

February 18, 1935

[Proposed Statement -- Gold Clause]

FDR Speech File

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THE WHITE HOUSE
WASHINGTON

F. D. R PROPOSED STATEMENT - FEB. 18, 1935
GOLD CLAUSE
(MISCELLANEOUS)

*File - Private - This is the rough draft of
radio address I would have made if the
Supreme Court decision in The Gold Cases had
gone against The Gov. - ~~Franklin D. Roosevelt~~*

Two years ago, every section of the United States and

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the lives of all of our citizens were affected by increasing
bankruptcies and by closing banks. In the short space of
three and one half years the value of the medium known as
currency had so changed in terms of purchasing power that the
great mass of debtors of all kinds, individuals, associations,
institutions, corporations, municipal, county, state govern-
ments and the Federal Government itself, found themselves
called on to make payments on their debts which from the point
of view of purchasing power of currency amounted to as high
as 60% more than the original amount in terms of purchasing
power.

The debts themselves, when originally incurred, did not
contemplate such a situation. The lender expected to get
back the same kind of a dollar in terms of purchasing power

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Bottom*

Internal dollar

which he had originally loaned. The borrower expected to pay back the same kind of a dollar in purchasing power which he had borrowed.

That is not only a fact but it is the essence of the situation in which I found myself on the day of my inauguration.

During the past twenty-three months, the situation has changed as follows: The purchasing power of the dollar has been restored to within twenty percent. of what it was when the majority of debts, private and governmental, were incurred. We have not yet reached the goal of a dollar with a standard purchasing power such as we seek -- a purchasing power which we hope to establish and then maintain. Nevertheless, we are rapidly approaching that standard and all of our legislation of the past two years has been aimed to arriving at that point and then maintaining it.

As a part of this broad objective, the American currency was first taken off what is commonly known as the Gold Standard. Later, by Act of Congress and by Presidential Proclamation, it was restored to a gold standard on a different weight of gold from what it had been before.

The Supreme Court's decision is, of course, based on the old law of contract -- that if two or more persons make a formal contract, the actual terms of that contract must be enforced.

Let me for a moment analyze the effect of the present decisions by giving a few simple illustrations:

First: In the case of the railroad bonds, regardless of whether these maturing bonds are owed by a bankrupt railroad or a solvent railroad. In either case, the owner of one of these bonds is by this decision entitled to ask

the railroad to pay him back, not the one thousand dollars which he paid for the bond, but to pay him back \$1690. The purchaser of that bond, it is perfectly clear, did not at the time of purchase expect to be paid back a clear net profit of \$690 in addition to the sum of \$1,000 which he had invested.

I do not care to stress this point further other than to say that not only is it unconscionable for the individual investor to make an unexpected, unearned profit of that kind, but that in addition a letter of the law enforcement of this decision will automatically throw every railroad of the United States into bankruptcy.

Adherence to the principle laid down today in the railroad case means identical decisions in the case of every other corporation which has gold bonds outstanding.

Most of these corporations will head direct towards bankruptcy. It will apply also to the obligations of towns, of cities, of counties, of states and we all know that these units of government, now working bravely to meet and reduce their debts, would be placed in the position of defaulters.

The next illustration is that of the individual who is buying a home for himself and his family and paying each month a specified sum representing interest on and reduction of the mortgage. He had agreed with the mortgagee on the total, on the interest and on the instalments. This new decision, if there is a gold clause in the mortgage -- and most mortgages contain that clause -- will compel the home owner or farmer to increase his payments 69% each month from now on and to pay an additional sum on back payments

amounting to 69% more than the sum of those back payments during the past year and three-quarters.

I now come to the other two decisions relating to government currency known as gold notes, gold certificates and gold clause bonds. An old lady came to see me the other day. She is dependent on the income from government bonds which she owns. Her total income is about \$300 a year. She owns \$10,000 of government gold clause bonds. Under this new decision she would be entitled to ask the Treasury for \$16,900. Being the right type of citizen, she volunteered to me the information that she does not consider herself entitled to that, but only to the \$10,000 which she had saved and invested.

The actual enforcement of the gold clause against the Government of the United States will not bankrupt the Govern-

ment. It will increase our national debt by approximately nine billions of dollars. It means that this additional sum must eventually be raised by taxation -- additional taxation. In our present major effort to get out of the depression, to put people to work, to restore industry and agriculture, the enforcement of this opinion in accordance with its letter will not only retard our efforts, but put the Government and 125,000,000 people into an infinitely more serious economic plight than we have yet experienced.

Finally, ^{again} I/call attention to the fact that the total of debts secured by contracts containing a gold clause amounts to at least one hundred billion dollars -- a sum which represents a very large proportion of our total property value of all kinds. To meet this contract sum, there exists in the United States a total of about eight

and one half billion dollars of gold and in all the rest of the world -- Europe, Asia, Africa, Australasia and the Americas -- there is not more than twelve billions of dollars in gold. I do not seek to enter into any controversy with the distinguished members of the Supreme Court of the United States who have participated in this (majority) decision. They have decided these cases in accordance with the letter of the law as they saw it. It is nevertheless my duty to protect the people of the United States to the best of my ability. To carry through the decision of the Court to its logical and inescapable end will so endanger the people of this Nation that I am compelled to look beyond the letter of the law to the spirit of the original contracts.

I want every individual or corporation, public or private, to pay back substantially what they borrowed. That would seem to be a decision more in accordance with the Golden Rule, with the precepts of the Scriptures and the dictates of common sense.

In order to attain this reasonable end, I shall immediately take such steps as may be necessary, by proclamation and by message, to the Congress of the United States.

In the meantime, I ask every individual, every trustee, every corporation and every bank to proceed on the course of their honorable and legitimate business. They can rest assured that we shall carry on the business of the country tomorrow just as we did last week or last month, on the same financial basis, on the same currency basis and in the same relationship of debtor and creditor

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as before.

(End)