

Working Paper 9405

THE FEDERAL RESERVE BOARD BEFORE MARRINER ECCLES (1931-1934)

by Walker F. Todd

Walker F. Todd is an assistant general counsel and research officer at the Federal Reserve Bank of Cleveland. The author thanks Joseph G. Haubrich, Michele S. Lachman, Joseph C. Reid, Richard C. Schiming, and James B. Thomson for helpful comments. This paper was presented at the Western Economic Association International Conference at Lake Tahoe, Nevada, on June 23, 1993. A related article was published by the author as "History of and Rationales for the Reconstruction Finance Corporation," Federal Reserve Bank of Cleveland, *Economic Review*, vol. 28, no. 4 (1992 Quarter 4), pp. 22-35.

Working papers of the Federal Reserve Bank of Cleveland are preliminary materials circulated to stimulate discussion and critical comment. The views stated herein are those of the author and not necessarily those of the Federal Reserve Bank of Cleveland or of the Board of Governors of the Federal Reserve System.

April 1994

ABSTRACT —

The political economy model followed by most orthodox, mainstream American economists before 1931 was classically liberal, albeit occasionally with peculiarly American permutations. After the United Kingdom suspended convertibility of sterling into gold (the bedrock of orthodox financial principles) in September 1931, American economic policymakers, including President Hoover and Eugene Meyer, governor of the Federal Reserve Board, became increasingly unorthodox in their prescriptions. Although central planning measures of the corporate state variety had manifested themselves vigorously but briefly in policymaking circles during and immediately after World War I, the Harding, Coolidge, and early Hoover years were supposed to be a return to prewar "normalcy," as the slogan associated with Harding's campaign had it.

The Federal Reserve Board led the way in Hoover's rethinking of liberal orthodoxy in the crucial year running from the summer of 1931 through the spring of 1932. The outcome of the Board's endeavors was an astonishing array of economic recovery initiatives that scholars have classified, retrospectively, as corporate statist in nature, involving direct federal government assistance to private industry and business-labor cooperation enforced by governmental intervention. These changes persisted and generally were amplified during the Roosevelt administration's first year (the "First New Deal"); the departure of Eugene Meyer as governor of the Board in early 1933 apparently did not diminish the Board's willingness to pursue the planning initiatives undertaken during the First New Deal. By early 1934, it became apparent that the Board's staff wanted the Federal Reserve to play a role in the administration of industrial policy in rivalry with, and with a view to eventually superseding, the parallel role of the Reconstruction Finance Corporation.

Abruptly, in the autumn of 1934, the Board's plans were altered in the direction of a hybrid of the Chicago Plan for 100 percent reserves banking and what we now would call orthodox Keynesianism by the announcement that Marriner Eccles, a former Utah banker and an assistant to Treasury Secretary Morgenthau, would succeed Eugene Black as governor of the Board. Lauchlin Currie, a Harvard University associate professor who had been one of the leading proponents of Keynesian doctrines in the United States at the time, would move with Eccles from the Treasury to the Board's Division of Research and Statistics to supervise the division's research on monetary policy. Eccles obtained Roosevelt's consent to pursue initiatives to centralize the monetary powers of the Federal Reserve System at the Board.

OUTLINE OF ARGUMENT

I. Background on American political economy models before 1931 (p. 1).

II. How the Hoover administration (and the Federal Reserve Board) altered the prevailing classical liberal model, 1931-early 1933 (p. 6).

III. What the Roosevelt administration (and the Federal Reserve Board) did to alter Hoover's schemes, early 1933-late 1933 (p. 24).

IV. The First New Deal takes on a corporatist coloration, with active Federal Reserve Board assistance, late 1933-late 1934 (p. 39).

V. The Board prepares for the coming of Marriner Eccles at the end of 1934 and becomes a hybrid Chicago Plan-orthodox Keynesian shop (p. 47).

VI. Conclusion: The Board absorbed and reflected the ideas current in Washington at the time (p. 53).

Appendix: What Herbert Hoover and Marriner Eccles knew about political economy (p. 59)

Notes (p. 62)

References (p. 67)

I. Background on American political economy models before 1931.

Introduction

In order to understand properly the significance of the changes made in the supervision and regulation of the financial services industry in the United States during the 1930s, changes that have been undergoing almost constant reexamination since the early 1970s, it is helpful to study the political economy models followed by the White House, the Treasury, the Federal Reserve Board, and mainstream American opinion during the crucial years, 1931-34. The purpose of this paper is to sketch the evolution of the thought of the Board's staff during the early 1930s in the direction of extensive state involvement in the private economy. That evolution was resisted (albeit decreasingly) until 1934, at least at the regional Federal Reserve Banks' level. Later conflicts between the Reserve Banks, their congressional sponsors, and other federal bank supervisory and regulatory authorities, on the one hand, and Marriner Eccles, the Board's staff, and the executive branch, on the other hand, cannot be understood properly without some background information regarding the legal, historical, and economic reasons for the objections of those who resisted Eccles' post-1934 policy initiatives.

Background

Market-oriented economic policies and market-determined outcomes, characteristic of a classical liberal world view, ordinarily were favored at the center of the American political spectrum, from the drafting of the Declaration of Independence

through the election of 1936. There were comparatively few large-scale peacetime interventions by the federal government in the operations of private markets prior to Herbert Hoover's administration.

However, the British and continental European experiences with governmentally sponsored or controlled joint stock corporations and with explicit and covert bailout mechanisms for existing private corporations are quite old. The Bank of England (chartered in 1694), the South Seas Company (1711), and the East India Company (especially after 1763) were all involved in one or another kind of governmental bailout scheme (see A. Smith [1976], especially pp. 441-486 [Book V, Chapter iii]). There were limited attempts, made by Alexander Hamilton, Henry Clay, and other proponents of large government and of governmental protection and subsidy of enterprise, to imitate the European example on these shores (Peterson [1987]; editor's notes in Lodge [1904], vol. 3, pp. 198-202). But those explicit bailout, protection, and subsidy schemes usually were of limited duration and eventually either failed or were abandoned, with the exceptions of the protective tariff and the land grants to railroad companies in the West during the second half of the nineteenth century. Implicit subsidies persisted, however, as reflected in the monetary standard debate concerning gold versus silver interests, creditors (gold) versus debtors (greenbacks or silver), and so on (see generally Hicks [1961], pp. 54-95). Nontariff protection crept into the dominant model of political economy via regulatory agencies such as the

Interstate Commerce Commission (established in 1878), intended to regulate the railroads and, later, interstate trucking, that were soon enough "captured" by their regulated industries (Schiming [1992]).

In continental Europe, there was a rising fascination throughout the nineteenth century with central planning, with cooperation between government and industrialists, and with social movements that we now call corporate statism or even, in its post-Mussolini manifestations, fascism.¹ The political economy model of the corporate state is rhetorically inconsistent with the classical liberal model that dominated the United States until the 1930s. However, the principal distinctive feature of corporatism, an explicit partnership between large, incorporated businesses and the central government, rationally could have been expected to emerge as a distorted version of the American system whose theoretical origins and institutional structures were created by Hamilton and whose strongest proponent was Clay. The most complete realization of this system was the governmental assistance to and tariff protection of perpetually chartered corporations under Republican administrations after the Civil War (see Hicks [1961], pp. 54-95). The appendix to the present paper contains further discussion of the attributes of and distinctions among the various models of political economy.

Herbert Hoover and the Federal Reserve Board before 1931

The first grand experiment with central planning in the United States occurred in wartime, during years that were intellectually

formative for many principals of the Hoover and Roosevelt administrations, as well as for Keynes (Skidelsky [1986], pp. 333-353). Initially, central planning and procurement operations in the United States for the Western allies during World War I, prior to U.S. entry into the war in April 1917, were conducted by the British Treasury through the agency of J.P. Morgan & Co. and a banking syndicate arranged by Morgan.³ After the U.S. declaration of war, the War Finance Corporation (WFC) was chartered to enable the federal government to centralize, coordinate, and fund the procurement and supply operations. The WFC's operations were guided by an advisory commission and were subject to "preference lists" (analogous to production quotas and output rationing) issued by the War Industries Board, whose chairman was Bernard Baruch (see generally Clarkson [1924] and Todd [1992b], pp. 23-24). The four directors of the WFC appointed by President Wilson included W.P.G. Harding, then a member of the Federal Reserve Board, and Eugene Meyer, then a New York investment banker but later governor (chairman) of the Board and the first chairman of the Reconstruction Finance Corporation (RFC) under President Hoover (Board of Governors, Federal Reserve Bulletin [1918], vol. 4, p. 364). Herbert Hoover, the Belgian Relief coordinator for humanitarian assistance at the outset of World War I (Hoover [1951], pp. 152-237), was appointed U.S. "Food Czar" (director of the Food Administration in Washington) in May 1917 and continued to work in comparable capacities until 1920. In those roles, Hoover constantly had to deal with the WFC, the War Industries Board, and

the War Trade Board (*ibid.*, pp. 240-266).

Hoover had several unpleasant experiences with the Federal Reserve Board during the Coolidge administration, under which he served as secretary of commerce (see generally Hoover [1952], pp. 2-28). Generally, those experiences involved Hoover's attempts to persuade the Board, whose governor (chairman) then was Daniel Crissinger, a friend of former President Harding, to refrain from backing the United Kingdom's return to the gold standard for sterling at the prewar parity of \$4.86 per pound (1925) and later to refrain from a U.S. "easy money" policy aimed at enabling the British authorities to maintain that parity, especially after the spring of 1927 (Hoover [1952], pp. 7-11). Hoover's later attitude toward the Federal Reserve System of the 1920s is summarized in the following passage from his memoirs:

Crissinger was a political appointee from Marion, Ohio, utterly devoid of global economic or banking sense. The other members of the Board, except Adolph Miller, were mediocrities, and Governor (President) [Benjamin] Strong [of the New York Reserve Bank] was a mental annex to Europe. I got nowhere [arguing with them]. President Coolidge insisted that the Board had been set up by Congress as an agency independent of the administration, and that we had no right to interfere. (Hoover [1952], p. 9)

Finally, in February 1929, Hoover (by then the president-elect) persuaded Crissinger's successor as governor of the Board, Roy Young, to undertake a course of "direct action" (otherwise known as "jawboning" or "moral suasion") to dissuade banks from lending funds for "speculative" purposes, but a general increase in the discount rate or the New York Reserve Bank's buying rate for bankers' acceptances (precursor of the modern federal funds rate)

would have been the preferable operational instrument (see *ibid.*, pp. 16-18; Friedman and Schwartz [1963], pp. 254-266). As early in his administration as midyear 1929, Hoover's interactions with Governor Young may have contributed substantially to the widening of the division that had existed since 1927 between the opinions of the Board and its staff, on the one hand, and some of the Federal Reserve Banks, on the other hand, on the issue of increasing the discount rate, a matter that ultimately is in the hands of the Board. The Board acquiesced in Hoover's preference for "direct action," a form of credit rationing, while the evidence of subsequent behavior, especially during early 1932, suggests that the New York Reserve Bank preferred to operate through an interest-rate target or other open-market methods (see Friedman and Schwartz [1963], pp. 411-418; Epstein and Ferguson [1984]). There is at least some evidence that the Board's staff, prior to 1931, did not disagree with the New York Reserve Bank's staff as much as some writers have contended regarding the potential efficacy of open-market operations. However, substantial differences remained between the Board under Hoover (which apparently was trying to do Hoover's bidding) and the governor and directors of the New York Reserve Bank. On this point, compare Hoover ([1952], pp. 16-19) with Epstein and Ferguson (1984).

II. How the Hoover administration (and the Federal Reserve Board) altered the prevailing classical liberal model, 1931-early 1933.

As already has been seen, favoring direct action over open-

market operations constitutes a policy choice appropriate to a positivist or interventionist political economy model and is inappropriate to, or at least rhetorically inconsistent with, a classically liberal (negative liberty) model. But too many conclusions should not be drawn from this single piece of evidence regarding Hoover's political economy models. Hoover's (and the Board's) actions during 1931 and for the remainder of his administration provide solid evidence of a growing trend, first in the direction of mildly interventionist measures such as jawboning industrialists, making currency support loans to foreign central banks, and organizing syndicates of bankers willing to lend funds to troubled banks. Those trends subsequently emerged into full-blown governmental subsidies of the financial services industry, railroads, and relief operations for the states. These latter measures began to approach, but were not yet entirely consistent with, the measures that one would expect to find in a corporate state. That consistency emerged later, during the First New Deal, but even then was not always attributable to conscious deliberative processes.

Hoover's relations with bankers and the Federal Reserve reached a turning point in May 1931. Until then, apart from occasional letter-writing and other jawboning exercises, Hoover did not take "direct action" of his own against banks or the Fed after the October 1929 crash. It is particularly noteworthy, in light of his subsequent clashes with Meyer and the Board's staff, that it was Hoover who selected Eugene Meyer as governor of the Board in

September 1930 after Roy Young resigned to become governor of the Federal Reserve Bank of Boston (Federal Reserve Bulletin [1930], vol. 16, pp. 535, 615).

On May 7, 1931, Hoover learned of the dire economic and political circumstances in Germany (analogous to those of Russia in 1993) and apparently promised some form of U.S. assistance to support "the efforts of liberal-minded men in Germany, Austria, and Eastern Europe to sustain their representative governments against the political forces besetting them" (Hoover [1952], p. 65). Around May 13, Hoover learned of the extraordinary efforts being made by the Federal Reserve Bank of New York, foreign central banks, and some of the large New York banks to prevent the collapse of the international interbank payments system that was threatened by a run on the gold and foreign exchange reserves of Kreditanstalt of Vienna, Austria's largest bank. Subsequent investigation persuaded Hoover that the European banking system was afloat on a sea of kited bills of exchange (ibid., p. 75). His distrustful attitude toward the Board at that time is revealed in the following passage from his memoirs:

On May 20th, I called in Federal Reserve Board officials to discuss our threatened economy. They intimated that I was seeing ghosts so far as the United States was concerned, and declared that nothing was going on that they and our banks could not easily handle. (Ibid., p. 65)

By June 18, Treasury Secretary Mellon, who also was ex-officio chairman of the Board, reversed his earlier position against U.S. official assistance to the European central banks as runs on gold and foreign exchange reserves spread into Germany (ibid., p. 68).

The central banks' loans were coordinated through the Bank for International Settlements. The Reserve Banks lent \$1.08 million for Austria on May 30, \$2 million for Hungary on June 19 (increased to \$5 million on July 8), \$25 million for Germany on June 26, and \$125 million for the Bank of England on August 1 (Board of Governors, Annual Report [1931], pp. 12-13).

On June 5, 1931, Thomas Lamont, a J.P. Morgan partner, telephoned Hoover and proposed a suspension of international payments for World War I debts and reparations. Hoover initially rejected Lamont's advice, but Lamont's files apparently show that Lamont told Hoover that, if he would adopt Morgan's plan, "[T]he bank would hide its role and let Hoover take the credit: 'This is your [Hoover's] plan and nobody else's'" (Chernow [1990], p. 328). Ferguson (1984) has found evidence that Hoover's diary entries for June 1931 subsequently were altered to make it appear that, in fact, no one but Hoover was responsible for this idea.

By June 21, Hoover adopted the Morgan plan and issued a statement proposing a one-year moratorium on all intergovernmental debt payments, succeeded on July 20 by a proposal for a six-month standstill agreement among commercial bankers with respect to bills of exchange payable by banks located in Central and Eastern European countries. Hoover found the Board of little assistance during this crisis, and he also found the New York Reserve Bank and the large commercial banks obstructionist with respect to the July 20 standstill agreement (Hoover [1952], pp. 73-80). Hoover then agreed to encourage the Reserve Banks' and commercial banks'

With the Bank of England's collapse, I determined that bold action must be taken if panic were not to extend to the United States. . . . Our job was to dissipate fear as well as to deal with tangible things. I determined first to try to mobilize our private institutions and, if that failed, to summon every resource of the federal government. . . . During September I had called to the White House for a confidential meeting the [Federal Reserve System's Federal] Advisory Council. . . . consisting of [24] bankers, together with the Board itself and Treasury officials. The British had not yet collapsed, but already the signs were ominous enough in our banking world. I suggested that our banks create a central pool of credit of \$500 [million], with powers to borrow another billion, to be administered by their own committee to rescue banks throughout the country which were under pressure. We also tentatively discussed a government corporation for the purpose. . . . On October 2, 1931, . . . through [Treasury Secretary] Mellon, I called the heads of the leading banking, insurance, and loan agencies, together with leading federal officials, to meet with me on the evening of the 4th. . . . in Mr. Mellon's home. . . . To the banking group, I proposed that the banks set up a corporation [the National Credit Corporation, or NCC] with \$500 [million] paid-in capital, to help banks in need and to loan against the assets of closed banks, so as to melt large amounts of frozen deposits and generally stiffen public confidence. I suggested that this new corporation should have powers to borrow another billion dollars in addition to its capital. On the assurance of Governor Meyer, I promised that the Federal Reserve Banks would assist them to the utmost of their powers. . . . A few of the group evinced enthusiasm for my ideas. But they constantly reverted to a proposal that the government do it -- despite my urgings that such a course should be avoided if private enterprise were to perform its own functions. (Hoover [1952], pp. 84-86)

loans to the Bank of England on and after August 1 (ibid., pp. 81-83). The suspension of sterling convertibility on September 21 ended that phase of the crisis. (See also Todd [1991], pp. 218-222.)

The events in Great Britain during September 1931 gave strong impetus to Hoover's abandonment of classical liberal principles regarding the role of the federal government in the domestic economy. Hoover wrote:

At the bankers' request, Hoover drafted a letter on October 5, 1931, to George Harrison, governor of the New York Reserve Bank, explaining the proposal to establish the NCC (text of letter printed *ibid.*, pp. 86-88). Hoover said his purpose was to make a request "for cooperation in unity of national action to assure credit security . . ." (*ibid.*, p. 86), which could be fairly characterized as a corporatist objective to be achieved through jawboning the private sector into doing what the government otherwise would feel compelled to do. On October 6, Hoover met with congressional leaders to discuss both his plan for the NCC and his intention to recharter the WFC if the NCC did not suffice to relieve the increasing illiquidity of the banking system. Hoover's memoirs describe those leaders as "shocked at the revelation that our government for the first time in peacetime history might have to intervene to support private enterprise," in that case by re-creating the WFC as the RFC (*ibid.*, p. 90).

But Hoover was hardly alone in advocating corporatist measures in response to the European and especially the British payments crises of 1931. The American Legion's annual convention, which met in Detroit on September 21-23, 1931, adopted resolutions that Walter Lippmann characterized as follows:

[T]hey would like to see a strong central agency, like a revived Council of National Defense [from World War I], take the situation in hand. They do not expressly say, but it is implied, that they would like the President and the Council to assume war powers and somehow to dictate national action to overcome the depression. (Lippmann [1933], p. 30)

Lippmann also commented favorably upon a speech on "industrial planning" given September 16, 1931, by Gerard Swope, president of

General Electric, proposing that the antitrust laws be amended or suspended with respect to the electrical manufacturing industry, then considered a comparatively new, cutting-edge, research-oriented, high-technology industry, "relatively free of the accumulated bad habits of the older type of industrial management," in order to permit that industry to "substitute cooperative planning" for the "uncoordinated, unplanned, disorderly individualism" in that industry (ibid., p. 37-41). Swope's proposal, of which Hoover certainly would have been aware, through Lippmann's newspaper columns if not directly from Swope, called for a demonstration project to find out whether restrictions on intra-industry competition, information-sharing, and federal control of prices could be combined to ensure greater stability of employment and wage levels in the electrical industry. Essentially, it was proposed "that the industry no longer operate in independent units, but as a whole, according to rules laid out by a trade association of which every unit employing over fifty men is a member -- the whole supervised by some Federal agency like the Federal Trade Commission" (Tarbell [1932], p. 228). Uniform accounting systems, information exchanges, and employee insurance plans also were to be required of each concern in the association (ibid.).

These are all corporatist ideas. Lippmann gives this analysis of them:

[O]ne cannot have industrial planning without a highly centralized control of production and of prices. . . . What is more, it is, I think, beyond the wit of man to devise a system of planned industry which does not imply it. Centralized control is of the very essence of planning. For how else can "a plan" be put into effect? . . . Planning

The bias in favor of central planning at the Board intensified as the events in the fall of 1931, described above, were unfolding. Governor Meyer, who may initially have been approached on this matter by representatives of J.P. Morgan, "for some time" had believed that it was necessary to revive the WFC, of which he had been a director, to cope with the distress of the banking sector, even before the United Kingdom departed from the gold standard. When 522 U.S. banks failed during the month following September 21, causing "other bankers and some legislators [who] were thinking along the same line" to approach Meyer to request stronger governmental action in the face of the domestic crisis, Meyer urged Hoover to declare a financial-economic emergency of world proportions and to call a special session of Congress for enactment of a bipartisan program, including revival of the WFC. (Pusey [1974], p. 216). When the bankers' representatives expressed reluctance to fund the NCC after Hoover finally proposed it to them on October 4, Meyer took the lead in urging that the bankers accept the plan "because action was needed immediately and Congress was not in session" (ibid., p. 217). When Meyer said that he would use all of his influence to revive the WFC if the banker-funded NCC

involves, as Mr. [Owen] Young [chairman of General Electric and a director of the New York Reserve Bank] so clearly pointed out, "the voluntary surrender of a certain amount of individual freedom by the majority and the ultimate coercion of the minority. . . ." [The Swope plan] is an illustration of the irreducible minimum of surrender required to inaugurate a stable and socially responsible industrial order on the foundation of capitalism and political democracy. (Lippmann [1933], p. 40)

proved inadequate, "the bankers agreed to go along with that understanding" (ibid.).

Once the NCC was established, with the public support of New York Reserve Bank Governor George Harrison,⁴ Meyer again took the lead in persuading Hoover that the NCC "was not big enough or strong enough to do what was needed" (ibid.). Pusey described Meyer's argument to Hoover as follows:

If we take the assets of the strong banks and freeze them in slow loans to weak banks, . . . we will make things worse, not better. The strong banks should be kept strong. Only governmental action can fill the vacuum, . . . and it ought to be taken soon. (Ibid.)

Pusey then related the subsequent events:

Since neither the White House nor the Treasury initiated any move in that direction [rechartering the WFC], Meyer asked Chester Morrill, secretary of the . . . Board, to review pertinent legislation of the past and to write a bill for a new lending agency with broad powers to stem the tide of the depression. Board [General] Counsel Walter Wyatt and Floyd R. Harrison [assistant to Governor Meyer] also worked on the bill. [Pursuant to Senate Democratic Leader Joseph T. Robinson's request, the Democrats] . . . would support the bill if Meyer wrote it and ran the agency. Hoover agreed to this. The [RFC] bill was then modified to include the governor of the Federal Reserve Board as an ex-officio member [and chairman] of the RFC board of directors. The finished draft went to Capitol Hill -- not to the White House. (Ibid.)

Both Harrison and Morrill were appointed to their positions during the autumn 1931 crisis, Harrison on September 16 and Morrill on October 7 (Federal Reserve Bulletin [1931], vol. 17, p. 557). Wyatt, who later drafted the national bank conservatorship and preferred stock purchase provisions of the Emergency Banking Act of March 9, 1933 (Jones [1951], pp. 21-22; Olson [1988], pp. 37-40), had joined the Board's legal division in 1917 and had been the Board's general counsel since October 1922. Because of his

experience during World War I, Wyatt was familiar with the WFC's legal structure and operations and became a regular legal adviser to the RFC while Meyer was associated with it.

Governor Meyer became the Hoover administration's principal advocate of the RFC bill, appearing at Senate hearings as the first witness on December 18, 1931 (Pusey [1974], p. 217). Meyer and the Board's staff clearly wanted the RFC to have extensive powers of the type that it later acquired during the New Deal. As Pusey describes it, "Senator Glass told Meyer that he was asking for more power than any man ought to have, but the latter replied that he had no interest in power for its own sake; power was important only as it advanced the country toward recovery" (ibid., p. 218). By the time the RFC Act was enacted on January 22, 1932,⁵ Hoover had begun to lose his classical liberal inhibitions regarding governmental interference in private enterprise at an accelerating rate but, even according to the historical account most favorable to Meyer and the Board's staff, also had begun to concentrate on preventing Meyer from dominating the RFC (ibid., pp. 218-219).

During the RFC's formation, Meyer was a "human dynamo" who "refused to take no for an answer" from the persons he was inviting to join the RFC. His wife, Agnes Meyer, made the following diary entry during this period: "I know the whole Wash. crowd consider Eugene unbearably dictatorial but I doubt whether a really great intellect ever gets anywhere with soft words" (Pusey [1974], p. 219).

Meyer seems to have consciously attempted to duplicate the WFC in its business locations and "recruited WFC people to staff the RFC" (Olson [1988], p. 15). For example, Meyer recruited Leo Paulger, a banker with the WFC, to staff the RFC's examinations division. Paulger, in turn, "drew up a list of bankers who had assisted him with the WFC in the 1920s and recruited many of them to staff local RFC offices" (ibid.; see also Simonson and Hempel [1993]). The principal personnel coordinators for Meyer at the RFC were two of his mainstays at the Board -- Floyd Harrison and Chester Morrill (Pusey [1974], p. 219). Still, Hoover and Meyer clashed several times during 1932 on both tactics and strategic direction, with Hoover attempting to politicize the RFC somewhat through measures that included White House appointments of RFC staff (ibid.).

Meyer organized banking and industrial committees in the Federal Reserve districts "to help the economy get into motion again" in May-June 1932, with General Electric chairman Owen Young serving as the chairman of the New York district's committee (see ibid., p. 222; Federal Reserve Bulletin [1932], vol. 18, pp. 416-418). The Board's Annual Report ([1932], p. 22), describes the impetus for the formation of these committees (which on their face would seem to be superfluous because their members were drawn from the same pools of men who served as Reserve Banks' directors). According to that account, the Board's concern (ostensibly shared by the Reserve Banks) was that "steps should be taken to enlist the cooperation of bankers and business men in an effort to develop

ways and means of making effective use of the funds which were being made available by the open-market operations of the System." The Board apparently intended that the committees would conduct surveys in their districts with the purpose of detecting what now would be called "credit crunches," that is, determining "to what extent legitimate credit requirements of commerce, industry, and agriculture were not being supplied on account of a lack of banking facilities or for other reasons, and . . . acquainting prospective borrowers with possible sources of credit" (ibid.).

By July 1932, Meyer's health began to fail, and the strain associated with enactment of the Emergency Relief and Construction Act of July 21, 1932 caused him, at the urging of his wife, to ask Hoover to have legislation enacted that would remove the governor of the Board as ex-officio chairman of the RFC, while enabling him to retain his position as governor (Pusey [1974], p. 225). Another RFC-related strain that undoubtedly caused some deterioration of Meyer's health was the collapse of the Central Republic Bank of Chicago in June 1932. The family of Charles Gates Dawes, the president of the RFC (and former vice president of the United States under Coolidge), owned a controlling stake in the bank, and it borrowed \$90 million from the RFC to stop a run.⁶

Although it is now purely conjecture on my part, it would not be surprising eventually to find documentation indicating that, among other factors causing Mr. Dawes to turn to the RFC instead of the Federal Reserve for credit, the personal tensions between Meyer in his capacity as governor of the ostensibly nonpolitical Board

and Dawes as "Hoover's man" at the RFC would have made a Federal Reserve loan nearly impossible. Support for this conjecture may be inferred from the following reference in Pusey:

Everyone connected with the [Dawes] loan seemed to be keenly aware that it would be embarrassing to the Republicans. . . . Yet Meyer made no apology for it. . . . In fact the Dawes loan had been recommended by two Democratic directors of the RFC [Jones and McCarthy]. (Ibid., p. 224)

The Board under Meyer actively participated in the enactment of the Hoover administration's emergency financial rescue legislation during 1932, and also supported establishment of the NCC and the RFC. The published sources provide evidence that this legislation was drafted and promoted mostly by the Board and its staff, not the Reserve Banks, although some of the Reserve Banks may have supported it.

The emergency legislation of 1932 included the first Glass-Steagall Act, the Act of February 27, 1932, Public Law No. 72-44, which added Sections 10(a) and 10(b) to the Federal Reserve Act to authorize the Board, in unusual and exigent circumstances and when approved by at least five of the eight members of the Board, to allow rediscounts for groups of member banks and to allow member banks to borrow for up to four months on the security of ineligible paper (including government obligations). The first Glass-Steagall Act also amended Section 16 of the Federal Reserve Act to allow Reserve Banks to pledge "ineligible" government obligations to secure issues of Federal Reserve notes. Previously, only gold and "real bills" could be used under Section 16.'

The administration's rescue legislation also included the Emergency Relief and Construction Act of July 21, 1932, Public Law No. 72-302, [Section 210 of which added Section 13(3) to the Federal Reserve Act] to authorize five of the eight members of the Board, in unusual and exigent circumstances, to allow Reserve Banks to discount "eligible" paper (real bills and government obligations) for individuals, partnerships, and corporations (see Todd [1993]). In this case, interestingly, Meyer and the Board were willing to allow the Reserve Banks to accept a role of credit intermediation that involved their dealing directly with the general public, while Hoover, only ten days earlier, had vetoed a prior version of the bill that provided for the RFC, but not the Reserve Banks, to make loans to individuals.¹⁰ Five days afterward, the Board issued a circular finding that the required unusual and exigent circumstances existed and authorizing the discounts for up to six months (later extended until 1936). Hackley ([1973], p. 129) notes that the "Board lost no time in implementing the statute," apparently because it was then felt that business concerns and individuals needed such credit.¹¹

The seeds of both the second Glass-Steagall Act (the Banking Act of June 16, 1933, Public Law No. 73-66),¹² and the Emergency Banking Act of March 9, 1933 (Public Law No. 73-1),¹³ were sown at a March 29, 1932 Senate Banking and Currency Committee hearing on S. 4115, which Senator Glass had introduced twelve days earlier. Governor Meyer testified during the hearing on S. 4115, and the Board's staff prepared a lengthy memorandum for his testimony,

which mainly consisted of objections to the bill (Federal Reserve Bulletin [1932], vol. 18, pp. 206-221). Particularly interesting in light of later controversies is the Board's statement that

[T]here is already in existence an open-market committee on which each of the Federal reserve banks has representation. This has come about as the result of natural development. The board believes that it would be inadvisable to disturb this development by crystallizing into law any particular procedure. The board believes that nothing further is necessary or advisable at this time than an amendment clarifying its power of supervision over open-market operations of the Federal reserve banks and their relationships with foreign banks. . . . (Ibid., p. 206)

The System's Federal Advisory Council also testified in strong opposition to the Glass bill but favored the creation of the "liquidating corporation," the ancestral conception of the FDIC, stating:

[S]uch a corporation as is proposed should be financed entirely by Government money, as is intended to be done in the case of nonmember banks. . . . In no event does the council believe it proper to require member banks to furnish the funds needed for such a corporation without at the same time giving the member banks control of such a corporation for which they are to furnish the capital from out of their own resources. The council furthermore suggests the possibility of having the activities of [the] . . . corporation taken over by the [RFC]. (Ibid., p. 223)

In the course of the hearing, Governor Meyer was asked whether it would be advisable to "unify" the banking system under federal supervision and regulation (presumably at the Office of the Comptroller of the Currency), eliminating the bank chartering and supervisory roles of the states, and he offered to have the Board's staff prepare a memorandum on that topic. The Board's general counsel, Walter Wyatt, submitted that memorandum to the Board on December 5, 1932, while Hoover still was in office. The Wyatt

memorandum strongly favored nationalization of the chartering, supervision, and regulation of banking. It was published in March 1933 as "Constitutionality of Legislation Providing a Unified Commercial Banking System for the United States" (Federal Reserve Bulletin [1933], vol. 19, pp. 166-186). This memorandum was associated with the preparation of the Emergency Bank Holiday Proclamation of March 6, 1933 (*ibid.*, pp. 113-114), which restricted to the Secretary of the Treasury the power to authorize the performance of usual banking functions during the holiday.

As Meyer's biographer describes it, at some time before the banking crisis became acute, probably between December 1932 and February 1933, the Board "had its counsel [Wyatt] prepare an executive order declaring a national bank holiday, to be used in case of necessity" (Pusey [1974], p. 234). Wyatt derived the statutory authority for proclaiming the president's emergency powers from the Trading with the Enemy Act of World War I (Olson [1988], pp. 30-31). Meyer and the Board felt strongly that the proclamation was necessary as the state bank suspensions gathered momentum in the weeks prior to the inauguration of Franklin D. Roosevelt as president (March 4, 1933), and they were frustrated that Hoover seemed inclined only toward the milder remedy of limiting withdrawals of currency and gold (Pusey [1974], p. 234).

Hoover became quite angry at Meyer and the Board during the last two weeks of his administration because the Board kept pressing upon him the idea that he should issue the stronger bank holiday proclamation and kept rejecting Hoover's idea of an 80

percent federal guarantee of all deposits to stem withdrawals and restore confidence (Hoover [1952], pp. 210-213). Pusey describes the situation as follows: "By this time Hoover's enmity toward Meyer was painfully evident. . . . Once more the President and the board were operating on different wavelengths" ([1974], p. 234). Hoover's memoirs state, in connection with this period, that he "concluded it [the Board] was indeed a weak reed for a nation to lean on in time of trouble" ([1952], p. 212).

Hoover was willing to entertain the notion of an emergency proclamation limiting withdrawals, but only if Roosevelt authorized him to say that the president-elect also approved of it. A request to that effect was transmitted to Roosevelt on February 18, 1933 (ibid., p. 215). Roosevelt was unwilling to authorize such an action before he was politically accountable for it (no "responsibility without power") and also was annoyed with Hoover's demand that Roosevelt renounce "90% of the so-called New Deal" as Hoover's price for bearing the onus of issuing the proclamation (Schlesinger [1959], p. 4). The Trading with the Enemy Act, which still is the putative statutory basis of numerous emergency powers of the federal government, was a suspect foundation for the emergency edifice. As Hoover wrote:

I had consulted our legal advisors as to the use of a certain unrepealed war power over bank withdrawals and foreign exchange. Most of them were in doubt on the ground that the lack of repeal was probably an oversight by the Congress, and under another law, all the war powers were apparently terminated by the peace. Secretary [of the Treasury Ogden] Mills and Senator Glass held that no certain power existed. There was danger that action under such doubtful authority would create a mass of legal conflicts in the country and would incur the refusal of the banks to comply. I then

developed the idea of my issuing an executive order under this power, provided Roosevelt would approve. My legal advisors agreed that, if he approved, it could be done because he could secure ratification in a few days from his overwhelming majority in the incoming Congress. (Hoover [1952], p. 205)

Another telling indictment of the legal, as distinct from the political, basis for the emergency proclamation that the Board's general counsel prepared was the following exchange between Roosevelt and Senator Glass in Roosevelt's hotel room at 11:30 on the night before the inauguration:

[Roosevelt]: [Hoover says that the Board has asked him twice within the last three days to issue an emergency proclamation, but I told him that the governors of the states can take care of bank closings.]

[Glass]: "Yes, I know."

[Roosevelt]: "The previous time [that the Board asked Hoover for the proclamation] I sent [incoming Treasury Secretary William] Woodin to [outgoing Treasury Secretary Ogden] Mills to tell him I would not give my approval to such a proclamation."

"I see. What are you planning to do?" asked Glass.

"Planning to close them, of course," answered Roosevelt.

"You will have no authority to do that, no authority to issue any such proclamation," protested Glass. "It is highly questionable in my mind if you will even have the authority to close national banks -- and there is no question, at all, that you, even as President, will lack the authority to close banks chartered by the states."

"I will have that authority," argued Roosevelt. "Under the Enemy Trading Act, passed during the World War and never rescinded by Congress, I, as President, will have the authority to issue such an emergency proclamation 'for the purpose,' as the Act says, 'of limiting the use of coin and currency to necessary purposes.'"

"It is my understanding that President Hoover explored that avenue a year or two ago -- and again during recent days," said Glass. "Likewise, it is my understanding that the Attorney General informed him that it was highly questionable if, even under this act, though it has never been rescinded by Congress, the President has any such authority. Highly questionable because the likelihood is the act was dead with the signing of the Peace Treaty, if not before."

"My advice is precisely the opposite."

"Then you've got some expedient advice," returned Glass. . . . [Glass then argued that the courts would find the proclamation unconstitutional because it would require the

unwarranted closing of solvent banks and because, even if all the banks were known to be insolvent,] "I am sure such a proclamation could not legally include banks chartered by the states." [Wyatt's written opinion of December 5, 1932, argued just the contrary, that the federal government could close state-chartered banks.]

"Nevertheless," declared Roosevelt, "I am going to issue such a proclamation."

Convinced though he [Glass] was there had been no need for closing the banks [Glass believed that only insolvent banks could not withstand the runs of February-March 1933] and certain, too, the President was without constitutional authority for his act, those convictions were lost causes. (Smith and Beasley [1972], pp. 341-343)

Hoover writes in his memoirs that if Roosevelt really believed what he told Senator Glass late on March 3, then he should have joined Hoover in issuing a proclamation limiting withdrawals and issuing the 80 percent guarantee of deposits to avoid closing the banks: "But closing the banks would be a sign the country was in the ditch. It was the American equivalent of the burning of the Reichstag to create 'an emergency'" (Hoover [1952], p. 214). However, as noted in the earlier discussion of the measures taken from the fall of 1931 onward, it was Governor Meyer and the Board's staff who led the way in finding reasons for proclaiming emergencies and for pushing forward the boldest emergency relief schemes, against the recalcitrance of Hoover, who went along with much that he should not have but retained to the end the capacity to discern excess where the Board apparently did not.

III. What the Roosevelt administration (and the Federal Reserve Board) did to alter Hoover's schemes, early 1933-late 1933.

As is generally known, one of President Roosevelt's first official acts after taking office on Inauguration Day (Saturday,

March 4, 1933), was to proclaim an emergency, three-day, nationwide banking holiday, signed and effective Monday, March 6. Late in the preinaugural banking crisis, on March 3, the Federal Reserve Board and the New York Reserve Bank's Governor Harrison had agreed that the Board would issue an order closing all the Federal Reserve Banks. New York Governor Herbert Lehman, at the urging of Governor Harrison, also agreed to proclaim an emergency bank holiday in New York, and a similar action was taken in Illinois. Thus, the Board had placed first Hoover and then Roosevelt in a position in which, as a practical matter, the president could not allow Monday to arrive without some kind of emergency proclamation (Pusey [1974], p. 237).

These extraordinary actions tended to intensify the crisis atmosphere. As Schlesinger writes:

Whether revolution was a real possibility or not, faith in a free system was plainly waning. Capitalism, it seemed to many, had spent its force; democracy could not rise to economic crisis. The only hope lay in governmental leadership of a power and will which representative institutions seemed impotent to produce. Some looked enviously on Moscow, others on Berlin and Rome. . . . (Schlesinger [1959], p. 3)

Senators Cutting (New Mexico), La Follette (Wisconsin), and Costigan (Colorado) urged Roosevelt to nationalize the administration, if not the ownership, of the banking system, but the president decided not to do so because of assurances of bankers' cooperation with his New Deal reform plans (ibid., p. 5). He limited his initiative in this respect to federal control of the licensing procedure for reopening banks after the holiday. Representative Hamilton Fish of New York, after Roosevelt's first

"fireside chat" on March 12, "proudly pronounced the new regime" an American dictatorship based on the consent of the governed without any violation of individual liberty or human rights" (ibid., p. 15). The text of that fireside chat, "relative to the banking situation," is printed in full in the Federal Reserve Bulletin ([1933], vol. 19, pp. 120-122), a circumstance that, in light of everything else that transpired then, causes one to wonder who actually drafted that text for Roosevelt.

The appearance of radical innovations, some of them at least mildly corporatist in nature, at the Federal Reserve Board during the first six months or so of the Roosevelt administration should not have been all that surprising in the context of contemporary Washington events. In any case, the Emergency Banking Act of March 9, 1933 was suggested to Roosevelt by a team of holdover Hoover administration advisers that included, from the Board, Walter Wyatt, E.A. Goldenweiser (the Board's director of research and statistics), and Governor Meyer. Wyatt and Hoover's treasury undersecretary, Arthur Ballantine, drafted the Emergency Banking Act, with Wyatt being particularly responsible for the National Bank Conservation Act (Title II of the Act) and the RFC preferred-stock-purchase program (Section 304 of the Act)."

There followed a host of legislative initiatives, now retrospectively and collectively termed the First New Deal or the One Hundred Days, and many of those initiatives were begun or substantially modified by the recommendations of the Board. On March 24, 1933, the Emergency Banking Act was amended to authorize,

for up to one year, Reserve Banks' loans to any nonmember bank on "eligible" collateral under Section 13 of the Federal Reserve Act and, after inspection of collateral and "a thorough examination" of the applicant, to any nonmember bank on ineligible collateral under the then-current version of Section 10(b) of the Act, which still required a finding of "unusual and exigent circumstances" by at least five governors of the Board (Board of Governors, Annual Report [1933], p. 266). The Treasury issued numerous regulations, licensing orders, and statements regarding the banks throughout the month of March, and most, if not all, of them were drafted or cleared for issuance by the Board's staff (see Federal Reserve Bulletin [1933], vol. 19, pp. 122-133). As evidence that the Board was slightly more enthusiastic than the Reserve Banks for compliance with the new order of things in Washington, the March 1933 Bulletin (*ibid.*, pp. 130-131) reports that on March 8, the Board asked the Reserve Banks to prepare and forward a list of all persons who had withdrawn gold or gold certificates from the Reserve Banks or from member banks since February 1, 1933, "and who had not redeposited it in a bank on or before March 13, 1933," later extended to March 27. "The board also advised them [the Reserve Banks] that it had no objection to obtaining similar information from nonmember banks and information regarding withdrawals prior to February 1" (*ibid.*).

What the Board and the Roosevelt administration intended to do with the information about gold withdrawals soon became evident. On April 5, 1933, President Roosevelt issued an executive order

On April 20, 1933, operating under the authority of that same Trading with the Enemy Act, President Roosevelt issued an executive order making it a federal felony to export gold or gold certificates, or to earmark domestic gold for foreign account, without a license from the Treasury. Forshadowning the August 1971 events at Camp David that affected official U.S. gold transactions,

[W]hile many of our citizens voluntarily and helpfully turned in their gold [after March 8], there were others who did not so respond. In fairness, the conduct of all citizens with reference to gold should be the same in this emergency, and this is assured by the order. Gold held in private hoards serves no useful purpose under present circumstances. When added to the stock of the Federal Reserve banks it serves as a basis for currency and credit. This further strengthening of the banking structure adds to its power of service toward recovery. (Ibid., p. 215)

March 6. Indeed, the stated purpose of that emergency bank holiday proclamation on basis for the president's emergency bank holiday proclamation on the Enemy Act of October 6, 1917 that Walter Wyatt held to be the Act [March 9] " (Ibid., pp. 213-214), included the same Trading with which a press statement issued by the Treasury indicated "was in contemplation from the time of the passage of the Emergency Banking Act [March 9] " (Ibid., pp. 213-214), included the same Trading with than \$100 for individuals. The authority cited for that order, the recognized and customary channels of trade of gold worth more a federal felony. "Hoarding" was defined as the withholding from of up to \$10,000 or up to 10 years' imprisonment, the penalties for certificates. " Willful violation of the order would cause a fine "forbidding the hoarding of gold coin, gold bullion and gold p. 114). The Treasury's press statement continued as follows:

this April 1933 proclamation marked the end of the U.S. gold standard for private international transactions. On April 29, the Treasury issued regulations governing domestic purchases of gold for industrial, professional, and artistic uses and the exportation of gold (ibid., pp. 266-269).

Pressed by political demands "for inflation," largely from "a few crackpot congressmen and senators . . . , a few businessmen and farm leaders organized under the title 'The Committee for the Nation,' and a couple of starry-eyed monetary experts," Roosevelt acceded to the demands of the inflationists on April 18 and 19 and decided to block private exports of gold before announcing his public acceptance of the inflationary provisions of Title III of the Agricultural Adjustment Act of May 12, 1933 (amended on May 27, 1933), sponsored by Senator Elmer Thomas of Oklahoma (Moley [1939], pp. 156-161; Federal Reserve Bulletin [1933], vol. 19, pp. 307-318, 333-338). Because the Thomas Amendment (Title III) passed overwhelmingly on April 28 in both houses of Congress, 64-21 in the Senate and 307-86 in the House of Representatives, it is unclear that resistance by the Board could have been effective in preventing enactment of the amendment. However, Raymond Moley's narrative (the best published account of the Thomas Amendment) does not indicate that anyone from the Federal Reserve was present at the White House during the crucial debates on April 18 and 19 that persuaded Roosevelt to endorse the amendment.

Meyer's biography tends to confirm this version of events: After the banks began to reopen in mid-March, Meyer no longer went

to the White House, asked permission to resign as governor of the Board on March 24, and finally left the Board on May 10 (Pusey [1974], pp. 238-241; Federal Reserve Bulletin [1933], vol. 19, p. 273). Moley later opined that Roosevelt, believing congressionally mandated monetary inflation to be inevitable, had concluded that he should endorse the Thomas Amendment in order "to circumvent uncontrolled inflation by Congress," but Budget Director Lewis Douglas declared, "Well, this is the end of Western civilization" (Moley [1939], pp. 160-161). At about this time at the Board, Floyd Harrison resigned as assistant to the governor on May 15; J.F.T. O'Connor was appointed comptroller of the currency on May 11 and became an ex-officio member of the Board; and Eugene R. Black, governor of the Federal Reserve Bank of Atlanta since 1928, was appointed governor of the Board, replacing Meyer on May 17, 1933 (Federal Reserve Bulletin [1933], vol. 19, p. 273).

The Thomas Amendment authorized the president to direct the secretary of the treasury to negotiate with the Board to permit the Reserve Banks to conduct open-market operations in U.S. government obligations and to purchase up to \$3 billion of securities directly from the Treasury (all such transactions until then having been restricted by statute to the open market) during economic emergencies or to stabilize the dollar domestically or internationally. If the Reserve Banks refused to make the purchases requested, or if their open-market operations were inadequate, the president could authorize the Treasury to issue up to \$3 billion of inconvertible, legal-tender, "greenback" currency

notes, to be retired over a 25-year schedule. The president was also authorized to issue a proclamation fixing the gold weight of the dollar at a ratio as much as 50 percent below the pre-1933 standard of \$20.67 per ounce of gold, in grains 90 percent fine. There was a silver purchase section (up to \$200 million) and, finally, an amendment of Section 19 of the Federal Reserve Act to authorize the Board, by a vote of at least five members and with the president's approval, to increase or decrease reserve requirements if "an emergency exists by reason of credit expansion" (Federal Reserve Bulletin [1933], vol. 19, pp. 317-318).

On May 27, the Thomas Amendment was further amended to provide that all coins and currencies of the United States, including Federal Reserve notes, were legal tender; previously, those notes had only "lawful money" status, but they were convertible into gold before March 1933 (*ibid.*, pp. 336-338).¹⁵ Congress passed a Joint Resolution, H.J.Res. 192, Public Resolution No. 73-10, on June 5, 1933, affirming this interpretation of the Thomas Amendment (*ibid.*, p. 338).

The Board was by no means idle during the Thomas Amendment debate, however, in shaping the legislative agenda after the March emergency was past. The Glass-Steagall Act, the Banking Act of June 16, 1933, was making its way through Congress from mid-March onward. One notable insertion, made in the bill despite the initial objections of Senator Glass, the American Bankers Association, and the Association of Reserve City Bankers (whose views reasonably may be taken to approximate those of the Reserve

Banks although the Board did not adopt an official position), was the establishment of federal deposit insurance under Section 8 of the bill (Flood [1992], p. 52; Federal Reserve Bulletin [1933], vol. 19, pp. 385-401, especially pp. 387-394). Originally conceived of as purely a liquidating corporation for closed banks, the Board proposed in its March 29, 1932 comments on the Glass bill that the prototype of the Federal Deposit Insurance Corporation (FDIC) be limited to member banks. The FDIC prototype also was to be funded by \$100 million of capital contributed from the Treasury (characterized as the recapture of a franchise tax previously paid in from the earnings of Reserve Banks) and by debentures issued in amounts up to twice its subscribed capital, with the Reserve Banks being authorized to purchase the debentures up to one-fourth of their cumulative surplus (Federal Reserve Bulletin [1932], vol. 18, pp. 211-213). The Board (principally Wyatt) offered a substitute for the relevant section of the bill that was quite close to the final version of the FDIC provisions of the Glass-Steagall Act. The Board then added, in March 1932, "This is not a propitious time to ask the member banks to contribute to the liquidating corporation [FDIC prototype]. The banks are going through a very difficult period and to tax them for this purpose would be a considerable hardship on them" (ibid., p. 211).

The Federal Advisory Council, probably reflecting the Reserve Banks' views at the March 29, 1932 Senate hearing, testified that, while the Council favored the creation of the liquidating corporation, "it should be financed entirely by Government money,

as is intended to be done in the case of nonmember banks [through the RFC]" (ibid., p. 223). The first draft of the Glass bill, introduced in the Senate on January 22, 1932, would have provided on this point as follows:

A Federal liquidating corporation was to be formed, the capital of which would be supplied by an appropriation from the Treasury and from assessments against member banks as well as Federal Reserve Banks' surpluses. This capital was to be used in purchasing the assets of closed member banks, thus speeding up payments to depositors. (Smith and Beasley [1972], pp. 305-306)

Thus, the issue to be resolved, narrowly framed, was whether the Reserve Banks' cumulative surplus should be used to provide part of the initial capitalization of the FDIC (and whether that surplus belonged to the member banks or to the Treasury).

In the final Banking Act of 1933, the Board's vision was close to the FDIC provisions that were enacted. The Treasury was required to provide \$150 million of capital (actually provided by the RFC), and the Reserve Banks were required to subscribe for the FDIC's capital stock "to an amount equal to one-half of the surplus of such bank[s] on January 1, 1933." The Reserve Banks then held \$278.6 million of total surplus (Federal Reserve Bulletin [1933], vol. 19, p. 388; Board of Governors, Annual Report [1933], p. 103). The Reserve Banks, perhaps urged by their directors and member banks, apparently regarded this stock subscription as an expropriation of their funds [an involuntary exchange for unjust compensation that had doubtful real value]. The FDIC stock subscription was effected in January 1934, when the cumulative surplus was reduced from \$277.7 million to \$138.4 million (one-half

of the January 1933 surplus was taken). (Board of Governors, Annual Report [1934], p. 91). Of the subscription, \$69.7 million was paid in January 1934 and \$69.7 million was noted "called for payment on April 15" (Federal Reserve Bulletin [1934], vol. 20, p. 94). However, the Reserve Banks, apparently acting on their own initiative, created an accounting entry entitled "Reserves (Federal Deposit Insurance Corporation stock, self-insurance, etc.)" and used it to charge off entirely the \$139.3 million value of the FDIC stock previously carried on their books in July 1934, at the close of the same calendar quarter in which the stock subscription was completed (ibid., p. 516). This event passed without recorded comment by the Board in either the Federal Reserve Bulletin or the Board's Annual Report.

Simultaneously with the passage of the Glass-Steagall Act, the National Industrial Recovery Act (NIRA), also enacted June 16, 1933, was making its way through Congress but was not commented upon in either of the Board's two official publications for 1933. In light of subsequent events, it appears probable that the spirit of industrial planning was reinforced at the Board after June 1933. For one thing, the NIRA, whose creation was favored by an odd coalition of Theodore Roosevelt-Progressive Republicans, labor leaders, and "Brain Trusters" (presidential assistants) Rexford G. Tugwell and Raymond Moley, was modeled on the activities of the old War Industries Board of World War I and, accordingly, must have been attractive to General Counsel Wyatt, the highest-ranking World War I holdover on the Board's staff. Schlesinger describes how

Moley, ordered by Roosevelt to "come up with some recommendations" on business-government cooperation plans in April 1933, begged General Hugh Johnson, who had been deputy to Bernard Baruch on the War Industries Board, "to get into the picture: 'Nobody can do it better than you. You're familiar with the only comparable thing that's ever been done -- the work of the War Industries Board'" (Schlesinger [1959], pp. 96-97).

Matthew Josephson describes the principal features of the early National Recovery Administration -- whose emblem became Johnson's famous NRA "Blue Eagle" -- as follows:

The NRA introduced national planning under trade agreements called "codes," which were drafted by the different trade associations and administered mainly by representatives of business. The whole scheme for control of production, for stabilizing wages, and for eliminating "unfair" competition, while granting immunity from antitrust prosecution, was conceived originally by President Gerard Swope of the General Electric and by the U.S. Chamber of Commerce; it was modified somewhat by granting labor a vague "bill of rights," the NRA 7(a) clause providing for workers' representation by unions of their own choosing. . . . Johnson declared at the start, "This is not an experiment in dictatorship, it is an experiment in cooperation." . . . [T]he NRA . . . encouraged cartel organization in the various industries. . . . Several of the largest employers, such as Henry Ford, consulted their lawyers and flatly refused to comply with such programs; Sewell Avery, head of the great Montgomery Ward mail order concern, . . . resisted the NRA. . . . In Washington there was a free-for-all as representatives of large and small businesses congregated in the capital to have their quotas of output, prices, and wages established to their liking. (Josephson [1972], pp. 248-250)

The history of the NRA after June 1933 is described in Schlesinger ([1959], pp. 87-176). Johnson, Tugwell, and other stalwart defenders of the NRA believed that the business production codes, combined with the organization of labor into collective bargaining units, would create a public sense of solidarity, of

everyone joining forces in a common enterprise, a somewhat romantic notion that derived directly from the aspirations of the Catholic Socialism and Christian (that is, Protestant) Socialism movements of late-nineteenth-century Europe (see Gide and Rist [1913], pp. 483-514). A "Blue Eagle" parade in support of the NRA drew large crowds in New York City in early September 1933, and industries submitted draft production codes to the NRA in the late summer and early fall. Some industries tried to hold out for company unions instead of the independent unions required by Section 7(a) of the National Industrial Recovery Act (Schlesinger [1959], pp. 115-117, 136-151).

In the fall of 1933, however, the problem of enforcing price agreements began to undermine the NRA's codes. Some industries had companies trying to break their NRA-authorized cartel price limits, and other industries enforced cartel limits but competed (outside the NRA codes) against other industries with respect to price (ibid., pp. 119-121). To most of the public, it seemed that control of prices and production had been ceded to big businesses, which were allowed to collude in fixing prices and production legally in cartels authorized by the NRA. However, businesses complained that the NRA interfered too much in their pricing decisions. Yielding to businesses' complaints, the NRA tolerated higher fixed prices than it otherwise might have done; this effort to increase profits ravaged by the depression created a situation in which "business could keep production down and prices up" (ibid., pp. 122-126).

Investigations led by Clarence Darrow (who was 77 years old) and speeches by Senator Gerald Nye of North Dakota began to undermine the perceived moral authority of the NRA between the fall of 1933 and the early months of 1934. Johnson, succumbing to the strain of events, became prone to emotional swings and more attracted to the systematic organization of society along corporatist lines. As Schlesinger writes:

In the end, he [Johnson] saw an agency which would absorb the Departments of Commerce and Labor and around which the American government and economy could eventually be rebuilt. This conception of NRA had ambiguous potentialities. Johnson once presented Frances Perkins [the first secretary of labor] with a copy of Raffaello Viglione's The Corporate State; and, when he finally resigned [in September 1934], he invoked what he called the "shining name" of Mussolini in a farewell speech. He was, of course, no Fascist. (Schlesinger [1959], p. 153)

But Johnson, like many other business-oriented Washingtonians of that era, did admire greatly what Mussolini appeared to have done (much of which was a mere facade) to rebuild the Italian economy after World War I; such feelings were comprehensible in the era before the Ethiopian War of late 1935-early 1936 (see Josephson [1972], p. 250; Ferguson [1984], pp. 45, 85-89). The appeal of Fascism prior to and during the NRA era is summarized well in this passage by Eugen Weber:

To those for whom optimism, humanism and universalism did not wash, who regarded economics as secondary to politics and found material forces less appealing than moral ones, Fascism had to be the ideology of choice. In catastrophic times, it proposed a heroic society led by self-selected elites, an egalitarianism of the meritocratic, a revolutionary idealism to replace historical materialism and a militant, modernizing revolution that challenged the delusive dreams generated by the rival revolution in Russia. To his admirers in the 1920s (Freud and Churchill among them), Mussolini . . . offered not an alternative to revolution but an alternative revolution

just as violent, as nonconformist, as avant-garde as that of the left. (Weber [1994])

In February 1935, Roosevelt requested a two-year renewal of the NRA, whose authority was to expire in June. Most of the public, according to Schlesinger, was lukewarm about renewal, but the trade associations and unions were loyal to the concept (Schlesinger [1959], p. 166), which probably should call into question the capacity of today's trade associations and unions to evaluate the workings of a market economy fairly. Before renewal of the NRA could occur, the Supreme Court decided A.L.A. Schechter Poultry Corporation v. United States, 295 U.S. 495 (May 27, 1935), which held unconstitutional the delegation of congressional authority to regulate interstate commerce by the making of codes that were essentially determined by trade and industry associations together with the executive branch. That was the end of the main part of the NRA experiment, but the political realignment of different industries for and against the New Deal, based on the proportion of protection and subsidy that each industry believed it could expect, continued through the 1936 presidential election (Ferguson [1984], especially pp. 85-92; Ferguson [1991]).

As Schlesinger observes, even after the Schechter decision,

[The] theorists of the managed society also continued to consider an NRA as indispensable. . . . "Industrial laissez-faire is unthinkable," [said Raymond Moley, who argued that something had to be done "to satisfy the need for government intervention and industrial cooperation"; "the interests involved in our economic life are too great to be abandoned to the unpredictable outcome of unregulated competition." (Quoted in Schlesinger [1959], pp. 166-167)

National planning advocates faced mounting criticism from Brandeis-

liberal antitrust and progrowth advocates, but the following key insight from Schlesinger's account points the way toward the arrival of Marriner Eccles and Lauchlin Currie at the Board in the fall of 1934: "Then too a rising group within the administration was arguing that the key to recovery lay not in the reorganization of economic structure but in fiscal policy and the increase in government spending" (ibid., p. 167).

After June 1933, besides concerns arising from implementation of the NRA's program, the Board was busy coping with the aftermath of the failure of the International Monetary Conference in London in July (see Moley [1939], pp. 196-269), the aftermath of the March 1933 banking crisis, the administration's experiment in raising the dollar price of gold that was announced publicly in October 1933 (see Jones [1951], pp. 245-254), and the commencement of federal deposit insurance on January 1, 1934. But there was no new legislation of overriding importance to the Board or its staff during this period after June 1933.

IV. The First New Deal takes on a corporatist coloration, with active Federal Reserve Board assistance, late 1933-late 1934.

The accounts of the NRA that are summarized in Part III are important for establishing the background against which the events described in Part IV should be considered. From late 1933 through late 1934, men within the Federal Reserve System or closely associated with it (like Senator Glass), who should have known better but believed that they were doing the right thing, openly advocated that the Federal Reserve begin to take measures that we

retrospectively would identify with the corporatist initiatives then floating around Washington. Even Eccles and Currie, who rose with the faction in the Roosevelt administration that advocated increased government spending and an activist fiscal policy instead of central planning, later succumbed to some of the central planners' ideas, creating an interesting hybrid political economy model for the Board in the second half of the 1930s. This hybrid could be described as a mixture of ideas drawn from orthodox Keynesianism and ideas from the Chicago Plan for 100 percent reserves banking.

President Roosevelt, under the influence of economists to whom he was introduced by Henry Morgenthau, Jr., who then was head of the Farm Credit Administration, began to consider experiments in raising the dollar price of gold as a means of raising the price of all commodities during the summer of 1933. Morgenthau had studied under one of those economists, George Warren of Cornell University; the others were Irving Fisher (Yale) and Frank Pearson (Cornell). Olson writes:

In mid-August 1933, Roosevelt told Morgenthau he wanted to devalue the dollar with gold purchases. The decision ignited a bitter debate and demonstrated the president's independence of conservative ideologies. Under Secretary of the Treasury Dean Acheson firmly opposed him. . . . When [Secretary] William Woodin became ill in 1933, Treasury duties fell to Acheson, although the president frequently consulted with Morgenthau about Treasury business. . . . Acheson thought the commodity dollar [theory] was ludicrous. . . . Tired of Acheson's obstructionism, Roosevelt fired him in November. By that time Roosevelt had named Morgenthau acting secretary of the treasury.¹⁶ (Olson [1988], p. 107)

The Board's role in the gold-buying episode, like Acheson's, was opposition.

More opposition came from the Federal Reserve Board. . . . [The new governor, Eugene Black, was] a conservative banker and attorney serving as head of the Federal Reserve Bank of Atlanta. Throughout the late 1920s and early 1930s Black had predicted a national banking crisis, and he gained widespread recognition when those apparitions came true. Black had close ties with the American Bankers' Association and other financial trade groups, and he looked on the gold buying scheme as pure foolishness. Black was not as adamant about it as [Harvard professor and Morgenthau's executive assistant Oliver M.] Sprague, [Budget Director Lewis] Douglas, and Acheson, and his independence at "the Fed" insulated him from Roosevelt's wrath, but he nevertheless strongly opposed the program. George Harrison of the Federal Reserve Bank of New York, along with the entire Wall Street investment community, thought gold buying would destroy the money markets. (Ibid.)

Because the Federal Reserve would not take the lead in buying gold to support the commodity dollar theory, Roosevelt and Morgenthau turned to Jesse Jones and the RFC to do so. Jones was shrewd enough to know that, if he opposed gold buying, he would lose influence with Roosevelt, just as Acheson, Douglas, and Sprague had done. The RFC issued \$150 million of short-term obligations (which the Reserve Banks were forbidden by law from purchasing) to finance its gold purchases (ibid., p. 109).

And there was one part of gold buying that Jones loved. Anything that raised so much ire on Wall Street couldn't be all bad. . . . Late in October 1933, Jesse Jones, George Warren, and Henry Morgenthau met each morning at the president's bed to set a gold price. The daily price was irrelevant as long as the trend was up. To keep speculators off balance they fluctuated the daily price, but the general trend was up, from \$29.01 an ounce on October 23, 1933, to \$34.06 on January 17, 1934. . . . Much to George Harrison's chagrin, Jones used the Federal Reserve Bank of New York to purchase gold abroad on behalf of the RFC. Harrison hated it and Jones loved to watch him squirm. At the morning meetings, amidst laughter and coin flips and silly compromises, the four men reached a daily price. Jones and Morgenthau occasionally winced at how unscientific their methods were, but they did raise the price of gold and reduce the gold content of the dollar. Eventually the RFC bought a total of more than four million ounces of gold for \$134 million. (Ibid., pp. 109-110)

Morgenthau replaced Acheson and became undersecretary of the Treasury and acting secretary on November 17, 1933, when Woodin became ill. On December 13, Woodin resigned, and Morgenthau became secretary and ex-officio chairman of the Federal Reserve Board on January 1, 1934 (Federal Reserve Bulletin [1934], vol. 20, p. 6). On December 28, 1933, as the gold-buying program was winding down, Morgenthau issued an order requiring the delivery of all privately held gold (with minor exceptions) to Reserve Banks and member banks, to be held for the account of the Treasury (ibid., pp. 9-10). On January 16, 1934, the Roosevelt administration introduced the bill that would become the Gold Reserve Act of January 30, 1934; the administration terminated the gold buying program on January 17 (ibid., p. 73).

The Treasury's gold delivery order caused a great deal of consternation among the Reserve Banks because they believed that they had a fiduciary duty toward gold deposited with them by their member banks and that, in the absence of a statute specifically directing them to turn over member banks' gold to the Treasury, they could not in good conscience do so. Governor Black was informed of the Reserve Banks' position on this question during a governors' conference (apparently following the issuance of the Treasury's order) and presented their reservations to Congress during testimony on the Senate version of the Gold Reserve Act bill on January 17, 1934 (ibid., pp. 73-76). The outcome was a compromise under which Section 2(a) of the Gold Reserve Act explicitly vested the Reserve Banks' title to gold in the United

States (that is, the Reserve Banks' title to the gold was transferred to the Treasury) and offered the Reserve Banks gold certificates in exchange (*ibid.*, p. 63). The somewhat cavalier procedures of the Board and the Treasury with respect to the Reserve Banks' gold in 1933-34 still were regarded as a novelty then, but analogous instances of the use of Reserve Banks' cash or other assets for the Treasury's primary benefit have since occurred from time to time; consequently, Reserve Bank officials have tended to become less sensitive to the underlying principles of this issue than they formerly were.

The Gold Reserve Act established the Exchange Stabilization Fund and centered in the Treasury the direction of United States foreign exchange market intervention (see Todd [1992a]). Roosevelt also issued a proclamation under the Act the following day, January 31, 1934, permanently fixing the official price of gold at \$35.00 per ounce, a devaluation of the dollar to 59.06 percent of its post-1834 and pre-1933 value of \$20.67 (Blum [1959], p. 123).

The other notable legislative events of 1934 affecting Federal Reserve operations before the arrival of Marriner Eccles were those leading to enactment of former Section 13b of the Federal Reserve Act (repealed in 1958, effective in 1959) in the Act of June 19, 1934.¹⁷ The background of that statute has been well summarized by Olson:

Before his sudden death in 1934 [he resigned August 15 to resume his duties as Governor of the Atlanta Reserve Bank but died December 19], Governor Eugene Black frequently protested [Jesse] Jones's omnipresence in Washington financial circles and how the RFC, not the Federal Reserve Board, was the dominant force in the money markets. In New York, the

governors of the Federal Reserve Bank [sic], particularly George Harrison and Owen Young, expressed similar sentiments. During the bank reconstruction process in the spring and summer of 1933, Harrison repeatedly called for an end to RFC loans. Instead, he wanted the Federal Reserve banks to make the loans with the RFC guaranteeing them. Jones disagreed and prevailed with the president. While [presidential advisors Adolph A.] Berle, [Tommy] Corcoran [general counsel of the RFC], and Tugwell wanted the RFC to become a permanent agency controlling the flow of capital throughout the entire economy, conservatives [like Jones, Douglas, Postmaster General James Farley, and Senator Glass] wanted it to remain purely a temporary, emergency institution. (Olson [1988], p. 114)

At that juncture, in March 1934, Roosevelt wrote to the chairmen of the House and Senate banking committees, expressing concern that small businesses continued to be unable to build "working capital" (Hackley [1973], p. 134). He apparently used this phrase to mean funds available for up to five-year terms to meet the expenses of investment in equipment and premises (purposes that ordinarily were ineligible for discount by Reserve Banks under Section 13 of the Federal Reserve Act), and maturities that far exceeded the 90-day limitations under Section 13 and the 120-day limitations under Section 10(b) (an emergency provision originally enacted in 1932 that had been extended) (ibid.). The Board, responding to Roosevelt's March letter, wrote to the Senate Banking Committee on April 13, 1934, that it agreed that there was a need "for credit facilities for industry and commerce . . . for loans to provide working capital for commerce and industry, and such loans necessarily must have a longer maturity than those rediscountable by Federal reserve banks" (ibid.).

The Board's original vision apparently was that the Treasury should return to the Board the \$139 million taken from the Reserve

Banks' surplus in early 1934 to fund part of the FDIC's original capital subscription and should authorize the Board, not the Reserve Banks, to organize and operate twelve regional intermediate credit banks "to discount commercial paper and make direct loans of up to five years to industry" (Olson [1988], p. 155). Berle is credited with originating this idea (ibid.), but Governor Black appears to have been an early convert.

Although New Deal planners saw the proposal as an important step toward government control of the capital markets, the idea had little support in Congress or in the rest of the administration. . . . Berle also wanted the [intermediate credit banks] to underwrite securities issues, a move designed to shore up the defunct capital markets. . . . In the [NRA] . . . Hugh Johnson and W.E. Dunn, RFC-NRA liaison officer, were pushing a more ambitious proposal. . . . They wanted an intermediate government credit corporation -- supervised by staff members from the RFC, Treasury, and Federal Reserve Board [note: not the Reserve Banks] -- to purchase marketable securities. (Ibid.)

Senator Glass did not oppose the idea of a working-capital loan facility for the Federal Reserve, but he wanted it located at the Reserve Banks in order to avoid duplication of existing lending facilities. Jones wanted the RFC to operate the only working-capital lending programs. Eventually, bills embodying both proposals went to final votes in both houses of Congress. Some congressmen objected that the Reserve Banks should not be making loans in nonemergency circumstances directly to individuals. Others did not wish to see Reserve Bank credit used as start-up capital; they believed that working-capital loans should be made only to established businesses (see ibid., pp. 156-157; Hackley [1973], pp. 133-136).

It is fairly clear that, at the Board, the Federal Reserve was expected to take the dominant role in the new industrial lending facilities, with the RFC making the loans only if the Reserve Banks refused to do so (Hackley [1973], p. 136). There were slight dissimilarities in the lending authorities of the two bodies in the final statute (ibid.), but the overlap of RFC-Federal Reserve authority in this instance produced substantially different outcomes. Over time, the RFC made most of the industrial loans, and, in Hackley's words, "the volume of such loans made by the Federal Reserve Banks -- at first considerable -- eventually declined to an amount that was almost negligible" (ibid.). However, as Anna Schwartz has noted, Section 13b, although "a departure from [Federal Reserve] tradition" and by then dead, gave rise in later years to the congressional and executive branches' idea that the Federal Reserve Banks could serve as guarantors (subject to Treasury reimbursement) for other types of industrial loans and could serve as fiscal agents for the Treasury's myriad federal loan guarantee programs during and after World War II (Schwartz [1992]). In any event, the Reserve Banks' direct loans under Section 13b were limited to established businesses, with small businesses favored, which satisfied one of the corporatist objectives of reducing and controlling competition in the marketplace. In congressional testimony in 1947, Chairman Eccles said that at that time, the Reserve Banks had handled 3,500 loan applications under Section 13b, with a cumulative value of \$560 million (and a mean value of \$160,000), most of them occurring

before World War II, when the V-Loan program of federal loan guarantees administered by the Reserve Banks became important (Federal Reserve Bulletin [1947], vol. 33, p. 522).

These were the last significant legislative developments at the Federal Reserve Board before the arrival of Marriner Eccles and Lauchlin Currie in late 1934. The events of 1934 reflected the strains between the competing varieties of corporatism and central planning that were present in Washington at the time. In 1934, it appeared that the stronger varieties would prevail, but it is likely that the increasing difficulties encountered by the NRA contributed heavily to the Board's (especially the Board staff's) abandonment of openly corporatist solutions in favor of the new approaches advocated by Messrs. Eccles and Currie.

V. The Board prepares for the coming of Marriner Eccles at the end of 1934 and becomes a hybrid Chicago Plan-orthodox Keynesian shop.

Marriner Eccles was born in 1890 into a prominent Utah Mormon family that acquired banking interests of which the First Security Corporation today is the best-known descendant. His autobiography should be required reading for all Federal Reserve System economists and lawyers, for both the good and the bad in it, and is a valuable source of information on the 1930s not found elsewhere in mainstream economic literature. The descriptions of how the Eccles family handled depositors' runs on their banks in the Mormon Empire of the Intermountain West, in 1930-32, are among the best of the genre (Eccles [1951], pp. 54-70).

The rise of Eccles to a position in which he could influence Federal Reserve policy and eventually become governor of the Board began in Utah in early 1933. Eccles joined a discussion group in Ogden originally called the "Friedenkers" (free-thinkers), one of whose members was Robert Hinckley, a local businessman who was a regent of the University of Utah. At Hinckley's invitation, Eccles attended economic lectures by guest speakers sponsored by the university in Salt Lake City and in that way met Paul Douglas, then a teacher at the University of Chicago, who gave a lecture in Salt Lake City. In February 1933, Eccles was invited to accompany one of the speakers, Stuart Chase, to lunch. Over lunch, he explained his own theories of how to cope with the depression to Chase, who suggested that, the next time Eccles was in the East, he should go to New York and talk with Rexford G. Tugwell, then a Columbia University professor. As fate would have it, Eccles was scheduled to appear before the Senate Banking and Currency Committee in late February, and he agreed to go on to New York to meet Tugwell (ibid., pp. 85-87).

Eccles' testimony before the committee included his usual ideas, which fairly could be regarded as Keynesian, on having the federal government incur a budget deficit deliberately in order to provide fiscal stimulus to the economy. Eccles also supported a federal bank-deposit guarantee law (to be funded by an assessment of the banks), a \$2.5 billion payment by the federal government to depositors of failed banks, Henry Wallace's domestic production allotment plan to raise agricultural prices (later embodied in the

Agricultural Adjustment Act of May 12, 1933), and a permanent settlement of the interallied debts from World War I, with cancellation preferred. Then he went to meet Tugwell (ibid., pp. 104-113).

When they met in New York, before Inauguration Day in 1933, Eccles gave Tugwell a copy of his Senate committee testimony. Tugwell apparently expressed to Eccles his fear "that the system of private enterprise had outdated itself and that governmental control of the whole economic plant in an immediate and direct way might be necessary" (ibid., pp. 114-115). After the inauguration, Eccles corresponded with acquaintances in Washington about his ideas on what ought to be done. He sent a telegram to Senator John Townsend (a supporter of inflationary finance) on April 20, advocating a \$5 billion Treasury bond issue to be purchased in its entirety by the Federal Reserve in order to bring about "controlled inflation" (ibid., pp. 122-123). Eccles was skeptical regarding the viability and theoretical soundness of the NRA, believing that it tended to promote monopolistic practices (price cartels) and did little to relieve the suffering of the unemployed. The NRA, Eccles thought, would cause an "inventory boom" without increasing aggregate purchasing power (ibid., pp. 125-126).

Around October 10, 1933, Jesse Jones telephoned First Security to request that E.G. Bennett, one of Eccles' colleagues in management, take the vacant Republican director's seat at the RFC. Tugwell, then in Washington, separately asked Eccles to come East for another discussion. Arriving around November 1, Eccles met

Tugwell at the Department of Agriculture, and they agreed to have dinner that night at the Shoreham Hotel with Henry Wallace, Harry Hopkins, Jerome Frank, and George Dern (ibid., pp. 128-131). The Washington officials were ready to receive the gospel of unbalanced budgets from its foremost western preacher.

[T]hey needed more than the doctrine of Christian charity to advance what they wanted to do in the face of strong political resistance. They needed arguments on how a planned policy of adequate deficit financing could serve the humanitarian objective with which they were most directly concerned; and second, how the increased production and employment that the policy would create was the only way a depression could be ended and a budget balanced. (Ibid., p. 131)

The dinner group decided that Eccles should work on Treasury Undersecretary Dean Acheson, who was "open to argument" on the balanced-budget question. Eccles believed that his arguments did win Acheson over to his side, but Acheson resigned and was replaced by Morgenthau a few weeks later. Then Eccles met Secretary of the Interior Harold Ickes, who apparently wanted to ask him to take charge of the administration's public housing program. Eccles returned to Utah but, in mid-December 1933, he was asked to return to Washington the following month to meet with Morgenthau, the 'new Treasury secretary. A few weeks later, he was offered (and accepted) a position as assistant to Morgenthau in charge of monetary and credit matters, beginning February 1, 1934, to last until June 1935 (ibid., pp. 136-143).

By March 1934, Eccles was working as Morgenthau's liaison to the administration committees working on housing matters. There he met Winfield Riefler, a Board economist who had been working on legislative matters since early 1932. Riefler, Eccles, and others,

working together on the President's Emergency Committee on Housing, established the Federal Housing Authority in June 1934. Riefler devised the principle of the federal loan guarantee for housing, later used in a host of federal lending programs (ibid., pp. 144-157).

In June 1934, Eugene Black resigned as governor of the Board. Morgenthau told Eccles in August that he had put forward Eccles' name to Roosevelt as Black's replacement. In September, at a meeting with Roosevelt, Eccles said that he would accept the appointment only if fundamental changes were made in the organizational structure of the Federal Reserve System. When Roosevelt asked what the nature of those changes might be, Eccles asked for a month's delay to prepare a memorandum of requested changes. Eccles wrote:

[I]t was not until November 4 [1934] that I had another meeting with the President. I brought to it a memorandum I had prepared in the meantime with the help of Lauchlin Currie, then a member of the "Freshman Brain Trust" in the Treasury Department. This memorandum, which led to the Banking Act of 1935, is now deposited among the Roosevelt papers. It should have more than passing interest to the historians of the epoch. (Ibid., pp. 165-166)

Indeed.

Currie, a Harvard University associate professor, already was recognized as one of America's foremost Keynesian economists. Currie appears to be the principal source of one of Eccles' pet theories, which was that, for effective monetary control, it was necessary to centralize the control of the creation of money in one body. Currie advocated that such a body have no more than three or four policymakers (Phillips [1993]; Currie [1934], p. 159). Eccles

recounts that he put forward this idea during his November 4, 1934 presentation to Roosevelt:

[After describing the capacity of the twelve Reserve Banks to obstruct policies desired by the Board] A more effective way of diffusing responsibility and encouraging inertia and indecision could not very well have been devised. Yet it seemed to suit the New York Federal Reserve Bank, through which private interests in the New York financial district exercised such enormous influence over the national economy. Reform of the foregoing situation was clearly indicated. Responsibility over open-market operations had to be unified in character and vested in a clearly identifiable body. (Eccles [1951], p. 171)

It was Eccles' belief, in which Currie, a native of Canada who did not fully appreciate the constitutional merits of the U.S. system of checks and balances, apparently concurred (Currie [1934], p. 158) that

Over the years, practices had grown up inside the System which had reduced the Reserve Board in Washington to impotence. The System had originally been designed to represent a blend of private and public interests and of decentralized and centralized authorities, but this arrangement had become unbalanced. Private interests, acting through the Reserve Banks, had made the System an effective instrument by which private interests alone could be served. The Board in Washington, on the other hand, which was supposed to represent and safeguard the public interest, was powerless to do so under the existing law and in the face of the opposition offered by the men who ran the Reserve Banks throughout the country. (Eccles [1951], p. 166.)

Besides reorganizing the relationship between the Board and the Reserve Banks, Eccles wanted to expand the effective eligibility of banks' assets to serve as collateral for borrowings at the Reserve Banks and even to delete the existing eligibility provisions (ibid., p. 174). In the end, the compromise effected was to retain the existing eligibility language but to make permanent Section 10(b), added to the Federal Reserve Act in 1932.

Section 10(b) authorized Reserve Banks to lend on any "sound assets" without regard to "the narrow form or calendar date of maturity" of assets (ibid., p. 172).

Roosevelt listened to Eccles' presentation of the memorandum for two hours and then told him that he would nominate him to be Governor of the Board. The appointment was announced November 10, 1934 (ibid., p. 175). Effective November 15, Eccles was appointed a member of the Board and was designated governor; Lauchlin Currie "was appointed by the Board as assistant director of the Division of Research and Statistics. . . . [I]t is contemplated that the work of the division involving research in the monetary field will come under Dr. Currie" (ibid.). On December 1, Lawrence Clayton, a lifelong friend of Eccles from Utah, was appointed assistant to the governor, functioning as his principal administrative assistant (Federal Reserve Bulletin [1934], vol. 20, p. 779; Eccles [1951], pp. 29-31). The stage was set for the Board to become the focus of the economic and legislative drama of the second half of the 1930s, featuring the Banking Act of 1935, the doubling of reserve requirements in 1936-37, the overhaul of discount-window policies, and the regulatory agreement of 1938 (see Phillips [1993]; Schiming [1993]; Simonson and Hempel [1993]).

VI. Conclusion: The Board absorbed and reflected the ideas current in Washington at the time.

In the history of political economy theory, it generally is believed that a taste for centralization of authority, cooperation and information-sharing to reduce competition, restraint of

production to maintain prices and profits, and the coercion of labor by the state into conformance with this design, all die hard once they become embedded in the administrative apparatus of the state. The occasional reappearance and even persistence of some mildly corporatist ideas at the Board since the 1930s might be explained by the hypothesis that such ideas, once having gained sway there in 1931-34, simply have reappeared whenever the economic and political conditions were right. The post-1934 melding of those ideas with the Eccles-Currie hybrid Keynesian model (Currie in particular being a strong proponent of some of the ideas of the Chicago Plan for 100 percent reserves banking) might not have altered the corporatist conceptions of key staff members, or tempered their influence well into the 1940s, as much as one might think.

For example, E.A. Goldenweiser, the director of the Board's research and statistics division during the period studied here, was no fascist, but he presided over or participated in all the events described in this paper. He joined the Board's staff in 1919, became director of research in 1927, remaining in that position until 1945, and retired in 1946. In November 1944, shortly before his retirement, he gave a speech anticipating the postwar system of governmental regulation, planning, guarantees, and controls that he thought necessary to sustain the peacetime conversion of the domestic economy. The speech reflects lessons learned from the NRA experience: He wanted to increase, not reduce, industrial competition in order to hold prices down, for

example, and to encourage labor to organize independently so as to defend its own interests. But the speech also displays a failure to learn other lessons from the 1931-34 era. For example, Goldenweiser advocated that the federal government provide a system of guarantees for individual citizens' standard of living, together with the regulations and controls necessary to achieve such a living standard (see Federal Reserve Bulletin [1945], vol. 31, pp. 112-121). Walter Wyatt, like Goldenweiser, was a long-time senior Board staff member who played a prominent role in the events of 1931-34 and who remained in his position until after World War II. Wyatt joined the Board in 1917, became general counsel in 1922, and retired in 1946. The director of research and the general counsel had great influence at the Board during and after 1931, and their successors in office exercise comparably great influence today. Surely the experiences of Goldenweiser and Wyatt in the early 1930s must have colored the advice they gave to Eccles and his assistants throughout the rest of their careers.

Most of the intellectual sponsorship of increased central planning and direction of Federal Reserve System policies, as well as the "moral suasion" used against regional Reserve Banks' dissent, usually are traced back to the early efforts of Marriner Eccles and Lauchlin Currie at the Board after November 1934 (see Schiming [1993]). The dominant role of the Federal Reserve in formulating bank supervisory policy usually is traced back to the efforts of Eccles and Leo Paulger, the chief bank examiner, in 1937 and 1938 (see Simonson and Hempel [1993]).

I have attempted in this paper to point out that most of the framework for and precedents affecting current Federal Reserve lending policies were created during the period in question, 1931-34, with only minor changes after Governor Eccles arrived on the scene. It is not my contention that increased open-market or lending operations by the Reserve Banks during that period would have been a bad idea from a strictly quantitative perspective or that they would have failed to alleviate some unnecessary suffering; rather, I am contending that, irrespective of the potential quantitative outcomes, the underlying motives for the initiatives that actually were attempted before Eccles and Currie arrived were primarily corporatist. Thus, those initiatives ought to have been suspect and still should be suspect whenever the statutory legacy of 1931-34 is invoked in emergency lending situations today. Interestingly, the Federal Reserve Act amendments enacted during this period have commonly been treated in Washington as received truth, with little or no suspicion of corporatist taint, even though the philosophical and economic theory bases of those statutes appeared to be completely at odds with the principles of laissez faire and increased competition that ordinarily found favor in Washington after 1980 or so.

While memories were still fresh, it was generally understood that these 1931-34 statutes and policy initiatives were logically inconsistent with competitive, laissez-faire notions. For example, the Federal Advisory Council made the following recommendation on September 18, 1934, at the close of the period studied here:

The Council feels that a careful distinction should be made between fundamental changes in the Federal Reserve System itself and those remedial changes which are necessary or desirable as a result of inconsistencies and lack of clarity inevitably resulting from the haste with which important emergency legislation was enacted in recent sessions of Congress. In view of the careful study, the prolonged debate and the thorough consideration which were given to the subject before the Federal Reserve Act was adopted in 1914, the . . . Council is convinced of the importance of having the act carefully reviewed prior to further fundamental alterations. (Board of Governors, Annual Report [1934], p. 204)

It might be well to exercise a comparable degree of caution with respect to novel interpretations of long-settled statutory doctrines today, when the relevant memories no longer are fresh. The wisdom of reflecting carefully before acting is illustrated by the following passage from Hannah Arendt's magnum opus on the problem of totalitarianism, where she notes the persistence over time of political economy models long thought dead:

[T]here remains the fact that the crisis of our time and its central experience have brought forth an entirely new form of government which as a potentiality and an ever-present danger is only too likely to stay with us from now on, just as other forms of government which came about at different historical moments and rested on different fundamental experiences have stayed with mankind regardless of temporary defeats -- monarchies, and republics, tyrannies, dictatorships, and despotism. (Arendt [1973], p. 478)

During the period studied here, a generally classical liberal world view was supplanted by a rather strong conception of the corporate state within important Washington institutions, including the Federal Reserve Board. The appeal of such corporatist political economy models to the Board and to its senior staff during the 1930s was understandable in the context of the time and place and, more than anything else, probably reflected a sense of urgency to do something, almost anything, to get the U.S. economy

moving forward again. Eccles and Currie dragged the Board away from the corporatist world view (which might have perished even without their intervention because of the general disrepute into which the NRA was sliding by the time they arrived at the Board) and toward what one of my colleagues has termed "a Keynesian aggregate interventionist sensibility" instead. But both before and after becoming ensconced at the Board, Eccles tended to succumb to the temptation to centralize power within the Federal Reserve System at the Board and at the expense of the Reserve Banks, without entirely dismantling the corporatist structures created within the System between 1931 and 1934.

Bearing in mind Hannah Arendt's warning, it is helpful to become aware of what actually happened at the Board during 1931-34 and to understand why events took place the way they did. It is necessary to remain watchfully wary regarding similar policy responses to present and future events if the System and the nation are to be spared the travail of reliving the worst aspects of this history.

Appendix: What Herbert Hoover and Marrison Eccles knew about political economy

It may appear to some readers that the distinctions among classical liberalism, corporatism, and orthodox Keynesianism are imperfectly drawn in this paper. In this regard, it might be helpful to refer to the definitions of these terms in the New Palgrave and also to the definitions there of "liberalism" (Dahrendorf [1987]) and "liberty" (Ryan [1987]).

To construct from the Palgrave working definitions of these terms for the purposes of this paper, it is enough to state that modern classical liberalism began in the revolutions and civil wars of Great Britain in the seventeenth century and maintains the sanctity of individual political and economic liberty under the rule of law. Liberty or freedom, in turn, is a negative concept: the absence of coercion, or what Senator Robert A. Taft called the "liberty of the individual to think his own thoughts and live his own life as he desires to think and live" (quoted in Kennedy [1964], p. 235). Economic liberty ordinarily would require observance of the principles of free trade and the absence of protection and subsidy.

Orthodox Keynesianism appears to be derived from liberal principles, but Robbins ([1934], pp. 145-146) disputes this point and places it much closer to central planning than to any liberal idea. Keynesian governmental interventions restrict the operations of the market as a consequence of deliberate economic policy actions of the central government; unless carefully circumscribed, such interventions can become the normal policy instrument of

central planning, which was Robbins' (1934) point, and also Hayek's (1944). (See also Kowalik [1987] on "central planning.")

Corporatism or corporate statism is "a set of political doctrines aimed at organizing civil society on the basis of professional and occupational representation in chambers called Estates or Corporations . . . [maintaining] that class conflict is not inherent in the capitalist system of production and ownership relations. Corporatism has its ideological roots mainly in nineteenth-century French and Italian Catholic social thought, as well as in German romanticism and idealism" (Halevi [1987]). Berlin finds that the origins of corporatism in nineteenth-century continental European Catholic social thought were derived from the writings of the French legitimist exile, Joseph de Maistre, who placed power at the top of his scale of values and derived his ideal social structure from Plato's council of guardians in The Republic, "a vision . . . detestable to those who truly value human freedom" (Berlin [1992], pp. 170-174; see also Gide and Rist [1913], pp. 483-515, for a history of similar economic doctrines inspired by Christianity).

The decline of classical liberalism in English political economy preceded, and may have been a principal cause of, the final expansion of the British Empire at the end of the nineteenth century (see, among others, Pakenham [1991]; Hodgart [1977], pp. 25-43; Dangerfield [1970]; Hobson [1965], pp. 94-109). The mainstream views of the Founding Fathers of the United States were classically liberal. Some of them read Adam Smith, and the

Virginians particularly were fond of citing John Locke as a principal source of authority for their liberal views (see Bailyn [1967], pp. 22-54). The text that most influenced perceptions of classical liberalism for late nineteenth- and early twentieth-century academicians and politicians was John Stuart Mill's On Liberty (1859). Patrician circles probably would have found de Maistre more to their taste, and they certainly embraced utilitarianism (positive liberty) and pragmatism, but apart from some Catholic theologians, there is no evidence that American political economists read or were influenced by de Maistre before the increased interest in corporatist theories following World War I.

Two of the most influential writings on political economy with which Herbert Hoover's contemporaries became familiar were Reinhold Niebuhr's Moral Man and Immoral Society (1932) and Walter Lippmann's A Preface to Morals (1929). Although Martin Eccles began to maintain a file of clippings and articles by and about Keynes as early as 1932 (Schiming [1992]), his autobiography claims that his own "Keynesian" ideas about planning and deficit spending were based on independent observations in the intermountain region of the western United States, not on reading Keynes (Eccles [1951], pp. 131-132).

NOTES

1. Alternative names for the earlier and simpler forms of this political economy model include Christian socialism, corporativism, or corporatism, but there are subtle distinctions among these three terms. It is generally acknowledged that, for Americans, Benito Mussolini's rise to power in Italy (1922) was the event that focused public attention on his brand of corporativism, which he called Fascism. See Chernow (1990), esp. pp. 277-286; Trevelyan (1993); Weber (1994). For a good summary of the attributes of corporatism, see Halevi (1987). For the origins of modern corporatism, see Berlin (1992), pp. 91-174; Benda (1975), esp. pp. 56-57; Arendt (1973), esp. pp. 267-459; and Gide and Rist (1913), esp. pp. 483-515. For useful distinctions between corporatism and patrimonialism as practiced in Latin America, see Penna (1988), pp. 137-163. For an analysis of how the corporate state might be manifested in the United States today, see Gross (1986). For an extremely useful comparative analysis of the evolution of fascism in Italy and Germany, albeit one written from a Marxist perspective, see Guerin (1939). For a contemporary article in AER on "Reserve Bank Policy and Economic Planning," see Reed (1933).

2. See Clarkson (1924); Tansill (1938), pp. 79-81, 90-113; Chernow (1990), pp. 186-191; Dos Passos (1962), pp. 220-227.

3. Lippmann maintained a generally positive view of economic planning during the Hoover-New Deal years. See generally Lippmann (1934), a book drawn from Lippmann's Godkin Memorial Lectures at

Harvard University, and Lippmann ([1933], pp. 330-334), "The Question of a Planned Society," in which he properly expresses doubt that then-Governor of New York Franklin Roosevelt really had anything particular in mind when he endorsed "planning" or "the Planned Society" in a May 1932 Democratic Party campaign speech. Lippmann's rhetoric on planning is a hodgepodge of "freedom" this and "justice" that, much less coherent than most of his intellectual output, but his sympathies on this subject clearly lay with those advisers pushing both Hoover and Roosevelt toward fairly vigorous governmental intervention in the private economy. By the way, Tarbell ([1932], pp. 226-233) gives a longer account of Young's and Swope's ideas on industrial planning.

4. Hoover (1952), pp. 84-98; Friedman and Schwartz (1963), p. 320; Pusey (1974), pp. 217-219; and Butkiewicz (1992).

5. See Hoover's statement upon enactment and the text of the RFC Act in Board of Governors, Federal Reserve Bulletin (1932), vol. 18, pp. 89-90, 94-99.

6. Benito Mussolini organized the Istituto per la Ricostruzione Industriale (IRI) in January 1933 to accomplish, with respect to large business trusts in Italy, some of the functions that the RFC performed for insurance companies and banks in the United States. The first of Mussolini's three great "autonomous societies," subsidized by the Italian Treasury as "convalescent homes" for weak enterprises, was Sofindit, the Society to Finance Italian Industry, founded in October 1931. The other great Italian society of this type was the Italian Investment Institution (IMI),

founded in November 1931, to make ten-year loans to industry on the security of company stock (Guerin [1939], pp. 218-220). At the same time that Mussolini was organizing Sofindit, Lippmann, in a September 18, 1931 article, commented favorably on industrial planning in America as advocated by Messrs. Young and Swope of General Electric (Lippmann [1933], pp. 37-41). Tarbell's laudatory book on Young, with specific praise for his ideas on industrial planning, was published in June 1932.

7. Three of the nine New York Reserve Bank directors (Young, Wiggin, and Woolley) also were members of the New York district's banking and industrial committee, for example. Compare Board of Governors, Annual Report (1932), p. 291, with Federal Reserve Bulletin (1932), vol. 18, p. 416. Thomas Ferguson has speculated to the author that the industrial committees were organized to channel and control bankers' and industrialists' publicized opinions while the reflation of late 1931-early 1932, aimed at reelecting Hoover, was ended.

8. See Jones (1951), pp. 72-81; Pusey (1974), pp. 222-224; Olson (1988), pp. 17-19.

9. See Board of Governors, Annual Report (1932), p. 19 [text of act]; Federal Reserve Bulletin (1932), vol. 18, pp. 141-144; Hackley (1973), pp. 100-115.

10. See Hackley (1973), pp. 127-130; Federal Reserve Bulletin (1932), vol. 18, pp. 473-474, 518-527 [text of Section 210 is at 523]; Olson (1988), p. 19.

11. Hackley (1973), p. 129. In this regard, both Hoover's

veto of the earlier RFC Act amendment and the Board's endorsement, in this case, of Federal Reserve loans to individuals reflected their approximate political economy models: Hoover was still clinging to some tattered remnants of laissez-faire principles regarding individuals while grandly subsidizing corporations (and established ones, at that), while the Board was centralizing decision-making authority and establishing direct relationships between that center and individuals. The latter way was the road to industrial planning and corporatism. Hoover cleared the path, and the Board wanted to pave it.

12. See text at Board of Governors, Annual Report (1933), pp. 272-295.

13. See text at Board of Governors, Annual Report (1933), pp. 261-265.

14. See generally Todd (1992b); Olson (1988), pp. 35-40; Moley (1939), pp. 148-155. The text of the emergency proclamation is in Federal Reserve Bulletin (1933), vol. 19, pp. 113-114; the text of the Emergency Banking Act of March 9, 1933, Public Law No. 73-1, is in *ibid.*, pp. 115-118. Ferguson (1984) notes that two lawyers for Standard Oil of New Jersey were instrumental in bringing the Trading with the Enemy Act of 1917 to the attention of the incoming Roosevelt administration as a possible statutory basis for the March 1933 emergency proclamation.

15. The Board probably did not favor the Thomas Amendment when it was enacted, and it has been of two minds about the amendment at various times since the end of World War II. (The

last statutory vestige of the Thomas Amendment expired in 1981.) But the Board included Representative Robert Luce's minority views on the legal-tender aspects of the amendment in Federal Reserve Bulletin (1933), vol. 19, pp. 337-338, which should be read by persons interested in doctrines of constitutional interpretation involving strict construction and original intent.

16. See also Blum (1959), pp. 65-75, and Jones (1951), pp. 245-254, for other first-hand accounts of the gold-buying episode of October 1933-January 1934.

17. See the text of former Section 13b in Hackley (1973), pp. 224-227. The Act of June 19, 1934 also authorized the Board to construct for itself a new headquarters building in the District of Columbia, with the expenses to be paid by an assessment on the Reserve Banks. That building has officially been named the Marriner Eccles Building.

REFERENCES

- Arendt, Hannah. 1973. The Origins of Totalitarianism. New York, New York: Harcourt, Brace, Jovanovich, Inc. (Harvest Books).
- Bailyn, Bernard. 1967. The Ideological Origins of the American Revolution. Cambridge, Massachusetts: Harvard University Press (Belknap Press).
- Benda, Julien. 1975. La trahison des clercs [The Treason of the Intellectuals]. Paris, France: Bernard Grasset.
- Berlin, Isaiah. 1992. "Joseph de Maistre and the Origins of Fascism," in The Crooked Timber of Humanity: Chapters in the History of Ideas, pp. 91-174. New York, New York: Random House (Vintage Books).
- Blum, John Morton. 1959. From the Morgenthau Diaries: Years of Crisis, 1928-1938. Boston, Massachusetts: Houghton Mifflin Co. (Riverside Press).
- Board of Governors of the Federal Reserve System. 1914-1992. Annual Reports. Washington, D.C.: Board of Governors.
- _____. 1914-1992. Federal Reserve Bulletins. Washington, D.C.: Board of Governors.
- Buckiewicz, James L. 1992. "The Impact of a Lender of Last Resort during the Great Depression: The Case of the Reconstruction Finance Corporation." University of Delaware, Department of Economics (unpublished paper).
- Chernow, Ron. 1990. The House of Morgan: An American Banking Dynasty and the Rise of Modern Finance. New York, New York: Atlantic Monthly Press.

- Clarkson, Grosvenor B. 1924. Industrial America in the World War: The Strategy behind the Line, 1917-1918. Boston, Massachusetts: Houghton Mifflin Co. (Riverside Press).
- Currie, Lauchlin. 1934. The Supply and Control of Money in the United States. Cambridge, Massachusetts: Harvard University Press.
- Dahrendorf, Ralf. 1987. "Liberalism," in The New Palgrave: A Dictionary of Economics, vol. 3, pp. 173-175. John Eatwell, Murray Milgate, and Peter Newman, editors. London, England: Macmillan Press Ltd.
- Dangerfield, George. 1970. The Strange Death of Liberal England. St. Albans, England: Granada Publishing Ltd. (Paladin Books).
- Dos Passos, John. 1962. Mr. Wilson's War. Garden City, New York: Doubleday & Co.
- Eccles, Marriner S. 1951. Beckoning Frontiers: Public and Personal Recollections. New York, New York: Alfred A. Knopf.
- Epstein, Gerald, and Thomas Ferguson. 1984. "Monetary Policy, Loan Liquidation, and Industrial Conflict: The Federal Reserve and the Open Market Operations of 1932." Journal of Economic History, vol. 44, no. 4 (December), pp. 957-983.
- Ferguson, Thomas. 1984. "From Normalcy to New Deal: Industrial Structure, Party Competition, and American Public Policy in the Great Depression." Industrial Organization, vol. 38, no. 1 (winter), pp. 41-94.
- _____. 1991. "Industrial Structure and Party Competition in the New Deal: A Reply to Webber," Sociological Perspectives,

vol. 34, no. 4, pp. 493-526.

Flood, Mark D. 1992. "The Great Deposit Insurance Debate," Review, Federal Reserve Bank of St. Louis, vol. 74, no. 4 (July/August), pp. 51-77.

Friedman, Milton, and Schwartz, Anna Jacobson. 1963. A Monetary History of the United States, 1867-1960. Fifth edition (1971). Princeton, New Jersey: Princeton University Press.

Gide, Charles, and Rist, Charles. 1913. A History of Economic Doctrines, from the Time of the Physiocrats to the Present Day. Translated from French by R. Richards. Boston, Massachusetts: D.C. Heath and Co.

Gross, Bertram. 1986. Friendly Fascism: The New Face of Power in America. Boston, Massachusetts: South End Press.

Guerin, Daniel. 1939. Fascism and Big Business. Translated from French by Frances and Mason Merrill. New York, New York: Pioneer Publishers.

Hackley, Howard H. 1973. Lending Functions of the Federal Reserve Banks: A History. Washington, D.C.: Board of Governors of the Federal Reserve System.

Halevi, Joseph. 1987. "Corporatism," in The New Palgrave, vol. 1, pp. 677-678. [See Dahrendorf above for full citation.]

Hayek, Friedrich A. 1944. The Road to Serfdom. Chicago, Illinois: University of Chicago Press.

Hicks, John D. 1961. The Populist Revolt: A History of the Farmers' Alliance and the People's Party. Lincoln, Nebraska: University of Nebraska Press (Bison Press).

University, Department of Economics (unpublished paper),
June 28.

Pusey, Merlo J. 1974. Eugene Meyer. New York, New York: Alfred
A. Knopf.

Reed, Harold L. 1933. "Reserve Bank Policy and Economic
Planning," American Economic Review (Supplement), vol. 23,
no. 1 (March), pp. 108-118.

Robbins, Lionel. 1934. The Great Depression. New York, New York:
Macmillan Co.

Ryan, Alan. 1987. "Liberty," in The New Palgrave, vol. 3,
pp. 175-176. [See Dahrendorf above for the full citation.]

Schiming, Richard C. 1992. Unpublished referee's memorandum and
conversations with author, August 4.

_____. 1993. "Marriner S. Eccles and the Banking Act of 1935."
Mankato State University, Department of Economics (unpublished
paper), June 23.

Schlesinger, Arthur M. 1959. The Coming of the New Deal, vol. 2
of The Age of Roosevelt. Boston, Massachusetts: Houghton
Mifflin Co. (Riverside Press).

Schwartz, Anna Jacobson. 1992. "The Misuse of the Fed's Discount
Window," Review, Federal Reserve Bank of St. Louis, vol. 74,
no. 5 (September/October), pp. 58-69.

Simonson, Donald G., and George H. Hempel. 1993. "Banking Lessons
from the Past: The 1938 Regulatory Agreement Interpreted,"
Journal of Financial Services Research, vol. 7, pp. 249-267.

Skidelsky, Robert. 1986. John Maynard Keynes: Hopes Betrayed.

- 1883-1920. New York, New York: Viking Press.
- Smith, Adam. 1976. The Wealth of Nations. Edited by Edwin Cannan. Chicago, Illinois: University of Chicago Press.
- Smith, Rixey, and Norman Beasley. 1972. Carter Glass: A Biography. New York, New York: Da Capo Press.
- Tansill, Charles Callan. 1938. America Goes to War. Boston, Massachusetts: Little, Brown and Co.
- Tarbell, Ida M. 1932. Owen D. Young: A New Type of Industrial Leader. New York, New York: Macmillan Co.
- Todd, Walker F. 1991. "A History of International Lending," in Research in Financial Services: Private and Public Policy, vol. 3, pp. 201-289. Edited by George Kaufman. Greenwich, Connecticut: JAI Press Inc.
- _____. 1992a. "Disorderly Markets: The Law, History, and Economics of the Exchange Stabilization Fund and U.S. Foreign Exchange Market Intervention," in Research in Financial Services: Private and Public Policy, vol. 4, pp. 111-179. Edited by George Kaufman. Greenwich, Connecticut: JAI Press Inc.
- _____. 1992b. "History of and Rationales for the Reconstruction Finance Corporation," Economic Review, Federal Reserve Bank of Cleveland, vol. 28, no. 4 (Quarter 4), pp. 22-35.
- _____. 1993. "FDICIA's Emergency Liquidity Provisions," Economic Review, Federal Reserve Bank of Cleveland, vol. 29, no. 3 (Quarter 3), pp. 16-23.

Trevelyan, Raleigh. 1993. "Fascists in Love," New York Times Book Review, May 2, p. 1.

Weber, Eugen. 1994. "When Fascism Was in Flower," New York Times Book Review, February 6, p. 6.