooperation of national farm organizations and a leading economic research body, studied world recovery problems, and, in February 1933, presented their facts and conclusions to advisers of the President-elect. Those who engaged in that study were, and still are, opposed to printing press and budgetary inflation.

"Orthodox" procedure then, as now, called for still more deflation until all prices were brought down to the ruinous level of commodity prices. But realists recognized that such a deflation would result in almost universal bankruptcy, and no one dared face its social and political consequences.

After examining every suggested alternative, these investigators -- who later became known as the Committee for the Nation -- were faced with the conclusions reached in 1932 by the British Empire Conference: <u>That world recovery depended upon restoring profitable prices for farmers and other producers of the basic raw materials</u>, so that the basic-producer half of the population could buy the goods and services of the other half. How could this price restoration be accomplished?

The only means that was proving effective anywhere in the world was currency management, which was then and still is so little understood in the United States. The effects of monetary management were, nevertheless, plainly apparent in 1932 in the sales reports of American corporporations doing business abroad. They showed a decided upturn in business in each country as it left the gold standard and continued depression in every country still adhering to that standard.

Argentina and Australia had been the first to abandon the international gold standard in December 1929. At least four other nations had followed before Great Britain, Scandinavia and the rest of the sterling bloc took the same course in 1931. Those nations had escaped the worst impact of world depression by their early recognition of the importance of maintaining their internal price levels, as measured in their own currencies, regardless of the collapse of the world price level as measured by the international gold standard. So they based their monetary policies upon this elementary fact of economics:

> Excluding the effect of tariffs and transportation costs, the price level of basic commodities within a country, regardless of whether it produces an exportable surplus of such commodities, is determined by (a) the amount of gold those commodities exchange for in world markets, and (b) the amount of gold in a nation's currency unit. Therefore basic commodity prices within a country respond in mathematical proportion to changes in the gold content of that country's currency unit.

Examination of the erratic post-war behavior of gold led to the conclusion that monetary readjustments throughout the world were inevitable. Governments, banks and individuals were scrambling for gold, hoarding it and causing violent fluctuations in its value (i.e. purchasing power) until gold was no longer a reliable monetary standard. The use of a fixed weight of one commodity, gold, as the standard of value had been abandoned by the 21 sterling bloc countries, under Great Britain's leadership. A cross-section of the principal basic commodities on which people depend for food, clothing and shelter was becoming recognized as a more dependable standard; and stability in terms of a suitable commodity price index was becoming the guide of monetary management.

British Empire monetary policy was directed first toward raising basic commodity prices, which had fallen far below other prices. After restoring basic commodity prices to remunerative levels, the next objective of British monetary policy was to maintain stability in the purchasing power of money, not with respect to the price of one commodity, gold, but with respect to the average of the prices of many commodities.

Since the value of gold was fluctuating violently, the amount of gold in the pound sterling was allowed to vary every day as the supply of gold and the demand for gold fluctuated. As the gold content of sterling fluctuated, the gold content of all the currencies pegged to sterling also fluctuated from day to day -- but nobody got in a panic about it. Not the weight of money, but what it would buy, became the first consideration of monetary management. In each of the countries of the sterling bloc the objective was to arrest the decline in commodity prices within the country, keep its basic producers solvent, and through restoration of their purchasing power to rebuild the foundations of a general prosperity.

Mr. President, you started upon a similar monetary policy in 1933. And it worked. The average price, in dollars, of basic commodities within the United States rose in exact proportion to the reduction in the gold content of the dollar -- that is, mathematically as the dollar price of gold was raised. This is a statistically proved fact.

Monetary policy was rapidly meeting the greatest need of the emergency in 1933. That greatest need was to lift as quickly as possible the price level of the basic-producer half of our people so that their power to purchase from the other half might be restored. Responding directly and immediately to monetary action, commodity prices rose rapidly while costs of distribution, wages, the prices of finished goods and the cost of living started to rise but slowly.

If this procedure had been carried through, and without contradictory measures to offset it, economic balance and resulting prosperity would have been restored without the long delays, the consequent destruction of human and property values and without the excessive tax burdens which have resulted from abandoning the monetary procedure to which the sterling bloc nations have adhered.

As proof of the foregoing assertion we offer the fact that the countries of the sterling bloc that went through with this procedure, with 600 million population, have balanced budgets, prosperity for their farmers and other basic producers with expanding production, high building activity and relatively little -- in some cases no -- unemployment.

But some persons, who never seem to have comprehended the principles of price changes, began in 1933 bombarding you with propaganda that all prices should be raised at once; hence, N.R.A., which drove up wages and all prices. In this way we continued the disparity between farmers' and other basic producers' prices, which had fallen much the farthest in the depression, and the price level of the other half of the population. Thus our depression was unnecessarily prolonged.

Now a new disparity has been created by a new gold panic bringing another collapse of basic producers' prices. And so long as we remain anchored to a fixed gold content currency -- that is, to a fixed dollar price of gold -- our farmers and other basic producers will remain at the mercy of unpredictable world forces which again are causing violent fluctuations in the value of gold.

With the dollar price of gold fixed inflexibly, basic commodity prices, measured in dollars, must follow down, or up, as world uncertainties, war psychology, speculation, hoarding and flights of capital from country to country cause the value of gold to fluctuate.

The Committee for the Nation has repeatedly called attention to the fact that the most essential instrument of monetary management is the power to vary the official price of gold to offset fluctuations in the world value of gold. The Gold Reserve Act of 1934, which put us back on a fixed gold standard at $35 an ounce, made effective currency management impossible because our basic commodity price level was thereby tied to the fluctuating value of gold in world markets.

When our price of gold was fixed at $35, our principal competitors as raw material producers had already raised their official prices of gold much farther than we; yet they retained and still retain their freedom to go still farther, if necessary, to protect their own internal commodity price levels.

The principal raw material producing countries with which our farmers and other basic producers must compete have compensated for the shrinkage in the amount of gold for which all basic products exchange. Under British guidance these countries have increased their prices of gold much more adequately than has the United States. The table below shows the percentage of increase since 1929 in the prices of gold in seven countries, all large producers of raw materials; also the equivalent of this percentage when translated into dollars:

| | Percentage Increase | Price of Gold |
|---|---|---|
| United States | 69 | $35.00 |
| Argentina | 140 | 49.61 |
| Australia | 106 | 42.58 |
| Brazil | 267 | 75.86 |
| Canada | 69 | 34.97 |
| Denmark | 104 | 42.17 |
| New Zealand | 104 | 42.17 |

With the value of gold as it has been since 1929, our dollar price of gold has never been high enough to give our farmers and basic producers normal prices with normal production. The American producer is therefore unduly handicapped by high fixed charges, freight, taxes, and interest. The farmers and raw material producers of the sterling nations enjoy a great advantage, with their higher prices of gold, because in their respective currencies they receive higher prices than our farmers receive in dollars although they must exchange their basic products for the same amount of gold that our farmers do. When their basic producers sell a ton of wheat, wool, lead or copper, receiving, as inexorably is the case, the same amount of gold that our basic producers receive, their prices in terms of their currencies are from 20% to 100% higher than the prices our producers receive in dollars. This is the reason why their farmers find it profitable to grow and produce more while our farmers, deflated by too low a price of gold, are being forced to scarcity measures to raise prices.

A realistic outlook on world conditions shows only continuing instability in the value of gold. Changing demand for gold works irrespective of whether crops are large or small, and independently of events in any one country.

Gold was gradually losing value until the reversal of trend beginning last Spring. Since March, the value of gold as measured by the 30 basic commodities of the Journal of Commerce index has increased 34.5 per cent. This means that our basic producers, in order to get as many dollars of the same gold content as they received last March for three tons, must now deliver four tons of their products. Our farm income, based on the value of gold last March, was estimated to be 10 billion dollars. If farm production and the weight of gold in the dollar remain the same but the exchange value of gold for other commodities continues to be one-third higher than last March, farm income may be reduced next year to $7\frac{1}{2}$ to $8\frac{1}{2}$ billion dollars.

Let us see what a farm income of $7\frac{1}{2}$ billion dollars would mean. Then deduct production expenses -- fertilizers, freight, implements, taxes, etc. There will remain in cash and kind for farm owners and farm workers $4,235,000,000. Distributed as wages to the 10,472,000 persons gainfully employed in farming, it will give each owner and hired farm worker only $404 a year or $1.29 a day. If food raised and consumed on the farm is omitted from this calculation, it leaves the farm income equal only to a wage of $1 a day for owner and worker. It leaves no capital return for farm property, and nothing for the productive labor of 22 million farm women and children.

If the farm income of the current year had reached the Department of Agriculture's estimate of 10 billion dollars, and if the entire sum after deducting production expenses were applied exclusively as wages, it would have yielded an average yearly income for each farm owner and hired worker of $526. This equals $1.68 per day of which 42¢ is represented by products produced and consumed on the farm; the balance leaving an average cash wage of $1.26 per day. If the United States farm income, now reduced by deflationary monetary forces were lifted to 15 billion dollars, as it easily could be, by an adequate price of gold, our farmers could receive an average of 3% on their capital investment and have in addition a daily average wage in cash and kind for farm owners and hired workers of $2 per day -- a wage still very low compared with urban wages. A price of gold which would thus increase farm income would also lift the income and purchasing power of producers of other basic commodities by at least 3 billion dollars. Thus, without burdening the Treasury, the United States economy would have 8 billion dollars more annually of purchasing power, an amount sufficient to create employment for three to four million more workers. Such was the road to recovery that the sterling nations have travelled.

In England's sterling bloc there are six nations in which farming and raw material production play an important role -- Argentina, Denmark, Brazil, Australia, Canada, New Zealand. These nations have raised their prices of gold an average of 132% which would correspond to an average dollar price of $47.95 compared with our increase of only 69% to $35.

The destruction of basic commodity prices is the underlying cause of depression and continuing unemployment. Factories supplying basic producers' requirements are already feeling a slackening in sales; their slowing down will affect others. The vicious cycle of price deflation and consequent unemployment is again running its disastrous course as it did from 1929 to 1933.

If two and one-half billion dollars of farm purchasing power is destroyed, direct employment for approximately one million urban workers will be wiped out and much more secondary unemployment created. Other basic producers are already suffering from a similar drop in prices, income and purchasing power. Farm and basic producer income will be reduced by four to five billion dollars and employment for two or three million workers will be destroyed if the present monetary derangement is allowed to carry through for a year.

We are confronted by the same destructive monetary force which tore down our prosperity between 1929 and 1933. The same corrective measures that proved effective in the United States in the first months of your administration, as they did in other countries, should be applied without delay. Had they been applied a few months ago, the recent disasters to workers, employers and investors could have been prevented.

Without waiting for Congressional action, the President has power to raise the United States price of gold from $35 to $41.34 an ounce. Barring a still further rise in the world value of gold, this would almost immediately raise basic commodity prices 18 per cent. While this would restore but little more than one-half of the commodity decline of recent months, it would steady panicky markets while permanent corrective measures were being initiated.

No stable agricultural prices, no stable business, no stable employment can be built on an unstable, wildly varying standard of value. For a century, from Trafalgar to Jutland, British sea power dominated the world and British finance managed the international gold standard with a fair degree of success. Now the status quo is being challenged on all continents. Every nation seeks to build up a war chest of gold. Waves of war fear, speculation, hoarding and panic enhance the value of gold. These unpredictable world forces should not be permitted to destroy the balance between the various economic groups within our own country.

More than 90 per cent of all our business is internal. Our farms, mines and forests can produce raw materials in superabundance. We have the most efficient transportation system, the best-tooled and effective factories and the most efficient labor in the world. The cause of the disaster since 1929 was a disorder in our price system -- the mechanism by which goods and services are distributed. And this disorder was caused by the instability of gold, giving us an unstable dollar which robbed and destroyed the purchasing power first of one group and then another. If this disorder were removed, most of the economic and social ills which have called for reform would disappear.

We must recognize that we are not living in the pre-war century. Then gold was reasonably stable. Now it has turned traitor, so wild, so erratic, so rapidly changing in its value relation to other commodities that no reliance can be placed upon it.

We should therefore get off a fixed price of gold, and stay off, returning to a fixed gold standard only if and when a complete transformation of world conditions recreates the stability that formerly made the gold standard workable.

We should establish a free market for gold in New York, as the British Empire has in London, in which gold will be treated as a commodity and its price in dollars allowed to fluctuate with demand and supply.

We should remove the present and future uncertainty as to the objective of United States monetary policy.

Economic and monetary stability cannot be attained by making the dollar equivalent to 1/20th or 1/35th or 1/41st of an ounce of one commodity, gold, very unstable under present world conditions. It can be attained constitutionally if Congress will mandate that the value -- that is the buying and debt-paying power -- of the dollar hereafter shall be kept equivalent to a cross-section of the most widely used basic commodities.

Our economic order cannot survive continuing disastrous price level changes such as we suffered from 1929 to 1933 and again since March of this year.

Very truly yours,
COMMITTEE FOR THE NATION

By: Fred H Sexauer
Fred H. Sexauer

Earl Harding.
Earl Harding

Members of the Directing Committee