Confidential memorandum
Rough draft - June 14, 1936

BANKING AND CURRENCY

The Roosevelt Administration found the banking and currency system of the country in the extreme stages of disintegration and panic after a twelve-year epidemic of bank failures and a four-year period of financial crisis.

In three short weeks after the Roosevelt Administration came into office, the banking and currency system had been sufficiently rehabilitated for orderly and reliable functioning, alarm and fear had given way to confidence and trust, and a determined start had been made on a series of legislative measures, enacted by Congress in 1933, 1934, and 1935, for the permanent strengthening of the monetary system and for the prevention of another epidemic of bank failures such as the country experienced from 1921 to 1933.

During the preceding administration, public confidence in the banking and currency system had been destroyed by a long succession of bank failures such as no other country had experienced. The solvency of the banks that remained after three harrowing years of steadily mounting failures was imperilled by the natural insistent demand of frightened depositors for their money.

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Furthermore, the gold base of the currency was being undermined by the drain of gold from the banks for hoarding at home and shipment abroad. American capital was in flight from the dollar, the dollar was under pressure in the international money markets, and the withdrawals of gold for transfer to foreign countries was mounting as the domestic banking crisis became more acute.

This panic situation was still further aggravated, and the policy of converting currency into gold on demand was made the more untenable, by the action of both American and foreign speculators. At a time when there was no occasion for large withdrawals of gold to meet the legitimate needs of our foreign commerce; at a time, moreover, when millions of our people were in distress from the loss of their savings, and when the savings of additional millions were jeopardized by the steady depletion of the gold reserve of our banking and currency system, these speculators were using our currency that was expressed in terms of gold, and convertible into gold, to turn for themselves an easy profit that continued operation of the old gold-standard put within their reach.

For all these several reasons, therefore, our whole banking and currency system--theoretically affording conversion of deposits into notes and notes into gold, but actually affording gold only to the quick and fortunate few who were first in line to demand it--was by March 4, 1933, when the Roosevelt Administration came into office, on the point of final collapse and extinction.

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The old gold-standard, on which the system was based, had worked only until the theory of it was put to the practical test of experience at the culmination of a four-year financial crisis. During those four years, however, the country had paid a frightful price for the failure of the Administration then in power to deal with the banking and currency system vigorously and corageously, as it was dealt with—and dealt with promptly and successfully—by the Roosevelt Administration.

In its platform of four years ago, the Democratic Party made the following declaration: "We advocate a sound currency to be preserved at all hazards." That pledge the Roosevelt Administration has amply and resolutely fulfilled. That pledge the Democratic Party now renews.

The Democratic Party further declares its adherence to the covenant made by the President with the people of our country in his first broadcast during the banking holiday of March, 1933. The President then declared: "Your Government does not intend that the history of the past few years shall be repeated. We do not want and will not have another epidemic of bank failures."

The Roosevelt Administration restored soundness and stability to a banking and currency system which, during the three preceding administrations, had been stripped of every vestige of soundness and every attribute of stability, first by unparalleled inflation, then

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by violetn and destructive deflation, with all the consequent economic distress and human misery that our people remember only too well to be willing to risk again. The Democratic Party opposes inflation and deflation as equally disastrous, and pledges itself to the continuance of policies that make for a sound and stable banking and currency system.

We renew our condemnation, expressed in our platform of four years ago, of the disastrous policies of the twelve years during which the indefensible expansion and contraction of credit for private profit brought to ruin the banking and currency system established under the Wilson Administration, brought ruin also to our foreign trade, destroyed the values of our commodities and products, robbed millions of our people of their life savings, threw millions more out of work, produced widespread poverty, and brought the Government to a state of distress unprecedented in time of peace.

When the Roosevelt Administration came into office, the established processes of domestic exchange—the use of bank deposits to make payment for goods and services—had virtually ceased to function in the midst of material plenty and unexampled means of production. In the field of foreign exchange, on the other hand, our adherence to the old gold-standard in a commercial world of depreciated currencies had brought the prices of many of our commodities to a disastrously low level, while at the same time placing many of our manufactured products at a serious

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competitive disadvantage with comparable products manufactured abroad. Neither at home nor abroad, therefore, was our banking and currency system functioning in a manner that was in the interests of the American economic system.

The courageous and timely action of the Roosevelt Administration in abandoning the old gold-standard and in devaluing the dollar to meet the practical realities of both world markets and domestic markets is a source of pride to the Democratic Party as it has been also during these past three years a source of security and strength to the American farmer and the American manufacturer and a factor of decisive and continued importance in the recovery of business activity and employment.

We oppose the restoration of the old gold-standard under any circumstances that would again tie the American producer to a falling price-level throughout the commercial world, or that would put the American dollar at a competitive disadvantage with depreciated currencies abroad.

By the same token, we pledge ourselves to a continuance of the sound monetary policies by which the Roosevelt Administration has maintained the gold content of the dollar at a ratio which protects the interests of our people as a whole and has maintained the value of the collar at a stable level in the money markets of the world.

The disorganized and uncertain condition of monetary affairs abroad make it plain to everyone that definite action for world-wide monetary stabilization is not yet to the interest of the American farmer

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and the American manufacturer. Only when a condition of order and stability again prevails among the principal currencies of the commercial world in their relation to one another will international action toward the formal stabilization of currencies on a fixed ratio of exchange in gold be feasible.

We pledge ourselves to a continuation, meanwhile, of the policies under which the influence of the United States will be exerted, as it has been during the past three years, in the interest of stability rather than instability; and we stand ready, as we have stood ready these past three years, to cooperate fully with the other principal commercial countries in effecting an international stabilization of currencies in which neither the United States nor any other country will again be placed at an inequitable disadvantage.

We approve the continuance of the discretionary authority vested in the President by Congress to raise or lower the gold content of the dollar, within the fixed limits prescribed by Congress, to protect the value of the dollar and the interests of the American economic system against sudden changes in the international markets.

It is of the essence of our national economic interest that the United States shall be prepared to act promptly at any time, whether or not Congress is in session, to make its influence felt in the international exchanges as long as the currencies of the world are in a condition of

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instability and in a process of readjustment. That is the situation which now exists.

If other currencies are devalued further in relation to the dollar, the United States, through the discretionary authority now vested in the President, is prepared to follow promptly in the national interest. If on the other hand, a condition of general stability should be attained and a basis of international stabilization reached, the United States, through that same discretionary authority vested in the President, is in a position to act promptly in the national and international interest as well.

Our people know from the experience of the past three years that the discretionary authority conferred on the President by Congress to vary the gold content of the dollar within the fixed limits prescribed by Congress has been held as a solemn trust, and that this trust has been wisely and prudently exercised.

The valuation established three years ago, when the authority was conferred on the President, has remained unchanged. The effect of that change of three years ago, moreover, has in practice proved to be wholly to the advantage of American agriculture and American business, with the further result that nowhere is there now to be found a demand for a return to the valuation that formerly prevailed; nor is there to be found anywhere a demand for the return to the fixed gold standard as long as

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such action would penalize our domestic economy and injure the position of our farmers and other producers in a commercial world of unstable currencies.

Another fact that our people have learned from the experience of the past three years under the Roosevelt Administration is that the processes of our domestic exchange can and do function successfully without reliance on a currency convertible into gold. Our currency was expressed in terms of gold and convertible into gold during the three harrowing years that ended in March, 1933.

If maintaining the gold standard had in itself constituted the preservation of a sound currency, or if maintaining the gold standard and balancing or attempting to balance the budget had been the preservation of a sound currency, the enforced abandonment of it in that ultimate banking collapse could not have resulted so promptly and so effectively in a reneqal of the functioning of our banking and currency system and a restoration of public confidence in that system. Nor would an unsound banking and currency system have attracted, as our system has attracted these past three years, a flow of gold to the United States that has increased the total supply until it is now $______________, or $__________ more than remained here after the drain which preceded the banking holiday of March, 1933, the abandonment of the old gold-standard, and the subsequent devaluation of the dollar.

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The Democratic Party, which under the Wilson Administration gave to the country the Federal Reserve System, and which system in turn was maintained successfuly on the gold standard during the war period and post-war period when the other commercial countries were off the gold standard, recognizes that the preservation of a sound currency depends in the main upon the maintenance of a sound banking system. We take pride, therefore, in the return of the country, after an orgy of credit inflation and consequent deflation during the past three administrations, to a sound banking and currency system, improved and strengthened by the Emergency Banking Act, the Banking Act of 1933, the Banking Act of 1935, and the ensuing reorganization of the Federal Reserve System in 1936.

The Democratic Party opposes a return to the banking and currency conditions which during the twelve years that ended in March, 1933, caused _______ of our banks to fail, ______ of them prior to the financial crisis of October, 1929. Such a record of bank failures is indefensible in a banking and currency system under which bank deposits constitute the actual currency of the country in ninety per cent of all its day-to-day transactions. In such circumstances the currency system of the country is no stronger than its banking system; for the currency system is inseparable from the banking system, and when the one fails the other fails also.

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We pledge ourselves, therefore, to maintain the strength, the stability, and the public confidence to which the American banking and currency system has, under the Roosevelt Administration, been restored.

BUDGET AND TAXATION

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