June 10, 1955

Internal Memorandum

Luncheon with Mr. John Peyton, President of the Federal Reserve Bank of Minneapolis from 1936 to 1952

Mr. Peyton is a tall, active and beguiling man, very much the competent extravert, and apparently very glad to talk about the bank which he served for so many years. His father was a Duluth banker. He graduated from Yale. He went on a cattle boat to Europe, then came home and worked in a gold mine, then went to Duluth and started the Northern Minnesota Bank of Duluth, which presumably was successful and prosperous. In January, 1931 the secretary of the Minnesota Bankers Association told Mr. Peyton that the banks in the state were in very bad shape and that the then-Governor Olson refused to reappoint the existing commission. Mr. Peyton had never had anything to do with politics, and he was greatly astonished when Governor Olson phoned him and asked him to become Banking Commissioner of the state of Minnesota. Mr. Peyton objected that he was not popular with the voters and that he knew nothing about the usual political deals, which he assumed would have to be made. The Governor's reply was, "You take care of the banks. I'll take care of the votes." From then on Governor Olson backed him up, and as they were just on the verge of the troubles that led to the banking holiday, that meant considerable backing.

February 1, 1931 Mr. Peyton came from Duluth to Minneapolis to assume his new post. He was astounded at conditions and shocked that a profession for which he had great esteem had got into such a mess. He intimated that not all of this was without blame on the part of some of the bankers. The problem, he said, was how to clean up the mess and restore public confidence ~~in~~ throughout the state. There was not a bank that would not have had to fail had the usual strict banking rules been applied. The whole district had had bad crops, and on top of that, the result of the Stock Market crash and the gathering depression left the district completely flat.

The legislature gave Peyton unlimited power for two years during which he went to work to reestablish the credit of the bank and the confidence of the people.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

The Roosevelt banking holiday helped and put him in the position where no bank could open without his permission.

He said that the shrinkage of security values was astonishing. Simple-minded bankers in country towns bought securities which they had no business to have touched and suffered accordingly.

In defining the catastrophe which he faced, Mr. Peyton divided the troubles into four headings. First, land values were down. Second, farm paper was down. These two declines in value hit the cautious and worried them. Third, securities were down. This hit the unwary banker investor who probably never should have put money (bank money) into industrial securities anyhow because he did not know enough about them. Fourth, because of these events, the public lost confidence in both banks and bankers.

In the meanwhile, the country banks had put their interest rate way up and found themselves unable to reduce it. Mr. Peyton saw as his primary job the restoration of public confidence from the low state to which it had fallen. a) he felt he had to act quickly, b) he felt that the banks had to be rendered "absolutely clean." This latter phrase meant the examination of all assets based on the last examination which had been made. Some banks had securities that would surely come back, others securities that would probably never come back. Bad management had to be cleared up, and competent officers put in the banks in place of men that had proved themselves incompetent.

Mr. Peyton developed his own force and set up a series of consultation rooms into which he called bankers for examination of their banks. He set up a skeleton program for solvency - how much extra money had to be~~en~~ raised, how much in bad debts could be charged off and so forth; and, not content with talking merely with the officers, he got every board of directors of a Minnesota bank in for consultation. If these men could not agree with the examiner in charge of the conference, they came direct to Peyton, and a second conference was held with him. As he had what amounted to absolute power of life and death over the banks, his decision was final, but it created a good deal of enmity. He was aware that this would happen. He had the complete support of

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Governor Olson, and he now says that this enmity vanished at the end of about ten years. Meanwhile, he was in banking circles one of the most unpopular men in Minnesota.

His idea was that the clean-up should be very fast. If he gave the bankers more time, outside influences would come in and make the problem just that more complicated. Force, the rigidity of the clean-up program for solvency, and speed he regards as primary factors in putting the thing over.

When he finished, in place of 11,000 state banks in Minnesota, there were 7,000. This does not mean that 4,000 banks had suddenly died. Certain combinations were worked out in some instances, and the figure of 4,000 lost ~~is~~ represents a somewhat complicated situation. By May 15, 1933 all the banks in Minnesota were cleaned up, but a few of them had not yet been opened. Mr. Peyton was helped by the bank holiday in this operation (that is, the Federal bank holiday), but his own work was done independently of the Roosevelt dating.

The clean-up was so complete that to the best of his knowledge there has been no bank trouble in Minnesota since, except an occasional theft of funds. In his own mind at least, he eliminated bad management from the Minnesota situation.

On May 15, 1933 Mr. Peyton came to the Minneapolis Federal Reserve Bank as chairman. He had previously been called to Washington by Mr. Adolph Miller, and by coincidence he traveled to the Capitol with Governor Olson who agreed that he should go into the Federal service in that position. (The truth of the matter was, of course, that his work was done in Minnesota, and considering the degree of enmity which he had aroused, there was no possibility of his continuing as a state commissioner of banking. He would have been a political liability in a big way.)

Mr. Peyton describes Adolph Miller as a great talker and says that in their first interview, he talked straight without stopping from 10 to 11:30 a.m. Mr. Miller and Mr. James of the Board were at that time not on speaking terms. They sat at opposite ends of the table and made only nominal recognition of each other's presence. Eugene Meyer was there at the time, Mr. Thomas and Mr. Hamlin. Mr. Meyer he quoted as saying that the Board wanted at that moment to get a new regime going in the banks

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

whereby the chairmen would run the banks, and they wanted to do away with the governors. It was for this reason that they put Mr. Peyton in. His own testimony is that as chairman he ran the bank. He had no trouble with Governor Geery who was then Governor of the Minneapolis Federal Reserve Bank. He said that Mr. Williams at Cleveland had the same situation.

From the point of view of the late commissioner of banking of the state of Minnesota, the chairmanship of the Federal Reserve Bank of Minneapolis looked like a bed of roses. It was while he was in office that the theory of monetary control was developing. ~~After~~ Before that time, he regards the Federal Reserve operation as having been simply a banking operation, ~~and~~ only in a somewhat unconscious fashion did monetary control come into the picture.

Peyton was interested in the Federal debt and how to handle it, in the open market rate, in problems of the Treasury versus the Board of Governors, in Keynes and British experience, in Goldenweiser who fought with Eccles. Mr. Peyton sat for the Board on the Open Market Committee and watched it develop. He said that Professor John Williams of Harvard gave more mature thinking to economic control in these days than did anyone else. He thought that Goldenweiser lost his grip as Eccles grew dictatorial. He found that Governor Harrison also was dictatorial and eager to maintain the prestige of the New York Bank. In his mind the New York control continued until Eccles came in. Harrison he described as "smooth but sharp." He had a tendency to concentrate power wherever he was sitting.

Eugene Meyer, who was then head of the Board, by no means had a unified Board, and he had no intention of staying on it. George James was thinking in terms of cotton. Thomas was a nice man, a political appointee, and temporary chairman of the Board. In that post, Harrison ran all over him. Miller he described as an economist so wrapped up in himself and in his own ideas that he seldom payed much attention to what other people said or thought, but probably the most able man on the Board. Mr. Peyton describes him as "a dilettante in thinking."

He regards Eccles' appointment as by and large a good idea for the system.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Eccles was independent financially and with an active and curious mind.

Speaking of the Open Market Committee, Mr. Peyton said that Mr. Meyer had asked Mr. Harrison to invite Williams and Peyton to join, also Roy Young, Eugene Black, Harrison, Hamilton from Kansas City, and McKinney from Texas. Harrison objected. At the second meeting Harrison said that Eccles was set on putting the Board on the Committee.

Mr. Peyton thinks that the Open Market group developed within the Presidents' Conference.

It is his opinion that the Federal Reserve System today is suffering from a lack of practical bankers and that too many research men have been made presidents of the banks. Abbott Mills, now on the Board, and Erickson in Boston he regards as practical bankers. Otherwise, the heads of banks he thinks are all theory men. What they need is a balance between experienced practical bankers and the theoreticians.

He regards the wartime pegging of bonds as fatal in that it brought about a depreciation of the currency from which the country has not yet recovered and which bids fair to become a habit. He said that if he could persuade me of the need for this balance between experienced practical bankers and theoreticians, he would consider his time well spent. (He spent three hours on this interview and a lunch, so he obviously had quite a stake in this idea.)

Speaking of the obligations of Federal Reserve Banks, Mr. Peyton gave it as his opinion that the Fed Banks should be interested in the welfare of the district, but not solely in member banks, that they must take into consideration the welfare of all the banks in the district. Unless they broadened and set their sights beyond the individual banks, they would find themselves a failure.

He raised the question as to why all banks did not clear through the Federal Reserve System and seemed to think it a matter which was both possible and desirable. Obviously, legislation would have to be passed to bring this about, and there is undoubtedly a great deal of controversy on the subject of Fed. Res. clearing for non-member banks.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Speaking of bank relations in the Minneapolis district, Mr. Peyton said that the bank invited all professors of money and banking in the ninth district to form a committee, then brought that committee in to Minneapolis and gave them three days indoctrination, then took them to New York for three days, then to the Board for three days. The idea was that they would spread this information and the sense of these contacts among their fellows and particularly among their students.

The New York Bank and the Board said that all this was "too much work," but Minnesota considers it a vital part of their public relations work, thus informing not only the professors but also the student body, and through them the whole public.

Reverting to the matter of cleaning up the banks in the thirties, he said that field men were sent out to Montana and Dakota for this purpose. They established local centers of consultation which made it possible for bankers in remote towns to have the same kind of service that was given city bankers in Minneapolis. Also it made greater speed possible.

Interpolating a bit of family history, Mr. Peytoh said that his grandfather was a banker in Geneva, New York; his great-grandfather in Staunton, Virginia; and that his son is a vice president of the Northwestern National Bank; his grandsons are also going into banking. Given the vigorous and vivid personality of the man, this might make a banking family biography.

On the subject of holding companies in Minnesota, Mr. Peyton was somewhat gloomy. He said that they were established as a way of rescuing the banks in the depression. For a while, they did not expand, but conditions in Minnesota have included a pay so low for bank officers that they could not afford to retire. In turn, these men went to the corporations and found it was possible to trade in their stock without paying any income tax. In this way the holding companies are gathering in bank after bank as their owners grow old. Mr. Peyton fears that this may mean the end of independent banking in Minnesota.

Following this line of thought, he talked at length about the value to the United States of the small banks and pointed out that whereas Canada had set up five

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

big banks and stayed dormant for years, the United States had thousands of little banks scattered across the country and had grown greatly. (This is a thesis which is repeated by various people including Donald Woodward. It would be interesting to find out where it started. Mr. Woodward goes so far as to believe that the looseness of bank control and even the existence of banks which could not survive were a factor in the speedy development of the frontier regions. It would be interesting to find out whether anybody had done a good historical job on this. At the present time it is probably not a thesis that would be widely accepted, as the moral would undoubtedly be drawn that weak and badly managed banks were a good idea.)

Mr. Peyton is just back from Formosa where he has been doing some consulting work for the government.

MA:IB

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis