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CHAIRMAN PATMAN OF THE HOUSE BANKING AND CURRENCY COMMITTEE CALLS UPON WILLIAM MCCHESENEY MARTIN, CHAIRMAN OF THE FEDERAL RESERVE BOARD, TO EASE HIMSELF OUT OF HIS PRESENT POSITION SO THAT PRESIDENT LYNDON BAINES JOHNSON MAY APPOINT A NEW FEDERAL RESERVE CHAIRMAN SYMPATHETIC TO HIS FISCAL, ECONOMIC AND MONETARY POLICIES; THE TEXAS CONGRESSMAN ALSO ACCENTUATES ECONOMIC ACHIEVEMENTS UNDER PRESIDENT JOHNSON AND CHARGES THAT MARTIN IS "A MAN WHO CAN'T STAND PROSPERITY."

This is the story of a man who can't stand prosperity. Let me modify that statement -- this is the story of a man who can't stand prosperity for the many -- it's A-okay for the few. This is the story of the Federal Reserve Board's Chairman, William McChesney Martin, who believes that it's more important to restrict the money stock and credit of the nation, and increase interest rates, than it is to keep America prosperous. This is the story of a man who is defying the President of the United States by singing a siren song of pending disaster unless we take measures that run counter to the President's, which will in fact insure the reality of that disaster.

An important part of this story has to do with the remarkable advances of the economy under President Kennedy, and continued under Lyndon Baines Johnson. No apology is needed for 52 months of uninterrupted prosperity.

Despite this 52-month record of unprecedented prosperity, the longest peacetime period of well-being in the Nation's history, with 75 million, 100 thousand employed in this country, with our gross national product for the first quarter of 1965 running at an annual rate of \$648 billion a year, compared to \$622 billion for all of 1964 -- with all of this magnificent achievement rolling along, from out of the woodwork comes the Chairman of the Federal Reserve Board to "CRY HAVOC."

America's Incredible Economic Record Under President Johnson

In the first 50 months of our record-breaking prosperity, our output of goods and services rose by more than \$147 billion, an increase of almost 30%. Our growth in the last four years was greater than that of the entire nine years previously. Unemployment fell from 6.8% in the first three months of 1961 to 4.8% in the first three months of 1965. Last week, President Johnson was able to announce that it went down to 4.6% in May, the lowest level since October of 1957.

But, William McChesney Martin of the Federal Reserve Board, in his powerful position, cries havoc -- he can't stand prosperity,

Let's look further at the economic state of affairs under Lyndon Baines Johnson. Inventories remain remarkably low in relation to sales. Price stability is as firm as a weight

lifter's muscle. There are no signs of excessive demand or inflationary prices. We are still using only about 89% of our productive capacity and while wages have gone up slightly, unit labor costs are lower today than a year ago, according to the President's chief economic adviser, Gardner Ackley.

The tax cut of 1964 provided a major fiscal stimulus for the economy, and in the offing is the excise tax cut which can only help our economy. Thanks to President Johnson's strong campaign to reduce waste in government, and the increased revenues which continued business expansion has brought, the Administration's budget deficit for this fiscal year will be only about half of last year's deficit. The deficit in our national income budget for the first three months of this year is only \$100 million.

For Chairman Martin of the Federal Reserve Board, all this has been too good. He's the man who can't stand prosperity.

Chairman Martin's Open Mouth Policy

In a speech delivered at Columbia University in New York recently, where Chairman Martin noted some similarities between the economic situation now and during the period preceding the Great Depression, he may have unwittingly brought about the beginning of the end of his public career. He frightened the day-

lights out of not only the stock market community, but business and some important financial circles around the country as well.

I'm inclined to go along with Leon Keyserling, who says that in many respects, Mr. Martin is an "estimable man" and "is not wrong in all respects." Then Mr. Keyserling calls attention to an expansion in consumer debts, which is probably too rapid, that Mr. Martin complains about. But Keyserling notes that Mr. Martin does not tell how the consumer debt situation came about. Mr. Martin carefully avoids mentioning that it is due to a decade under the impact of Federal Reserve Board policies approved by Mr. Martin, which took a heavy toll in unconscionable interest rate rises that are paid by homeowners, farmers, small businessmen, and American families generally.

While Martin noted a few points of vulnerability that need correction in the American economy, he ignored, as economist Leon Keyserling said, the "manifold points of strength that tower above these (points of vulnerability) like Pike's Peak above the plains."

What Martin did was to give some sensation-generating comparisons between the economic situation now and during the late 1920's. He likened some current conditions to those pertaining to the late 1920's, and he played up the idea that now, as just prior to the '29 crash, the clear dangers to our domestic well-

being lie chiefly, though not altogether, in our balance of payments difficulties, the monetary policies of France, and our long-standing deficit in international balance of payments.

This is the theory of those who look upon Herbert Hoover as primarily a victim of wicked European forces that brought upon him the Great Depression. This theory is totally discounted by such eminent economic scholars as Senator Paul Douglas, who wrote a study called "Controlling Depressions," and the fine John Galbraith work, "The Great Crash." These economic realists saw clearly that the crash was due primarily to domestic maladjustments, "which caused our productive powers to get more and more out of line with distribution and consumption at home," and which, as I will point out later, were accentuated by the Fed's tight money policies in the late 20's.

Speaking of maladjustments, during the Hoover depression, things got so bad down in East Texas that the folks were forced to go out and catch cottontail rabbits, something we never ate before. They were called "Hoover hogs." If William McChesney Martin keeps up his drive toward disaster, we may call them "Martin hogs."

That the real danger to our economic progress lies in implementing policies that have been discredited because they have time and again brought about man-made depressions and recessions never

seems to enter William McChesney Martin's mind. That the very monetary policies which he espouses and puts into practice are what causes national economic distress is totally imperceptible to the thinking mechanism of a man who is so completely Hoover oriented, and who is a believer in the trickle-down money theory. (A prominent Washington writer, who knows him well, told me that he believes that Martin would buy a Hoover collar if the haberdasheries still stocked them.) The cogs in his head click one way -- tight, tight, tight money, high, high, high interest rates; ignore increasing the money stock even when economic activity demands it.

A further note on the Hoover trickle-down policy, which funneled money to the top and mighty little of it to the bottom. There were supposed to be two cars in every garage and two chickens in every pot, according to Hoover. But what the policy really trickled down to was that the car or cars were repossessed by the finance company and there were no chickens, and not even a pot to cook them in. But there were at least two mortgages on all homes that had not been foreclosed.

To return to the matter of money supply, so vital to the economy of every country, let's see how Mr. Martin and the Fed have blundered. In mid-May, our money supply was \$159.2 billion. Believe it or not, last December it was a little higher, \$159.4

billion. But in the same period, our gross national product increased to where it is now almost \$650 billion, and between the fourth quarter of 1964 and the first quarter of 1965, it went up almost \$14 billion. I repeat, our money stock remained the same.

The man who can't stand prosperity has not been able to grasp that money supply, credit, and interest rate policies right here at home bring on depressions and recessions. Every single depression and recession that we've had, which put the country through a wringer each time -- three under Eisenhower -- was preceded by a curtailment of the money supply -- a failure to keep the money supply abreast of the expanding economy -- a tightening of credit and an increase in interest rates. This is precisely Martin's policy today -- it was the same yesterday, and the day before, and the day before.

Martin's policy could bring us trouble, but not a depression or a re-do of the horrible Hoover days, because of the great things that have happened under Franklin Roosevelt, Harry Truman, John Kennedy and Lyndon Johnson. I shall only mention a few facts that will show how dissimilar 1929 is from 1965. To those who still get nerve tremors thinking of the Hoover days, let them take courage from the following.

Some Reasons Why 1965 Is Not 1929

In 1929, the government did not have a budget of \$100 billion a year. This in itself is a cushion against any major collapse of the total American economy.

During the Hoover depression, the old folks had lost their life savings and had nothing to fall back on. Today, we have the Social Security System which provides some income to 19.9 million of our citizens.

During the Hoover depression, and for the five years preceding it, the farmer had been not a second-class citizen but a fifth-class citizen economically. His income had been shrinking since the mid-20's. Prices of things they had to buy were going up, up, up. Interest rates were also going up, up, up, so that when he went to the bank to borrow money to produce crops or to raise cattle and hogs -- when he wanted to borrow money for any of these things, he was looked upon as a very bad risk and paid through the nose, if he could get any money at all out of his banker.

Today, most farmers are protected by farm programs, and while the farmer's income might not be as high as the farmer would like, he can't conceivably be as bad off as he was when he had nothing but Hoover's famous crack about "prosperity" being "just around the corner" to lean upon.

Mr. Martin, with his Hoover depression mentality, ignores the fact that we have insurance for our unemployed workers. Besides, we have programs that President Johnson is implementing designed to curtail poverty and bring improvement to the worst areas of distress in America, to aid the bottom layer of our wage earners so that the whole economy will not have a continuing drain upon it.

President Johnson is trying to help people to help themselves. Herbert Hoover, best known for his Great Depression, spurred people all along the road to misery. Chairman Martin, the man who can't stand prosperity, appears to want to pick up where Herbert Hoover left off.

Martin Discredits Himself With The Business Community

The business community, the last to turn against Herbert Hoover during his Great Depression -- and what names businessmen called him -- was in sheer panic due to the Hoover Administration mismanagement and lack of foresight in the years preceding the depression and during it -- actually up until Roosevelt's reminder that the only thing Americans "have to fear is fear itself."

I have felt all along that Martin fears prosperity. He is trying to frighten people because we're prosperous. The very businessmen and financial leaders who have supported Martin in

his debate with me through the years over the alleged independence of the Federal Reserve System are now beginning to scratch their heads and wonder whether perhaps I haven't been right.

My telephone calls from all over America have been very heavy lately, saying: "What is this 'blank, blank' Martin trying to do?" "Who's back of him?" "What can we do to stop him from ruining our economy?" "Why doesn't he let well enough alone?" "Who's he trying to frighten, a few stock market manipulators or the American people?" "Is it right for an American official to have the authority to make our economy plummet?"

Martin's Policies Must Stop

The really disquieting similarities between our present time and the period immediately preceding the Great Depression is the fact that for the past six months the Federal Reserve has been carrying on a "squeeze it" policy, that is, they have tightened, tightened, tightened credit. That is what happened prior to the Hoover depression.

Besides, interest rates have been going up as they were before the big crash in '29. Bankers then and now were asking big business, small business and consumers to pay more and more for money. While rates today have been going up moderately, except on short-term governments where they have been soaring,

if a businessman wants to borrow money for a legitimate project, frequently he is asked to pay "points" to some one in order to obtain the loan. This is a subterfuge employed to collect more than the advertised or announced rate of interest. "Points" are even asked sometimes in order to obtain a home loan.

Another way to increase the interest rate works as follows: The businessman goes to his bank and says he needs a hundred thousand dollars. The banker tells him, "We'll let you have it provided your account never goes below \$15 or \$30 thousand." This has a nice name -- it is called a "compensating balance." Through this practice, the bank collects interest on a hundred thousand dollar loan, but actually loans the borrower anywhere from \$70 to \$85 thousand.

Banks are getting bolder and bolder in carrying on this kind of shenanigans. William McChesney Martin is making it easier for them to make these demands on businessmen, large and small, and home owners, and farmers, and laborers, and other consumers -- he is encouraging this type of usury by tightening credit and ever seeking higher interest rates. Have you ever heard of Chairman Martin or any Federal Reserve official protecting the people against injustices caused by extortionate interest rates? The answer is a resounding "No."

Probably the worst practice that's going on in banking is when they find a businessman in distress, they move into his business, in its direction and its ownership. They get their pound of flesh. And the more William McChesney Martin tightens credit and increases interest rates, the more distress there will be in the business community and the more banks will muscle into it, particularly business in distress.

The Fed Is The Root of All Financial Evil

Mr. Martin's Fed has caused every single depression and recession in our time, and always by tightening credit and increasing interest rates, and cutting down on the money supply. For the past six months, the money supply of the nation has failed to increase. It has remained constant. The one way to assure economic trouble is to cut off an orderly increase in money supply necessary for the needs of an expanding economy.

Despite everything that Martin has been doing to curtail our economic progress and well-being, he cannot do away with the mighty pillar of strength erected to avoid disaster to our banking structure. The Federal Deposit Insurance Corporation makes it possible for everyone who has money on deposit in practically all of our commercial banks and savings and loan institutions to know that their accounts are insured up to

\$10,000. Last year, I attempted to make the insurance \$20,000, but the banking lobby defeated my proposal. William McChesney Martin may do the country wrong economically, but he cannot hurt the basic strength the FDIC represents.

I have enumerated several similarities between what went on in Hoover's day and today, some of them worrisome, that stem from the action of the head of America's central banking system.

Well, you will say, this is another one of Patman's diatribes against William McChesney Martin -- we've been hearing the same for many years. My colleagues, I don't wish to rub it in, but there are none so blind as those who will not see. If you have not had evidence to back up what my contention has been for a long, long time, namely that Martin's tight money and higher interest rate policy, and his mouthings concerning it, are detrimental to the forward movement of the American economy, then Martin's supporters are absolutely right -- Patman is just carrying on a feud without substance.

Businessmen Are Asking Questions

But the American businessmen, both large and small, who call me on the phone today know differently. They ask, "What can you do to shut this fellow up?" "What can you do to counteract the evil that he is doing?" "What can you do to make the

Federal Reserve responsible to the President of the United States?"

"What can you do to mesh monetary policy with fiscal and economic policy?" "How can you have the Fed going one way and the government the other and come out whole?" "Must we have two governments in Washington -- one elected and the other carefully selected by a few bankers?"

If you seriously want to know the answers to these questions that have all been asked me in recent days, then I say to you gentlemen, it is high time that we do what I have suggested we do for a long, long time -- bring the money power back to the highest elected officials of the United States government and the Congress. No longer permit the spokesmen for great banking vested interests to govern the direction the American finance and economy should take.

Think hard, think long, my colleagues. I'm not making a plea for a pet peeve of Wright Patman's. I'm talking about the hard core of our economic life, our central banking system. The Federal Reserve is to the American economy what a generator is to a lighting system. If the generator functions properly, light is with us; if it falters, we're in darkness.

The forebodings of depression-minded Martin are those of an unhappy man, whose hand is at the switch of the generator. Or perhaps there is a better analogy. The Chairman of the

Federal Reserve is like the undertaker in the depression days who hadn't had a funeral for six months. He had the longest face in town. There had to be a cadaver somewhere or he would continue in his misery. William McChesney Martin hopes to find the cadaver -- the American economy.

To sum up Mr. Martin's speech at Columbia University in New York takes but a few words -- he came not to praise the economy, but to bury it.

Sir William Petty in 1682 Knew More Than Chairman Martin in 1965

I wish to discuss a bit more about money supply, which is one of the keys to whether American businessmen and consumers have adequate credit for their needs.

In 1682, Sir William Petty, one of the first great economic geniuses to appear, wrote an essay called, "Questions and Answers Concerning Money." In answer to a question, "Is there any way to know how much money is sufficient for any nation?", he answered to the effect that the amount of money has to be in relationship to the national income of a country.

What Petty knew in 1682, Martin hasn't learned to this day. I might add that Sir Samuel Pepys said of this early economist, William Petty: "He was the most rational man who I ever heard speak with a tongue."

Another question in Sir William Petty's essay was, "What remedy is there if we have too little money?" The answer: "We must erect a bank, which well computed, doth almost double the effect of our coined money: and we have in England materials for a bank which shall furnish stock enough to drive the trade of the whole commercial world."

"Mr. Martin as Historian"

In a memorable Washington Post editorial following the Fed Chairman's speech, called "Mr. Martin as Historian," the writer notes that, "Mr. Martin dilated on many of the 'factors that converted a stock exchange crash into the worst depression in our history.' There are many references to collapse of the gold exchange standards, to speculation, to the lopsided distribution of income, and to loose banking practices. But nowhere in his chronicle does the chairman mention the money supply, the central element in any monetary history...What Mr. Martin failed to tell his Columbia audience is that the stock of money declined by a third between 1929 and 1933, and that the Federal Reserve policy was directly responsible for that devastating shrinkage. This point is relevant because the Fed has of late been pursuing a policy of increasing monetary restraint. Their stock of money is now no larger than it was six months ago, and unless it is permitted to grow, the economic expansion will grind to a halt."

"If Mr. Martin's selective history has any moral, it was stated by Santayana who wrote: 'Those who cannot remember the past are condemned to repeat it.' Congress, which under the Constitution is charged with the regulation of the Nation's money supply, can avert a repetition of the baleful past by instructing the Federal Reserve authorities to follow a consistent policy, one that will provide the stock of money required to sustain economic growth."

This editorial is, I believe, accurate in its summation and I shall have it printed in its entirety following my remarks. I wish to point out one fact that the editorial writer omitted, namely, that from early 1928 on, the money stock not only did not grow but actually declined slightly, which played a large part in undermining the economy prior to the 1929 stock market crash.

What the man who can't stand prosperity seems to be doing is emulating the disastrous monetary policy that led to the 1929 crash. This is the most disquieting similarity that can be documented. This is not a myth or a distortion of maladjustments, 1929 to 1933, vis-a-vis 1965. Mr. Martin's speech makes it clear that he has learned little, that he is prepared to repeat the mistakes of the late 1920's and early 1930's, and of the 1950's. This is truly a disquieting similarity.

Senator John Randolph of Virginia Was a Wise Man

Mr. Martin has been called the king-emperor of America's money system. In other days, the title was bestowed upon such men as Nicholas Biddle, Morgan the First, Morgan the Second, and, of course, Andrew Mellon. Certainly, early in American history, statements and debates over America's money power were as commonplace as they are today.

In 1811, during the debate over the renewal of the charter of the Bank of the United States, Senator John Randolph of Virginia expressed his opposition to the charter. The following statement is attributed to Senator Randolph:

"Charter a bank with \$35,000,000 of capital, let it be established and learn its power, and then find, if you can, means to bell the cat. It will be beyond your power, it will overawe your Congress and laugh at your laws."

The particular cat of Randolph's time, symbolizing the aggressive character of the money trust, is still very much alive. I am sorry to say that, to this day, we have not belled the cat. Today its name is the Fed cat. Its immediate parents are the fat cats of the banking community that inhabit an alley of Lower Manhattan Island, known as Wall Street.

In 1818, a committee of the New York State Legislature reported as follows:

"Of all aristocracies, none more completely enslave a people than that of money; no system was ever better devised so perfectly to enslave a community as that of the present mode of conducting bank establishments. Like the siren that entices to destroy.

"They hold the purse strings of society, and by monopolizing the whole of the circulating medium of the country, they form a precarious standard by which all the property of the country -- home, lands, debts and credits, personal and real estate of all descriptions -- are valued, thus rendering the whole community dependent upon them; proscribing every man who dares to expose their unlawful practices."

An Awesome Burden of Responsibility

Such is the power of money power, those who are in controlling position have a responsibility so heavy and awesome that it is almost too much for any man to assume.

One thing about this matter I do know -- certainly the country cannot afford -- even as prosperous as it is -- a man at the helm of our monetary system who is so afraid of prosperity that he has to end it. Certainly, we cannot afford to have a monetary course set one way and a fiscal and economic policy set another. Assuredly, we can't have President Johnson responsible for the

well-being of the country and have Chairman Martin, who is not responsible for its well-being, put the brakes on the President's program for economic prosperity.

Eliot Janeway, the noted business economist, stated very clearly the situation when he said, "Any test of Presidential power is bound to be disturbing to business confidence which has come to rest on teamwork between the President, Congress and the executive agencies." And Mr. Janeway noted that the Fed's Chairman, "has created such a disturbance by challenging President Johnson's policy of keeping the banking system supplied with reserves adequate to meet loan demand in an expanding world economy."

Mr. Janeway continues, "The present upset in the stock and money markets recalls the trouble which the Martin administration of the Federal Reserve Board caused during the Eisenhower and Kennedy years. But Johnson is not likely to permit Chairman Martin to involve him in any kind of stock market break or business slump. The prognosis is not for a muddle-along market in Johnson's name but under Martin's management..."

President Johnson Will Not Permit Mismanagement of Our Money System

Knowing President Lyndon Baines Johnson from the time he was 12 years old, having followed his brilliant career, I can assure you that he will not permit the American economy to go to pot.

He will not stand idly by and permit any arrogance on the part of a Federal Reserve Board Chairman, nor will he permit any ineptness to continue for long. Certainly, he will not have the show under his name and somebody else's management.

I have pointed out that the Fed has gone one way and the Administration another, insofar as fiscal, economic and monetary matters are concerned. This is a fact no matter how hard reactionary columnists, who support Martin and the Fed, are attempting to fool the public into believing otherwise.

Would Martin agree with Gardner Ackley, Chairman of the President's Council of Economic Advisers, who said recently: "We saw in the late 1950's what...fiscal and monetary restrictions did to jobs, to profits, to investment and to productivity ...It is in the interest of all of us to avoid falling back into that trap...If we do maintain reasonable stability of costs and prices, we can continue the expansionary monetary and fiscal policies that have contributed so much to our present prosperity."

Or would Martin agree with Secretary of the Treasury Fowler, who said: "To raise interest rates...not only conflicts with our need to maintain our domestic expansion...but would not solve the (balance-of-payments) problem...An interest rate increase large enough to have a significant effect...would almost certainly bring a recession. A recession, in turn, would severely

damage the climate for foreign investment in the United States and would also create a strong movement to reduce interest rates immediately."

Mr. Martin would disagree with both of these -- in fact, he did when he said in his Columbia University speech: "Our common goals of maximum production, employment and purchasing power can be realized only if we...prevent orderly expansion from turning into disorderly boom...If an occasion arose when we could preserve the international role of the dollar only at the expense of modifying our favored domestic policies, even then would we need to pay attention to the international repercussions of our actions."

As Frank Porter said, in an astute news analysis in the Washington Post, the Fed Chairman "directly questioned the view of top Administration economists that 1929 is not 1965 and that the present 52-month expansion demonstrates the Nation is capable of sustained economic growth." The very able Mr. Porter pointed out that no matter what the intent, Martin's words have had a "depressing effect." Most objective observers will agree.

Patman's Solution

I believe I have the solution. In view of the fact that Chairman Martin has challenged our President; in view of the fact that the stock market dropped fourteen points in two days

following his gratuitous speech; in view of the fact that many business leaders are concerned lest his words cause the end of our 52-month prosperity; in view of the fact that Martin is advocating tight money-high interest rate policies that will bring about the disaster he seems eager to foster -- I suggest that the present Federal Reserve Board Chairman has outlived his usefulness as a public servant in charge of America's central banking system. I suggest that he ease himself out of his present occupation and permit President Johnson to name a Board Chairman of his own choosing.

Many, many times on the Floor of this House, I have pointed out that it is only every four years that a President has the opportunity to name the Board Chairman of our Federal Reserve System, and then he must choose him from the seven Board members holding office. President Kennedy re-appointed Mr. Martin, who had held the office for some time. But my colleagues, do you remember that it was Chairman Martin, re-appointed by President Kennedy, who announced that if he felt it necessary, he would tighten money and raise interest rates if the tax cut suggested by President Kennedy overheated our economic system by permitting people to buy things with the money they didn't have to pay in taxes. He just couldn't stand prosperity for the ordinary American citizen.

It is apparent that the Federal Reserve Board Chairman, no matter who it is, under the existing law has too much power. Last year, the majority of the Domestic Finance Subcommittee of the Banking and Currency Committee, of which I am Chairman, offered some recommendations which would alter the situation that nearly arose when Martin indicated he would, if he felt like it, challenge President Kennedy. Today, the unfortunate situation has actually arisen through the challenge to President Johnson by Mr. Martin.

I not only call upon Mr. Martin to do the decent thing and resign, but I ask that the Congress seriously consider H. R. 11, which was put together after extensive hearings, the most extensive in the 50-year history of the Federal Reserve System. H. R. 11 embodies the recommendations of the Subcommittee and would alter most of the defects that now exist in the Fed. It would no longer permit a Federal Reserve Chairman and his Board to operate monetary policy contrary to the economic and fiscal policies of the President and Congress of the United States. It would make the Fed responsible to the President and Congress, who are elected by the people and who can be removed by the people if their policies do not meet with the people's approval.

Now, Martin and the Fed are responsible only to the banking interests that have been clamoring for tight money and high interest rates.

It is my notion that the American people would prefer to have as head of our central banking system some one who is responsible to them, rather than a man who has been so responsive to the wishes of those who believe in the divine right of money kings.

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