..., Contact man for Five National Farm Organizations in Committee for the Nation . . PRESIDENT, DAIRYMEN'S LEAGUE COOPERATIVE ASSOCIATION, INC.

INDUSTRY AND ORGANIZED AGRICULTURE

TO · REBUILD · PRICES · AND · PURCHASING · POWER

COMMITTEE FOR THE NATION

205 EAST FORTY-SECOND STREET · NEW YORK · MUrray Hill 4-5159

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April 10, 1935

Hon. Marriner S. Eccles, Governor
Federal Reserve Board
Washington, D.C.

My dear Governor Eccles:

First, let me tell you how thoroughly interesting and stimulating Mr. Vanderlip, Mr. Harding and I found our meeting with you on Sunday evening. As the result of this talk with you, we modified our statement to the Banking and Currency Committee and we did not ask for the enactment of a separate Federal Monetary Authority.

Instead, we asked for the amendment of the bill so as to include in the pending bill the fundamentals which our two years of research have convinced us are indispensable to the correction of a monetary derangement, that took from basic producers -- 55 millions of population -- their buying power.

The statement that I had prepared on behalf of the Committee was not presented. However, as the viewpoint and principles that it presents may interest you, I am sending you herewith a copy.

In my statement to the business leaders at White Sulphur Springs, I brought out more clearly the relationship between continuing unemployment and the reduced prices of basic producers. The leaders of organized agriculture, who have been among the most loyal supporters of the Administration, are convinced, as the result of their many years of research into the monetary question, that the pending bill, unamended, disregards the vital interests of agriculture, and that it does not enable the monetary action that is indispensable to restore the farmers' normal income and normal buying power for the products of industry.

We have initiated discussion among farm leaders, with a view to formulating a statement of the minimum amendments essential in the pending bill to correct the monetary derangement that has crippled farmers and basic producers since 1929. We shall inform you of the results of these discussions at the earliest moment.

Copy of our letter to President Roosevelt attached hereto.

Faithfully yours,

JH Rand

James H. Rand, Jr., Chairman

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Enclosures

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Statement by Jam H. Rand, Jr. before House Bank g and Currency Committee on proposed Banking Act of 1935

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The proposed Banking Act of 1935 does not provide a mechanism through which Congress can fulfill its constitutional duty to regulate the value of money.

It would be absolutely impossible, under this bill as drawn, to fulfill President Roosevelt's promise to give the country a dollar constant in purchasing and debt-paying power. Without money that is reliable in its purchasing power we must continue to pass from booms to depressions because "good gold money" has proved to be as elastic as good gum rubber. Such unstable money is the kind President Roosevelt is trying to get us away from. Agriculture and most men of industry who have informed themselves about money are with the President on this part of his program, whatever may be their misgivings concerning some other measures.

Title II of this bill confuses the functions of government with the rights and responsibilities of private business. It mixes the functions of umpire and players. Government should be the umpire, the custodian of the rules of the game. But, under this bill, through the revamped Federal Reserve Board, government could dictate every play of business; it could itself play the game, and mark up its own score.

I say this because underlying this bill is evident a misconception that government should perform the function of stabilizing business. The American conception of government is the result of centuries of struggle to free property and business from government control; to stimulate initiative and release individual energies by a system of free contracts entered into on the basis of a monetary unit.

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So long as our money unit was reasonably stable this system worked so well that it created in the United States more invention, more wealth, more well-being than men ever enjoyed anywhere in history.

This system, which achieved its highest expression in the United States Constitution, is still the best ever conceived. What went wrong in 1929 was our measure of value. The buying power of the dollar changed. Its weight of gold remained constant while the value or buying power of the gold in the dollar changed violently. We have an unchanging pound, foot and quart. We need also a dollar that will measure a constant weighted average amount of basic commodities. Such a dollar will keep our general prices stable. It will give to business, to labor, to the farmer, a currency unit that is reliable, money in which all can have real confidence.

Between 1920 and 1933 the buying power of the dollar as calculated by the National Industrial Conference Board varied 304 percent in buying power. When its buying power rose between 1920 and 1921 we had a depression. When its buying power rose 170 percent in four years, all economic relationships were so badly disorganized that our system of free contract broke down.

If the government permits world forces which change the value of gold to bring such violent fluctuations into the buying power of our dollar, then all contracts will continue to be so badly deranged that our economic system cannot function. The government will be compelled to take over the functions of business. But business can recover and develop further if government will restore the buying power of our dollar to normal and keep it stable.

The value, or purchasing power, of money cannot be regulated so that it will remain even reasonably stable under world conditions of today, or under world conditions as they are likely to obtain during our generation, unless you provide the means for adjusting the currency price of gold. This fact is recognized by the one-third of the world now on a managed currency basis.

Great Britain, wisest, most experienced banking nation, after establishing and operating under the international gold standard for a century, has recognized that since the outbreak of the World War violent changes in the value of gold have made that commodity too unstable in buying power to be longer used as a measure of value.

Britain is rebuilding prices, debt-paying and buying power of agricultural other basic producers in "sterling area" countries by a managed monetary standard, the gold equivalent of which is allowed to fluctuate almost daily in London's free gold market. In six months, she changed the price of gold 141 times and has been intermittently increasing it since February 1931. Her business improved while the United States stood still. I offer this chart for the record.

Because this is a conception difficult for some minds to grasp does not excuse Congress from facing squarely the fact and providing a mechanism for currency management that will give us a stable dollar no matter what the world does to change the value of gold.

Those who contend that we cannot find in the United States men with wisdom, experience and integrity sufficient to entrust with currency management say in effect that we are an inferior people. Would it not be better to make some mistakes managing money than to repeat the experience of this depression which resulted from letting money manage itself? The so-called "automatic" gold standard was a torpedo without a rudder. In all countries which have not adjusted its mechanism, governments have been driven to take over some or all of the functions of private enterprise.

Every human being breathes air, but not one in 10,000 knows that the healthful necessary ingredients are 1/5 of oxygen and 4/5 of nitrogen and that if everyone began to extract quantities of oxygen from the air sufficient to disturb these proportions, the entire population of the world would perish.

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uses money, but not one in 10,000 knows that gold is the only international money and that all basic things -- products of farms, forests and mines -- are priced in gold so that changes in the value of gold change the prices obtainable for basic products throughout the world. Whenever the availab monetary supply of gold is suddenly reduced by panicky hoarding, then the smalle gold supply remaining cannot measure the world supply of basic goods at the old price. Then we experience a decline in the price of goods, a decrease in the production of goods and a slowing down in economic breathing, a suffocation of al business. That is deflation.

Popular lack of knowledge of this economic law of supply and demand affecting the value of gold and the relationship of gold to goods, does not make this law any the less ruthless or any the less immutable. We struggle with the proble of stimulating home building, ignoring the fact that a home is nothing but a conglomeration of basic commodities plus brains and work. We disregard the economic law that if we put up the value of these commodities and thereby restore the valu of existing homes in relation to mortgages, you immediately restore solvency of home owners, remove distress property from the market, and make possible new building at a profit.

Instead of restoring property values by monetary action, the government has already made itself the biggest mortgage concern in the world. Every fourth home owner in the United States has become a distress applicant for government mortgage aid; nor does this mortgage operation solve the problem, for the taxable values of property must be restored in order to make municipalities solvent and enable the local government to carry either the emergency burden of relief or the normal school and municipal functions.

In this connection let me offer for the record a copy of a telegram on this subject to President Roosevelt.

We struggle with other problems, such as creating tolerable living conditions for our farmers. We blindly kill and restrict production, ignoring the direct relationship of gold to the world value of basis commodities, when all the

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time what we need to do is to regulate the price of gold in terms of our own currency so as to regulate the general trend of the prices of these basic commodities. By this means and this means only can we insure to the farmer that he can operate at a profit. When this is done the farmer will take care of himself and buy from industry, and enable industry to reemploy.

We are losing our cotton market because our price of gold is not high enough to give our growers the return in dollars which they must have to enable them to live, and at the same time permit them to sell in world markets at the world value of cotton expressed in gold. The world value of cotton, measured in gold, is practically no higher now than it was two years ago. But Argentina, Brazil and Mexico with currency prices of gold equivalent to $45, $55 and $60 an ounce, are taking our cotton market from us.

The low world prices for basic commodities are due to the high purchasing power of gold. This affects nearly one-half of our population who are dependent on production of basic commodities. The average prices of farm products rose, before the drought, as did the dollar price of gold. Drought and artificial scarcity have temporarily raised some farm prices still higher. But the world value of gold remains where it was in 1933.

We can stay as we are, anchored to a fixed price of gold at $35 an ounce, and suffer deflation until the world changes its gold-hoarding habits; or we can be economic realists as are Great Britain and the "sterling area" countries that refuse to return to the chaos of "automatic", suicidal gold money. We can follow the policy of the sterling bloc, or the obsolete policy of the dwindling gold bloc.

I submit tables of the indexes of industrial production in eight countries, on and off gold. The figures show that industrial activity has increased only in those countries that abandoned the gold standard and raised their price of gold.

Our unemployment problem is the offspring of our failure to adjust the value of our money to the higher world value of gold. Unemployment comes from the [illegible] of purchasing power, and not take this factor into consideration. "Confidence" cannot make industry brea this vicious circle. Banks will not lend, business will not borrow, and velocit of circulation will not result where losses are the only prospect. Nor will tax ing one group to distribute to another recreate lost purchasing power.

Our basic producers -- approximately 45 per cent of our population -- hav their prices held low by the high value of gold, and our too-low price for gold. Failure to make a necessary monetary adjustment caused our basic producer groups to lose $17 billion of their annual income. They are still short fully half that amount, and some estimates are as high as $10 billion. Farmers' income alone is still $5 billion short of its 1921-29 average. It is a fallacy to believe that government spending can make up this deficit in basic producers' buying power. National income is about $50 billion a year below what it should be by now. In other words, we are losing every month an income of $4 billion -- equal to the current new appropriation for relief and relief work.

American basic producers ask only for as high a price of gold as obtains in Great Britain's agricultural and raw material producing areas. Because we refuse to give our basic producers this relief from deflation, we restrict cotton wheat, corn, hogs, while other countries take our historic markets and <u>increase</u> their production. British industry sells to them; our industry famishes -- and is blamed for unemployment!

Normal farm buying power must be restored before we can have restoration of normal conditions in industry. Here is the place to break the log-jam of unemployment. Industry, even if it could reemploy its normal number of workers temporarily, could not by so doing create the new buying power required to keep factories operating. The price of gold is the only lever which can be effective for restoring promptly the basic producers' income, and you have not provided in this bill the means to operate that lever.

Nor does the Constitution permit Congress to turn over to a privately owned corporation this power to regulate the value of money and thereby change the value of everything our citizens possess.

Sovereignty over money and the control of its purchasing power are so vitally important to our Nation that, if they are left with the Federal Reserve System, the Government will inevitably be compelled to assume direct control of that system.

Control of banking by the Government would tend to restrict the profit motive and capitalism in favor of socialized public control. Decisions as to the flow of private credit are beyond the powers of any Government to administer efficiently.

We must not permit a situation to develop that will impose such an impossible burden upon governmental machinery.

It is far better for the Federal Reserve to surrender the functions of currency issue and control of Government credit that rightfully belong to the sovereign power, and keep for itself and its member banks the field of legitimate commercial banking in which only private initiative can function satisfactorily. Thus the Federal Reserve can stand as a bulwark for the institutions and functions of private property.

We recommend that this bill be amended to provide for establishment of a Federal Monetary Authority, independent of the Treasury and of the banker-owned Federal Reserve System, to "regulate the value of money" under a mandate of Congress and according to the Constitution.

This mandate should require the Monetary Authority to discontinue the present fixed price of gold, and to manage the dollar with reference to a suitable price index of basic commodities so as to restore as promptly as possible its 1926 buying power (average 1921-29). This is the normal buying power required by debts and fixed charges, and is necessary to restore basic producers' buying power and industry's ability to reemploy.

The Monetary Authority should also be required to establish in the United

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States a free open market for the monetary metals in which supply and demand would determine their prices. In this market the Monetary Authority would be authorized to buy and sell gold and silver when and at such prices as it found necessary to keep the dollar and the general price level stable at the level mandated by Congress.

The Monetary Authority should be as completely insulated against banking, business and partisan pressure as is the Supreme Court, by appointments for long period or for life.

In addition to controlling the price at which it buys and sells gold and silver from day to day, the Monetary Authority should be --

(a) prohibited from interfering with Federal Reserve System or other private banking institutions in allocating credit to business or individual borrowers;

(b) charged with sole responsibility for issuing currency, expanding and contracting the volume of currency, expanding and contracting the limits of bank credit by recognized methods of Central Bank control, including open market operations in Government securities and adjustment of its re-discount rate to the Federal Reserve and other banks.

This mechanism is not an experiment. It is simply an adaptation to American conditions and constitutional requirements of what Great Britain has been doing since 1931 to bring about recovery for herself and sterling area countries. When enacted, with adequate safeguards, it will make possible the completion of the great and necessary program announced by President Roosevelt to the London Economic Conference.

When the United States takes this step, the whole world will be on the way to recovery and a better order. With currencies made stable internally by management on a price index basis, they will become automatically stable in relation to every other currency so managed.

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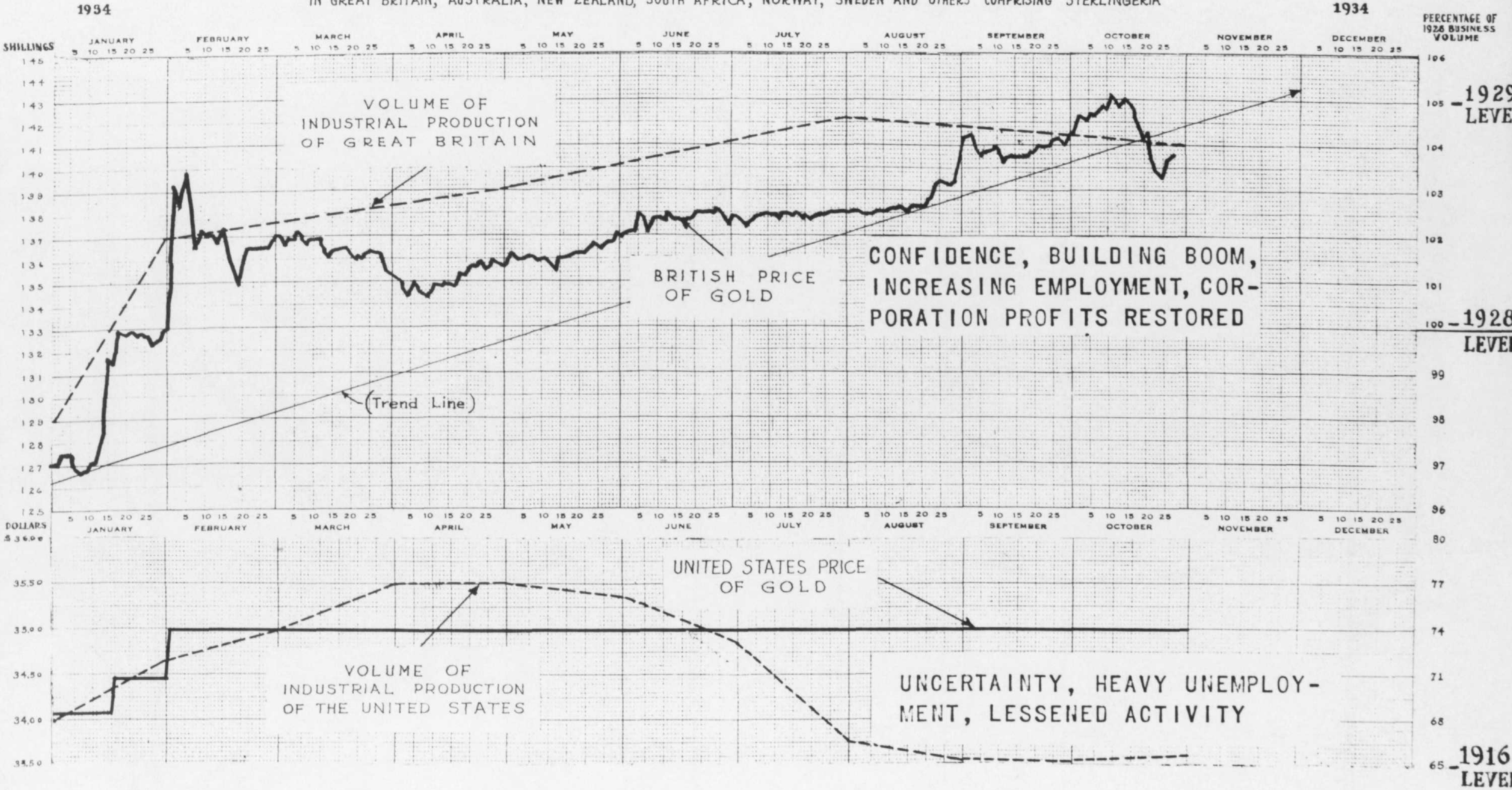
(America Must Choose)

WHAT GREAT BRITAIN HAS DONE TO THE PRICE OF GOLD DURING THE PAST 9½ MONTHS

A PERIOD OF GREAT PROSPERITY, APPROXIMATING THAT OF 1929

IN GREAT BRITAIN, AUSTRALIA, NEW ZEALAND, SOUTH AFRICA, NORWAY, SWEDEN AND OTHERS COMPRISING STERLINGERIA



WHAT THE UNITED STATES HAS DONE TO ITS PRICE OF GOLD DURING THE PAST 9½ MONTHS

A PERIOD OF LESSENED BUSINESS ACTIVITY, BELOW 1933

COMMITTEE FOR THE NATION
205 EAST 42ND STREET N. Y. C.

(OVER)

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"The Treasury should cease to deal directly with the banks. The central reservoir should be the recipient of the government's surplus funds and should attend to the government's disbursements. The influence in business of the Treasury, a purely political body, must cease.

"Cash balances with the central reservoir or its branches must be considered and counted by the banks as cash in their own vaults. The central organ must have power to request the banks to keep with it cash balances proportionate to the amount of their deposits. Thus every bank will be made to contribute to the work of the central reservoir, of maintaining a safe proportion between all cash obligations of the nation and its actual cash, a work which, with the lack of a fully developed discount system, would otherwise remain much less effective. . . . "

. . . .

"I have here avoided the name central bank, and have used the name central reservoir, just as in my previous articles I have termed the institution a central reserve bank or a united reserve bank. This has not been done from cowardice, for the purpose of avoiding a name against which popular prejudice ran high. It has been done for the reason that, first of all, the name expresses what is to me the most important feature of the problem, namely, the centralization of reserves. The second reason is that we should not have, and what we

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suggest is not, a central bank. Wherever central banks exist, their powers are infinitely wider; they are real banks privileged to do almost a complete general banking business. The central organization, on the other hand, as here suggested, though securing for us the principal advantages of the central bank system, is nothing but a central reservoir, precluded from doing a general banking business and invested only with such functions as it absolutely needs for its own protection and for the protection of the nation." (Nov. 12, 1910)