July 22, 1936.

DRAFT OF A SPEECH ON THE FRAZIER-LEMKE BILL

Introduction (As desired).

The Administration has fought from the outset to relieve agriculture by increasing the farmer's income and at the same time by reducing the burden of his debt so far as can be done consistent with sound principles. The real solution of the farmer's problem is to continue to increase his income, not merely to cut down his debt payments. All the Frazier-Lemke Bill proposes to do is go farther than sound principles will permit in reducing his debt. Moreover, it proposes to issue greenbacks which are notoriously as unsound as stage money.

Supporters of this bill seek to becloud the issue. They would have you believe that only they have the interests of the farmers at heart; that all those who are opposed to the bill, including the Administration, the American Federation of Labor and the majority of the Representatives in Congress, are enemies of the farmer. But you know that isn't so. You know that no Administration we've ever had in Washington has done more for agriculture than the present Administration. You know the support we have received from the American Federation of Labor in the past. You know what my record has been. (Bills and measures supported).

Suppose you see two mothers. One gives her child all the sweet things it wants, lets it stay up late at night, lets it have its own way in everything. The other sees that the child has a sensible

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diet, has plenty of sleep and is not spoiled. Would you say that the first mother loves her child and that the second didn't? It obviously isn't a question of love; it is a question of which mother is fitting the child best for success in life. Which mother has the child's true interests most at heart? Obviously the sensible and intelligent mother.

So with the Frazier-Lemke Bill. Those who supported that bill doubtless felt that they had the interests of agriculture at heart, but so do those who, like myself, voted against it. The question I asked myself was whether this bill really furthered the cause of agriculture, or whether certain features of it not only harm the farmer directly but, through their harmful repercussions on the rest of the community, threaten to rob the farmer of the support he will need in the future. I tried, in other words, to take a long view and a comprehensive view.

Now let me make it clear that I think the intention of the bill was good. I am all in favor of lightening the burden of the farmer's debt. We all are. But good intentions are not enough. The road to hell is paved with good intentions. There are good and bad ways of carrying out good intentions. The choice before those who favored lightening the burden of debt — and this was the position of the Democratic Party— were measures on the one hand that would accomplish this end while harming no one, and, on the other hand, a measure which would accomplish this only for a few farmers and that at the

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cost of everyone else in the community.

Let me by specific. What is the Administration doing to lighten the burden of farm indebtedness? The record is impressive. Nearly 750,000 loans for approximately $2 billion have been made by the Federal land banks and the Land Bank Commissioner since May 1st, 1933. Estimated scale downs in connection with these operations approximate $200 million. The total saving to the farmers of the country in reduced interest charges for the year ending June 30th, 1935, approximate $74 million.

At the same time as interest payments have been reduced, the agriculture and relief programs of the Administration have resulted in an increase in the national income and buying power and particularly in farm income. Agricultural cash income in 1932 had fallen to $4.3 billion. In 1935, it had been restored to $6.9 billion — an increase of 60%. It is running at an even higher rate this year.

As a result of increased farm income and decreased interest expense, the percent of gross farm income required to pay interest is lower than at any time during the past ten years. For the country as a whole, 9.6 percent of the gross farm income was required to pay the interest on the farm mortgage debt in 1932. In 1935 the gross figure was 4.5 percent — a reduction of over 50 percent in three years in the burden of farm debt.

In 1932 there were 39 foreclosures per 1,000 farms in the United States. In 1935 the number had decreased to 19 per 1,000 farms.

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These are not promises or good intentions I am reciting. They are cold, hard facts. No Administration in our history has done more, in such a short space of time, for the farmer of this country. And it has done this for the farmer, not by hurting the other classes of the community, but by policies that have benefited all.

Now how could an Administration which has done so much for the farmer, which has demonstrated again and again not by promises but by deeds, that it has the interest of the farmer at heart — how could such an Administration, I repeat, be opposed to a measure which has as its ostensible purpose a lightening of the burden of farm debt? Why should labor, which has always stood shoulder to shoulder with farming, be opposed to such a measure? Why should I, who have supported and worked for other farm measures, vote against this one?

The answer is the same in all three cases. The Frazier-Lemke Bill would not only not accomplish its purpose, but it is discriminatory and would lead to uncontrolled inflation. These statements have been denied. I propose, however, here and now, to substantiate them.

First, the Bill would not accomplish its purpose. Although the stated interest rate is only 1½ percent, the borrowers are expected to absorb the expense of servicing the loans and of meeting losses. These charges are estimated by the Farm Credit Administration to amount to an additional 2 percent. Moreover, to this should be added 1½ percent of principal payment, which brings the annual payments up to 5 percent.

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Second, the Bill is discriminatory. The total farm debt is about $8 billion. Hence the $3 billion provided in this bill would look after less than 40 percent of the mortgaged farms. Thus, more than 60 percent of the mortgaged farms and all the unmortgaged farms, about 66 percent of the total, would receive no benefits from the Bill. In other words, only about 15 percent of the farmers of the country would be benefited. Moreover, the bill proposes to do nothing for the $18 billion of urban home mortgage debt.

Third, the issue of $3 billion of currency would lead to uncontrolled inflation. This is the most important objection to the Frazier-Lemke Bill. Why it would lead to inflation is not immediately obvious. In order to understand it we have to follow the process through step by step. The supporters of the bill fail to think through the consequences of an issue of $3 billion in currency. They draw false analogies, they lay down red herrings and they raise up irrelevant side issues.

Let me try then, first to clear the ground of the side issues, red herrings, and false analogies so that we may approach the problem unprejudiced and unbiased.

The first red herring has to do with the Federal Reserve banks. It is said that the Government has farmed out the valuable privilege of note issue to private institutions. This privilege, it is said, is so valuable that the Federal Resrve System is bitterly opposed to returning any part of it to the Government, where it really belongs. So much for the claims. Now what are the facts?

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The facts are these. The Board of Governors of the Federal Reserve System is a public body, set up by Congress, whose members are appointed in the same manner as many other public bodies, by the President subject to confirmation by the Senate of the United States. It acts in accordance with instructions laid down by Congress. In all matters relating to national monetary policies this Board exercises control over the Federal Reserve banks. It appoints three directors of the individual reserve banks and it exercises the veto power over the appointment of the presidents of the reserve banks.

The Federal Reserve Board did not always possess this dominant position in the Federal Reserve System. It is one of the great achievements of this Administration that in the face of bitter opposition on the part of the big bankers, on the part of manufacturing associations and chambers of commerce, on the part of the reactionary press, it succeeded in transferring the dominant control in monetary matters from the reserve banks to the Federal Reserve Board -- from part public and more private control to full public control.

The big bankers were under no illusions as to the nature and significance of this transition. It was only people like Father Coughlin who failed to understand what was happening. Father Coughlin, for reasons best known to himself, allied himself with the Ogden Mills, James Warburgs, Frank Vanderlips and their ilk in denouncing the public body set up by Congress to manage the people's money in the people's interest.

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But you may say, "This is all very true and very good. The important matter is who issuew currency? Isn't this done by the privately-owned Federal Reserve banks?" The answer is yes. But the answer is subject to so many serious qualifications that it loses its significance. The reserve banks issue currency only to meet the demands of the member banks who, just like an individual at a commercial bank, can cash their deposits at the reserve banks at any time. The power to issue currency, moreover, is subject to the discretion of the Federal Reserve Board.

The power to issue currency is, therefore, purely passive. You and I and the rest of us determine how much currency there is in circulation. If we have too much in our pockets, we deposit it in the banks and they send it in to the reserve banks. If we want more, we cash a deposit and the bank in turn cashes its deposit with the reserve bank. The reserve banks can neither increase nor decrease the volume of currency in circulation.

But, you may object still further, even granting the serious limitations on the power to issue currency, isn't it true that it doesn't cost the reserve banks anything and that this means large profits for private stockholders? The answer is no. The member banks own the reserve banks only in a nominal sense. The ownership carries with it none of the customary rights of ownership. It gives the member banks no voice in the formulation and execution of national monetary policies. The owners are entitled only to a fixed

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dividend of 6 percent. Any earnings above this amount, and at the present time there aren't any, accrue to the Government upon the liquidation of the banks. Congress at any time may make such disposition of the earnings of the Federal Reserve banks as it pleases. In 1933 it transferred one-half of the surplus of the reserve banks to the fund to guarantee bank deposits.

Now these facts are well-known. I am not letting you in on any dark secret. They're all in the Federal Reserve Act and official publications. Father Coughlin and the others who follow him could inform themselves in five minutes as to the true state of the facts in this matter. Perhaps they don't want to inform themselves. Perhaps they realize that if the fog of prejudice and bias were lifted they would lose a large part of their support for the Frazier-Lemke Bill. I say that it is just as culpable to delude the public by failing to inform yourself of the facts, if they are readily available, as it is to delude the public by deliberately misrepresenting the facts.

Having cleared the ground of some of the irrelevant side issues, let us get to the heart of the matter. Why should the additional issue of $3 billion of currency mean inflation? Now the explanation is a little technical but if you will bear with me for five minutes, I will try to put it as briefly, as simply, as accurately as I can.

The first point to get hold of and hang on to is that currency is only the pocket change of the nation. The bulk of our money or means of payment, or whatever you want to call it, is in the form of

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checking deposits in banks. Over 90 percent of the transactions of the country are put through by means of checks.

Now suppose $3 billion of currency is issued to present holders of the farm mortgages. What would happen? You know as well as I do that the money would be immediately deposited in banks and would immediately increase, not the currency in circulation, but the deposits in banks by $3 billion. All right, you may say, what of it? A figure of $3 billion is not a large increase in the existing volume of checking accounts of nearly $30 billion.

You would be quite right if that were all there was to it. But it isn't. This $3 billion of notes deposited in banks would lead not to a $3 billion increase in checking accounts but to a $30 billion increase, or a doubling of the existing volume. How is this possible?

Here I come to something many people don't understand about banking. If they did we wouldn't have these proposals to issue billions of dollars in currency. It is this. The ability of the banking system to extend credit is ultimately limited by the reserves the banking system holds. If the required reserve ratio is 10 percent the banking system as a whole can expand its loans and investments and its deposits by ten times any addition to its reserves. Now the nub of the whole matter is that currency can be counted as reserve when redeposited in reserve banks. In other words, a new issue of $3 billion of currency would increase the reserves of the commercial banks by $3 billion on which they could extend nearly $30 billion of loans and create $30 billion of deposits. Now you have the whole story.

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The member banks already have $3 billion of reserves in excess of legal requirements which they have obtained as a result of the inflow of gold in the past 2½ years. The Federal Reserve Board, however, has sufficient powers to mop up these excess reserves and prevent them leading to inflation. It has <u>not</u> sufficient power to mop up an additional $3 billion.

Reflation carried out under proper controls and as a part of a general plan is one thing. The Administration has brought about a restoration of the supply of deposit currency wiped out from 1929 to 1933 so that now the money supply of the country is some $4 billion in excess of 1929. Incomes are being restored; values are being restored and the real burden of the mortgage debt is being decreased daily. Inflation, however, is something entirely different. Whereas reflation enriches us, inflation would impoverish us.

Now you understand why the Administration was opposed to the Frazier-Lemke Bill and why the American Federation of Labor denounced it. Now you'll understand why, as an elected representative of the American people, I could not vote for a measure which would expose the people to all the horrors of inflation and the inevitable period of deflation that always follows it.

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