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WARREN AS PRESIDENTIAL ADVISER

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WARREN AS PRESIDENTIAL ADVISER

The Broken Promise

George F. Warren was the first person who ever advised a President of the United States to raise the price of gold.

Warren's task of advising Franklin D. Roosevelt on the well-understood cause of the great depression was relatively simple. The task of advising this unpredictable President on the little-understood and highly controversial solution was an impossible one. Only a paragon could have performed it perfectly. Warren's task was to advise the President to break a national promise that had been kept for more than half a century. The national promise was the so-called gold clause that appeared on a legion of contracts including federal, state, municipal, railroad and industrial bonds. It frequently appeared even on personal notes. Substantially, all debtors unconsciously promised to make the interest and principal payments on their obligations in dollars which contained 23.22 grains of gold. The federal government promised to redeem its paper money in gold at the rate of 23.22 grains to the dollar. For more than a half century, however, the gold clause had been ignored, as few persons demanded gold; they were quite content to accept paper money.[1]

With the great deflation of the thirties, all this was reversed. When the value of gold doubled in four years, there was suddenly a sharp increase in the demand that the long forgotten promises made by debtors be kept. The gold clause appeared on an estimated $100 billion of federal, state, municipal, railroad and industrial bonds and other obligations.[2] The gold clause also appeared on $1.6 billion of gold certificates. The broken promise, the prohibition of gold payments of any kind, violated the sanctity of contracts and raised a great hue and cry.[3]

A promise is an expectation and a hope, a pledge, a word of honor, a contract that men can't live without and sometimes can't live with. From birth to death millions of people have been taught that promises must be kept.

In the case of the gold clause, many who were confused by the legal, economic and monetary implications were well informed on the moral issues. The Bible abounds in discussions of honest weights, measures, coins and dishonest money-changers. Moses emphasized the importance of maintaining a money of unvarying weight, "And all thy estimations shall be according to the shekel of the sanctuary: twenty gerahs shall be the shekel." [4] Solomon, the wise son of David, recorded, "A false balance is abomination to the Lord: but a just weight is his delight." [5] Centuries later one of the disciples described Christ driving the money-changers from the temple.[6]

It is probable that the emphasis on the importance of keeping promises

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[1] The gold clause was the result of a long, bitter controversy over whether the interest and principal payments on the federal debt should be paid in paper money. During the War Between the States and most of the seventies the farmer received greenbacks for his wheat, and the holder of government bonds received gold for his interest. The greenback value of wheat fell, and both the greenback and the gold values of the bonds rose. The government kept its promise with the bond owners. Following the resumption of specie payment in 1879 it was customary to insert in bonds, real estate mortgages and other public and private obligations a provision for the interest and principal payments "in gold coins of present standard weight and fineness."

From 1863 to 1928 the large-sized and the small-sized gold certificates carried various phrases to the effect that they were payable in gold, gold coins and the like. This, of course, was the same as saying that they were redeemable at the rate of 23.22 grains of fine gold to the dollar.

Further discussion appears on page 5667.

[2] MacDonald, W., The Menace of Recovery, The Macmillan Company, New York, page 100, MCMXXXIV [1934].

[3] Since 1933 the gold clause has not appeared on the federal currency or on federal, state, municipal or industrial bonds and is not missed.

[4] Leviticus 27:25. [5] Proverbs 11:1. [6] Matthew 21:12.

would be more effective if there was more discussion of promises that should be broken and of promises that should never be made. Concerning the keeping of promises, Cicero has some wise words, "Promises are not to be kept if the keeping of them is harmful to those to whom you have made them." [7] On the making of promises, Abraham Lincoln said, "We must not promise what we ought not, lest we be called upon to perform what we cannot." The gold clause is an excellent example of the Cicero and Lincoln dicta.

The Ten Commandments comprise a moral code involving promises either implied or expressed that are often broken. "Thou shalt not steal" is a case in point. For centuries young people have promised to love, honor and obey. Businessmen have promised to make certain interest and principal payments on their debts. Nations have promised to redeem their currencies in certain amounts of a precious metal. Except for the last, these promises have been broken so often down through the ages that legal procedures—larceny, divorce and bankruptcy laws—have been developed to solve their respective problems. Governments' broken promises concerning the redemption of their currencies in terms of hard money have been, on the other hand, so rare that no code of laws has been developed to deal with the issue.

At the depths of the depression of 1933, the dollar had to be devalued, a promise had to be broken, and it was Dr. Warren's fate to advise the President who had to do it. Attention will be focused on (a) the necessity of breaking the promise, the devaluation of the dollar; (b) the effect on our economy of breaking the promise—that is, the effect of the devaluation of the dollar on commodity prices; and (c) the sound and fury that accompanied the breaking of a national promise.

Harris & Ewing

PORTRAIT 1. GEORGE F. WARREN—THE PRESIDENTIAL ADVISER

Little would one suspect that he would challenge a national promise and the longstanding theories of economists. A formidable undertaking.

This part of the Warren story [8] endeavors to give a detailed account of what happened during about one year, 1933–34, and has proved to be the most difficult to present. The narrative is built on a foundation composed of Warren's notes and the biographers' interpretations.

In casting about for a method of presentation it was decided to keep direct quotations to a minimum, as an overdose generally results in intellectual nausea. They are used to point up leading administrative decisions or important principles and to portray the thoughts, idiosyncrasies,

[7] Cicero, De Officiis, Book i, Chapter 10.

[8] This phase of Warren's activities was described only briefly in the February 1957 issue of Farm Economics. To have presented it adequately would have required a more detailed account than was given the rest of his life and would have been out of proportion to the remainder of the story. Therefore, the technique has been to extract and magnify this portion in order to examine it more minutely.

Pearson, F. A., and Myers, W. I., The Fact-Finder, Farm Economics, No. 208, pages 5470–5516, February 1957, and Pearson, F. A., Myers, W. I., and Gans, A. R., Gold and Prices, Farm Economics, No. 209, pages 5518–5536, March 1957.

jealousies and actions of the participants—the President of the United States, cabinet officers, their advisers and the like. Interlarded comments and appraisals are presented in such a way that the reader can readily determine whether it is Warren or the biographers speaking. If the reader does not relish the brew wherein great fundamental issues and a notable personality are involved, the biographers shall have failed in exposition and ruined by incompetent writing what is thought to be one of the most important and least understood episodes in the price history of this nation.

Warren Gold Legend

The legends of the Warren family and gold are an anthology of dramatic historical incidents. Warren's father had joined the forty-niners, prospected and made sluice boxes for gold miners in California. He had seen the effect of increasing supplies of gold on local prices in California. Later he went to Leadville, South Dakota, drawn by the same lodestone. The younger Warren never dug gold, but he measured accurately the effect of gold supplies on prices and the effect of devaluation of the gold dollar on prices, and he had the distinction of being the first Presidential adviser to advocate raising the price of gold.

The legend is that the son's interest in gold was hereditary. G. F. W., Jr., finally tired of these fallacious stories and said, "Oh yes, I kicked the slats out of my cradle when I was a baby and my first words were 'I am going to study gold'." During the late twenties and early thirties he did study it and wrote innumerable articles and two books on the subject: *Prices*, and later, *Gold and Prices*.

George F. Warren was sixty when he stood at the verge of his life's most meaningful victory—the conquest of deflation. The background of Warren and the times as he approached the summit of his achievements was as follows: he had spent about fifteen years educating himself and partially educating others, including an oncoming President of the United States, on many phases of prices. In four years world and United States prices had been suddenly halved. Most nations had been swept off the gold standard during the closing months of 1931. The United States, Belgium, France and the Netherlands were the only important countries that had maintained their legal prices of gold; but the United States toppled early in 1933, Belgium in 1935 and France and the Netherlands in 1936.

During the twenties farmers and agricultural economists had been well aware of Warren's work on prices; but it was not until the nation was forced off the gold standard, about crocus-daffodil time, 1933, that professors of money and banking and of economic theory, businessmen, editors, bankers and the like became cognizant of him. Some were sympathetic; some were curious; others were severely critical and wanted to protect the dear public from this economic heretic. Finally, there were those who did not understand Warren but did not like his steely thrusts at their sacred cow. There is nothing more painful to human nature than a new idea.

Two Solutions

There were only two solutions to the great Maelstrom of the early thirties: either confiscate, say, 50 per cent of the bank deposits; halve the face value of all life insurance policies; lower debts, taxes, wages, salaries, freight rates, telephone charges and so on down to the level of the deflated farm and wholesale prices; or raise farm and other basic commodity prices to meet the slowly declining wages, salaries, debts, taxes and cost of living. Warren believed that the reflation of farm prices was preferable to completing the process of deflation. There were differences of opinion on this issue among bankers and economists, but not among the laymen. There are few instances in history where attempts were made to complete the deflationary processes. Theoretically the price structure could be brought into equilibrium by completing the deflation, but practically it was impossible because it was politically unacceptable. There are, on the other hand, many instances of attempts to bring the price level into equilibrium by reflation. This was theoretically sound and politically expedient. The time-honored method of attaining this end was by debasement of the currency, that is, raising the legal price of gold.

The Gold Theory

Warren always believed that the supply of money was an important factor influencing farm prices, but his beliefs as to what constituted supply changed as his study of the subject progressed. During the teens and early twenties he followed the orthodox thesis that prices in the United States rose with the volume of paper money and bank credit in this country. A little later he began to wonder whether the supply of money meant the supply of currency, credit or the supply of gold into which the former was convertible. He found, as others had, that there was not much relationship between United States prices and United States monetary stocks of gold. Observing that there had been a close relationship between wholesale prices of the United States and of other gold-standard countries, he reasoned that this close association must be due to a common cause; and there was only one—gold. He then reasoned that the only way in which this nation's price level could deviate from that of the world was through a change in the United States currency price of gold.[9]

Warren arrived at the thesis that the gold factors determining the price level of nations on the gold standard were, therefore, divided into two parts, (a) the world factors and (b) the national factors. The first, world supply of and demand for gold, was the force that wrapped the price level of all countries in one package; and there was nothing that an individual country could do about it. The second could be exercised only through changes in the gold content of a nation's currency. Warren, unlike Alexander the Great, did not cut a Gordian Knot. He untied it by separating the national and international forces and then unravelling the various elements of the international forces. It was quite a feat for an agricultural economist. It was so unorthodox that the Antis considered it just another cock-and-bull story about what made prices, altogether too fantastic to believe. As the sound and fury about gold and prices crescendoed, Warren was a Titan of sanity.

Sound and Fury

Warren's thesis did not set well with those who held that the gold content of the dollar was a sacred promise which should not be broken, and if broken would open the floodgates of disaster. In one breath the dissenters argued that lowering the gold content of the dollar had nothing to do with commodity prices, and in the next contradicted themselves by citing historical illustrations of how the debasement of coins had robbed countless widows, pensioners and Orphan Annies.

Neither did his thesis set well with those who disapproved of his terminology—substituting "increase in the price of gold" for the old terminology—"depreciation", "debasement" and the like. Warren's choice came only

[9] Warren, G. F., and Pearson, F. A., Prices, John Wiley & Sons, Inc., New York, 1933.
Warren, G. F., and Pearson, F. A., Gold and Prices, John Wiley & Sons, Inc., New York, 1935.
Pearson, F. A., Myers, W. I., and Gans, A. R., Gold and Prices, Farm Economics, No. 209, pages 5518–5536, March 1957.

after long deliberation. He knew, of course, that their effect on commodity prices was the same; there were, however, other considerations. Changing the price of gold was a new concept; debasement was age-old. Debasement was inversely related and the price of gold positively related to commodity prices. The price of gold did not have the odium that history had bestowed on debasement. Historically, the public has understood debasement to be the means by which kings down the ages fattened their own pocketbooks by robbing creditors, ministers of the gospel, widows and orphans. By no stretch of the imagination could King George V or his Prime Minister, Laborite James Ramsay MacDonald, or President Franklin Delano Roosevelt, representative of the common man, be accused of fattening their purses by raising the price of gold.

The thesis that the United States price level merely fluctuated with world prices did not set well with many professors of money and banking who believed, wrote and taught that prices in the United States were a result of United States monetary factors. Neither did it set well with the tens of thousands of college graduates who after brief exposure to an elementary course in money and banking had become heads of banks and businesses. The most impressive part of such a course was the emphasis on the power of the Federal Reserve System to influence prices and mold the course of business activity.

Warren's thesis did not set well with the technocrats and others who maintained that the low prices were due to overproduction. This theory explained the depression by saying that there was too much of everything and the way to restore prosperity was to reduce production.

There was a host of other explanations of the dilemma. Warren tabulated a list of 118, which was far from complete. The proponents of each were naturally anti-Warrenites.

Preparedness

Warren had prepared himself for what was to come; he had a well-documented explanation of the cause and of the cure. He had a program of action! The nation, however, was not prepared. Figuratively speaking, the nation agreed with Warren's diagnosis but not with his remedy. The roaring twenties was a new era, and everyone dreamed dreams of a higher standard of living—of two chickens in every pot and two cars in every garage. The dreamers had little inkling that they were in for a rude awakening. The authors found nothing in the published papers of President Hoover or in the addresses of his Secretary of the Treasury, Ogden Mills, to indicate that they were cognizant of the impending crisis. Be it said, however, to their credit, that when the crisis did appear they recognized it and acted promptly. Many things were done to stem the tide; but only two, manipulation of credit and of gold, will be considered.

Credit

President Hoover was, no doubt, influenced by the Federal Reserve credit theory. This is indicated by the fact that during the twenties he was concerned with the dangers of credit inflation and during the depression with the hope that credit expansion would raise prices. On the latter, Hoover reports: "About a billion dollars [worth] of 'governments' [bonds] were bought in the open market during the next four months, which in the usual ratios would have made available five to ten billions of dollars of credit to the ultimate borrower." [10] This credit expansion which occurred during the spring of 1932 was followed by a short-lived revival of commod-

[10] Hoover, H., The Memoirs of Herbert Hoover, The Great Depression, 1929–1941, The Macmillan

ity prices. From June to September wholesale prices of basic commodities rose more than 10 per cent, but during the next three months all the gains were lost. Able Hoover would not have been misled, had he known what Warren had repeatedly stated—that when the world price level is falling, the price level of any nation on the gold standard will move in the same direction at about the same time and at about the same rate and that credit policies will disrupt this relationship only temporarily.

The controversy had its origin in the conflicting ideas, and the opponents were deadlocked. An important human fault, stubbornness, accounts for the fact that many persons hold tenaciously to their theories because these theories imply certain relationships they want to believe. To put it brutally, they conform to prejudices—and who does not have prejudices? They may be held either individually or collectively. No country likes to change its monetary system, nor does any country like to go through wholesale bankruptcy. This was true then, as now. Warren was stubborn and hard-headed, but he needed to be to withstand the powerful forces arrayed against him and his explanation of prices.

The following "Warrenism" tells how frightened people react emotionally rather than intelligently: "In a time like this, people behave like cats that have been thrown over a clothesline with their tails tied together. Each one attacks the other, not realizing who or what got him into such a fix." [11] Inevitably Warren made enemies, and the Antis organized with spokesmen, writers and avenues of publication.

At the same time a group of bankrupt farmers, businessmen, bankers and cooperative leaders with no monetary prejudices listened attentively to Dr. Warren and organized as the Committee for the Nation; their solution of the dilemma was the revaluation of the dollar. February 24, 1933, another organization, the Sound and Honest Money Association, Inc., sponsored by farmers and the leading agricultural organizations in New York State, held its first meeting in Syracuse, New York, indicating that Warren was honored at home as well as elsewhere.

Position of Sound-Moneyites

It is now apropos to turn to another misunderstood relationship, that of the creditor and debtor. It is clearly in the interest of the creditor that the debtor be able to make his interest and principal payments. When an individual cannot pay, the debts are usually adjusted down to a point where he can, either by mutual agreement or by bankruptcy. Warren repeatedly pointed out that in case of national bankruptcy the creditor was just as much interested in revaluation as the debtor.

January 31, 1933, Ogden Mills delivered an address in refutation of the whole theory of devaluation.[12] Following the Presidential elections of 1932, President Hoover was of the opinion that a blow to recovery came from a great fear of currency tinkering by F. D. R. He pointed out as vividly as he could, that "currency tinkers emerged into the open like a flight of swallows before the spring." [13] He was dead right. He did not, however, point out that from 1929 to 1933 the people had patiently watched all sorts of futile programs, had listened to countless theories and had only turned to "tinkering" with gold as a last resort. F. D. R. and his monetary-adviser G. F. W. were not the cause; they just happened to be around at that time.

[11] The authors are grateful to Leland Spencer for this timely "Warrenism."

[12] Hoover, H., The Memoirs of Herbert Hoover, The Great Depression, 1929–1941, The Macmillan Company, New York, page 200, 1952.

[13] Hoover, H., The Memoirs of Herbert Hoover, The Great Depression, 1929–1941, The Macmillan Company, New York, page 199, 1952.

Another indication of President Hoover's views on gold was revealed in his 1933 Lincoln Day address at New York City when he asserted that abandonment of the "gold standard . . . and . . . depreciated currency . . . leads to complete destruction . . . ." [14] President Hoover did not appreciate the inner thoughts of millions of people. The havoc of unstable currencies and abandonment of the gold standard which was uppermost in his mind was of little concern to the bankrupt 125 millions. Warren had repeatedly indicated that the cause of the bankruptcy was the decline in farm and other basic commodity prices relative to debts, taxes, sticky retail prices and the like. He had also pointed out that there were only two solutions to the dilemma: raise prices relative to the debt and tax level or reduce debts and taxes to the price level. The simplest solution, raising prices by devaluation, was obnoxious to President Hoover. The alternative, to reduce everything to the price level, was political suicide. Everyone would approve reducing taxes to the price level; but who wanted his wages or salary cut, his savings confiscated and the face value of his insurance reduced to the price level?

This marks the little-understood distinction between individual and national bankruptcy. An individual cannot improve his credit position by writing up prices—a nation can. Both can write down debts to the price level, but here the similarity ends. There are acceptable legal methods for writing down the debts of bankrupt individuals. There is no similar legal procedure for handling national bankruptcy; such a measure would be politically unacceptable. Theoretically it is possible to write down the federal, state, municipal and private debts; practically it is impossible because these debts are the assets of banks, insurance companies and the like.

Bankruptcy Abhorrent to Everyone

The President, no doubt, knew that abandonment of the gold standard was an admission of bankruptcy and was loath to preside over such a course. Any homeowner, farmer, corporation, municipality, state or nation dislikes to admit bankruptcy and hangs on for dear life in the hope that another solution can be found. Hoover summarized this position when he said, "We determined we would stand up like men, and render the credit of the United States government impregnable. . . ." [15] Such a position, always admirable, in some cases proves to be the best; but in most instances the longer the bankruptcy proceedings are delayed, the more severe the adjustment. This principle holds true for individuals, corporations and nations.

Misunderstood Debtor-Creditor Relationships

Another difficulty was a stigma that time has not obliterated: the widespread belief that going off gold and revaluing the dollar was a method of robbing creditors to appease debtors. Hoover, typical of many so-called sound-money men, accepted this as the gospel truth and so expressed himself on several occasions. October 1932, at Des Moines, Iowa, he said, "Going off the gold standard in the United States would have been a most crushing blow to most of those with savings. . . ." [16] Warren's position was that when the debtor cannot pay, a rise in prices benefits both the debtor and the creditor.

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[14] Hoover, H., The Memoirs of Herbert Hoover, The Great Depression, 1929–1941, The Macmillan Company, New York, page 191, 1952.

[15] Hoover, H., The Memoirs of Herbert Hoover, The Great Depression, 1929–1941, The Macmillan Company, New York, page 282, 1952.

[16] Hoover, H., The Memoirs of Herbert Hoover, The Great Depression, 1929–1941, The Macmillan Company, New York, page 281, 1952.

Confusion arises from the inability of most persons to distinguish between the face value and the purchasing power of the debt. If a creditor lends $50.00 when the price level is 100, the purchasing power of the loan is $50.00. If the price level is then halved to 50 and he can collect, his purchasing power doubles, rising to $100.00, which is too much. On the other hand, if he cannot collect, his purchasing power falls to zero, which is too little. Revaluation restores the ability of the debtor to pay and the purchasing power of the creditor to something approximating that existing at the time the loan was made.

These are illustrations of the confusion that arises when a clear distinction is not made between the initial cause of price changes and the results of such changes. The latter, in turn, cause a legion of further troubles that are followed by a long succession of incited events. Such confusion is a perfect agar for the propagation of false illusions by amateur and professional viewers-with-alarm.

Warren was prepared primarily because he understood all these complicated relationships. The nation was not prepared because it did not understand. The same was true of other nations. The unpreparedness resulted from the fact that a nation, unlike individuals, does not go bankrupt often enough to gain experience in determining the solution.

The situation was further complicated, if that is possible, by a clash of personalities and of parties. Hoover was classified as a sound-money man and F. D. R. as a soft-money man. This tended to mark the Democratic party as radical and the Republican party as conservative, although each party was split down the middle on this issue. The inflationary Republicans, deterred by their leader, were less vociferous than the inflationary-minded Democrats. Conversely, sound-money Democrats were less vociferous in their attacks on F. D. R.'s money program than were sound-money Republicans.

Closing the Banks

The closing of the banks was an admission of, but not a remedy for, the difficulty. The Republicans and Democrats argued about who should close the banks—as if it made any difference to whom the stigma might be attached. Warren's notes record that Secretary of the Treasury Ogden Mills wanted President-Elect Roosevelt "to close the banks before he came in and said that there would not be a dollar in them in two days, but he wanted Roosevelt to state his plan for opening. Roosevelt said, 'You got into this mess. You can close them'." Steely political thrusts, such as what who did or who did what, made the headlines but were of little concern to the worried, 125 million little people who were trying to protect themselves, to hedge their interests and unconsciously to turn into speculators. It was not economic royalists, princes of privilege or speculators living in marble halls and riding in gold-plated Cadillacs who exerted the real pressure.

The flight from the dollar was not due to the mythical speculator buying and/or hoarding gold or to international traders in foreign currencies; it was due to the millions who walked downtown, drew money out of their local banks, then walked over to the post office and deposited the cash in postal savings or took it home and put it in the teapot, under the carpet or in the mattress. The professors of Agricultural Economics in Warren Hall followed in the wake of the nation's hoarders. A minority of Ithacans boarded the Lehigh Valley Railroad for New York City, queued up at the windows in the gold room of the Federal Reserve Bank with certified checks and drew out gold. These activities were duplicated in eleven other Federal Reserve districts.

Foreign speculators sold the dollar short in the hope that they could buy it back after the devaluation.

President Hoover told us what we didn't like: namely, hoarders with currency in the teapot were of the same stripe as our gold hoarders and the speculators.[17] Except by a minority, there was no stigma attached to hoarding, as the public was led to believe that it was the frugal and thrifty people who hoarded. When the deflation reared its ugly head and everybody started hoarding, few objected except the small minority of harassed bankers who knew what it would do to their banks. Consequently, the majority, millions of Americans, voted with their checkbooks directly against their banks and indirectly against the gold standard.

This was a mass movement of such proportions as no living man had ever before seen. The checkbook voters cast their ballots, and there were no restrictions on how they voted. This was the last time that the American people would have an opportunity to vote unrestricted upon the gold question. It was fortunate that in the opening days of 1933 there were no restrictions and that the nation was quickly swept off the gold standard. Unfortunately there followed a series of executive orders, threats and the like which curbed the activities of hoarders and speculators and delayed the recovery program.

An air of secrecy surrounded the devaluation of the dollar during 1933, and an air of mystery still hangs over this important period in the economic history of the United States. Little was known, but much was suspected. There is no lack of published material; probably no other economic event in the nation's history has been so thoroughly aired. The problem is to sort the wheat from the chaff. This is not easy; what one man sees as chaff, appears through another's glasses to be the wheat.

The most important sources of information are various senatorial hearings, the public press and the public and private papers of the two persons most closely involved: F. D. R. and G. F. Warren. Professor Warren's printed works present clearly the principles involved. He also kept a rather complete diary, which for a generation has been withheld from the public. Since most persons involved are no longer living, his heirs permitted the authors to examine it. The diary was quite comprehensive during the first eight months, March to October 1933. Thereafter the entries became increasingly fragmentary. This is unfortunate as this period included the highly confidential and controversial RFC gold-buying era, November–December 1933, and the first fifteen days of the following January.

President Roosevelt's published State Papers are almost a blank on the subject. The Franklin D. Roosevelt Library, however, contained considerable information; the most valuable to this study were his press conferences and correspondence. Among the latter were the Fred I. Kent letters.[18] Mr. Kent, a banker and an Anti, wrote the President an almost daily series of letters from New York City; these contain market summaries interlarded with his philosophy and, here and there, a word of advice.

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[17] "I have told you of enormous sums of gold and [foreign] exchange drained from us by foreigners (in excess of $1,000,000,000). You will realize also that our citizens who hoard Federal Reserve and some other forms of currency are in effect hoarding gold. . . . Thus, with $1,500,000,000 of hoarded currency, there was in effect over $1,000,000,000 of gold hoarded by our own citizens."

Hoover, H., The Memoirs of Herbert Hoover, The Great Depression, 1929–1941, The Macmillan Company, New York, page 282, 1952.

[18] Fred I. Kent was employed by the Federal Reserve Bank of New York during the period March 1933–January 1934 as a member of the foreign exchange division as an adviser to J. E. Crane, Deputy Governor, responsible for foreign functions.

J. H. Rogers, Professor of Political Economy, Yale University.

J. P. Warburg, Financial Adviser to the American Delegation to the World Economic Conference; Vice Chairman of the Board of the Bank of the Manhattan Company.

H. A. Wallace, Secretary of the United States Department of Agriculture.

H. Morgenthau, Jr., Chairman of Federal Farm Board, March 6–May 26, 1933; Governor of Farm Credit Administration, May 27–November 16, 1933; Acting and Under-Secretary of Treasury, November

The James Harvey Rogers papers [18] in the Yale University Library contain many published reports, newspaper clippings and copies of typewritten reports and memoranda to various persons.

James P. Warburg's Diary [18] in the Butler Library, Columbia University, is a running narrative of what he saw, what he heard, what he did and what he thought. It is devoid of government reports, clippings and the like.

Henry A. Wallace [18] was cooperative but had no papers on this episode.

Two persons, who may have some material, were un-cooperative. After a long correspondence, access to an unimportant part of the famed Morgenthau Diary [18] was granted. Unfortunately, the only part the author had permission to see was a microfilm with (1) an uninformative summary of the gold program prepared by someone other than Morgenthau and (2) a copy of public hearings available in any up-to-date library. Permission to study the papers for the crucial period, October to December 1933, was never given. Affable George C. Haas, longtime Treasury economist, always replied to requests for published statistical data but was uncommunicative concerning unpublished information on this important interlude.

The public press carried an enormous amount of material that might be divided into two parts: the news stories, which were generally accurate and informative, and the editorials, which were quite the contrary.

The authors have endeavored not to overwhelm the reader with a great mass of detail, but to save his time by rigorous screening of the wheat from the chaff and to lead him from episode to episode with a minimum of background and interpretation. The object is to entertain, to enlighten and to present an estimate of attainment. A formidable task! This is an effort to appraise the effects of the devaluation that covered only a short period; of the public suspense that extended over more than a year; of the relation between a predictable adviser and an unpredictable President, who at times could not be shaken but at other times was swayed by every bureaucratic reaction; of the activities of the host of brain trusters who were constantly advising the "Skipper"; and last, but not the least, of the misunderstood role of the speculator.

The recording of the sneers, snarls, name-calling, backbiting and recriminations was a perplexing problem. It could not be omitted. There is always plenty of heat generated in a frozen economy. Furthermore, the issue, revaluation, was not understood by the layman; it involved a broken promise with all its religious, moral and legal implications; it challenged long-standing theories of economists whose advice was ignored. Wars over theories have and long will produce fierce indignation and strongly expressed convictions. The number of reproaches was so great and the range so wide that a statistician would be taxed to obtain a "representative sample," some of which would not be printable. The final choice, of course, rested with the authors; it was not their intent to misrepresent anyone nor to impinge on anyone's rights.

Every president must have advice and advisers, and there is always an interest in men who have had the ear of the President of the United States. President Roosevelt had a hankering for professorial advice and a weakness for the liberal, left-wing academicians who soon acquired the title of brain trusters. Warren was a conservative right-hand-side-of-the-roader, who never even temporarily wavered toward the middle, let alone to the left. He was never a so-called New Dealer; he never moved to Washington; he was never on the federal payroll, and his interviews with the President were fewer than the public supposed.

Franklin Delano Roosevelt's acquaintance with Warren dated back to the twenties when as Governor of New York he met from time to time with Warren and a small group of state farm leaders. Through them he received an education in reforestation, roads, taxes, agriculture and, last but not the least, prices. The early wisdom acquired in Albany was no handicap during his 1932 campaign for the Presidency. On his inauguration on March 4, 1933, when the nation was bankrupt and the banks had closed their doors, it was only natural that he would turn to Warren for counsel.

THE BANK HOLIDAY

During the waning days of 1932, farmers, businessmen, bankers, home owners, municipalities, states and the nation were actually bankrupt or soon would be. Recognizing the acute situation, the first proclamation of President Roosevelt was to call Congress into Extraordinary Session. The second proclamation has been called the Bank Holiday which extended from "Monday, the Sixth day of March, to Thursday, the Ninth day of March . . . inclusive . . . ." and was later continued in full force until an executive order reopened the banks, March 13.

An interesting tidbit is recorded on the last day of February 1933, concerning the incoming Secretary of the United States Treasury, William H. Woodin. Warren was called to New York by Mr. Henry Morgenthau, Sr.,[19] of the Committee for the Nation to confer with Woodin. Frank A. Vanderlip, Fred Sexauer, J. H. Rand and J. H. Hammond were also present.[20] Warren "emphasized the . . . necessity of suspending specie payment . . . . [Woodin] said 'The United States has never suspended specie payment, has it?' " This perplexity might be interpreted in two ways: a reflection *on* the puzzled, incoming Secretary of the Treasury who would be inextricably involved or a reflection *of* the man on the street who having no recollection of the experiences following the War Between the States was naturally puzzled.

There were disagreements over the cause of and the remedy for the great depression. "H. Parker Willis [21] repeatedly stated that our trouble was due to dishonest banking. He would discharge everybody connected with the Federal Reserve System, beginning with Eugene Meyer.[22] He [Willis] thinks the New York Federal Reserve Bank is in the hands of amateurs who do not know what they are doing. When asked what he would do . . . his only remedy was to get rid of dishonest bankers. He did not believe that going off the gold standard . . . would raise prices." Warren's notes are of interest, as they were peppered with various strains of an old song, central bank mismanagement. More important, the nation's businessmen were sold on the idea that the central banks could produce variations in prices and business by pulling out some of the multitudinous combinations of stops on the mythical central banking organ. Another suggested solution was that the government guarantee bank deposits for a period of one or two years. A good share of the Committee for the Nation was friendly to the guarantee plan, but "Mr. Vanderlip did not consent to this, and I opposed it."

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[19] Former Ambassador to Turkey.

[20] Former President of the National City Bank, New York; President of the Dairyman's League; President of Remington Rand, Inc., and Chairman of the Executive Committee of the National Industrial Conference Board, respectively.

[21] Professor of Banking, Columbia University. [22] Governor of the Federal Reserve Board.

THE FIRST DAY

March 5, 1933, "Pearson called Miss Rose,[23] who was seeing Mrs. Roosevelt, and got an appointment made for me to see Roosevelt." The same day at 12:20 p.m., Warren boarded an Ithaca "aeroplane" for his first flight;[24] he arrived in Washington, D. C., at 3 p.m.

"Had supper with Mr. Morgenthau at which time he told me the attitude of President Roosevelt on the money question. He said that the President was in entire agreement with me on the price question. . . . President said 'Warren is absolutely right.'

"Spent some time going over the situation . . . with Wallace and Tugwell.[25] Tugwell is a violent deflationist. He would cut all debts 50 per cent, all life insurance, bank deposits and wages where not previously cut. . . .

"Had an appointment with Roosevelt at 10 p.m. but did not see him until about 10:30. . . .

"Roosevelt showed me the debt and wealth comparisons . . . and had the relationships straight. He recognized that deflation cannot be gone through with. Moley [26] came in to listen to most of the conversation but had nothing to say. . . ."

It was getting late and "His son James was constantly trying to get him to stop the conversation and go to bed. Finally kissed him good night and left.

"Roosevelt read the [bank holiday] proclamation to me and later read it again before signing it and commented on the fact that this was the second official act of the Secretary of State [Cordell Hull], the first being to call Congress. . . . This was signed as of 1 a.m. Monday, March 6, 1933. Actual signing was about 11 p.m., Sunday. Hull was there most of the time. Hull evidently did not understand what we were talking about and innocently asked whether supply and demand did not govern prices.[27] Mr. McIntyre [28] came in and said the newspaper men wanted to know whether or not we were off the gold standard." President Roosevelt recognized the difference between suspension of gold payments and devaluation of the dollar, and Warren's notes read, "He indicated his interest in revaluation. . . . Moley said that if [we are] going into this [we] ought to see several men whom he mentioned." Warren's notes did not reveal their names. This concludes the entry for the first day in the diary of a Presidential adviser.

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[23] Miss Flora Rose, Director, College of Home Economics, Cornell University.

[24] Herbert M. Peters was the pilot. The Pilot's Log Book Number Three indicates that they left the Ithaca Municipal Airport in a Ryan plane, the same type that Lindbergh flew across the Atlantic Ocean in 1927. Warren recorded his impressions in his diary: "Most of the travel was at 9,000 feet elevation. . . . Perhaps this is the elevation from which Ezekiel would map for his domestic allotment scheme. (He had suggested using an aeroplane.) The only inconvenience of the trip was that it was a little chilly. It was the most comfortable trip that I have ever had between Ithaca and Washington. The driver said that it was very bumpy near the ground but there was no particular difficulty."

Mordecai Ezekiel was Economic Adviser to the Secretary of Agriculture.

[25] Rexford Guy Tugwell, Assistant Secretary, United States Department of Agriculture, 1933.

[26] Raymond Moley, Assistant Secretary of State.

[27] Hull's memoirs, published in 1948 long after the event, indicate that he was still confused: "If Professor Warren's doctrine is effective, it seems to me that, since all of the nations of the world are in the same financial and economic prostration as our country, some one or more of those nations would have discovered this doctrine and its beneficial effects and placed it in operation before now." Had Cordell Hull reflected, he would have understood that every nation which raised its price of gold received beneficial effects in varying amounts.

Hull, C., The Memoirs of Cordell Hull, The Macmillan Company, New York, Volume I, page 198, 1948.

[28] Marvin Hunter McIntyre, Secretary to the President.

The President kept a diary for two days and then abandoned it. The latter part of his first day in the White House, he recorded: "decided on Proclamation declaring banking holiday. . . . Hurried supper. . . . Talked with Professor Warren in evening. Talked with . . . Press . . . explaining bank holiday Proclamation. Five minute radio address . . . at 11:30 p.m. Visit from Secretary of State. Bed." [29]

There is nothing in Warren's notes to indicate whether he approved or disapproved of Proclamation Number 2039. It was divided into two parts. The first, the national bank holiday to be continued through the four days, was the less important part as far as prices were concerned, but the more important to the man in the street. The second part had to do with gold and was more important to hoarders and speculators and was all important as far as reflation of commodity prices was concerned. It provided, "no such banking institution or branch shall pay out, export, earmark, or permit the withdrawal or transfer . . . of any gold or silver coin or bullion . . . or . . . deal in foreign exchange. . . ." [30]

Public Elation and Disappointment

The general public had been delighted with the prospects of reflation but was soon to be disappointed when its hopes were not fulfilled during the days between the bank holiday suspension of the gold standard and the April devaluation of the dollar.

On March 6 and 7 Warren wandered about Washington conferring with Wallace, Olsen, Tugwell, Morgenthau, Senator Bulkley, Congressmen Sumners, Busby and others.[31] Sunday, March 12, 1933, Warren spent the day with the Committee for the Nation. For about three hours in the morning he argued with Alexander Sachs.[32] "He believes that about 6,000 banks or more should be closed permanently and that deflation should be carried to the bitter end." To Dr. Sachs gold apparently had no bearing on the price problem.

Disturbed Irving Fisher "repeatedly said that merely reducing the weight of gold in the dollar would not raise prices. He figured that somehow we must have machinery for forcing people to spend actively." [33] Many other economists also asked how prices could rise if the volume of money did not expand.

Secretary of State Hull chided Warren and several other members of the Committee for the Nation because the course which they had taken had not caused the expected rise in prices (figure 1). Hull was not alone! Most persons who wanted some inflation thought that the measure taken, suspension of the gold standard, would cause prices to rise. They did not know commodity prices would not be affected until the dollar was devalued, and there was little reason they should. From the holiday until April 11, the price of gold hovered around par [34]—$20.67 per fine ounce, varying between $20.53 and $20.83.

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[29] Burns, J. M., Roosevelt: The Lion and the Fox, Harcourt, Brace and Company, New York, page 166, 1956.

[30] Roosevelt, F. D., The Public Papers and Addresses of Franklin D. Roosevelt, Random House, New York, Volume Two, pages 24–26, 1938.

[31] Nils Andreas Olsen, Chief of the Bureau of Agricultural Economics; Robert Bulkley, Ohio; Hatton W. Sumners, Texas; Jeff Busby, Mississippi.

[32] Director of Research for the Lehman Corporation.

[33] Professor of Political Economy, Yale University. This was to be expected. It did not fit Fisher's famed formula MV = PT. Transposed, prices in the United States are a result of the United States volume of money and its velocity divided by trade.

[34] Based on prices of gold in London and closing exchange rate for the pound sterling in New York City.

From about the middle of March to early April, the daily index of seventeen basic commodities indicated that prices were generally a little soft and by the end of the thirty days were raised only 4 per cent (figure 1).

Reverting to Warren's notes on the Hull conference, there is a sentence that reflects national uncertainty as well as Hull's. "This [no inflation] evidently bewildered him, and he wondered whether anybody knew of a means that would raise prices." This conference had a profound effect on Warren and convinced him that something had to be done. The majority of the people wanted inflation and was chagrined that suspension of the gold standard did not produce it. This sentiment did not make the first page of the Metropolitan press but it filled the Congressional mail pouches and influenced legislation.[35]

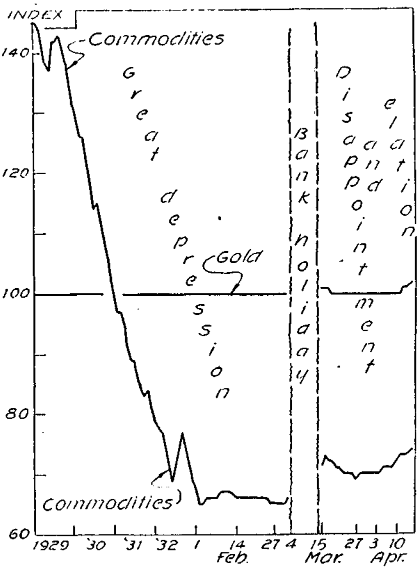

FIGURE 1. INDEXES OF WHOLESALE PRICES OF BASIC COMMODITIES AND OF GOLD 1929 TO APRIL 15, 1933
1910–14 = 100

From the Boom Days of 1929 to the Great Depression of February 1933, commodity prices had more than halved. Following the Bank Holiday and the suspension of the gold standard there were about thirty days when commodity prices fluctuated around the all-time low and prices of gold hovered around par.

"There's No Making Out Anything"
or
"The Fight For Solvency"

The first observation was made by Chekhov [36] and the second by Raymond Moley.[37] One summarizes bewilderment and the other the issue of the day.

The problem was to restore an equilibrium in the price level by (a) completing deflation or (b) reflation. The nation's citizens voted to reflate when they walked into the banks and took the nation off the gold standard. If left alone they would have taken the next step, driven the dollar down and raised commodity prices. There was, however, a rapid succession of legal events that dampened the enthusiasm of inflationists. Monday, March 6, 1933, there was a proclamation closing the banks.[38] Thursday, March 9, 1933, F. D. R.'s proclamation placed an embargo on gold and silver and prohibited trading in foreign exchange.[38] Friday, March 10, 1933, F. D. R. requested authority to effect drastic economies,[38] lip service to the plan to restore solvency by completing the deflation process. A bill was introduced to cut $100 million from government salaries and to revise the entire federal pension and veterans' compensation system at a savings of $400 million. The revisions were to be based on the decline in the cost of living from 1928 to 1932 and thereafter to be adjusted every

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[35] Page 5615.
[36] Anton Chekhov, Russian dramatist and story writer, 1860–1904.
[37] Moley, R., After Seven Years, Harper & Brothers Publishers, New York and London, page 153, 1939.
[38] Roosevelt, F. D., The Public Papers and Addresses of Franklin D. Roosevelt, Random House, New York, Volume Two, pages 24, 48, 49, 1938.

six months. This was discouraging news for speculators and foreign exchange traders who would have dearly loved an opportunity to drive the prices of gold, securities and commodities up. This restrictive program was sponsored by Bernard Baruch, Lewis Douglas, William Woodin, Raymond Moley, National Economy League and so on.[37] This complete-the-process-of-deflation dose was about as repugnant to Congress as castor oil is to a six-year-old. To make a long story short, the bill was forced through Congress. The articulate conservatives were profuse in their written and spoken approvals.

The deflationary action was, of course, a mere gesture. It involved reduction of a few hundred million dollars of Federal expenditure but not hundreds of billions of private debts, insurance policies and a legion of other sticky phases of the economy.[39] The pensions were restored and increased in 1935.

This deflationary legislation raised the ire of a group of inflationists. March 11, 1933, a special dispatch to the New York Times reported that 150 economists wired the President urging a boost in the price level as the "key to recovery." [40]

Behind The Eight Ball

The public had no way of knowing that reflation would not result from mere suspension of the gold standard or that commodity prices would not rise until the dollar started to depreciate. All they knew was that by Executive Order 6102 the President was St. George defending them against the gold hoarders and the speculators, requiring all gold coin, gold bullion and gold certificates to be delivered [41] before May 1, 1933. Every speculator understood that this was the stumbling block to reflation; unfortunately, the public and the President did not.

It is possible to indict a few American gold hoarders and to cast aspersions on international speculators, but not on the millions that walked into their local banks. Politically shrewd F. D. R. did not ban currency hoarding. The gold hoarder was black-balled! The currency hoarder was, to coin a word, white-balled! Both were speculators against a 23.22 grain dollar, but many of them did not know it. By this proclamation F. D. R. created problems that were to plague him in the days to come. It was to interfere with revaluation which, according to Warren's notes, the President approved.

Warren saw the handwriting on the wall, and on March 15 interpreted it for Morgenthau, as follows:

"If the dollar is to be pegged in foreign exchange, our wheat and cotton will be as bad off as before. . . .

"If the deflationists are to be allowed to have their way, tinkering with booze and domestic allotments is worse than fiddling while Rome burned.

"The public expects a rise in prices which can only be brought about by reduction in the value of the dollar."

Ten days later, March 25, there was a repeat performance. Warren wrote the President, recommending:

"Complete suspension of the gold standard so that the dollar has no fixed relationship to gold either in this country or in foreign exchange. . . .

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[39] Roosevelt, F. D., The Public Papers and Addresses of Franklin D. Roosevelt, Random House, New York, Volume Two, page 54; Volume Three, page 180, 1938.

[40] The New York Times, Special, March 11, 1933 (appeared March 12).

[41] Roosevelt, F. D., The Public Papers and Addresses of Franklin D. Roosevelt, Random House, New York, Volume Two, pages 111–112, 1938.

"So long as the dollar is kept at par in foreign exchange, it means that all our exports and imports are valued in dollars of 23.22 grains of pure gold. This controls our internal commodity price level."

Events were to confirm the following forecast: "As soon as exchange restrictions are removed, prices of basic commodities such as cotton and wheat will rise in proportion to the depreciation of the dollar. They are likely to rise more than this because of increased American demand. The country is ready for a rise in prices as soon as it is sure that the dollar is to be deflated. . . .

"There is some merit in letting the dollar sink gradually, but if this cannot be done, there should be an immediate increase in the price of gold to a figure high enough to restore equities in farms, homes, and insurance policies, and make profits possible in well managed industries so that men will have work."

Whether it was in response to Warren's appeals, to the nation-wide inflationary pressures or to the tenor of the Senate, politically astute F. D. R. wet his finger, held it up to the breeze and reached the conclusion that his previous controls on the dollar should be relaxed. He had learned one lesson. The dollar could not depreciate so long as his proclamations and executive orders "holed up" potential speculators here and abroad who would have been quite happy to drive down the dollar had they had an opportunity to do so. That opportunity came when on April 20, 1933, by Executive Order 6111 President Roosevelt permitted transactions in foreign exchange under government supervision.

At the Thirteenth Press Conference held the preceding day, the President had a cold and the Conference was held in the oval study in the White House proper. The reporters were all agog. The following excerpt speaks for itself:

Q. "In other words, let the dollar take care of itself?"
The President: "Yes. . . ."
Q. "This policy would raise prices here at home."
The President: "Right."[42]

The response was instantaneous: the people got what they wanted—inflation. The foreign speculators went to work, drove the dollar down; domestic speculators drove prices of commodities and securities up.

Dr. James P. Warburg's papers explain the reason for the advance in commodity prices prior to the April Proclamation. "Around March 29th there was a great deal of talk about devaluing the dollar. The devaluation was on April 19th and so the discussions on this topic were in the newspapers by that time."[43]

Rosy Hue
Ninety Days of Inflation
April 18 to July 18

The price of gold rose from $20.67 to about $30.18 per fine ounce. Both basic commodity prices and the stock market zoomed, 76 and 66 per cent, respectively.[44] Commodity prices, therefore, rose more than the 46 per

[42] Roosevelt, F. D., The Public Papers and Addresses of Franklin D. Roosevelt, Random House, New York, Volume Two, pages 138, 141, 1938.

[43] Warburg, J. P., The Reminiscences of James P. Warburg, February 1951 to February 1952, Columbia University, Nicholas Murray Butler Library, Oral History Research Office, Special Collections, Room 654, page 295, March 29, 1933, New York City.

[44] Based on seventeen basic commodities, the nation's first daily index of wholesale prices. The total rise in commodity prices was even greater because for about ten days traders had discounted the impending order. This is indicated by the fact that from April 10 to April 18 the daily index rose 5 per cent. The total rise from April 10 to July 18 was 83 per cent.

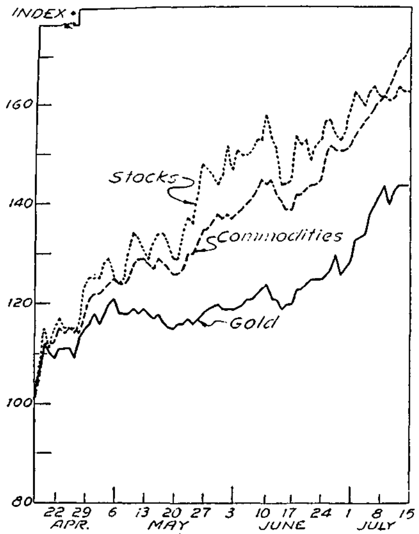

FIGURE 2. DAILY INDEXES OF PRICES OF GOLD, COMMODITIES AND INDUSTRIAL STOCKS, APRIL 18 TO JULY 18, 1933

April 17, 1933 = 100

Commodity prices and common stocks rose with, but more rapidly than, the advance in the price of gold.

The rise "visibly pleased" President Roosevelt.

cent advance in the price of gold (figure 2). The rising prices of commodities and securities and the increasing employment generated a recovery of which F. D. R. boasted and which, figuratively speaking, everyone observed; but no one knew that it was primarily due to traders in foreign exchange and secondarily to domestic traders on commodity and security exchanges. The spotlight should have been shifted from Warren to the speculators. This is not a mystery! This is no myth! It did not take long for Warren to get most of what he wanted when controls on foreign exchange were relaxed. In the race between the rising price of gold and the advancing prices of commodities, the latter far outran the former. This may have been due, in part, to the fact that the traders in foreign exchange were hobbled, whereas the traders in commodities were not. The problem for the next six months was to get the fettered price of gold in line with commodity prices. During most of that time, nothing was done to remove the hobbles. The highly sensitive, hobbled foreign exchange traders were thrown off their stride by F. D. R.'s hunt for gold hoarders that will unfold as the narrative progresses.

During the greatest depreciation of the dollar and the sharpest rise in prices, Warren was not in Washington. This belies the widespread opinion that Warren fixed the price of gold. He was, in fact, touring the Middle West, interviewing people concerning the state of the nation for Washington officials. This is verified by the first paragraph of his letter of July 7, 1933: "I have just returned from a month spent in Missouri, Utah, Nebraska, and Illinois. All of the people that I have seen are enthusiastic concerning the progress made toward recovery." Warren's contribution had to do with the general policy of combating inflation by depreciation of the dollar and not with its detailed daily administration.

Pricewise, the most important effects of revaluation occurred in ninety days; but the narrative rolls on for almost two hundred days. The ninety days were well-named Rosy Hue. For all practical purposes, the devaluation ended.

The next six months were a period of jangling nerves, frustration, backbiting, hair-pulling and name-calling that confounded 125 million people, including the biographers.

Now, the Less Important

C. R. White, Edward A. O'Neal [45] and other farm leaders went to see the President on April 12. J. H. Rand, Jr., Lessing Rosenwald, Fred Sexauer and E. I. McClintock [46] of the Committee for the Nation also

[45] Presidents of the New York State Farm Bureau Federation and of the American Farm Bureau Federation, respectively.

[46] Lessing J. Rosenwald, Chairman, Sears, Roebuck and Company; E. I. McClintock, Sterling Drug Company.

saw the President. Warren's diary tells us, "He [the President] was surprised and pleased to know that Walter Lippmann had endorsed inflation.[47] The President asked what figure they proposed to revalue at and what it meant in grains of gold in the dollar. . . . He requested that the Committee continue its work."

The Committee was interested in a rise in the price of gold that would restore an equilibrium in the price structure. It was also interested in a method to provide for the maintenance and stabilization of that price level.[48]

April 6–12, Warren was in Washington working on proposed legislation dealing with the latter problem. The bill provided for a monetary commission to maintain a reasonably stable price level by varying the price of gold.[49] As he studied the problem, Warren became less enthusiastic about a stabilized price level, stabilized dollar, tabular standard or a compensated dollar which as the sound and fury crescendoed was dubbed a rubber dollar, bouncing dollar and ridiculed as a bologna dollar by able Alfred E. Smith.[50] Warren's notes record an excellent summary of the issue by Senator Bulkley that made a profound impression on Warren. Senator Bulkley said "that he believed the dollar should be revalued but did not desire a compensated dollar. His reason is the best argument against stabilization. He said that the best price level for Society is a gradually rising price level. . . ." If the curve of prices would always rise at the rate of 1 per cent per year, human existence would be happier; but it would be less interesting.

F. D. R. Meets the Press

"Q Can you explain the process by which this [let the dollar take care of itself] would tend to raise commodity prices here at home?

THE PRESIDENT: Here is a simple illustration. There are a good many commodities which are sold in terms of world trade. Well, for instance, cotton. Cotton is sold on a gold basis and, with the dollar where it has been, it works out to a certain number of cents. Therefore, if the dollar were to sell off 10%, the price of cotton in terms of dollars would go up 10%. . . . I think on the general subject, it is awfully difficult to particularize and I don't see how I can write an intelligent story and I don't see how you can."[1]

President Roosevelt knew that one simple phase of price, the cotton-gold-dollar illustration, could be presented to the public. He also knew that the over-all price problem was a complex question that could not be simplified.

Thomas Amendment

The disappointment of anticipation of inflation without realization was reflected in the mood of Congress. There was a large group who argued that the way to raise farm prices was to reduce the supply. This took the form of the Agricultural Adjustment Act.

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[47] Special writer for the New York Herald-Tribune and other papers.

[48] Under the Committee's auspices Warren addressed a large group at the Mayflower Hotel and a meeting of the National Manufacturers' Association. His address was well received.

[49] A bill to provide for the re-establishment of the gold standard and for its maintenance and stabilization. The variable mint price of gold was the core of the proposed legislation. April 20, T. Alan Goldsborough, Congressman from Maryland, introduced Bill HR 5073 embodying many of the ideas.

[50] Ex-Governor of New York State and Editor-in-Chief of New Outlook, 1932–1934.

[1] Confidential Press Conference #13 at the White House Proper.
April 19th, 1933—10:38 A.M. F. D. Roosevelt Papers. Franklin D. Roosevelt Library, Hyde Park, New York, (13-4-155) and (13-5-156).

More important were two inflationary amendments, one of which was defeated. April 17 the Senate voted down the so-called Wheeler Amendment providing for the free coinage of silver at the ratio of 16 to 1.

Directly after the vote on the Wheeler Amendment, white-haired Senator Elmer Thomas of Oklahoma sponsored an amendment giving the President power to inflate the currency, reduce the gold content of the dollar or adopt bimetalism. The overwhelming vote attested to its popularity in Congress, which in turn reflected the tenor of the people.

The amendment was not the product of a few crackpot senators and congressmen, a few businessmen, farm leaders and a couple of starry-eyed economists; it was the result of a grass root demand for inflation with the power of a western tornado and a southern hurricane behind it.[2] The silent vote of the nation is reflected in the Senate vote of 64 to 21 and the House vote of 307 to 86, April 28 and May 3, respectively.[3]

The President approved May 12, 1933, but did not use the powers until his fifty-second birthday, January 30, 1934, when he signed the Gold Reserve Act of 1934 which fixed the price of gold at $35.00 per fine ounce and that price has continued to date.[4]

The Congressional inflationary activities extended over about a month, April 17 to May 20, 1933, overlapping the same period during which the speculators were forcing up the prices of gold and commodities under Executive Order No. 6111.

Although, so far as the President was concerned, the powers of the Thomas Amendment were permissive, not mandatory, they no doubt were another stimulus to the speculators who were operating under the Executive Order.

Antis

Warren had other problems. The nation's rosy hue was not as yet clouded by bureaucratic bickering involving personalities and principles. There were, however, some threatening thunderheads appearing on the horizon. The Wallace crowd would restore equilibrium in the price structure by reducing production. The Keynesian crowd would restore business by the Hopkins-tax-and-spend program. The international crowd would restore confidence by an international monetary conference to stabilize currencies. There was the complete-the-deflation-process group. They urged that wages, salaries and telephone rates be deflated down to basic commodity prices. There were many other groups but only those that involved Warren are mentioned.

Secretary of the Treasury Woodin was not sympathetic; and Woodin's adviser, Professor Sprague,[5] most certainly was not! Warren spent May 24 in Washington at the request of Secretary Woodin. Dr. Sprague had just been sworn into office. Woodin was quite elated with his new adviser: " '. . . now they had a man who understood foreign exchange so that they would know what was going to happen.' (He was referring to Sprague)."

His foreign adviser "thinks we are in great danger of a great inflation such as Germany had." Warren countered that wild inflation was usually

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[2] The Reverend Charles E. Coughlin of Detroit was the most vociferous and effective radio inflationist.
[3] Moley, R., After Seven Years, Harper & Brothers Publishers, New York and London, page 160, 1939.
[4] Page 5657.
[5] Oliver Sprague, Professor of Banking and Finance, Harvard University; Economic Adviser to the Bank of England and Financial and Executive Assistant to the Secretary of the Treasury.

associated with defeat in time of war or revolutions and recorded: Sprague "replied that the past had nothing to do with this case, as he had no confidence in history." Sprague was uncertain about what to do at the moment, but did not want to revalue and thought it "would not hold. Apparently, he would hold the dollar where it is, but says this would cause world prices to fall." Sprague's solution was to cut wages and freight rates to the price level.[6] He considered that Belgium was successfully completing deflation by these means.[7]

It is little wonder that Woodin was confused and ultimately resigned. One professor told him that the United States price of gold made world price level, and another professor said no. Woodin, like many others, was more impressed by the twenty-day stalemate following suspension than by the ninety-day rosy hue. Warren describes Woodin's confusion as follows: "When the Committee for the Nation sent a committee to see Secretary Woodin sometime ago, he made the same sort of statement; that the suspension of gold payments internally, early in March, had not brought the changes that had been told would happen. [Dazed] Woodin [8] indicated that Moley did not know anything. Apparently [Woodin] felt that no one they had had around previously had been able to tell what would happen." Warren left Woodin three points: (1) the problem was internal; (2) reduce the weight of gold by enough to accomplish its purpose; (3) the matter should not be delayed. Oncoming events would indicate that Warren's memorandum was filed in the wastebasket. There is little doubt that all this confusion permeated the White House, and a busy President had little time to weigh the pros and cons.

F. D. R. Calls and Smashes Conference

While President Roosevelt was basking in the warm rays of economic recovery he lent an ear to those who believed that the problem was international and the remedy was a world-wide conference to control foreign exchange. Between April 22 and June 3 President Roosevelt entertained and conferred with ten prime ministers, presidents and other foreign dignitaries, they issued joint statements concerning a world monetary conference to be held in London. In addition President Roosevelt cabled 54 additional sovereigns and presidents appealing to them for an end to economic chaos.

The [London] Monetary and Economic Conference convened [9] June 12, 1933. Cordell Hull, Secretary of State, headed our delegation which consisted of a host of anti-Warrenites. According to Hull, a free-trader, the Conference was called to reduce tariffs, the cause of all national ills and international chilblains. After the other delegates had sailed, the President dispatched Raymond Moley with authority to negotiate a stabilization agreement.[10]

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[6] This was one alternative, but since the dollar had already been devalued it was hardly worthy of consideration at this point. It is of interest, however, as it indicates the confusion of thought.

[7] He was in error. Belgium tried confiscating savings, bank deposits and the like but failed, and as of April Fools' Day, 1935, the legal price of gold in terms of the belga was raised 39 per cent above that of 1926. One year later it was again raised, 72 per cent above 1926 and 864 per cent above pre-World War I.

[8] The word "dazed" was used deliberately, because Mr. Moley was—and is—an able individual, and because of the previous mutual respect that had existed between Woodin and Moley. The latter reports that in February 1933 in "Louis' [Howe] paper-strewn office on Madison Avenue [New York City] I suggested the name of Will Woodin [for Secretary of the Treasury]."

Moley, R., After Seven Years, Harper & Brothers Publishers, New York and London, page 121, 1939.

[9] Roosevelt, F. D., The Public Papers and Addresses of Franklin D. Roosevelt, Random House, New York, Volume Two, page 245, 1938.

The dollar strengthened and prices of commodities and securities softened. The activities of jittery speculators raised eyebrows, and June 15 the Secretary of the Treasury made a statement denying London rumors of currency stabilization.[10] This was accompanied by a "technical" rally in the stock market, and commodity traders curbed the declining commodity prices.

The agricultural leaders got wind of the goings on. President O'Neal of the American Farm Bureau Federation wired Warren for suggestions to be telegraphed to President Roosevelt, then fishing and sailing off the New England coast on Amberjack II. Warren, on a brown davenport in Room 17 in the basement of a new building that was to bear his name, wrote a short telegram to O'Neal. O'Neal rewrote it and sent it to F. D. R., who had boarded the cruiser Indianapolis. It was here that the President tossed off his message that was to rock the world.

Roosevelt had finally realized that he was trying to ride two horses going in opposite directions, the international horse toward stabilization and the national horse toward depreciation. Nimble F. D. R. read the signs of the time and being an astute politician planted both feet firmly on the national horse.

On July 3 Cordell Hull in London made public a long message from the President containing Warren's thesis and Roosevelt's phrases. "I would regard it as a catastrophe amounting to a world tragedy if the . . . Conference . . . allow itself to be diverted by . . . experiment affecting the monetary exchange of a few Nations only. . . . The world will not long be lulled by the specious fallacy of achieving a temporary and probably an artificial stability in foreign exchange. . . . The sound internal economic system of a Nation is a greater factor in its well-being than the price of its currency in changing terms of the currencies of other Nations." [11]

The confusion in foggy London created by confused F. D. R. is best summarized in Raymond Moley's report of his visit to 10 Downing Street when Prime Minister MacDonald "cried out, 'This doesn't sound like the man I spent so many hours with in Washington [April 22]. This sounds like a different man. I don't understand'." [12] He was the same man, but MacDonald did not understand that F. D. R., economically speaking, was mercurial.

Roosevelt's wireless was well received in the United States but across the sea the gloom was as thick as one of London's pea-soup fogs. Foreign exchange traders pushed up the price of gold 14 per cent. Traders on grain, cotton and other commodity exchanges pushed prices up 16 per cent. Traders on the New York Stock Exchange lagged a little—prices rose 4 per cent.[13]

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[10] Hoover, H., The Memoirs of Herbert Hoover, The Great Depression, 1929–1941, The Macmillan Company, New York, pages 364–366, 1952.

That Moley had some Presidential authority is indicated by justly-peeved Cordell Hull, who reports, "Moley negotiated an agreement to stabilize currencies, and cabled it to the President for his approval." So confident was Moley that he called a meeting of high dignitaries at Number 10 Downing Street, June 30. As the July 3 cable unfavorable to stabilization came in, angry Hull advised his Assistant Secretary, "You had better get back home. You had no business over here in the first place." Whether Moley conducted himself as Hull intimates is beside the point, but within a few weeks the President transferred him from the State Department.

Hull closes his chapter with the nice sentence, "History, which is filled with might-have-beens, picked up another at London." Probably the Secretary did not realize that this sentence could be interpreted in two ways.

Hull, C., The Memoirs of Cordell Hull, The Macmillan Company, New York, Volume I, pages 261, 268, 269, 1948.

[11] Roosevelt, F. D., The Public Papers and Addresses of Franklin D. Roosevelt, Random House, New York, Volume Two, pages 264–265, 1938.

[12] Moley, R., After Seven Years, Harper & Brothers Publishers, New York and London, page 263, 1939.

Later, July 28, Warren had dinner with Dr. Warburg at the Harvard Club in New York City. Warren's notes indicate the different responses to Roosevelt's London cable: "Warburg told of all the cables to and from Roosevelt and how he had reported to him that his July 3rd cable was very bad but Roosevelt replied that the American people had liked it; to which Warburg replied, 'It was not sent to them.' (Warburg has another guess coming.) He and all of the others who went to the London Conference felt duly spanked."

The chips were down; the President stood with the farmers, the farm leaders, the Committee for the Nation and Warren.

The chagrined delegates came home and stormed the White House emphasizing the importance of foreign exchange control, international cooperation and the like.[14]

Warren's notes also record the following: "Saw Sprague. He thought that his plan for stabilizing the dollar and the pound in May was the Administration's. I think he was much mistaken. . . . Roosevelt did not get trapped."

The Trap

Looking back over the shoulder of time, it appears that Roosevelt set the trap, snapped the trap and got away with the cheese. The movement for international stabilization dates back to President Hoover and the great Maelstrom of the thirties when there was a shift in thinking from a national to an international point of view. Historically, when a nation became bankrupt it revalued its currency without regard to other nations. Then exchange rates between that nation and other countries were quickly adjusted allowing trade to proceed as usual.

As nations became more internationally-minded, an increasing number of persons concluded that when all nations suffered from the world-wide deflation, the problem was world-wide; the logical solution seemed to be a world monetary conference with emphasis on foreign exchange rates.

The national proponents won a battle, but the internationalists won the war. The nationalists won, in that each country devalued its currency. The internationalists won, in that the devaluations were generally too little. Since the devaluation was generally not sufficient to restore the predeflation equilibrium in the price structure, each nation turned to national regimentation to bolster domestic prices of this and that product, regardless of international considerations.

In discussing international conferences concerning the gold problems and the Keynes-managed currencies, Warburg made some sage comments on "the strange phenomenon that socialism tends to become nationalism. When you have a planned economy you resent any interference with your plans particularly if it comes from outside the country so that you tend to act as if you're in a self-contained unit. This tendency was beginning in England. The people who were having some success in managing the pound didn't like the idea of having to go back on gold.

"Any attempt to plan an economy means. . . . The more you do that, the more you have to do it. . . . The more you do that, the less you can play with other people." [15]

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[13] Based on changes from the last trading day preceding this Presidential wireless to the next peaks of commodity prices, July 1 and July 18, respectively.

[14] Warren's notes do not reveal that the dollar was pegged to the pound sterling. They do indicate that the President favored keeping the two currencies together. The market during July and August indicates clearly that the dollar was tied to the exchange rate in London.

The first proposal for a world conference to stabilize the tottering currencies had been made by President Hoover when Premier Laval visited the White House about two months after most of the world had toppled off gold—a date long to be remembered, September 18, 1931. The French Premier, however, disagreed; he felt the time was not ripe.[16]

During May 1932, Hoover proposed to Secretary of State Stimson that the project be discussed with Prime Minister MacDonald, who approved; Congress also approved. President Hoover and Prime Minister MacDonald planned to convoke a world conference [16] in January 1933. Probably because of a clash of parties or of leaders, President-Elect Roosevelt refused to cooperate and the plan was dropped.

Soon after his inauguration, F. D. R. reversed his position, inviting representatives of several countries to visit him in Washington. Following each conversation, joint statements implying that they all agreed upon a "return to gold" were issued. The first conference was with Prime Minister MacDonald on April 22, 1933, two days after F. D. R. had signed Executive Order No. 6111 permitting transactions in foreign exchange,[17] obviously precluding a "return to gold." There followed a continuous parade of foreign dignitaries to the White House, among the last were Prime Minister Ishii [16] of Japan on May 27, and Senor Torres of Chile on June 3, 1933.

Stabilization of Prices

As a result of the havoc created by the great decline in commodity prices the stabilization of the price level intrigued the President and the public. Compared to the problem of devaluation of the dollar its importance was about in the same proportion as the lemonade stand to the big top at the Ringling Brothers–Barnum and Bailey Circus.

While one group was advocating a return to gold and stabilization of exchange rates, another group was advocating stabilization of the price level. Warren's notes indicate that the latter issue was up for discussion.

On July 12 Warren had tea with President Roosevelt, and Warren's notes record the handiwork of Sprague and other internationalists and the adverse publicity he received in the foreign press. "Roosevelt was very anxious to keep English and American money together."

Roosevelt, Warren and the Committee for the Nation favored the commodity dollar, but others did not, and Warren's notes hint at the flood of advice that pours in upon a President. At the suggestion of the President, Warren conferred with Berle and Tugwell. "Had supper with Wallace, Tugwell, Berle and Rogers.[18] Tugwell and Berle thought that the President had made a mistake to endorse a commodity dollar. Berle said perhaps the best thing is to tell the 'Skipper' he has made a mistake."

Warren's notes indicate that Budget Director Lewis Douglas "had been very bitter about the stable dollar . . . ." and no doubt found occasion to so advise the President. Being in a somewhat perplexed frame of mind, Douglas "wanted to know if I believed in a balanced budget. I told him that I thought such a budget was impossible in a period when the public was unable to pay taxes. . . . The only way to balance the budget is to have prosperity so that taxes can be paid."

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[15] Warburg, J. P., The Reminiscences of James P. Warburg, February 1951 to February 1952, Columbia University, Nicholas Murray Butler Library, Oral History Research Office, Special Collections, Room 654, page 673, Sunday, May 7, 1933, New York City.

[16] Hoover, H., The Memoirs of Herbert Hoover, The Great Depression, 1929–1941, The Macmillan Company, New York, pages 130, 163, 191, 208, 363, 364, 1952.

[17] Page 5612.

[18] A. A. Berle, Jr., Special Counsel for the Reconstruction Finance Corporation.

Hazy Hue
July 15 to August 15

During the summer wholesale prices and the stock market each declined about 10 per cent. For about three weeks during this crucial period Warren left practically no records except that he was in Washington. He was, no doubt, busy arguing with the Antis or was just worn out and in need of the vacation he was soon to have.

Just as the rosy hue faded into a hazy hue, a new monetary adviser came into the limelight. During Warren's absence, the Antis had no doubt conferred and decided that the President needed another adviser. Warren's notes record: "July 7, 1933, Arrived home from the western trip. July 9, 1933, Went to Washington at the request of Secretary Wallace to work on some monetary questions with Professor J. H. Rogers. . . ." The next day Warren found what the monetary problems were and was soon to learn that the gracious, affable, scholarly Yale professor was not always in tune with him.

July 10, 1933, Warren wrote: "Wallace, Secretary Roper, Rogers and I called on the President to discuss the work.

"Unfortunately, just as we left the room Secretary Roper began to talk to newspapermen and got things badly mixed up. In an attempt to correct this, Wallace added other information. The newspapermen took what both said and put it in the newspapers.

"Roper said that we were to work on a stable dollar in the monetary policy. Since Wallace did not want this to get to the newspapers he quickly made a statement of us working on the budget and taxation. The newspapers put it all together. The newspapermen insisted on photographing us which we refused to have done. Rogers had never had a photograph taken, not even for college publications, so that he objected especially to the activities of photographers."

The next morning the press reported that these professors, "foremost exponents of budget balancing . . . started on their duties . . . . study of converting Government short-term debts into long-term bonds.[19] It is little wonder that the press pulled some boners; it was not always their fault. Who was to question the veracity or accuracy of the Secretaries of Commerce and Agriculture?

Warren left only sparse notes of this Presidential conference. There were, however, two outlines prepared by Dr. Berle. One was entitled Recommendations for Stabilization of Prices; and the other, Managed Currency. Stability of foreign exchange and control of deposits by member banks were on the agenda.

At this conference the President paid a tribute to Professor Warren. The President suggested "that we confer with Phillips, Roberts,[20] Berle and 'Rex.' Wallace said that Rex Tugwell and Warren were not in complete agreement. Roosevelt said, 'Well, you see I have come much closer to Warren than to Tugwell.' Turning to me and evidently referring to our meeting March 6, [he] said, 'Well, I have gone a lot further than you thought I would in March'."

Warren's notes of July 12 opened as follows: "Rogers and I had tea with President Roosevelt and talked about an hour and a half. Delano was present.[21] . . . Did not talk much about the commodity dollar." Warren's notes indicate that the President gleefully spent most of the time telling them of a visit with Dr. Hjalmar Schacht, German Acting Minister

[19] The Evening Star, Washington, D. C., July 11, 1933.
[20] William Phillips, Under Secretary of State; Owen J. Roberts, Justice of the Supreme Court.
[21] Frederick A Delano, the President's uncle.

of National Economy. The notes did not reveal much save that at Roosevelt's criticism "S. grew red back of the neck."

A memorandum from Rogers was taken to the President by Tugwell on July 16. It had a Keynesian leaning and reflected on Warren's thesis. It read in part as follows:

"The one type of inflation with which we have had experience is 'public works financed through credit expansion.' Our preparations for the European war constituted an inflation of exactly this character; and we know the effects on business and on prices. As I am not sure of the success of the measures already adopted, I feel very strongly that immediate preparations should be made for expanding very greatly the 'Public Works' program when, as, and if necessary.

J. H. R."

Across the bottom of a carbon copy of the letter appears a significant seven-word comment. "I did not sign or approve this. (G. F. W.)"

This and other episodes lead the biographers to the conclusion that the Yale professor did little to strengthen Warren's confidence in Rogers's judgment. Although Warren probably knew Rogers's views, he left no clues concerning them. Other sources show that Rogers firmly believed in international stabilization and in the thesis that the price level was more dependent on the dollar-sterling exchange rate than on gold. He was also a believer in the spend-one's-way-out-of-trouble solution. At one stage he addressed a group assembled by Raymond Moley and urged the expenditures of hundreds of millions per month on grade crossings.[22]

The New Dealers as well as Warren were skeptical of the decline in prices. Among them was none other than Rex Tugwell who took a memo on the subject to the "Skipper." Warren's handwriting records, "This was given to FDR on Sunday July 16 by Tugwell . . . but not kept by FDR." Tugwell's means of combatting a rising dollar were to "Increase 'open-market' purchases of Federal Reserve Banks. . . . Lower . . . discount rates. Speed up 'public works' . . . ." and so on.

Warren's solution was quite different. He advised the President on July 12 and wrote him on July 21. The President had plenty of information at his fingertips.[23] Whether he had the time or inclination to peruse it or was being overwhelmed by the Antis is problematical.

About this time, it matters not exactly when, Warren revealed some of his problems in educating New Dealers on the factors making prices. Many persons noted that as the efficiency of, for example, automobile production increased, prices declined; they then generalized that the same principles held for the price level.

"Tugwell said that prices ought to fall as efficiency increases. I tried to get him to see what this means but have not yet succeeded. He knows very little about the laws of prices. Berle knows little but learns rapidly."

A little later Warren's notes indicate that another New Dealer was not in agreement with him. "Phoned Wallace. He thought the drop in the dollar not the trouble." His August 1933 solution of upgrading the farmer by downgrading his production was quite different from that of the Henry Agard Wallace, then editor of Wallaces' Farmer and Iowa Homestead, who on January 31, 1933, had declared, "The smart thing would be to go off the gold standard a little further than England has." [24]

[22] Warburg, J. P., The Money Muddle, Alfred A. Knopf, New York, pages 134–135, 1934.

[23] Warren directly or through Henry Morgenthau, Jr., supplied the President with daily prices of gold in London, pound sterling, dollar prices for gold and indexes of prices of seventeen basic commodities and of twenty-five industrial stocks.

[24] Hoover, H., The Memoirs of Herbert Hoover, The Great Depression, 1929–1941, The Macmillan Company, New York, page 200, 1952.

July 21, Warren noted that the President inquired concerning a possible international monetary unit. Who whispered this naive suggestion in the Presidential ear is not known. A subsequent White House visit revealed some of the inner workings of his mind which must have raised Warren's eyebrows. "He said the agricultural boys had done a great job in raising prices."

Cotton, Pigs and Prices

What agricultural boys? The national and state farm leaders who had supported his monetary program or the Department of Agriculture planners, Wallace, Tugwell, Ezekiel and others who had developed the Agricultural Adjustment Act signed May 12, 1933? During May and June the cotton was being plowed under, and sixty days later the price of cotton was 29 per cent above that prevailing the day the President signed the AAA bill.[25]

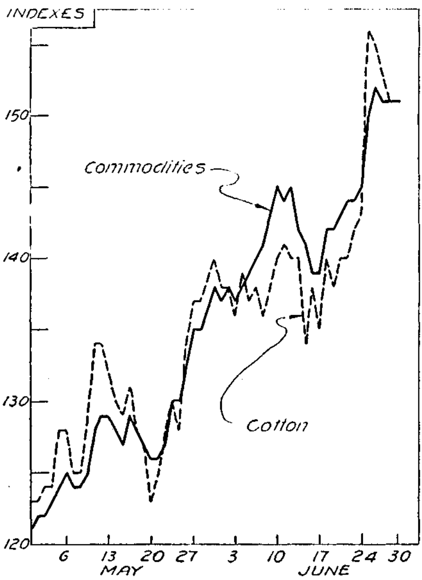

FIGURE 3. DAILY INDEXES OF WHOLESALE PRICES OF COTTON AND OF SEVENTEEN BASIC COMMODITIES, MAY 1 TO JUNE 30, 1933

During the two months when the cotton crop was being plowed under, the price of cotton rose and fell with the prices of seventeen basic commodities.

Those who argue that the price of cotton rose because of this campaign must use the same explanation for the rise in the prices of the Seventeen. The only other explanation is that another force, the price of gold, raised the prices of the Seventeen and of cotton. In that event, the plowing-under was a coincidence and not a cause.

This was a spectacular show! Never before had cotton been plowed under, and never before or since has there been such an apparent demonstration of the effect on price of reducing supply. Whether the show actually had any effect on price is questionable. During the same sixty days the price of seventeen basic commodities rose 30 per cent (figure 3). The planners would say the plowing under had raised cotton prices 29 per cent. The Warrenites would say that the rise in the price of cotton as well as of the other sixteen commodities was due to the devaluation of the dollar. Each generalized on what he saw that impressed him. The spectacularly observable rise in the price of one commodity that had been plowed under was more dramatic than a similar advance in the average index of seventeen prices, some of which went up and others down and which some professor combined into an index a week later.

It is crystal clear that the luster of gold was tarnishing, and the novelty of agricultural planning and of raising price by reducing production was more appealing. The influence of Henry Wallace and Rex Tugwell was waxing while that of Warren was waning. Warren was cognizant of this change but was more interested in his constructive program than in casting aspersions on the Wallace-Tugwell-Johnson programs.[26] His notes, however, record that some backfire should have been started. "Rogers and I both felt that we have not sufficiently vigorously combatted the AAA and the NRA."

The slaughter of little pigs was not popular with the public for either economic or humane reasons. The public does not object to slaughter of big, fat hogs to eat, but a wave of consumer protest followed the destruction of the little pigs. Economically it was a "wash-out," and Wallace's stock declined in his home state, Iowa, the nation's greatest pork producer. This failure was due to a strengthening of the dollar. During August and September the farm price of hogs declined 7 per cent, and lard fell 20 per cent. The slaughter program failed because of a general 11 per cent deflation in prices of basic commodities (figures 4 and 5). The Secretary's timing was poor; he should have slaughtered the little pigs at the same time he plowed under the cotton, when the price level was rising.

Warren did not make any public pronouncements on this issue, but was not reluctant to do so in private. A conversation recalled by the beloved patriarch of New York farmers, Jared van Wagenen, Jr., anent the low price of potatoes well illustrates Warren's position. He quotes Warren as saying, "No matter how cheap potatoes are, you can always get more for two potatoes than you can for one," and comments, "I think this betrayed a certain lack of sympathy with governmental control." His attitude is also reflected in his subsequent correspondence with Henry Morgenthau, Jr. and Franklin D. Roosevelt.

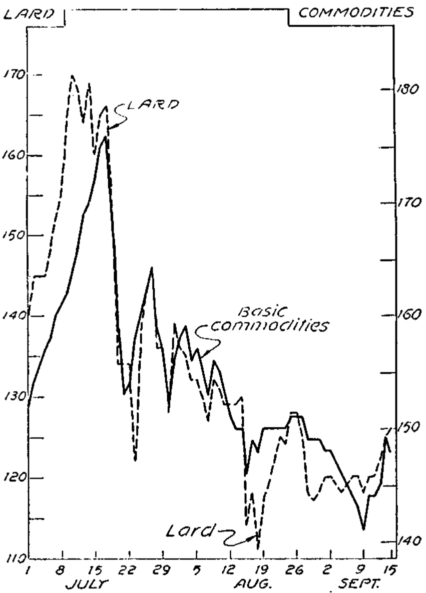

FIGURE 4. DAILY WHOLESALE PRICES OF LARD AND OF SEVENTEEN BASIC COMMODITIES, JULY 1 TO SEPTEMBER 15, 1933

April 17, 1933 = 100

Prices of lard on the Chicago Board of Trade were more responsive to the general deflation of prices of other commodities than to the "inflationary" effects of the slaughter of little pigs.

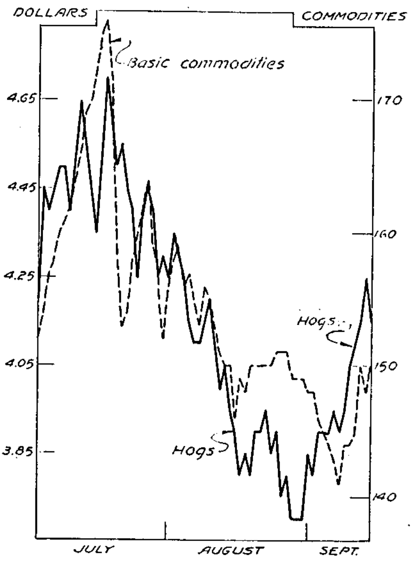

FIGURE 5. WHOLESALE PRICES OF HEAVY HOGS AT CHICAGO AND OF SEVENTEEN BASIC COMMODITIES, JULY 1 TO SEPTEMBER 15, 1933

April 17, 1933 = 100 for Seventeen Basic Commodities

Dollars per 100 for hogs

During these 75-odd days, prices of hogs in the Chicago stockyards fluctuated with prices of other basic commodities.

Secretary H. A. Wallace's program of reducing production to raise farm price and General Johnson's program of regulating industry were petering out; commodity prices were declining, and Wall Street was listless. Warren was perturbed and September 29 wrote his first letter on Regulations and Regulators.

[25] From May 12 to July 12 the price of cotton rose from 8.95 to 11.55 cents per pound.

[26] Hugh S. Johnson, Brigadier General, Administrator of National Recovery Act. The program was popularly known as the Blue Eagle.

"Things do not look too good to me . . . I have never enthused about the A.A.A. or the N.R.A. . . . N.R.A. has increased the amount that it will be necessary to cut the dollar to restore equilibrium.

"I think it unfortunate to have persons in prominent administrative positions attacking rising prices and profits. It is only thru rising prices and profit that debts and taxes can be met, and banks made solvent—only thru profit that business will be able to hire the unemployed and get them back to their regular kinds of work where they belong."

Dr. Warren wrote the President October 16, "The public is becoming very restive and very critical of the AAA and the NRA."

The same day he wrote Henry Morgenthau, Jr., as follows: "You know what I think of the NRA and the AAA both of which are, I think, about 10% useful, 15% political expediency, 25% hot air, and 50% measures that will result in violent reaction unless prices are raised sufficiently so that prosperity will cause these things to be inoperative. . . .

"There is a strong feeling that monetary policy is being delayed while each deflationist tries his pet plan.

"Rumors are current that members of the Agricultural Department have stated that they wanted the fall in prices in July so they could be sure to get their plans tried."

Pre-Hyde Park Dinner

On Monday, July 24, to retrace our steps briefly, Warburg reminisces: "Lunch with the President off his desk. . . . The President's last words to me were to arrange to see Rogers and Warren during the week and then to come and see him in Hyde Park next week."

This Warburg did, and recorded for Friday, July 28, "7:30 P.M. Entertained Messrs. Warren and Rogers at dinner at the Harvard Club and stayed there until 11:30 discussing the currency problem and our whole monetary policy. I found Warren a very sincere hardworking and serious-minded sort of man who is not in the least difficult to deal with. Rogers is more volatile, less profound, and personally not nearly as likeable. I should say that Rogers was a lightweight who need not be regarded very seriously. . . . The result of the evening is that I am tremendously pleased to find that these vaunted radicals are not nearly as radical as the President's interpretation of them. . . . His [Rogers] one idea was that you should start recovery by financing a lot of grade crossing improvements. . . . Warren was a very sincere guy who believed that you could manipulate the price level by manipulating the gold content of the dollar. If you started from that assumption, which I didn't believe, then he made pretty good sense from there on. He wasn't a crackpot like some of these other boys." [27]

Hyde Park Dinner

August 7, Warren talked on the telephone with Warburg, who was then apparently favorable to revaluation. "He is disgusted with Acheson, Black, Sprague and George Harrison.[28] They . . . are doubtful of varying the price of gold in the future."

The first time there are any records of a discussion of the ultimate devaluation, who should handle it, and how it should be attained is reported in the account of a dinner at Hyde Park, August 8, just before Warren

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[27] Warburg, J. P., The Reminiscences of James P. Warburg, February 1951 to February 1952, Columbia University, Nicholas Murray Butler Library, Oral History Research Office, Special Collections, Room 654, pages 1187, 1190, 1212, 1214, 1217, Monday, July 24; Friday, July 28, 1933, New York City.

[28] Dean Acheson, Under-Secretary of the Treasury; Eugene R. Black, Governor of Federal Reserve Board; George L. Harrison, Governor of Federal Reserve Bank of New York.

sailed for Europe. The President had requested "that I come before dinner so as to discuss matters before the others arrived. He asked my advice as to setting of the price . . . [of] gold, at say $29 . . . I . . . said that $29 was too low. . . ." Warren gave him the following advice: "At the present time, it looks as if . . . the price of gold [should be raised] to about $32 to $37 per fine ounce. . . ."

There was a difference of opinion about who should control the price: "I said that I believed that he [Roosevelt] should keep the dollar definitely under his own control (this being a different point of view from the committee idea of Warburg)." As Warren was sailing to Europe he gave Roosevelt some good advice as to what should be done. "Suggested that he should be sure to cut it [the gold content of the dollar] enough and keep it declining."

This is another clue indicating that Warren served only as a policy adviser and did not pass out pieces of paper with the changes in the price of gold that were inaugurated from day to day. The last two sentences of his notes on this meeting read as follows: "Rogers is confused as to whether gold or credit is the trouble. He seems to fear sending France off gold, yet agrees that it is best. . . . Roosevelt said that I was going [to Europe] to find out about the hoi polloi."

At that time Warren left a six page memorandum [29] with F. D. R. that was a masterpiece of clarity, and its center heads reflect the problem and its solutions: "Reflation necessary; Necessity of control; Amount of devaluation; Method of control; Stabilization." The avalanche of paper work on this issue, strengthening the dollar and general deflation, must have created a monumental traffic jam on F.D.R.'s desk; and Warren's six pages of concern over the decline in commodity prices were probably lost.

Meet the Press

At 11:00 a.m. August 9, 1933, F.D.R. held a press conference at Hyde Park. The press was all agog with speculation as to what had happened, what would happen, and what would not happen. Warren was not present but would have enjoyed the President's reactions, which reporter E. L. Roddan summarized for Universal [News] Service. "President Roosevelt was visibly pleased today to discover three favorable factors of real importance in his recovery drive . . . . the Chief Executive had before him a chart prepared by Professor George Warren . . . . which showed the following: First—The increase in employment. . . . Second—The cost of living has increased very little in relation to the substantial rise in commodity prices. . . . Third—The cost of distributing food . . . has shown a slight decrease." [30] A similar message appeared in the London Morning Post.

The chart was lost but not the accompanying tabular material.[31] The

[29] About this time other programs no doubt fell on the Presidential desk, but only James P. Warburg's appeared in Warren's notes.

[30] Roddan, Edward L., Chicago Herald, Universal Service, August 9, 1933. The statements were verified by the following facts: from February to August employment had risen about a third, prices of farm crops had almost doubled, cost of food distribution had declined 2 per cent and the cost of living had risen only 4 per cent.

[31] Warren presented two stencils, FAP–JN 8–2–33 1:91 and 8–4–33 1:91a. These contained daily data from April 18 to August 3, 1933, to which Warren added the data for August 4 and 5 in his own hand writing. The table contained nine columns. The most important were the last three: the premium for gold, the prices of seventeen commodities and the prices of twenty-five industrial stocks; these no doubt attracted the President's attention.

This table appeared in the following article: Pearson, F. A., Farm Prices, Farm Economics, No. 82, pages 1953–1969, August 1933.

data inspired both optimism and pessimism: the former was evident when F.D.R. met the newspapermen, and the latter stimulated Warren to write a six page memorandum to F.D.R.

The figures that elated Roosevelt and were shown to newspaperman Roddan indicated that during the previous three and a half months commodity prices, stocks, and the price of gold had risen 57, 45 and 36 per cent, respectively. The phase of the chart that depressed Warren and caused him concern was the sixteen-day decline in prices of commodities and stocks that followed (figure 6).

An examination of the data makes it evident that the over-all advance was the more conspicuous. On careful study it will be noted that prices peaked on July 18 and then fell to August 5. Perceptive Warren was impressed by the dampening down of prices, whereas less perceptive F.D.R. saw only the over-all advance.

As Warren was on the sea, F.D.R. was on his own; the following excerpts from his remarks indicate that he knew more about what was going on than he was generally credited with. What did the President say that intrigued Roddan and other reporters?

"Q Have you any information or figures, Mr. President, bearing on the prices of. . . .

THE PRESIDENT: That is a perfect question. . . . I don't know how the hell you can write a story about this. [But F.D.R. knew what had occurred and knew how to present the effects of his reflation program on various parts of the price structure depending on their degrees of stickiness.] Now the price of gold has gone up. . . . Seventeen basic commodities were away below the all-commodity level and they have gone up. . . . Now, the farm prices were lowest of all and they have come back, relatively more. . . . On the other hand, the retail food prices went down very little [1929 to 1933] and they have gone up very little [April to July 1933]. . . . The cost of distributing food has gone down. . . . The cost of living, of course, didn't go down very much and it hasn't gone up very much. . . . Then, over here, we have the four main farm crops and that shows what must be perfectly obvious, that the things that went down the furthest [from 1929 to 1933] came back the most [April to July 1933].

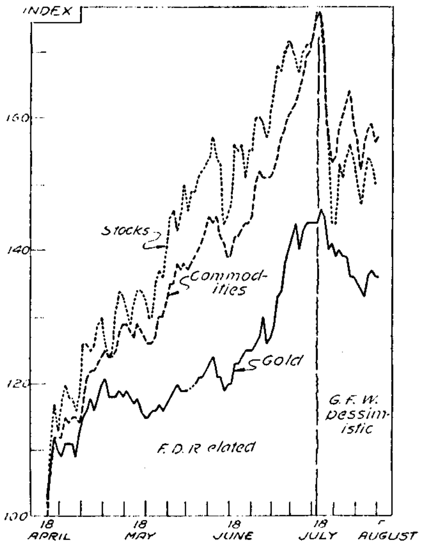


FIGURE 6. DAILY PRICES OF GOLD, SEVENTEEN BASIC COMMODITIES AND THIRTY INDUSTRIAL STOCKS, APRIL 18 TO AUGUST 5, 1933

The rainbow came to resemble jagged lightning. The ninety-day advance in prices of commodities and common stocks impressed the President more than the sixteen-day decline. Warren was more impressed with the decline than the advance.

F.D.R. had reason to be elated; the rising prices of gold and commodities were the major cause of the "fastest re-employment on record."[32]

G.F.W. had reason to be depressed; the declining prices of gold and commodities would slow down the rate of recovery.

[32] Page 5656

Q What were they?
THE PRESIDENT: Cotton, corn, wheat and hogs . . . . if those 17 basic commodities go up an awful lot, it means a lot of distribution in the way of wages and buying power. . . . I think things are getting along pretty well." [33]

F.D.R. also recognized that commodity speculators "went too fast; that got a perfectly natural corrective." Little did he then realize that he was to experience too much "corrective."

Free Traders' Bull Market and Technical Reaction

During the summer of 1933 traders in commodity markets were free to do about as they pleased. The gold market, on the other hand, was not in the strict sense a free market. No one in the United States was permitted to hold or to buy and sell gold. This, however, did not prevent traders from buying, selling and holding gold in foreign markets. The little-understood procedure was relatively simple. Sterling exchange was purchased on the New York market. The broker then purchased gold in the London market and paid for it with sterling. The gold was then transferred from the London broker to a designated London bank and stored in its vaults in the name of the New York speculator, St. Louis trader or Kansas City investor. This was the method by which the hampered "free traders" in foreign exchange markets raised the dollar price of gold from $20.67 to about $30.18 per fine ounce. The unhampered free traders in commodities and securities pushed up their prices even more rapidly than the price of gold.[34] This is precisely what the administration, farmers, businessmen and unemployed laborers wanted more of. Unfortunately for the government program, bull markets operated by free traders are inevitably followed by technical reactions.

From April to July traders with a free hand and no profits did what everyone wanted done. From July to September traders with paper profits grew concerned over attacks on gold hoarders and decided to protect their profits. They reversed their market position and the trader price of gold declined from a high of $30.18 to a low of $27.48 and prices of seventeen basic commodities declined even more rapidly.

The traders with profits were Americans who transferred their dollars to commodities within the border of the nation and ultimately became sellers of commodities. There were also American traders with a short interest in dollars created during the Rosy Hue that inevitably came due say thirty, sixty or ninety days later. There were, of course, the exporters who left the proceeds of their sales in foreign moneys in foreign banks.

As the economy of the world's richest nation recovered, it was only natural that the foreign investors were attracted to our lush pastures and the grass on the other side of the fence looked less attractive to domestic investors. Any indication of the strengthening of the dollar and/or our economy caused foreign funds to move to the New York market. Similarly, funds held abroad by Americans were repatriated.

All of these forces contributed to the decline in prices of gold and in prices of commodities during July and August.

There is nothing that succeeds like success, and nothing that fails like failure. So long as the program was a success, F.D.R.—not the free trader—was the Sir Galahad. When the program was a failure, the trader was a Judas. This is the background for the entry of "government traders" into the gold market. [35]

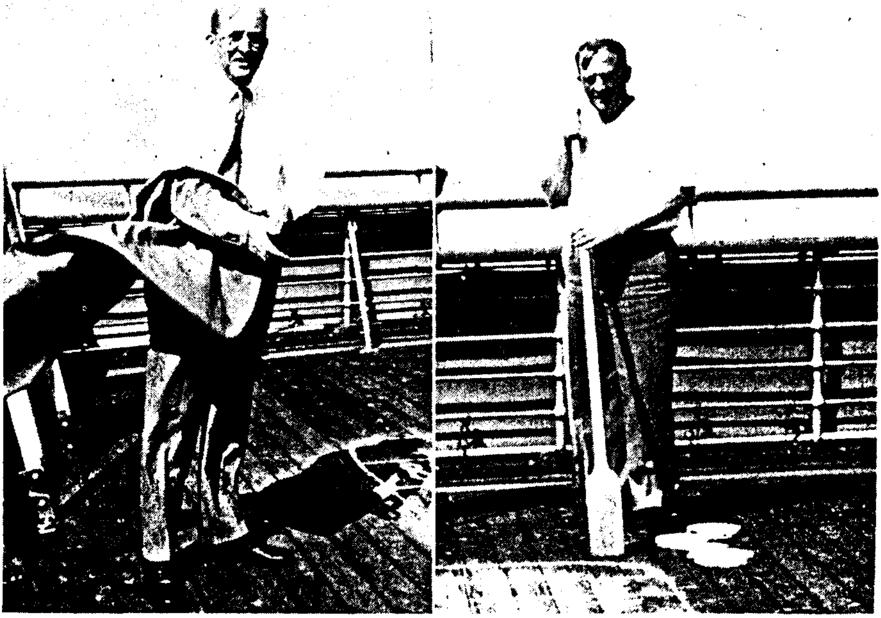
[33] Confidential Press Conference #42, Hyde Park, New York, August 9, 1933, 11 a.m. F. D. Roosevelt Papers, Franklin D. Roosevelt Library, Hyde Park, New York. [155, 42–7] [156, 42–8] [157, 42–9] [158,

E. B. Hill

PORTRAIT 2. THE PRESIDENTIAL ADVISER CAUGHT OFF GUARD
Warren enjoys a well earned rest on the S.S. Europa.

MUCH-NEEDED REST

An August 9 candid snapshot shows Warren fast asleep in a deck chair on the Europa. He was clad in a grey suit and a cap. His strong hands were latticed across his tummy and a double chin was conspicuous. After a rest, he and Hill played shuffleboard in their shirt sleeves.[36] The wind



E. B. Hill

PORTRAIT 3. G. F. WARREN TAKES ON ALL COMERS
Getting ready for action! All set to go!

36 E. B. Hill, Professor of Farm Management, Michigan State University, East Lansing, Michigan

tousled his greying hair; he was an optimist, not requiring suspenders; his waistline was still under control. Snapshots portray a man without a worry, who had apparently never crossed swords with anyone, let alone Washington bureaucrats.

On this European trip he had planned to attend an agricultural conference in Germany, that had to be postponed because of Hitler.

Warren sent back several reports by diplomatic pouch as the President had suggested. He summarized his observations of a half dozen nations as follows: "In spite of the infinite variety of price-raising schemes, no country has been able to exercise any material control over its general level of prices, except by reducing the gold content of its money."

He observed: "The majority opinion is more concerned with exchange rates than with gold. . . . All of the countries . . . desire a rise in commodity prices. . . . All of the countries . . . off the gold standard are looking to the United States for leadership. . . . The countries that are off . . . gold . . . have had enough experience so that they no longer fear violent inflation. . . ."

Two-Price System

While Warren was relaxing on the Europa, he must have been thinking about the problems which were discussed at the Hyde Park dinner on August 8. Little did he then realize that the resulting two-price system would be a powerful force in consolidating the opposition.[37]

Warren's notes on that occasion clearly indicate that the President had in mind using the Treasury to increase the price of gold, but there was no clear distinction made in them between the Treasury's price and the traders' price. Warburg's papers indicate that the subject was discussed and that Warburg made a prediction that proved to be true. The following excerpts from his papers speak for themselves.

"The President then said 'What would you think if, in order to put people to work in this industry, I should authorize the Treasury, say, for one month, to buy newly mined gold at $29.00 an ounce?' . . . The President said he could not see why he could not establish a market for new gold without opening up the import or export problem at all; that he would be willing to adopt the suggestion for fixing the price of new gold once a week, but did not want to have this price apply to anything but new gold." This explains why the President had left the impression that he "shied away from the idea of exporting gold." Warburg then explained to the President that the mere purchase of newly mined gold would have no effect on commodity prices unless it was made effective in the foreign exchange market. "Rogers and Warren were inclined to agree with me and said that there was no harm in trying it the President's way provided we were ready instantly to extend the gold price to import and export transactions if my prognostication turned out to be true." Roosevelt was firmly convinced that the gold should be in the hands of the government and not in the hands of the people. The tailpiece to one part of Warburg's papers read "He [F.D.R.] was afraid of exporting gold because by this time it had become a political issue and it was almost unpatriotic—almost like giving up a battleship." [38]

Unfortunately the President was making a mountain out of a molehill. Little did he then realize that he was soon to be forced to do what he did not want to do.

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[37] Page 5645.

[38] Warburg, J. P., The Reminiscences of James P. Warburg, February 1951 to February 1952, Columbia University, Nicholas Murray Butler Library, Oral History Research Office, Special Collections, Room 654, pages 1252–1254, 1257, August 8, 1933, New York City.

September 8 the Treasury quoted the first official price for the export of newly mined gold. This continued to October 24. From October 25 to January 15, 1934, the Reconstruction Finance Corporation announced prices for newly mined gold. The announcement of foreign purchases of gold was made on October 29 and the first purchase was made on November 1, 1933, when $500,000 of gold was purchased in Paris. The RFC sold debentures to obtain funds to purchase the gold. The total purchases of domestic gold and foreign gold were a little over $23 and $108 million, respectively. The dollar could not be fully controlled until the government was able and willing to buy all gold offered. From January 16 to January 31, 1934, the prices of newly mined gold were those announced by the Treasury.

For about five months the intermittent announcements of official prices for newly mined domestic gold were always in the news. There was always the traders' price also, which was not in the news but was molding the price pattern. During a little less than half of this time, the government was buying gold in foreign markets to make the program effective.

The effect of pronouncements and the gold buying program on the trader in the market place is problematical. No doubt their first reaction was to accept the government's expressed desire that the price of gold be advanced. When the government did not follow up its pronouncements, the traders acted on the old principle that actions speak louder than words. It is little wonder that bankers and business men, not knowing why there were two prices for gold, and wondering which was effective when they diverged, looked for a whipping boy and saw Warren.

This concludes the introductory discussion to the two-price system. The details of its operation will follow. The economic effects were relatively unimportant, but the effects on public opinion were to the contrary.

Regulation on Hoarding

Early in July Neville Chamberlain, British Chancellor of the Exchequer, recognized the importance of the speculator to the success of F. D. R.'s program. He pointed out that ". . . the speculators have cheerfully assisted in putting the dollar down." [39]

Bernard Kilgore of the Wall Street Journal, gave some sound advice, "U. S. May Find It Needs Them [Gold 'Brakes'] to Keep Dollar From Speeding Up Hill." [39]

F. D. R. rode herd on speculators—the friends he most needed. The government was soon to be forced to do what foreign speculators and United States traders would have done had they not been discouraged or prevented by misguided efforts of the New Deal to protect the "dear people." The speculators would have driven up the price of gold and the censure for any mistakes and errors would have been directed at them rather than at the sensitive New Dealers. On occasion it is in public interest to protect the speculators from the "do-gooders" rather than the "do-gooders" from the speculators.

August 28, 1933, the President issued Order No. 6260 which was directed against hoarders holding gold coin, gold bullion or gold certificates.[40] This was more or less a repeat performance of similar proclamations that had been issued dating from the Bank Holiday, March 6. The continued hunt for United States gold hoarders may or may not have made an

[39] The Wall Street Journal, July 12, 1933.
[40] Roosevelt, F. D., The Public Papers and Addresses of Franklin D. Roosevelt, Random House, New York, Volume Two, pages 345–352, 1938.

imprint on the hoi polloi, but without a doubt it impressed the traders. Unfortunately for the restoration of an equilibrium in the price level, the systematic barrage of threats dampened down the activities of traders in foreign exchange who had so effectively raised the price of gold, commodities and securities the preceding spring.

Believe it or not, the next day government took over the activities of the hobbled traders. The President, on August 29, 1933, issued "Executive Order No. 6261, permitting the sale to industry and abroad of domestic newly mined gold . . . . at a price which the Secretary [of the Treasury] shall determine. . . ." [41]

Ten days later, September 8, 1933, the first Treasury price for newly mined gold was fixed at $29.62 an ounce. These Treasury prices were issued until October 24 when the price was $29.80.

The period was divided into two parts: when the price of gold and commodities rose and when they declined. The index numbers and percentage increases from September 8 to September 20, 1933, were as follows:

Date	Price gold, par = 100	Price commodities, April 17 = 100
September 8, 1933	144	143
September 20, 1933	155	152
Per cent increase	8	6

From September 20 to October 24, 1933, the Treasury price of newly mined gold declined about 8 per cent and prices of basic commodities about 11 per cent.

This is a good illustration of the fact that commodity prices moved in the same direction as the price of gold, regardless of how determined, but by no stretch of the imagination could it be argued that the "gold program" had eliminated the disequilibrium in the price level structure. The nation, of course, was more interested in the latter.

After this six week short course in attempting to get the Treasury to find a way to buy gold, F.D.R. summarized his experiences as "like punching your fist into a pillow." Sometime early in the fall, it matters not when, the President became convinced that Warburg was right when he told him that the traders' market price of gold—not the Treasury price of newly mined gold—was the more important force influencing commodity prices.[42]

F.D.R. would soon transfer the activities from the Treasury to the Reconstruction Finance Corporation which in turn would continue to price newly mined gold. These activities would be supplemented by purchases of gold in foreign markets which was presumed to affect the traders price of gold, which in turn would cause the desired advance in commodity prices. Before analyzing this concealed episode attention will be returned to the public record and Warren's diary.

About this time, Warren wrote the President that ". . . it is extremely unfortunate to have the dollar strengthened. . . . I believe that definite control as well as a definite increase in the price of gold is necessary." He made several suggestions, four of which follow:

1. Allow no material recession in the price of gold at any time until the price level is restored.
2. An increase in prices to the legal limit of $41.34 will probably be sufficient if adopted soon. If not, a higher price is not improbable.
3. No tie to any foreign currency.
4. No tie to gold and a clear indication that there will be no such tie until the desired price level is attained.

Warren's observation is also verified by Warburg. September 21 at 12:20 Warburg had an appointment with the President "and the entire cotton inflationist group was waiting to go in next." During the discussion Roosevelt "said that Will Woodin had called him up a few minutes before and had stated very gleefully that the dollar was stronger. . . . The President said that he had told Woodin that he was crazy and that he [Roosevelt] wanted a much weaker dollar. . . ." Politically astute F.D.R. with an inflationist group in the outer office commented to Warburg about "the importance of keeping wheat and cotton prices moving forward, and that if this were not done, we would have 'marching farmers'." (figure 7).

That the President was interested in higher prices is indicated by a comment from Warburg's diary. "The President . . . was using the Thomas Amendment power to issue greenbacks as a rod in the corner and saying, 'Listen, if you don't do what I want to do, I'll issue greenbacks'." [43]

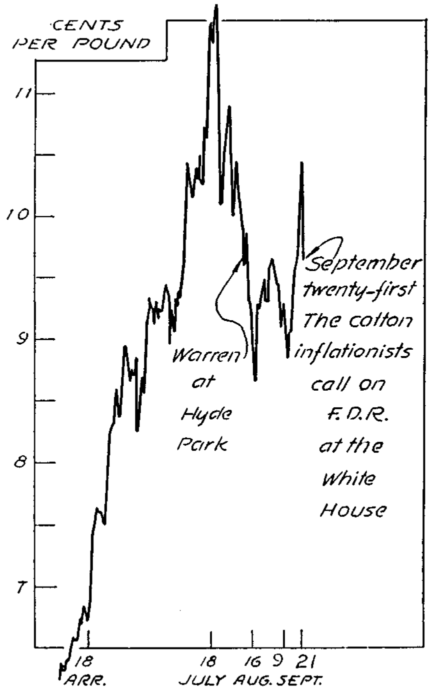

FIGURE 7. NUMBER ONE POLITICAL CROP, DEMOCRATIC COTTON, WHOLESALE PRICES, NEW YORK CITY, MARCH 27 TO SEPTEMBER 21, 1933

During the Rosy Hue cotton zoomed from about 7 to 12 cents. More than half the gain was lost during the Hazy Hue. Warren was perturbed but not confused. The confused Solid South, pro-F.D.R. and pro-cotton, were all a twitter.

August 5. Disturbed Warren was at Hyde Park with F.D.R.

About noon September 21 the "cotton inflationist group" were in an outer office of the White House waiting to see F.D.R.

SILVER, PAPER MONEY, GOLD

Warren arrived home from Europe on September 9. A few days later he recorded, "Saw the President for a few moments . . . and arranged for a luncheon with him on the 20th." At the luncheon three things intrigued the President: the purchase of silver at $1.29 an ounce, Warren's report on his European trip, and finding a method of repeatedly changing the price of gold. Since Warren did not participate in it, the silver issue will not be discussed except to note that a considerable part of the afternoon was spent discussing the purchase of silver. Warren records the following: "Said he [Roosevelt] often acted on hunches and thought time now here."

Roosevelt apparently read most of the European report, as Warren records: "He was much interested. . . ." The percentage increases in prices since the gold standard was abandoned were gold, 55 per cent; industrial stocks, 57 per cent; commodity prices, 52 per cent. Warren submitted a report on methods of fixing the price of gold, with a suggestion that a lawyer should be consulted for further advice.

[41] Roosevelt, F. D., The Public Papers and Addresses of Franklin D. Roosevelt, Random House, New York, Volume Two, page 352, 1938.

[42] Page 5630.

[43] Warburg, J. P., The Reminiscences of James P. Warburg, February 1951 to February 1952, Columbia University, Nicholas Murray Butler Library, Oral History Research Office, Special Collections, Room 654, pages 1458, 1459, 1519, September 21, 1933, New York City.

The entry indicates that although "He said Woodin does not go along with him," the President was toying with three ideas: "1. Buy silver . . . 2. Greenbacks 3. Buy gold. . . ." Warren notes an interesting comment. "Frankfurter [44] says may be illegal but who will question it." Warren's comments were to the point. "Credit, greenbacks, N.R.A., etc. cannot raise and hold prices except as they cause the gold value of the dollar to be reduced."

Roosevelt may have been squirming about in the quicksands of silver and greenbacks, but he confided to Ickes [45] his interest in gold. This is particularly interesting because Ickes had nothing to do with gold and was, as he admitted, a poor economist; but he was a good reporter. October 5, Ickes reported, "Late this afternoon . . . . the President, as he has done . . . lately began to talk about general matters with me. He is very anxious that a way be found under the law for the Government to buy gold, but no one has yet discovered how it can be done." [46]

Pre-Fireside Chat

Prairie fires burned during the colorful autumn of 1933. Spring wheat declined below 75 cents a bushel. Farmers in the Northwest refused to sell grain. Milo Reno of Farm Holiday Association, asked his followers "to pay no taxes, no debts . . . sell nothing until . . . offered . . . 'cost of production'." [47] (figure 8).

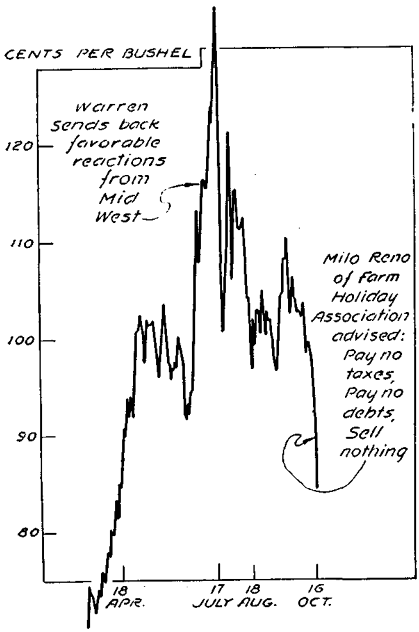

FIGURE 8. NUMBER TWO POLITICAL CROP, REPUBLICAN WHEAT, WHOLESALE PRICES NO. 2 RED WHEAT, CHICAGO, MARCH 15 TO OCTOBER 16, 1933

The prosperity of the Great Plains fluctuate with the weather and prices. There was nothing that F.D.R. could do about the weather but apparently he could do something about prices.

After three years of floundering in Slough of Despond, declining prices, Kansas, South Dakota and North Dakota wheat producers were sure that F.D.R. had led them into the Promised Land in the Spring of 1933. Warren visiting his old stamping ground reported enthusiasm concerning "the progress made toward recovery." [48]

Come July the Promised Land proved to be a mirage to the Kansas winter wheat producers; come August, a delusion to South Dakota's spring wheat farmers and come September a hallucination to North Dakota durum wheat growers. Neither F.D.R.'s gold program nor the weatherman were cooperative.

By fall the price of wheat was fifty cents below the summer peak and only about fifteen cents above the spring low. Kansas harvested about half the acreage of winter wheat planted the previous fall and the yield, nine bushels was the lowest in a generation. During the Hazy Hue South Dakota harvested only about a quarter of the acreage of spring wheat planted during the Rosy Hue. They harvested only four bushels, the lowest yield per acre since—no one recalls. North Dakota durum yielded only seven bushels.

Since there was nothing they could do about the weather except talk and having had a taste of rising prices, F.D.R. saw the temperature on the inflation thermometer suddenly rise to an all time high.

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[44] Felix Frankfurter, Professor of Law, Harvard University, and later Justice of the Supreme Court.

[45] Harold L. Ickes, Secretary of the Interior.

[46] Ickes, H. L., The Secret Diary of Harold L. Ickes, The First Thousand Days, 1933–1936, Simon and Schuster, New York, pages 102–103, 1954.

[47] Time, The Weekly Newsmagazine, Volume XXII, Number 18, page 11, column 3 and page 12, column 1, October 30, 1933.

[48] Page 5614.

Early in October, Time Magazine referred to farmers' demands for more inflation. A congressional poll had shown a 20–1 sentiment in favor of quick inflation. "The Iowa Farmers' Union was ranting for inflation and Secretary of Agriculture Wallace's scalp because he refused to believe that inflation was a cure-all." (figure 9). The reverberations were sufficient to stimulate the writer for Time to report, "Even conservative members of the administration were recommending a quick burst of paper money as the only practical way of silencing the inflationary clamor.

"The President received a delegation of southern Congressmen and planters whose demand for 20¢ cotton had been shunted about Washington for days. They got into the White House only on the promise that they would hush their inflation talk. . . .

" 'I am unexcited and intend to remain so,' President Roosevelt, up from a sick bed, told callers who asked him what he proposed to do about the currency." [49] Whether this comment was directed toward the need of inflation or the method by which the inflation should be obtained is problematical. The activities of the Antis at this time are not clear.

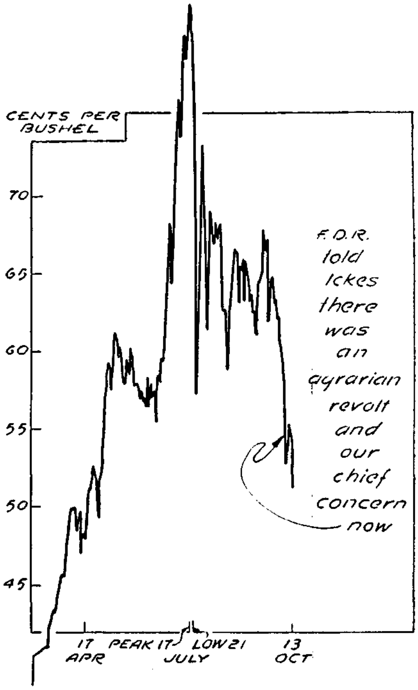

FIGURE 9. NUMBER THREE POLITICAL CROP, REPUBLICAN CORN, WHOLESALE PRICES NO. 2 YELLOW, CHICAGO, MARCH 2 TO OCTOBER 13, 1933

Corn was king in the heart of the Corn Belt where Republicans and corn grow tall.

The Corn Belt, with a preview of the Rosy Hue boosted prices almost 10 cents a bushel from March 2 to April 17 and then pushed up prices another 35 cents. During the summer almost three-fourths of the gains were lost. By October corn was only two cents above the April 18 price when the dollar was released. F.D.R. could do no wrong! But the Iowa Farmers Union ranted for inflation and Wallace's scalp.

Unpopular Henry Agard Wallace [50] delivered a carefully prepared speech in Chicago that Time reports "had been read and approved by President Roosevelt." Wallace declared:

"Left-wing farmers and Right-wing grainmen are both kidding themselves. They want to be left alone to face the problem ostrich-fashion—with their heads in the sand and their rumps out in the open ready to be paddled. . . ."

Following this unusual statement, he summarized the issue accurately and clearly, as he could do when he was so inclined: "If the purchasing power of farm products does not improve in the next three months, the price-fixers and inflationists will have great power. . . . [1] There was no spanking, and Wallace's prediction was quite accurate; there was substance behind the farmers' demand for inflation.

Warren's notes record that on October 4 and 5, 1933, he was in Washington, D. C. "Saw Wallace. Tried to correct his idea of the desirability of holding prices down."

[49] Time, The Weekly Newsmagazine, Volume XXII, Number 14, page 9, column 3, October 2, 1933

[50] Wallace was one of the most popular members of President Roosevelt's cabinet, but his popularity with farmers fluctuated with prices of grain and cotton.

[1] Time, The Weekly Newsmagazine, Volume XXII, Number 14, page 12, column 3, October 2, 1933.

The Wall Street Journal reported that the farm leaders were " 'Up on Inflation.' . . . The Farm Bureau chieftains had the story down pat. . . ." They were not interested in paper money. "All you have to do is cut the gold content of the dollar and then farmers can pay their debts. The costs of distribution won't go up as fast as commodity prices and farm purchasing power gains." [2]

The Wall Street Journal was dead right. Alabama born Edward O'Neal, President of the American Farm Bureau Federation, was an ardent Democrat, an admirer of Warren and Roosevelt and the cotton farmer. Courageous O'Neal, observing the relationship between the prices of cotton and gold, had no hesitation in presenting it to the world—and he was a past master at expression.

From April to September there were five major changes in the prices of gold and cotton (table 1). During the three inflationary periods the price of cotton moved up faster than the price of gold. For every 1.0 per cent increase in the price of gold, the price of cotton increased about 1.5 per cent. During the two deflationary periods the price of cotton declined almost 3.0 per cent for every 1.0 per cent decrease in the price of gold. It is little wonder that the President of the American Farm Bureau Federation took a delegation of disgruntled cotton producers to the President of the United States.

TABLE 1.—RELATION OF MAJOR CHANGES IN PRICES OF GOLD AND COTTON, UNITED STATES, APRIL 18 TO SEPTEMBER 23, 1933

Date	Price cotton per pound	Price gold per fine ounce	Per cent change in price of		Per cent change in cotton for each one per cent change in gold during	
			Cotton	Gold	Inflation	Deflation
April 18	6.85¢	$20.67	...	...	...	...
July 18	11.75	30.18	+72	+46	1.6	...
August 16	8.65	27.56	−26	− 9	...	2.9
August 28	9.65	29.96	+12	+ 9	1.3	...
September 9	8.85	29.15	− 8	− 3	...	2.7
September 23	10.15	32.07	+15	+10	1.5	...
Average					1.5	2.8

From the middle of July to the middle of August the price of farm commodities—wheat, cotton, cottonseed oil and lard—had declined over 20 per cent, and from about mid-September to mid-October had declined almost another 20 per cent.

Roosevelt, being a superb politician, knew that the test of the New Deal was economic recovery; but being an indifferent economist, he could not tell which one of his numerous activities was causing the nation's economic thermometer to rise or fall. He was even reported to have said that "Prices had dropped . . . because some people had not approved of NRA codes and because 'some of our foreign friends' were deliberately trying to increase the exchange value of the dollar." [3]

About this time the perturbed occupant of the White House was looking for a way out. Ickes confirms this generalization: "The President said to me this afternoon that there was an agrarian revolt on in the country and that this was our chief concern just now." [4]

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[2] The Wall Street Journal, September 20, 1933.

[3] Burns, J. M., Roosevelt: The Lion and the Fox, Harcourt, Brace and Company, New York, page 195, 1956.

[4] Ickes, H. L., The Secret Diary of Harold L. Ickes, The First Thousand Days, 1933–1936, Simon and Schuster, New York, page 110, 1954.

Let's Look at the Record

Were there any facts behind these passions and prejudices that piled up like thunderheads?

Why was Congress all riled up?

Why was Wallace in the dog house?

Why was F.D.R. discussing gold with Ickes?

Why was F.D.R. conferring with Harvard's Professor Felix Frankfurter regarding the legality of buying gold?

This was not just fuss and feathers.

As was stated earlier in the discussion, when prices decline they do not all decline in the same amount or at the same time, creating a disequilibrium in the price structure. This is exemplified by the deflation during the great Maelstrom. The flexible farm prices of food and feed grains and cotton declined 68, 76 and 68 per cent, respectively; whereas the sticky prices that farmers paid declined about half as much, 35 per cent (table 2).

TABLE 2.—INDEXES OF "FLEXIBLE" PRICES PAID TO FARMERS FOR CROPS THEY SOLD, "STICKY" PRICES PAID BY FARMERS FOR ARTICLES THEY BOUGHT AND PARITY RATES, JULY 15, 1929 TO OCTOBER 15, 1933

1910–14 = 100

Date	Price gold	Flexible prices			Sticky prices*	Parity rates		
		Food grains	Feed grains	Cotton		Food grains	Feed grains	Cotton
Index numbers								
July 1929	100	115	127	149	161	71	79	93
February 1933	100	37	31	47	104†	36	30	45
March 1933	100	39	32	52	102	38	31	51
July 1933	144	98	88	90	108	91	81	83
October 1933	141	73	63	74‡	115	63	55	64
Per cent change								
July 1929 to February 1933	0	− 68	− 76	− 68	− 35	− 49	− 62	− 52
March 1933 to July 1933	+44	+151	+175	+ 73	+ 6	+139	+161	+ 63
July 1933 to October 1933	− 3	− 26	− 28	− 18	+ 6	− 31	− 32	− 23

* Including interest, taxes and wages.
† Estimated. Based on linear interpolation between known quarterly indexes.
‡ September 1933.

The purchasing power of these farm products, the parity rate, declined 49, 62 and 52 per cent, respectively. The problem, as previously stated, was to deflate sticky prices to flexible prices or to raise flexible prices to sticky prices. Warren recommended that the flexible prices be raised to sticky prices by raising the price of gold. F.D.R. approved.

From March 1933 to July 1933, the price of gold advanced 44 per cent, the flexible farm prices rose 73 to 175 per cent and the sticky prices of the articles farmers bought rose only 6 per cent (table 2). The purchasing power of farm products rose 63 to 161 per cent. This made the farmers happy. An equilibrium was being restored in the price level.

During the next four months, however, the parity rate for farm products declined 23 to 32 per cent. The casual observer would probably not attach much significance to such a small percentage, but the farmers attached great significance to it. During the ninety summer-fall days the farmers lost almost one-third of the gains in purchasing power that occurred during the preceding spring-summer days. This is what riled Congress and tossed Wallace in the doghouse.

The fact that during the first period the prices rose and during the second period declined in proportion to the price of gold explains why Ickes found F.D.R. interested in gold.

The reason that F.D.R. was looking into the legality of buying gold was in part that the Treasury price for export of newly mined gold had been ineffective, and his continued hunt for United States gold hoarders no doubt discouraged foreign speculators from driving up the price of gold. Since, for all practical purposes, domestic traders were forbidden to buy or sell gold, it had been proposed that the government become the trader in gold.

The record tells us that:

a. The declining parity rate explained the inflamed countryside.
b. The gold program for recovery was a success when farm prices and parity rose sharply in response to the sharp advance in the price of gold.
c. The gold program for recovery was not a success when farm prices and parity declined due to a decline in the price of gold.

The economic and political pressures demanded that the President do something. He did! He decided to call in his old adviser and to go on the air. Wednesday, October 18, 1933, 10:52 p.m., Ithaca phone 2686 rang. The following telegram was read to Warren: "Could you come to White House Friday morning about 9 o'clock and stay here that day and possibly Saturday. Franklin D. Roosevelt."

Preparation for Fireside Chat

Warren's notes contain a mass of interesting details about the preparation of this address and of its many editions. A few of Warren's notes follow:

"October 20, 1933, 8:57 a.m. Morgenthau and I went to see Roosevelt . . . . was having breakfast in bed; braces on the table. His health and cheer were good. . . .

"Roosevelt . . . dictated to me. The attached notes are just as I took them. Where it says comma, paragraph and the spelling of too are just as he gave it. I did not put them in at first.

"Morgenthau suggested that he go on the air. Roosevelt called his secretary, Steve Early, to see if could get the air. He quickly returned and said that 'the President of the United States can have the air at any time'."

F.D.R. resumed dictation to G.F.W.:

" 'Ever since last March the definite policy of the government has been to restore commodity price levels. The object has been the attainment of such a level as will enable agriculture and industry once more to give employment to the existing masses of the unemployed. . . . (That really is all one paragraph—the objectives.)

" 'Obviously, and because hundreds of different . . . crops and industrial occupations are involved in a huge territory, involving' (at that point Louis Howe [secretary to the President] came in and interfered more or less with Roosevelt's wording). . . .

" 'No one with common sense'; (Howe suggested changing this to 'who stops to really think' Roosevelt conceded this and said, 'It is a nice dirty dig, but you may take it out) believes that commodity prices, and especially agricultural prices, are high enough yet. . . .' Howe said, 'There is one thought that might well be put in it, Franklin. It is impossible . . . that all commodities will remain stable. . . .'

"Roosevelt continued, '. . . it is time . . . possibly for the purchase of gold from other nations or the sale of gold to them.' (F.D.R., 'Right?' G.F.W., 'Right.'). . .

"Howe says the attack [effect] will be that we have to look at the newspapers every morning before we can buy a spool of thread.

"Roosevelt said, 'What do you think, George—you are the farmer mind—about the radio?'

"Roosevelt said, 'I have been preparing for this for a long time. If it had not been for ———— I would have done it weeks ago.' " [5]

This is a small part of Warren's notes on the preparation of the first draft. Its greatest value is that it portrays vividly how the President operated.

"11:00 a.m. Went . . . to see the R.F.C. They were all really opposed or doubtful, but were practically told by Morgenthau what to do. . . . Oliphant [6] had worked out the plan. The R.F.C. to sell its debentures for gold at stated figures. . . . He had another plan to have Treasury buy gold. . . . This would probably have been used, but the Treasury was so violently opposed to any action. . . .[7]

"5:00 p.m. Went to see the President. . . .[8]

"Dean Acheson objected. He wanted a statement of the legality in writing and a written order from the President. . . .

"Finally Roosevelt said, 'I say it is legal.'

"Acheson was nearly hysterical. Went to Morgenthau. Said that unless he could get a written order he would resign. . . . There was no support for the plan except by Morgenthau, Oliphant, and Warren."

The gold crucible was a-boiling. Roosevelt had a monetary committee that must have worked all afternoon and far into the night, as Warren's notes contain a thirteen-page manuscript titled How To Raise Prices. In Warren's handwriting on the first page, "This was sent to R [Roosevelt]—to block or modify his plan (Presented Oct. 21 I believe)." On page 13 in Warren's handwriting, "Sprague, Rogers, Douglas etc., the Money Committee."

Sunday, October 22, a group of eight persons "went over the money manuscript." [9] Rogers presented "objections of the monetary committee. . . .

"Roosevelt said that Woodin had 'phoned him from his sick bed and asked him, 'Why do you do this illegal thing?' When Roosevelt asked Woodin what to do he said, 'Buy wheat.' To which Roosevelt replied, 'This is merely Hoover over again.'

"Roosevelt stated that Dean Acheson had said that no reputable economist agreed with the milk farmer who was proposing this.

"At 1 p.m. . . . Wallace read his suggestions.

"From 3 to 3:45 the same people . . . check the last paragraph of the gold speech. Moley and Bruere had revised it. . . ."

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[5] The omission was Warren's. [6] Herman Oliphant, General Counsel to the Secretary of the Treasury.

[7] This probably reflects the views of Secretary Woodin, Sprague and other hard money proponents.

[8] Present were Attorney General Homer S. Cummings, Herman Oliphant, Henry Morgenthau, Jr., Dean Acheson and a few others.

[9] J. H. Rogers, Henry Morgenthau, Jr., Raymond Moley, Herman Oliphant, Henry Wallace, G. F. Warren, Federal Administrator of Emergency Relief Harry Hopkins and Henry Bruere, President of the Bowery Savings Bank.

Moley's Role

On Sunday, August 27, 1933, Assistant Secretary of State Raymond Moley took his letter of resignation, effective September 7, to Hyde Park. October 21, Moley was asked to be at the White House on October 22 to "help put the speech into shape? Clearly, I was not being summoned to argue." Moley's report as published in 1939 reads as follows:

"F.D.R. began to dictate a statement of the Warren ideas. Rogers interrupted to argue against the drastic application of the theory that commodity prices went up and down automatically with the price of gold. The President waved him aside and went on dictating. Dean Acheson's eyes met mine. We both shrugged almost imperceptibly.

"At one point in his dictation the President hesitated. He had just been saying that this step he was taking was not merely an offset to a temporary fall in prices but a move toward a managed currency. Now he obviously wanted to restate that idea more cogently—to put a snapper at the end of his paragraph. He said, 'This—now let me see . . . This policy—no that won't do . . . This policy . . .' He looked hard at Warren. There was no response.

" 'This,' I suggested quietly, 'is a policy and not an expedient. Is that how it should go?'

" 'That's it!' he exclaimed, and the old ease came into our collaboration.

"It seemed as if, after months, some mental log jam had broken.

"When, with Henry Bruere, I put together the bits of dictation during the noon hour, Warren fluttered over the creation much as he might have watched a hatching experiment in the poultry laboratory at Cornell. He was clearly suspicious of me. But I was inexorably true to his thesis. It was put into such clear-cut language that the world could always know just what it was. I had no responsibility for it. The public didn't dream that the adviser who had 'fallen' two months before was there. My conscience was clear. I had repeatedly argued against the scheme to F. D. R. I didn't think the Warren plan would work. On the other hand, I knew it would do the country no harm for just that reason. I was right. It didn't work, and it didn't hurt anything—except Warren." [10]

Fireside Chat

"At 7:45 had supper at the White House. . . . [Fourteen] persons were present. . . .

"Roosevelt again told the story about this being the program of a milk farmer [so-called expert] and that I could not live it down.

"Mrs. Roosevelt said that the President had stated that two people went to Europe; that one of them saw no people of importance, but got a large amount of valuable information; that the other saw all the important people and got very little. This referred to G. F. W. and Rogers. . . .

"At 10 o'clock we went down to hear the talk on the radio. The same people were present, and in addition Henry Bruere, Louis Howe, possibly one or two others, and cameramen galore."

In his fourth Fireside chat, Sunday night, October 22, 1933, entitled We Are on Our Way, and We Are Headed in the Right Direction, President Roosevelt said, "I do not hesitate to say in the simplest, clearest language of which I am capable, that although the prices of many products of the farm have gone up . . . I am not satisfied. . . . If we cannot do this one way we will do it another. Do it, we will.

[10] Moley, R., After Seven Years, Harper & Brothers Publishers, New York and London, pages 281–282, 1939.

"Some people are putting the cart before the horse. They want a permanent revaluation of the dollar first. It is the Government's policy to restore the price level first. . . .

"Our dollar is now altogether too greatly influenced by the accidents of international trade. . . . Therefore the United States must take firmly in its own hands the control of the gold value of the dollar. . . . I am authorizing the Reconstruction Finance Corporation to buy gold newly mined in the United States at prices to be determined from time to time after consultation with the Secretary of the Treasury and the President. Whenever necessary to the end in view, we shall also buy or sell gold in the world market." [11] The President concluded his chat with the following sentence: "Our troubles will not be over tomorrow, but we are on our way and we are headed in the right direction." He was headed in the right direction, but he did not get far. As will be seen, his troubles mounted.

The morning after the night before Warren was an early White House caller. "Morgenthau had arranged for a ticker service in the cabinet room. . . . Had been buying a deluge of wheat.[12]

"Miss LeHand came in and arranged telegrams in two piles—favorable and not favorable. There were only two not favorable. She laid these on top of a lot of blank telegraph forms so as to make them appear more than the favorable. Roosevelt looked at these first and had a good laugh. . . . He was much pleased with the results on the tape." [13]

Warren then expressed his opinion of the optimism. "He [Roosevelt] spent a very happy half hour. The whole group expects too much." Warren never made a more accurate observation. "They act like the happiness of relief after tense [intense] pain. . . .

"Roosevelt lukewarm to Committee for the Nation yesterday. Very happy today."

The nation had sublime confidence in Franklin Delano Roosevelt. There were many reports reflecting the mood of the people written by both Pro- and Anti-Warrenites. One of the best summaries of the reaction to the broadcast was written by David Lawrence,[14] a doubting Thomas. The following introductory paragraphs show the impressions of Reporter David Lawrence, but in no way reflect the convictions of David Lawrence, news analyst.

"The Magic of Economic Evangelism"

"We have just witnessed a strange episode in American history, strange because it brought a revolutionary change in the money standard—the most delicate of all the elements that make up public confidence and yet was accepted on faith because of the persuasive utterance of the President of the United States who spoke to the American people through that remarkable device of mass communication—the radio.

"Earnestness, sincerity, conviction, and the dramatic power of a person-to-person appeal fascinated the millions of people who listened. Unfamiliar, of course, with the technicalities of gold policy or the implications of an effort to manipulate the prices of the yellow metal in world markets, the

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[11] Roosevelt, F. D., The Public Papers and Addresses of Franklin D. Roosevelt, Volume Two, Random House, New York, pages 420, 423, 426–427, 1938.

[12] From prebroadcast to postbroadcast the December future price of wheat rose from a low of 67½ to a high of 93⅛ cents.

[13] Price of commodities and securities as reported on the Dow Jones ticker tape.
The telegrams are in the Franklin D. Roosevelt Library, Hyde Park, New York, the ratio was about 15 to 1.

[14] Lawrence, David, The Magic of Economic Evangelism, The United States News, October 21 to October 28, 1933.

citizens for the most part assumed naturally that whatever formula the President had decided upon was, as he himself expressed it, for the maximum good to the greatest number.

"To the financial world, accustomed to traditional standards of value it was a shock at once bewildering and befuddling. What did the President mean by ignoring the views of virtually all the economists who have from time to time warned against trying to manipulate the price level through the dollar depreciation? Why did he accept instead the fantastic proposals of an agricultural theorist who had been preaching the gospel of a commodity standard for many years with only a small minority of the experts on his side?

"For we know that Professor Warren of Cornell, whose facts and figures and charts and diagrams have convinced congressional committees of his brilliant mastery of a complicated subject, persuaded the President to embark on the unknown seas of gold-controlled prices. Nobody can read the mass of testimony and debate in which Dr. Warren has so interestingly disclosed his mind without feeling that critics at least should proceed cautiously in brushing aside any doctrine which holds out even a remote hope of helping the debtor class to face the overwhelming burdens of this emergency."

RFC Buys Gold

The program had been broadcast; the machinery had been set up to buy gold. During the next thirty days the price of gold rose; commodity prices rose; the stock market rose; the opposition rose; and F.D.R.'s ire did likewise.

October 24, 1933, "Roosevelt said should have seen Acheson's face when he came in and found Morgenthau and me here. Roosevelt had expected to announce a price today. . . . It developed that Acheson and Jones [15] had done nothing. . . . Morgenthau said, 'We'll put it off one day.' Roosevelt said, 'Is that all right, George?' I said, 'Yes.' "

October 25, "At 9:10 went to the White House. Jones came in. He was not asked, but crowded past the doorkeeper who said no. Greatly excited. Said he heard the price was to be $34. He could see no reason for such a thing."

Morgenthau, Roosevelt and Warren discussed the amounts of the advance in the price of gold. They ranged around 23 to 27 cents.

"Roosevelt called Woodin who was still sick in bed. He wanted to hold it all up; could not see any reason for it at all. Still balking. . . .

"Morgenthau asked Black how he was feeling today. . . .

"Wallace is a long face. Morgenthau asked, 'Can't you smile about wheat?' Wallace said, 'Wait till tomorrow.' "

October 26, "9:00 a.m. Went to see Roosevelt with Jones and Morgenthau. Morgenthau stated he wanted me to go to New York to see Chase [Case] [16] Board of Federal Reserve about method of buying foreign gold. Left Washington by aeroplane 11 a.m. Arrived Newark 12:35. Had to go store to get clothes."

In spite of the strenuous afternoon, the next morning began as usual in Washington: "9 a.m. . . . Morgenthau, Jones and I went to Roosevelt's bedroom as we did each day."

The President was perturbed by the attack within the administration on rising commodity prices. On October 29 Warren and Rogers had tea with the President. Later several persons came in. "President stated that . . .

[15] Jesse H. Jones, Chairman Reconstruction Finance Corporation.
[16] J. H. Case, Chairman of the Federal Reserve Bank, New York City.

we are all in one boat: that the administration has adopted the policy of raising the price of gold; that if we do not like the boat, leave it; if we stay, follow the skipper; that if we must growl, do it in the closet. 'There has been too much growling in public. It has to stop. I refer to no one.' " Harrison, Crane,[17] Fred Kent, Black, Bruere,—predominantly Antis—and Morgenthau and Warren were present.

October 30, "Went in with Morgenthau and Jones concerning the price of gold. Stayed behind to talk to Roosevelt. Told him that I thought we would have to go to 41.34, to which he agreed. . . .

"The only time Rogers had lost his temper was on Tuesday when our price was not working too well. He said that there was too much emphasis on gold." Moley reported that F.D.R. spanked Rogers for questioning the effect of raising the price of gold on commodity prices.[18]

There was much discussion of who set the price of gold. Warren's notes answer this question. The following memorandum glued in the diary is in the handwriting of Roosevelt:

" Oct. 30
I think 31.96 is right for today.
FDR"

Below it is written: "This is the official slip that went to the treasury for the price of Oct. 30. President gave it to me. G.F.W."

The mechanics of establishing the price was in the hands of the RFC and the New York Federal Reserve Bank, the procedure being to buy gold in foreign markets. November 6, Warren's notes record, "Cameron 'phoned Morgenthau that he bought $500,000 in London and $500,000 in Paris." Needless to say, the price of gold and the London and Paris exchange rates were involved in the computation.

November 3, 1933, "Had breakfast with General Wood [19] at the Carleton. He says that from September 10 to October 7 their orders increased in Georgia 111 per cent; . . . Texas, 66%. . . ."

Aided and abetted by Rogers the opposition had its inning.

Among Warren's papers is a carbon copy of a memorandum dated November 7, 1933. It is entitled: "CIVIL WORKS (A Means of Implementing the President's Monetary Policy)." The opening paragraph is a gem: "As a stimulus to raw-materials prices, the depreciation of the dollar has proved extremely beneficial. Nevertheless, in the face of dwindling foreign markets, its effectiveness has become gradually reduced. Primarily, its chief result has been to stimulate earlier spending on the part of those with surplus funds, rather than to give new income to those with nothing to spend." The following notes are in Warren's hand writing: "Went in [presumably to F.D.R.] by Rogers & committee—Hopkins, Ickes, Wallace, Perkins [20]—Relief Committee. I had nothing to do with this. Rogers was very enthusiastic about it and was on the committee. . . ." This report never saw the light of day.

November 8, ". . . Morgenthau read the [Washington] whirligig statement to Roosevelt. He laughed with great glee and said that 'George is Hitler.'

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[17] J. E. Crane, Deputy Governor, Federal Reserve Bank of New York, New York City.

[18] Page 5640.

During the early part of October the press buzzed with conflicting views on the question of devaluing the gold content of the dollar. Associated Press dispatch dated October 10, 1933, indicated that Professor Rogers had spoken against reducing the gold content of the dollar without international accord. . . . Dr. George Warren . . . staunch advocate of devaluing the dollar . . . was understood to have held that this action could be taken by this country alone as a strictly domestic step."

J. H. Rogers, Adviser to the President, 1933–35. Historical Manuscripts, Yale University Library, New Haven, Connecticut.

[19] Robert E. Wood, President of Sears, Roebuck and Company.

[20] Frances Perkins, Secretary of Labor.

"Had dinner with Congressman Goldsborough.[21] He wondered if the President were really in sympathy with the monetary policy. He was inclined to think not. Of course, I could not speak freely to him. . . ."

November 9, ". . . Jones [of RFC] asked if I thought that it [the gold buying program] was going all right. I said, 'Yes, but hectic.'" This was about the last time he could have given an affirmative reply to such a question.

From mid-October to mid-November the price of gold rose from $29.06 to $34.91. Commodity prices and stocks rose 11 and 10 per cent, respectively, demonstrating that commodity prices responded to the advancing price of gold. Unfortunately the equilibrium in the price structure had not been attained, as flexible farm prices of articles sold were still 30 per cent below parity with the sticky farm prices of articles bought. Warren thought it would be necessary to raise the price of gold to $41.34 per ounce.

Headed In the Wrong Direction

F.D.R. had announced in his fourth fireside chat, "We Are On Our Way, and We Are Headed in the Right Direction." If this was a promise, it was soon to be broken. If it was a forecast, it was to prove wrong.

The Reconstruction Finance Corporation continued its activities in the foreign exchange and gold markets here and abroad. Apparently, however, it did not follow the "Skipper," as F.D.R. had suggested [22] about tea time, October 29. This was probably to have been expected, as the program was administered by Antis—not by Warren. From the high of $34.91 per fine ounce on November 15, the price drifted down during about half the remaining life of RFC gold activities, reaching a low of $31.77 on December 13. It then rose to $32.99 on January 15, 1934, when the activities were terminated.

From November 16 to December 13, 1933, the changes were as follows:

Date	Price gold per fine ounce	Index of price gold	Index prices seventeen commodities	Parity rate for farm products [23]
November 16	$34.91	169	146	70
December 13	$31.77	154	140	67
Per cent decline	−9	−9	−4	−4

The percentages speak for themselves.

Two Prices for Gold

Never before in the nation's history had a price of gold been headlined across the nation. It was headlined on the front page in big, bold, black type. A few excerpts follow:

October 22, "Gold is now quoted at $29." [24]

October 23, "The Treasury Monday set a price of $29.59 an ounce for newly-mined gold. . . ." [25]

October 24, Price ". . . of Metal Made at $29.80 Ounce Price." [26]

October 25, "The Treasury, on order of President Roosevelt, fixed the price . . . at $31.36 an ounce." [27]

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[21] T. Alan Goldsborough, Maryland.

[22] Page 5643. [23] In the case of parity the date was December 15, not 13.

[24] The New York Times, October 23, 1933 (Washington release, October 22).

[25] The Times Union, Rochester, New York, October 23, 1933.

[26] The Washington Daily News, October 24, 1933. [27] The Washington Daily News, October 25, 1933.

October 26, "Today's Price Up to $31.54." [28]

November 23, "The R.F.C. held the price . . . at $33.76." [29]

This is what the public saw. The public, however, was not in a position to judge the effectiveness of the mere mark-up of quotations. The effectiveness of the government policy to drive down the dollar, raise the price of gold and raise commodity prices was not so simple. After the newness wore off, the quotations were transferred to the financial page and appeared in much smaller type. Unfortunately the all-important operations of the price making forces were completely obscured by secrecy and the methods employed.

In addition to RFC announced prices paid for newly mined gold, there was, of course, the foreign exchange traders' price of gold which was based on the London price of gold and the sterling rate. The relationship existing between these two prices indicates clearly whether the administrators carried out F.D.R.'s policy, enunciated October 29. Apparently during the first half of November they did just that. During the next thirty days they paid lip-service by raising the RFC price but did not make it effective.

The RFC and traders' prices of gold per fine ounce were as follows:

Date	RFC price	Traders' price	Traders' price exceeds RFC price
October 21	$29.01	$29.06	$0.05
November 16	33.56	33.94	0.38
December 13	34.01	31.77	−2.24

At the beginning of the period the two prices were much the same, a little over $29.00 per fine ounce. Both prices rose to November 16 to a little less than $34.00. The difference was small, $0.38. It is apparent that during this period the RFC was active in buying gold and selling dollars and raising the traders' price of gold about in proportion to the RFC quoted price of newly mined gold. From November 16 to December 13 the RFC price continued to rise, but the traders' price declined, indicating that the RFC raised the price of newly mined gold but by curtailing its purchases of gold in foreign markets failed to keep them in line. December 13 the traders' price was $2.24 less than the RFC price (figure 10).

Is Seeing Believing?

In appraisal of the gold programs the public generally did not even know there were two prices for gold and consequently was confused as to the effectiveness of the program. The significance of the two prices is indicated clearly by comparison.

From October 21 to November 16, 1933, the prices of gold and indexes of commodities and common stocks were as follows:

Date	Price of gold per fine ounce		Commodity prices	Industrial stocks
	RFC	Trader		
October 21	$29.01	$29.06	132	134
November 16	33.56	33.94	147	153
Per cent increase	16	17	11	14

During this period the traders' price of gold rose in proportion to the RFC price, a little faster than commodities and common stocks. This

[28] The Wall Street Journal, October 26, 1933. [29] The Washington Herald, November 23, 1933.

demonstrates clearly that a government agency could drive down the dollar. Since the government had never before quoted prices of gold, they were headlined and every change was brought to public attention. The RFC price of gold advanced, and commodity prices advanced.

During the next period the close relationship between the widely quoted RFC prices and commodity prices was not maintained. The RFC price rose 1 per cent, and prices of seventeen basic commodities declined 5 per cent, almost paralleling the 6 per cent decline in the traders' price. It seems reasonable to conclude that the administrators raised the government price but did not support the traders' price. This conclusion is based on the following relationship:

Date	Price of gold per fine ounce		Commodity prices
	RFC	Trader	
November 16	$33.56	$33.94	147
December 13	34.01	31.77	140
Per cent change	+1	−6	−5

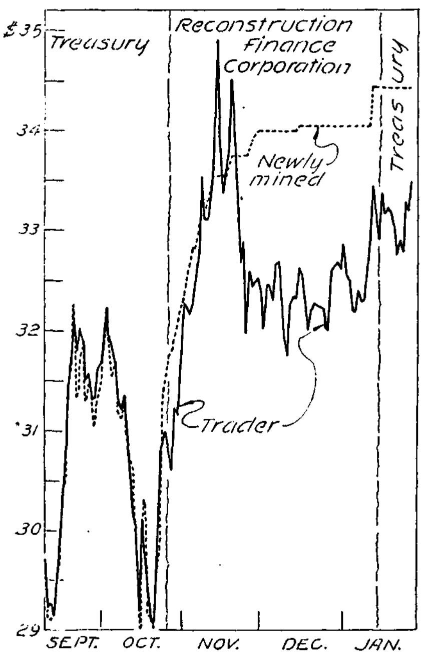

FIGURE 10. OFFICIAL PRICES PAID BY THE TREASURY AND THE RECONSTRUCTION FINANCE CORPORATION FOR NEWLY MINED GOLD AND THE TRADERS' PRICE OF GOLD, SEPTEMBER 8, 1933, TO JANUARY 31, 1934
Dollars per fine ounce

During about half the time, September to mid-November, official prices paid for newly mined domestic gold fluctuated with the traders' price. From mid-November to February there was little relationship between them.

The man on the street and down the back road noted that the headlined RFC price of gold was rising and observed that commodity prices were falling. He had no way of knowing that there was a traders' price of gold and that commoditywise the traders' price was the effective one (figure 10).

During the last phase of the RFC official pricing of gold,[30] from mid-December to mid-January, the official and trader prices of gold were raised 0.1 and 4 per cent, respectively; commodity prices moved in the same direction, rising 6 per cent; but the parity rate for farm products moved in the opposite direction, declining 1 per cent. More important, the purchasing power of farm products, 66, was far below parity, 100.

From December 13, 1933, to January 15, 1934, the daily prices of gold and indexes of Seventeen Basic Commodities and the monthly parity rates or purchasing power of all farm products were as follows:

[30] From January 16 to January 31, 1934, the official price of gold was the Treasury price of newly mined gold.

Date	Price of gold per fine ounce		Commodity prices	Farmers' parity rate
	RFC	Trader		
December 13	$34.01	$31.77	140	67
January 15	34.06	32.99	149	66
Per cent change	+0.1	+4.0	+6.0	−1.0

To the man on the street and the farmer down the back road, the changes in the RFC price of gold were microscopic. The trader price rose relative to the RFC price, and commodity prices responded. This was to be expected so long as world prices were substantially unchanged. The farmer, however, continued to be disturbed by the low parity rates for the articles he sold.

The nine months experiences, mid-April 1933 to mid-January 1934, demonstrated that whether the price of gold was forced up by private traders or by some government agency, commodity prices rose. Conversely, when the price of gold was forced down by private or government traders or merely permitted to drift down, commodity prices declined.

There were only three of the nine months when the changes were of sufficient magnitude to be seen. There were six months when one had to be a Sherlock Holmes with a powerful magnifying glass to see the changes, let alone their close interrelationship (figure 11). The former impressed farmers. The latter impressed the Antis, who without glasses saw what they wanted to see—a blur.

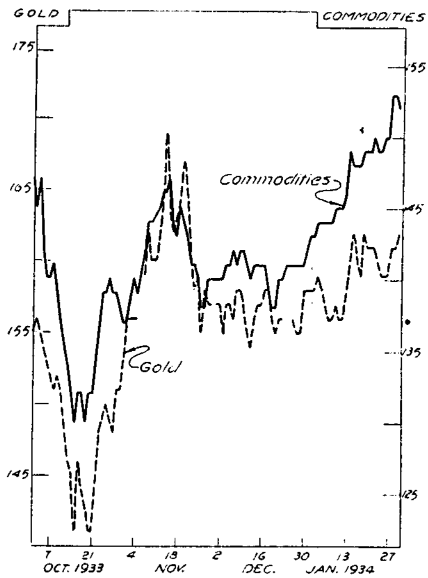

FIGURE 11. INDEXES OF THE TRADERS' PRICE OF GOLD AND WHOLESALE PRICES OF SEVENTEEN BASIC COMMODITIES, OCTOBER 1, 1933, TO JANUARY 31, 1934

Even though the changes were microscopic,[31] prices of basic commodities moved with the traders' price of gold during the RFC–Treasury era.

Delays Have Dangerous Ends

One of the great difficulties with the RFC phase of the gold-buying program was that those living on Main Street, on the wrong side of the tracks and on the country road had little comprehension of what was happening. When such a powerful economic tide, ruffled with waves, flows over communities only half conscious of what is taking place, there are inevitably varying reactions to the force, depending on its effect. The issue was further confused by the perplexing off-again-on-again, secretive, irregular, too-little-too-late RFC activities. Consequently, sometime between Thanksgiving and Christmas 1933, it matters not much when, unprecedented hopes and expectations were dashed to the ground. Holidays and disappointment are not compatible! For the disappointed, the gold-buying activities had the overtones of a fantasy which might have been lifted from Alice in Wonderland.

[31] Exaggerated scales.

"We're all mad here." said the Cheshire Cat to Alice. "I'm mad. You're mad."

"How do you know I'm mad?" said Alice.

Opposition Incorporated

The opposition frowned on the RFC price-of-gold policy because of the strong-arm methods never before tried. The sound and fury of the opposition rose to a crescendo, and ridicule was the order of the day. Two centuries ago Frederick the Great in a letter to Voltaire had philosophized with considerable acumen: "Ridicule is more deadly than all the arguments in the world." [32] Another weapon was the "big bad wolf" in the form of historical bogeys; ancient and medieval debasement of coins and modern currency inflation. There is no passion so distressing as fear, and the threat of inflation stirs up horrid ideas in men's minds.

Returning to Warren's notes on a November 12, 1933 conference at the White House, "The President reported that conditions [wheat] were much improved in the West. . . . Bruere was very negative. . . . He wanted a plan so that the public would not think that a professor was running it. He suggested that the banks agree to support prices of wheat, corn and cotton and let the price of gold stand. Woodin was enthusiastic for this proposal. . . . The President was inclined to listen . . . but Morgenthau and Warren spiked it.

"Repeatedly the President had to show them [the nine officials assembled] that prices had risen."

November 17, "At 11 went to the White House to see Morgenthau sworn in as Assistant Secretary of the Treasury. . . .[33]

"We saw Sprague . . . . [He] repeated his idea of building middle class houses. . . . Had supper with T. N. Carver.[34] He believes that it is the price of gold that counts.

"At 8:30 p.m. went to Morgenthau's home. . . . Morgenthau wanted to know what to do about Sprague. He has given out some newspaper stuff and a nasty letter to the President. We all agreed that he should be kept."

Professor Sprague's theories were the antithesis of Warren's. Sprague reasoned that the World War I rise was the result of an increased demand for commodities, not a decreased demand for gold. He argued that a relationship between the supply of gold and the general level of prices was very remote and distant. He contended that the great post-World War I decline of the early thirties was caused by over-production of commodities —not by gold. Sprague further maintained that changing the price of gold had no direct effect on commodity prices in this country, because the customer did not have any more money in his pockets or in his bank balance with which to buy goods. Many other economists were of the same opinion. How could prices rise if there was no change in the amount of pocket money? They could have observed in the Chicago pit the price of wheat raised by a mere flick of the fingers. In an auction market a wink of the eye may raise the price of onions. The volume of paper money or checks will increase, but it will be after the event. The person who analyzes monthly or annual data will observe that price and volume of currency coincide and then will generalize that the volume of currency with its velocity makes price. The volume of currency can be either a

[32] Stevenson, B., Home Book of Proverbs, Maxims and Familiar Phrases, The Macmillan Company, New York, page 1987, 1948.

[33] Warren made as light error; Who's Who reports that Henry Morgenthau, Jr., was Acting and Under-Secretary of the Treasury. November 15, W. H. Woodin, Secretary of the Treasury, was granted an unlimited leave of absence by President Roosevelt. The Under-Secretary of Treasury, Dean Acheson, resigned.

[34] Professor of Political Economy at Harvard University.

cause or a result. In most cases the change in amount of currency has been the result and not the cause.

Warren records that when Sprague " 'separated himself' from the administration . . . [he] was asked, 'Just what would you do?' He replied, 'I have told you many times. Spend four billion on houses.' " Sprague rated Warren as the President's "Man Friday" and damned him as "a good agricultural economist." [35] He also commented, "I have reached the conclusion that there is no defence from a drift into unrestrained inflation other than an aroused and organized public opinion . . . . the present policy threatens a complete breakdown of the credit of the government. . . ." [35]

Burton K. Wheeler, Senator from the silver state of Montana, voiced the same opposition as Professor Sprague and many others. "I am convinced that cutting the gold content of the dollar will not raise prices appreciably in this country unless it is accompanied by an increase in the amount of currency." [36] This may have reflected a lecture in money and banking he had heard while at the University of Michigan or a fascination with the quantity theory of money.

All through November the RFC gold-buying experiment continued, but it became evident that it was too little and too late. Few favored the continuation of the experiment, and the anti-inflationists openly criticized it. The AF of L went on record opposing inflation; forty-four economists signed a round robin; the New York Chamber of Commerce urged a return to gold, and Sprague resigned! Acheson resigned! Douglas resigned! Ex-Governor Alfred E. Smith effectively attacked the monetary policy by sarcastic references to crackpots, quarterbacks, baloney dollars and turning "130,000,000 Americans into guinea pigs. . . .[37]

Fred G. Clark, Commander-in-Chief of The Crusaders, opposed both prohibition and inflation. "Just as poisoned liquor, fostered under the prohibition farce, meant suffering and death . . . so it is our belief that inflation . . . will mean untold misery. . . ." [38]

Virgil Jordan "urged immediate cessation of the present deliberate depreciation . . . of the dollar. . . ." [39]

From Pensacola, Florida, November 23, 1933, Joseph L. Seligman in beautiful bold handwriting wrote the President a one-page letter. This past master of brevity, clarity and diplomacy stated his position and his reasons. "I cannot let this crucial moment in our financial history go by, without adding my small voice to the pleas of . . . fair minded men . . . to return to a normal and uncontrolled gold dollar. Valorization of commodities has always been a sad failure and you cannot hope to valorize gold, any more than any other commodity." [40]

Down the ages depreciation of currencies has brought a response from the ministers of the gospel. About 1550 Bishop Latimer, preaching before King Edward VI of England "with more zeal than judgment," attributed the rising prices to "regraters, forestallers" and concluded that "We of the clergy had to much, but that is taken away, and now we have to little." [41]

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[35] Time, The Weekly Newsmagazine, Volume XXII, Number 22, page 9, columns 1 and 2, November 27, 1933.

[36] The Evening Star, Washington, D. C., January 22, 1934.

[37] Warburg, J. P., The Money Muddle, Alfred A. Knopf, New York, page 157, 1934.

[38] The New York Times, November 5, 1933.

[39] President of the National Industrial Conference Board, New York Herald Tribune, November 16, 1933.

[40] Retired naval officer. F. D. Roosevelt Papers, Franklin D. Roosevelt Library, Hyde Park, New York, PPF 229.

[41] Jacob, W., An Historical Inquiry into the Production and Consumption of the Precious Metals, John Murray, London, Volume II, pages 79–81, 1831.

About four centuries later, ninety-two year old Reverend Horace P. V. Bogue of Avon, New York, wrote President Roosevelt in a similar vein. "You have already robbed me of thousands of dollars; and now I am reduced to the end of my rope, when I supposed I had enough to last me thru life. What shall I do?" [42]

Needless to say, the Antis waved the red flag of inflation and articles and pamphlets sprang up like mushrooms. At someone's suggestion, it matters not who, various agencies reprinted and distributed Andrew D. White's masterly treatise on wild paper money inflation in France.[43] F.D.R. received plenty of copies with letters of transmittal urging him to read and to heed.

If F.D.R. read it he must have enjoyed the masterly treatise on the horrors of inflation. If he hoped for a solution to his immediate problem he was disappointed. The political, economic and monetary problems of France and the United States were as different as black and white. France was torn by a great Revolution; the United States was not. The United States was in the throes of economic distress that accompanied deflation; France was not. France printed paper money in vast quantities until it was worthless; the United States did not. The United States deliberately depreciated its gold dollar to raise prices. France did not deliberately depreciate the gold franc.

"Hard-Money Man" Bernard Baruch blasted inflation, "The plan [inflation] is deliberately designed to double some prices but not others. . . . [44] Of course, he was exactly right, but apparently did not understand the desirability of restoring equilibrium in the price structure.

Warburg's papers report that on Wednesday, November 29, 1933, "Ivy Lee came in and said that he has been retained by the entire automobile industry, except Ford, to work out a sound money campaign. . . . They are prepared to spend up to $1,000,000. . . ." [45] Nothing came of it for the very good reason that those in the automobile industry who on general principles were opposed to the gold program, were overwhelmed by the inflationists within the industry who were unconcerned with principles and were highly pleased with the 97 per cent increase in automobile production that occurred during the six months following the major advance in the price of gold compared to that prior to abandonment.[46]

Rufus S. Tucker dusted off Warren as follows: ". . . wouldn't it be a fine thing for the country if the President would dismiss Professor Warren as his financial adviser and take in his place some economist whose theories have at least some relation to the facts?" [47]

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[42] F. D. Roosevelt Papers, Franklin D. Roosevelt Library, Hyde Park, New York, PPF 200, Price level folder.

[43] Andrew D. White, one time president of Cornell University, was a student of French History and in 1912 recorded the thumbnail sketch of the history of the famed pamphlet. Prior to our War Between the States Mr. White made a collection of documents which appeared during the French Revolution. While at the University of Michigan and later at Cornell University, he gave a series of lectures on paper money inflation in France during the Revolution. At the time of our "greenback craze" he read a paper on paper money inflation to an audience of Senators and Representatives in Washington, D. C., [April 12, 1876] and before the Union League Club in New York [April 13]. This was reprinted during the proposed unlimited coinage of silver, during World War I, during the great depression of 1933, during World War II and during the Korean Episode. Reliable estimates indicate that somewhere in the neighborhood of a half a million copies of this fascinating essay have been sold.

[44] Time, The Weekly Newsmagazine, Volume XXII, Number 22, page 8, column 1, November 27, 1933.

[45] Warburg, J. P., The Reminiscences of James P. Warburg, February 1951 to February 1952, Columbia University, Nicholas Murray Butler Library, Oral Research Office, Special Collections, Room 654, November 29, 1933, page 1853.

[46] Pearson, F. A., and Myers, W. I., Effects of Revaluation, Farm Economics, No. 110, page 2669, November–December 1938.

Publisher J. David Stern wrote a series of editorials in the Philadelphia Record denouncing the gold program, predicting "that reducing the gold content would have no lasting effect on the purchasing power of the dollar, and that within one month the price index would be down where it was before." Mr. Stern, a weekly White House visitor, was usually greeted by the President as follows: "Here's Dave, hair shirt of the administration, come to denounce the Warren Plan."

Stern chided the President for choosing G. F. Warren as his monetary adviser. The reason was farfetched but illustrative of the reaction of many persons to Warren's agricultural background. The story runs somewhat as follows: "Just because he [Warren] grew big peaches for Henry [Morgenthau] you don't have to think he knows anything about money."

December 4, 1933, Stern wrote the President as follows: "I said to the Secretary [Morgenthau]: 'If any monetary scientist of standing in the United States says that Professor Warren's plan . . . is scientifically justifiable, I will admit I am crazy . . . and . . . I will stop being the "hair shirt" of the Administration.' . . . Rogers gave me permission to say that he did not believe in the Warren plan. He agreed with me that raising the price of gold was merely raising the thermometer, to give the impression that the room was being made warmer, without actually changing the temperature of the room. . . . Mr. President, I am sure that such Jesuitical economics are shortsighted and dangerous." [48]

Dr. W. E. Spahr predicted "that continuation of the government's policies would cause collapse of government credit, flight of capital and starting of the printing presses. . . ." [49]

Columbia University professors are quoted as saying, "We strongly urge that all artificial efforts to depreciate the external value of the dollar through purchases of domestic and foreign gold cease." [1]

Johns Hopkins University dissenters wrote the President.

Fifteen Yale University economists, associates of Professor James H. Rogers, were milder in their condemnation of the monetary policies which "awakened distrust of the good faith and credit of the United States." [2]

The Cornell campus was torn between Warrenites and anti-Warrenites. Paul M. O'Leary, Assistant Professor of Economics at Cornell University, fell in the latter category. His letter to the Ithaca Journal-News contained the following: ". . . President Roosevelt's radio speech of Sunday night is a masterpiece of the politician's art—it is all things to all men . . . . the President still believes that the NRA and the AAA are the most important factors. . . . Consequently it seems very unlikely that in his monetary pronouncements he is accepting the naive reasoning of those people who allege that the depression is due to a collapse in the price level which in turn is due to a relative scarcity of gold which can be quickly and simply cured by a revision of the gold content of the dollar." [3] This breathless sixty-one word sentence was a mouthful. Since the prose was comparatively simple, daylight shone through the verbal thicket—but with difficulty.

[47] Tucker, R. S., Warren Theories Vs. Facts, New York Herald Tribune, January 11, 1934.
[48] F. D. Roosevelt Papers, Franklin D. Roosevelt Library, Hyde Park, New York, PPF 229.
[49] The New York Times, November 16, 1933 (similar wording also appeared in the New York Herald Tribune, November 16, 1933).
[1] The Congressional Digest, page 28, January 1934.
[2] J. H. Rogers Papers, Adviser to the President, 1933–35. Historical manuscripts, Yale University Library, New Haven, Connecticut. The statement was apparently issued during the closing days of 1933 or the early part of 1934.
[3] Ithaca Journal-News, October 25, 1933.

Before the Cornell Liberal Club forum that packed to capacity the Cornell Moot Court Room, Cornell's Professor Harold L. Reed voiced disapproval of the program of Cornell's Professor G. F. Warren. Professor Reed expressed two widely accepted views held by economists: (a) "Since the mechanical connection between dollar devaluation and prices is not clearly established, . . . 'the policy may fail . . . unless . . . greenbackism is adopted. . . .' [(b)] '. . . adjustments between the currencies of various nations have all been destroyed by our international bullying.' He cited the experience of Germany to show that a possible runaway price level may result . . . . 'history records no instance of inflation kept within bounds.'. . . Professor Reed maintained that only a 'gold weak' country has a legitimate reason to devalue its currency. 'It seems incongruous that the present proposal is made by the strongest gold country in the world.' " Professor Reed concluded his remarks with his solution that " 'our economy ought to be planned . . . by controlling credit. . . .' " [4]

It was to be expected that in the classrooms across the nation the gold program and Warren should receive brusque treatment. One illustration will suffice. A graduate student attending one of the larger educational institutions reported that the professor of marketing, who took pride in his rustic background, excoriated manipulation of the dollar in general, and Dr. Warren in particular, considering the latter a hayseed from a cow college, meddling in important financial affairs with no more realization than a child of what he was doing.

Three of the better blasts of the Antis came from overseas. On November 23 Sir Arthur Samuel, Conservative member of the House of Commons, was quoted as saying: "The economists directing United States policy are the blind leading the blind. They do not know where they are going, do not know what they have done, and do not know what future reactions will be to what they have done." [5]

Vacillating J. M. Keynes, famed English economist who in July had "pronounced Roosevelt 'magnificently right' " now about six months later in an open letter to President Roosevelt described the "manipulation [of the dollar] as 'more like a gold standard on the booze' than an ideally managed currency." [6] The gold devaluation policy he described as a "game of blind man's buff" and "characterized as 'foolish' the idea 'that there is a mathematical relation between the price of gold and the price of other things' " [7]

Mussolini addressed the Italian Senate: "The American experiment must be followed with great attention. . . . Before passing judgment . . . it is necessary to wait. I only wish to give beforehand my opinion, which is this: Monetary maneuvers are powerless to bring about a true and lasting rise in prices. If we wish to delude the human race we might resort to what once was called 'clipped currency.' . . . It would be the same as saying that if one were to reproduce a million times the same photograph of the same person one would thereby have increased the population by a million." [8]

The Anti crusade was remarkable in that it was both conservative and

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[4] Ithaca Journal-News, November 22, 1933. [5] Washington Herald, November 23, 1933.

[6] Editor of the Economic Journal, London, England. "Raymond Moley subsequently quipped: Magnificently left Keynes means." Herbert Hoover, The Great Depression, 1929–1941, The Macmillan Company, New York, page 367, 1952.

[7] Warburg, J. P., The Money Muddle, Alfred A. Knopf, New York, page 159, 1934.

[8] Cortesi, A., Italian Vote Backs Corporate State, The New York Times, Volume LXXXIII, Number 27, 749, Section I, page 5, columns 1, 2, Sunday, January 14, 1934.

radical. It was conservative in that it would maintain the status quo, radical in that its guiding principle was a destruction of all Warren principles, without substituting anything new in the solution of the nation's dilemma.

Warren had many defenders. The comments of two will suffice.

November 23, 1933, Acting Secretary of the Treasury Morgenthau fought back at the critics. "The Federal credit is as good as the Rock of Gibraltar." [9] This proved to be the most accurate of the forecasts.

"On Laughing at Professor Warren" is the title of Columnist Walter Lippmann's masterly defense of Warren. He supports Warren's ideas by pointing out that French economist and government adviser Professor Charles Rist's "analysis of what went wrong is fundamentally the same as that of Professor Warren of Cornell. What the President's adviser has been teaching in a kind of rustic simplicity of speech, and with some of the intellectual manners of the solitary genius, the adviser to the French government says with elegance and sophistication. . . . With a diagnosis like Mr. Rist's before them, there really is no longer any excuse for dismissing Professor Warren as an ignorant outsider. . . . The scornful way in which many experts dismiss him . . . is no longer warranted in the light of Mr. Rist's article. For while they can laugh off Professor Warren as an expert on the capacity of hens to lay eggs . . . it is not so easy to laugh off the principal adviser to the leading gold standard country of the world." [10]

There were, of course, many half-and-halfers. One illustration will suffice. Six Harvard instructors of Economics wrote the President a letter that was well received by the White House aides, who made unusual efforts to obtain approval for publication. The scholars argued that the monetary policy was essential to other phases of the recovery, but true to their profession they questioned its relation to commodities prices. Their reasoning was peculiar:

"In view of the amount of adverse criticism that has been directed against the policies of your administration by professional economists, we . . . wish to single out for special commendation . . . . your monetary policy . . . . the departure from the gold standard was an absolutely indispensable prerequisite to the adaptation of your other policies of reform and recovery. Otherwise every proposal would have been opposed on the ground that it might endanger the maintenance of the gold standard. . . . We must admit that we do not believe that there is any exact relationship between the price of gold and the prices of commodities and that a policy acting upon such a belief is based upon error." [11]

There is simply nothing to be done with economists or any other group who observe its theory being disputed and its advice being ignored before the eyes and ears of the world. What a storm blew through the nation's academic halls! It sounded like the echoes of the ageless, gruesome howls of ancient fanatics panting and thirsting for the blood of their heretic. The number of stones they hurled at Warren were legion. He let them lie.

About this time one of his former students, A. B. Genung, then Senior Economist of the Bureau of Agricultural Economics, Washington, D. C., invited Warren to dinner. Warren was a little depressed, for the fire was in no small part directed at him personally. Professor Sprague, after

[9] Washington Herald, November 23, 1933.
[10] Lippmann, Walter, New York Herald Tribune, December 1933.
[11] F. D. Roosevelt Papers, Franklin D. Roosevelt Library, Hyde Park, New York, PPF 229.

attacking the monetary policy, had resigned in a huff. Even though Warren was despondent, he was not bitter. He had no enmity for the Harvard professor.

"Sprague is right, according to his tradition," said Warren. "Any man who 'tinkers with the currency' is a traitor to the cause of sound money—according to good banking tradition in this country. Sprague is more interested in a fixed dollar than he is in preventing disastrous gyrations of prices."

Harris & Ewing

PORTRAIT 4. CALM, COMPLACENT WARREN AS HE APPEARED NEAR THE HIGH TIDE OF THE SOUND AND FURY CREATED BY OPPOSITION, INCORPORATED

Warren had layer-upon-layer of controls; a great asset during a period of unusual strain.

There was also opposition in congressional halls, particularly from the representatives of the silver states of the West. Their animosity was directed at the New Deal. Nervous strain crackled through the enormously complicated network of the New Deal. The Pros and Antis both won battles. The first phase of the RFC gold-buying program, a victory for the Pros, saw a rise in prices of basic commodities and industrial stocks. During the last phase the price of gold and commodities declined by small amounts, another demonstration of the relation of gold to prices, but a discouraging one for an inflationist President. The Antis won a battle, for by no stretch of imagination could it be said that an equilibrium in the price structure had been attained.

Naturally, disappointed FDR lent one ear to the silver crowd and others who conveyed the idea that devaluation of the dollar had nothing to do with prices; the other he lent to the purveyors of the Keynesian-Wallace ideas that raising consumer incomes and reducing supply would raise prices.

Wallace's ever-normal granary, General Hugh Johnson's Blue Eagle, Senator Burton K. Wheeler's silver, Hopkins's make-work schemes, Keynes's public-spending-excess-of-income and other nostrums were all camouflaged with a profusion of ageless myrrh, frankincense and modern Chanel Number 5.

One of the most frightening things in our world is ignorance. Lack of knowledge concerning what makes prices and the functions of prices was the major stumbling block to the solution of the nation's foremost problem, deflation. Samuel Johnson's estimate two hundred years ago of his ability to evaluate things with which he was not familiar is an excellent expression of the competence of 125 million people to appraise the gold buying program: "Novelty and ignorance must always be reciprocal, and I cannot but be conscious that my thoughts on national manners, are the thoughts of one who has seen but little." [12]

To Stabilize Without Stabilizing

The play on words poses one of F.D.R.'s real problems. Continuous pressure had been applied by bankers and economists for a return to gold —that is, a stabilization of the dollar in terms of gold and foreign exchange. There was also pressure from farmers and businessmen for a stabilization of commodity prices—the re-establishment and maintenance of an equilibrium between the flexible and sticky parts of the price structure. A gold dollar with a fixed content always rings true on foreign counters. It always buys a fixed amount of foreign exchange. Because it simplifies their operations, the bankers like it.

Such a dollar does not ring true on domestic counters because it buys varying amounts of goods in commodity markets. It is impossible to have a dollar that rings true everywhere. Which is the more important? Since most business is done across domestic counters, stabilization in the price structure is vital to farmers and businessmen. They are much more interested in internal than external stability.

The minority won. The dollar was stabilized before an equilibrium had been attained. This is indicated by the fact that during the latter part of December and early January the RFC activities waned. The last day of January 1934, F.D.R. signed a bill that fixed the gold content of the dollar, which since then has been as rigid as the Rock of Gibraltar.

[12] Krutch, J. W., Samuel Johnson, Henry Holt and Company, New York, page 427, 1944.

Yuletide Appraisals

Warren addressed the American Economic Association at Philadelphia during the Christmas season, appraising the gold situation. He was scheduled as the first speaker, to be followed by Professors E. W. Kemmerer of Princeton University and H. Parker Willis of Columbia. For some reason the order of the speakers was changed, and a horde of photographers wanting pictures of the controversial Presidential adviser rushed in and photographed the wrong man.[13]

Warren listened to Kemmerer and Willis, who viewed the gold situation "with a jaundiced eye." After listening to Secretary Wallace's address on the Rehabilitation of Agriculture, Warren commented as follows: "Visionary idea of the coming of social discipline."

Warren found several other appraisals interesting enough to record in his notes. He was amused by Professor B. H. Hibbard of the University of Wisconsin, agricultural economists' famed wit, who quipped, "First Roosevelt proclaimed a square deal for every man. President Roosevelt has found more deals to be squared than any previous American."

Colonel Ayres's [14] business appraisal of the year was indirectly the best critique of the revaluation of the dollar, although made by a non-believer who lavishly used superlatives. Warren's notes tell us that Ayres said, "1933—destined to be one of the famous years of American history. Greatest unemployment and fastest re-employment on record. Security markets—greatest concentrated bull market on record. Business—most spectacular recovery. . . ."

New Dealer Mordecai Ezekiel was of the opinion that the change in farm "prices in this year more largely monetary than production control." Ezekiel commented that F.D.R. "Dumped some of every chemical in beaker."

A few days later Genung rode home on the train with Warren. "Prof got out his pen and inscribed the photograph to me with Christmas greetings. Then he turned it over and wrote on the other side: 'This side out in case our topic of discussion turns out badly.'" Meaning that if the gold program failed, his picture would be turned to the wall.

Fight for Possession of Gold

One of the minor squabbles that stirred up plenty of heat in Washington circles was over who should get possession of the gold, the Federal Reserve System or the Treasury.

December 19, 1933, Warren was in Washington and the major problem was what to do about gold; silver was a minor issue.

"Conference with Rogers and Oliphant on a plan to leave the gold with the Federal Reserve and receive a credit for it. I said, 'No, issue gold certificates.'

"In the afternoon had a conference with Bailie,[15] Morgenthau, Rogers and Oliphant. . . . Seven p.m. had supper with Bailie, Oliphant, and Rogers. From 8:30 to 12 had conference with Black, Harrison, Rogers, Morgenthau, Oliphant and Bailie, Attorney-General Cummings, and Assistant Attorney-General at the President's office on the question of buying silver. Harrison strongly urged that it be bought at the market price. Rogers was negative on everything. . . .

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[13] Page 5657. [14] Leonard P. Ayres, Vice President Cleveland Trust Company.

[15] Earle Bailie, Special Fiscal Assistant, United States Treasury Department, and Chairman of the Board of the Tri-Continental Corporation.

"Discussing the question of gold revaluation, Black objected to the taking of the profits. Both he and Harrison proposed revaluation and then ask Congress to take the profits in the Federal Reserve system afterward. Cummings objected to this because of the due process of law clause. Taking over gold and paying for it at the statutory price of $20.67 and then raising its price so as to make a profit is very different from taking the profit away from an agency after it is already approved. Both Black and Harrison stated that they did not want the profits except a small amount of them, but both of them did want some. . . . Harrison wanted to impress the fact that he was to keep the gold. . . . The real fight was over the possession of the gold.

"December 28, 1933 Spoke before the Economic Association in Philadelphia. Rogers 'phoned so that I had a scant 30 minutes to present my paper, and back to Washington at 6:45." The problem was, as usual, "Went over proposed order on Federal Reserve to compel them to turn over all gold before Congress meets.

"December 29, 1933 Just as I was ready to go home Rogers 'phoned that the Federal Reserve Bank system would not go along—that the New York one would, but the others would not. I, therefore, stayed over.

"January 3, 1934 Bailie, Oliphant, Morgenthau, Rogers and I went over the program. Bailie wanted to take up with Harrison the number 1 point of taking over the Federal Reserve gold. He feels very strongly about it. Morgenthau felt equally strongly about it. They had their day and it must now go to Congress."

The Struggle Over the Gold Reserve Act

This period extends from the last of December 1933 to the last day of January 1934. Warren's problems included the possible revaluation, the level at which to revalue, the date of the return to the gold standard, the agency to be credited with the profits of revaluation, hearing on the legislation empowering the President to revalue and commandeer the profits, and ridicule.

January 2–4, Warren and others "went over the [President's] silver speech and law."

January 11, "From 2 to 3:30 spent with Roosevelt in his office. Bailie and Rogers and I came in the east entrance and Oliphant and Morgenthau through the west entrance so that the newspapers did not find out what was going on. Roosevelt read the Oliphant draft . . . and read Black's brief against it.[16] Black opposed taking the gold. . . . Black also argued against the 50–60 per cent revaluation. Roosevelt said, 'Let's go around the circle on it, beginning at the right.' . . . Cummings emphasized that the legal status would be much more secure if they set narrow limits. Morgenthau said, 'Let's do it tomorrow.' Roosevelt said, 'I can't do that. I have to have time to go over this. We will take it up with the cabinet tomorrow and with congressional leaders Sunday.'"

January 19, there was a wrangle over whether Warren and Rogers should appear before the Senate Committee on Banking and Currency [17] during the hearings on the Gold Reserve Act of 1934. "Talked with Morgenthau . . . he wanted us to go. . . . Rogers decided to go up late. I said no, that I would go up early instead. . . .

[16] Black wanted the Federal Reserve System to continue holding gold and reap a part of the profits.

[17] Hearings Before the Committee on Banking and Currency, United States Senate, Seventy-Third Congress, Second Session on S. 2366, Revised, entitled Gold Reserve Act of 1934, United States Government Printing Office, Washington, January 19 to 23, 1934.

"Saturday noon I went up and about 20 photographers jumped at me like a pack of hounds. I should have laughed at them, but scowled instead."

Warren, the Mystery Man of the administration, appeared on Monday morning, January 22, 1934. He captured the spotlight in the hearing room and his testimony was splashed across the printed pages of the nation. His fifty-odd pages of testimony were divided about as follows: First, a couple of pages on whether Warren drafted the bill, and if not who did—Tugwell? Then fifty pages educating the Committee on Warren's explanation of prices.

One of the comments that interested both the senators and the reporters concerned the effect of devaluation on creditors and debtors. It refuted the widespread belief that devaluation was a method whereby debtors robbed creditors: "For all debtors, an impossible situation is succeeded by a possible one. . . . For the creditor it makes possible the collection of debts impossible before—and that's quite as important as the ability of the debtor to pay." [18] The reporter for the Washington Star foresaw great inflation. The cartoonists had a hey-day dusting off Warren.

Professor Warren's opinion was that, with world prices reasonably stable, devaluation of the dollar would produce a rise in prices with little or no time lag. Professor Rogers believed that the bill to devalue the dollar would permit an inflation of credit of from $7 to $17.5 billion and foresaw a "great and continued price rise. . . ." Owen D. Young, intrigued with money management, warned that the bill would "create a base for credit expansion of from $30,000,000,000 to $40,000,000,000." [19]

Senator F. C. Walcott, Republican of Connecticut, was concerned about possible inflation to which Warren replied that "every extreme inflation in the past had been preceded by government bankruptcy, violent revolution or a long period of war, and that if this country drifted into that condition 'it would be an unusual historical incident.' " [19]

Professor E. W. Kemmerer of Princeton University [20] apparently was fearful of wild inflation and commented, ". . . there is a good probability that it [inflation] will run away with us, but if we make it effective, and it does not run away, it still would wipe out a very large percentage of the 100 billions of life insurance outstanding in the United States today; of the billions and billions of endowments of all our great universities and colleges, hospitals, and public welfare institutions; our pension funds; our savings-bank deposits; and of the investments of practically all the people who are creditors on long-time accounts." A little later he repeated himself, "We are playing havoc with our great universities and private endowments, and when their endowments are gone, if they are gone, if they are paid off in a cheap dollar and those endowments are reduced, it is a very serious question as to who is going to re-endow them. The prospects are pretty bad."

Warren was not so pessimistic concerning savings, pensions, annuities and life insurance as Kemmerer. Kemmerer feared that these would be paid in "cheap" dollars; Warren knew that they could not be paid in "dear" dollars and explained the necessity for devaluation.

The inflation bugaboo, then and now, turns up like an old coin that has been in circulation for a long, long time. The colleges and universities

[18] Baltimore Evening Sun, January 23, 1934.
[19] The Evening Star, Washington, D. C., January 22, 1934.
[20] Gold Reserve Act of 1934, Hearings Before The Committee On Banking And Currency, United States Senate, Seventy-Third Congress, Second Session on S. 2366, Revised, January 19 To 23, 1934, pages 210, 213, United States Government Printing Office, Washington, 1934.

did not have the trouble with their endowments which Kemmerer forecast. There is an erroneous belief that deflation is the best agar for the growth of institutions. Most of the funds that created the buildings and built up the endowments of the privately endowed institutions in the Ivy League were the result of profits made during periods of rising prices and business activity. It was only during such periods that donors accumulated their fortunes.

Low visibility did not mislead Dr. E. R. A. Seligman, professor emeritus of Columbia University, who "has announced his belief that any fear of uncontrolled inflation in this country is 'in large part groundless.' "[21]

". . . we are not on the way to Bolshevism, Fascism, or any other form of autocracy . . . we are in the midst of a social revolution, within the framework of capitalism, which promises lasting benefit."

"Nor need one fear budgetary inflation. . . . These, then, are the reasons why an economist may contemplate the present scene in the United States without trepidation."

Dr. Stewart,[22] former adviser of the Bank of England, thought the bill would "nullify, if not to scrap, the Federal Reserve System." He gave his opinion that the bill might be "a most dangerous illusion."[23] He discounted Warren and others "whose integrity I do not question . . . . they lack an understanding of proper credit administration." Whether Stewart was trying to be profound, was attempting to ridicule Warren or was speaking in anger is problematical. The Federal Reserve Act that legally returned the nation to a fixed price for gold about a week later was no illusion. Since the Federal Reserve System is still in existence and functioning efficiently, the bill did not "nullify" or "scrap" the system. Obviously Warren had a better understanding of "proper credit" than Stewart inferred.

Pro-Federal Reserve money-manager Senator Carter Glass had no respect for Warren or his gold theories. During the Committee hearings he nudged a colleague and said with an ironical twist of his mouth: "I'm going to ask him to explain the Einstein theory next."[24] A Presidential adviser in such an atmosphere required the strength of an ox, the wisdom of an owl and the skin of an elephant to withstand the darts of contempt from economists, legislators, the press and a host of New Dealers.

On January 24, "I was again ready to go home when Senator Bulkley[25] called up. . . . Talked with him from 5:30 until 7. He is inclined to cut 50 per cent. . . . Bulkley said that it is hard to convince inflationists that it will inflate and convince deflationists that it will not."

Dr. B. M. Anderson, Jr., of the Chase National Bank said,[26] "I believe in the gold standard, in the full gold standard. I believe it is quite unnecessary for us to depart from it. I believe that we should be much further along the road to recovery now than we are if we had not done that."

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[21] Literary Digest, At the Observation Post, Volume 116, Number 20, page 10, column 3, November 11, 1933. Seligman, E. R. A., The Independent Journal of Columbia University, November 1, 1933.

[22] Walter W. Stewart of Case, Pomeroy & Co., of New York, formerly Director of Research for the Federal Reserve Board.

[23] Gold Reserve Act of 1934, Hearings Before The Committee On Banking And Currency, United States Senate, Seventy-Third Congress, Second Session On S. 2366, Revised, January 19 To 23, 1934, United States Government Printing Office, Washington, pages 356, 358, 364, 1934.

[24] Cleveland Plain Dealer, January 24, 1934.

[25] Member of Senate Committee on Banking and Currency, during day of hearings on Gold Reserve Act of 1934.

[26] Gold Reserve Act of 1934, Hearings Before The Committee On Banking And Currency, United States Senate, Seventy-Third Congress, Second Session On S. 2366, Revised, January 19 To 23, 1934, United States Government Printing Office, Washington, page 112, 1934.

January 30, 1934, the bill was passed.[27] "At 3:30 went to the President's west office.[28] Had pictures taken of signing the bill. The President said, 'This is a picture of Black compelling me to sign and Harrison holding a club over me.' (They had both bitterly opposed it.) Harrison said, 'It is me giving you a birthday present—the largest ever presented.' [29]

"Oliphant said that he had new orders to buy all [gold] offered at $34.45. Asked what to do, Harrison spoke up at once and said to revalue at 60 cents now.[30] I could have spoken forth—Probably if said 55 might have done it.[30] Morgenthau said that we all agreed to revalue. Rogers and I had not done so. (At dinner had let others do the talking and not forced our ideas as we should have done.)

"Roosevelt said that he had not thought of acting yet. He turned to me, as he usually had done, and accepted my statement as final. I said to either revalue or buy all the gold offered . . . I could easily have turned the tide and rather regretted that I did not do so.

"We agreed to meet at two tomorrow. . . .

"Before the dinner I had tried to get a chance to talk with Oliphant. He thought of 60, but did not have time to discuss it.[30] Last week I talked with Morgenthau who said that 60 was too final and suggested 55.

"Today [January 31, 1934] Harrison prefers to figure it on the basis of an even dollar price in fine gold. I said that legally it must be nine-tenths fine as an exact figure. Oliphant suggested using fractions and I did so, with some rapid calculation to get an even dollar and a small fraction. Arrived at the $35 figure.[31]

"Had lunch in Morgenthau's office with Morgenthau, Oliphant, Rogers and Harrison. We agreed on the 55 price [30] if we are to keep N.R.A., C.W.A., etc., or about 59½ and soft pedal N.R.A. and C.W.A.[32]

"Went to the President's office in the west building—went in front door.[33] Morgenthau presented the idea of 59½ and soft pedal N.R.A. and C.W.A. Harrison had $34.75 figured. Rogers stated the case for 55. I said there was no danger of wild inflation for several years—not until city real estate recovered which means filling the houses and getting rid of unemployment. I stated that it was a choice of quicker recovery and violence in foreign exchange and stocks or slow movement. We would probably have to cut below 60 if we do not do it now. Rogers suggested $35 based on my previous figuring. Morgenthau approved this and said that he favored simple fractions.

"If I had insisted on 55 we could probably have had it. Harrison had said that he preferred 60 so as to have the appearance of finality. Roosevelt said that he did not want the appearance of finality." The price of gold was fixed at $35.00.

The next quotation is of no importance save to indicate that the Presi-

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[27] The bill was passed January 30, 1934, and approved by the President the same day. The next day he issued Presidential Proclamation 2072 Fixing the Weight of the Gold Dollar, January 31, 1934.

[28] The following persons were seated from left to right: Roosevelt, Black, Warren, Harrison, Rogers, Morgenthau and Oliphant.

[29] They wanted the gold to remain in the Federal Reserve System. The present referred to was the almost $3 billion profit from revaluation. The authors checked Harrison's comment and found he was correct concerning the date. F.D.R. was born on January 30, 1882.

[30] Sixty-cent dollar equals 13.93 grains to the dollar, $34.45 per fine ounce. Fifty-five cent dollar equals 12.77 grains to the dollar, $37.59 per fine ounce. Fifty-nine-and-one-half-cent dollar equals 13.82 grains to the dollar, $34.74 per fine ounce.

[31] Many intelligent persons fumble the following relationships: Raising the price of gold from $20.67 to $35.00 is the same as reducing the grains of gold in the dollar from 23.22 to 13.71. The percentage that the new dollar is of the old gold dollar is 59, which is the same as raising the price of gold 69 per cent.

[32] National Recovery Administration and Civil Works Administration.

[33] The following persons were seated from left to right: Roosevelt, Black, Warren, Harrison, Rogers, Oliphant and Morgenthau.

dent, whose desk was cluttered with knickknacks and trivia, enjoyed moments of relaxation: "Harrison showed the President the trick of pretending to break a pencil with a dollar bill, but actually doing it with the fingers."

Inflation—Fears *vs.* Desires

Warren wanted $41.34 instead of the legal fixed price, $35.00 an ounce. Franklin D. Roosevelt wanted more inflation and probably placed more confidence in the predicted credit inflation than was warranted. Western senators concurred with the President's desire for more inflation but discounted the effects of the predicted inflation.

Professor Rogers captured the headlines when he ripped away all surplus verbiage and said that the gold reserve act gives "almost complete assurance of early uncontrollable credit expansion." Columnist R. W. Robey's interpretation appealed to the thousands who had taken courses in money and banking during the twenties: "This is, I believe, the first time a member of the Administration had admitted publicly that we are headed in the direction not only of uncontrolled, but of uncontrollable inflation." Robey held that the Professor's position deserved commendation.[34]

Senator Borah, however, pounced on the statement of the Yale Professor that an inflation of the currency which would be 'uncontrollable' was quite possible. . . . Borah pressed the point and asked the Senate in general if anybody knew exactly what Professor Rogers meant, the only reply he got was: 'I do not know.' The other question which Senator Borah put with as little luck was: 'Will the bill raise prices?' Blank looks met his eager gaze round the chamber." [35]

The dissatisfied senators turned to silver. "By the narrowest majority, the Senate defeated an amendment to the Gold Bill virtually providing for the free coinage of silver. The vote was 45 to 43. In spite of the efforts of the Democratic leader, Senator Robinson of Arkansas, who declared on authority that the President was opposed to the amendment, no less than twenty-eight Democratic Senators voted for it." Most of these were from non-silver mining states, indicating the widespread urge for more inflation.[36] Neither the fears of wild inflation of the host of economists nor the hopes of more inflation of the nation's representatives in Congress were fulfilled (figure 12).

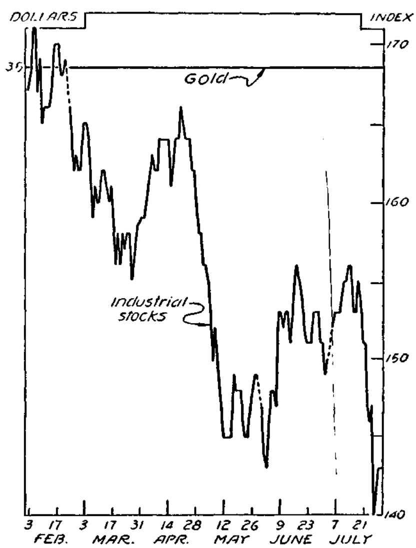

FIGURE 12. PRICES OF GOLD AND OF INDUSTRIAL STOCKS, FEBRUARY 1 TO JULY 30, 1934

Wall Street was not impressed with the predictions of inflation. For six months following the devaluation of the dollar the price of gold was stable and the prices of industrial stocks declined 20 per cent.

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[34] Robey, R. W., Financial Editor of the New York Post, Robey's Review, The Washington Post, 1934.
[35] The New York Times, January 27, 1934.
[36] New York Herald Tribune, January 29, 1934.

Commodity Dollar

Webster's New Collegiate Dictionary defines the commodity dollar as "a unit of a proposed form of currency (commodity money) whose gold value is arbitrarily determined by an index number obtained from the statistics covering the market prices of many basic commodities, and whose nominal gold content is periodically restated as the index number reflects changes in commodity prices." [37]

According to the fly page, this definition was in the 1938 edition. Further research indicated that it appeared in the 1936 edition and was still listed in 1956. It was, however, not included in the Collegiate editions previous to 1936. Its insertion was undoubtedly in response to its popularization by President Roosevelt, Professor Warren, The Committee for the Nation and others when millions of people were suffering from deflation and looking for a ray of hope. F.D.R.'s famed statement, "a medium of exchange which will have over the years less variable purchasing and debt paying power for our people than that of the past," intrigued millions.

Of the gold episode there were two parts. One was the solution of an immediate problem, the reflation of prices; this was an accomplished fact. The other, the stabilization of prices, promised much and accomplished little. It was ephemeral as a May fly; it rose, fluttered and died.

The public was prepared for neither and interested in only the first, immediate relief from deflation. The interest in the second was as apathetic as the enthusiasm for many other unattainable ideals. Many persons have started stabilization crusades but failed to marshal sufficient crusaders. This is as would be expected. Interest in commodity money flourishes with deflation, but with inflation it withers on the vine. This is also silent testimony to the Warren thesis that the overwhelming majority of the people like moderate inflation.

Here and there through Warren's notes on the price of gold, comments on the commodity dollar appear. Warren-Roosevelt discussions of this issue were omitted because they never got beyond the talky-talk stage, and to have included them would only have added confusion.

Warren In An Eclipse
Roosevelt's Mixing Bowl

February 1 to August 14, 1934, Professor Warren did not call on the President, nor was he called to the White House. The press carried stories that Warren was in an eclipse. Roosevelt, the experimenter, was now suffering from an overdose of promises and an underdose of realization, and it was to be expected that he would turn to other panaceas in search of higher prices.

Warren did not approve of these nostrums but expressed no opinion to President Roosevelt or the Secretary of Agriculture, Wallace. His counsel was not sought, and he did not seek to advise them. He made no public addresses, issued no press statements and wrote no articles on regimentation or on the agricultural policy of the administration. In the words of Jane Ace, he took the "bitter with the better." In this respect he was the antithesis of the New Deal brain trusters who, when their advice was not accepted, walked across the printed page in a "huff" and from there to an oblivion they little anticipated.

Warren was, however, constantly in Washington, a close adviser of Morgenthau. Many of the questions and problems with which Warren

[37] Webster's New Collegiate Dictionary, G. & C. Merriam Co., Springfield, Massachusetts, page 202, 1938. The Webster's New Collegiate Dictionary for 1936 was based on the 1934 edition of the Webster's New International Dictionary.

dealt bear all the earmarks of F.D.R., and his answers were indubitably taken to the White House. During these six months the most common notation in Warren's notes was "Morgenthau wants more inflation . . . wants some inflation now . . . ." or other expressions of the same tenor.

Although here and there Warren was effective, much of his time was spent on plain, unadulterated busy-work. He knew it, and on April 11 recorded, "When I was down last week made no headway with anyone." This had been going on for some time. For instance two months earlier, on February 9: Conferred "on tariffs. Wallace wants to cut. Rogers cut." Of course, nothing happened except to waste the time of busy men. On February 21 he wrote, "had dinner in Morgenthau's office. . . . Senator Pittman [38] talked in circles of the benefits to China from raising the price of silver. Morgenthau said . . . State Department [reported] that China was afraid of it. . . . The conference did not get very far."

There were several conferences regarding a proposal to use $2.8 billion of the gold profits to buy bonds. Warren repeatedly advised Morgenthau that the price of gold should be raised, but Morgenthau must have had a wide range of advice. "He (Rogers) thinks that we do not need to raise the price of gold. He is as excited as an old maid about his trip to China." About two months later Warren noted that Viner [39] said Rogers was not finding out anything in China except what was already known.

April 4, Warren went to Albany to present research material in land classification. "Governor Lehman asked me to come up and sit with him. . . . He stayed during my talk." Warren's notes indicate that at the time the Secretary of the Treasury was trying to communicate with him. "Morgenthau tried to get me at my office, my home and Albany, also telegraphed me." He needed Warren in Washington, and the problem was silver.

By April 11, 1934, there had been four drafts of a possible message on silver. The problem ran through Warren's notes until May 22, when Roosevelt sent a statement to Congress.

April 18, 1934, "Saw Secretary Wallace. He said that Morgenthau did not want to raise the price of gold." This may have been an echo from the White House. In any event Warren continued to urge an increase in the price of gold, which advice went to the White House through the Secretary of the Treasury.

During May Warren was busy editing various revisions of a bill known as the Silver Purchase Act of 1934. Based on the belief that if the advancing price of gold raised commodity prices in the United States, there was also a belief that an advance in the price of silver would raise our commodity prices. It was also contended that it would raise commodity prices in China, then in the throes of depression. This thesis had no doubt been brought to the attention of the President by some spokesman from the silver states.

Warren summarized this issue clearly. "It is not the price of silver in gold, but the prices of commodities in silver, that concerns China. There is not the slightest doubt that a rising value of silver in terms of commodities hurts China seriously. . . . Whatever our future policy may be, I think that it would be desirable to go slow in getting Chinese opinion against us. I would, therefore, recommend that . . . the buying of silver be discontinued. . . ."

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[38] Key Pittman, Nevada.

[39] Jacob Viner, Professor of Economics at University of Chicago and Special Assistant to the Secretary of the United States Treasury.

Warren rated Coolidge and Stark,[40] other Morgenthau advisers. His handwritten note says, "Coolidge no idea of doing anything—He's a 'confidence' man." When he returned to Ithaca and dictated to his secretary, his notes gave Warren's definition of a "confidence" man. "He is a do-nothing man who thinks that 'confidence' is all that is required.[41] Stark is also a deflationist."

On May 16 Warren wrote, "The purchase of silver . . . will . . . not have enough effect on commodity prices. . . . gold is the yardstick of value." Since this law did not make silver a standard of value, it would not affect prices of other commodities. Senator William E. Borah and a group of congressmen conferred with the President on silver; the grapevine, through Oliphant, indicates that the President had a vague idea that silver would be the standard.

Warren recognized that silver was a political and not a monetary problem. He did not approve but was faithful to Morgenthau and helped him as much as possible. Warren did not write the bill or testify in its behalf.

Arthur Krock, who had more effect on columnists reporting Washington news than any other person, reported that Bernard Baruch, not a supporter of Mr. Roosevelt, conferred frequently with the President. "His [Baruch's] scorn for the Warren gold experiment was not difficult to detect from the mere expression on his face when that ill-starred venture was mentioned."[42]

During June, July and August Warren revised his best selling book on gold, *Prices*, and renamed it *Gold and Prices*. He was soon to see the President and sail away for Europe.

Warren Goes to Europe

On August 14, two days before Warren's departure, he appeared at the White House and chatted with the President. Warren's notes are interesting in that they reflect the trend of administrative thinking:

"12 a.m. Dinner [with] Morgenthau stayed with him at his house for supper—night and breakfast. He is inclined to think silver buying will raise prices. I said not much. Asked me to get effects in Europe." This would indicate that neither the President nor his Secretary of the Treasury fully understood the price problem. Experience has proved the validity of Warren's contention that huge government purchases of silver or copper or rubber would raise the price of silver, copper or rubber but would have only a negligible effect on the nation's price level.

"4 [p.m.] Spent about 50 minutes with Roosevelt. He said Harrison . . . thinks gold standard is gone. 'Isn't it too bad.' . . . I said farmers get more for cotton if not plowed under. Briefly said why—Working on part of supply. I irritated him for the first time in my experience. He wondered how soon get more effect [of the] price [of] gold. I said had it all." This indicates clearly that the President (a) wanted more inflation and (b) assumed or had been led to believe that there was a long lag in the effect of depreciation. He did not understand—as many others did not then and do not now—the principle that commodity prices respond immediately to changes in the price of gold, and there is little or no lag.

"I told R [Roosevelt] sorry did not raise [price of gold] higher when did it. He agreed. . . . I should have explained this in Feb. I let Harrison get ahead of me then. Also Rogers was against me. AAA evidently got R

[40] Thomas Jefferson Coolidge, Special Assistant to Secretary of Treasury Morgenthau in charge of fiscal affairs; Walter Ruskin Stark, Economic Adviser to the Department of the Treasury.

[41] There were then—and still are—many persons who hold that all that is necessary to maintain prices and business activity on an even keel is belief or faith that all will be well.

[42] Krock, Arthur. In Washington, The New York Times, July 5, 1934.

[Roosevelt] convinced that the rise in prices was due to A.A.A. I told R keep door open. He agreed. R and M [Morgenthau] invited me [to] come in when I get back. . . . Not sure how well I got across [the] ideas. Need to (when price of gold up)."

In connection with this interview Warren's notes record: "The President asked for this [some price data] for his press conference, I delivered it myself." The data were as follows:

"Farm and Retail Prices

"Whenever prices fall, the percentage decline in prices paid to farmers is much greater than the decline in retail prices.

"Similarly whenever prices rise the percentage rise is much greater for farm than for retail prices. This is because the costs of freight rates and other handling costs do not need to change merely because the costs of raw materials change.

	Percentage advance February 1933 to May 1934
Index of prices paid to farmers for all food products	53
Retail prices of foods	19"

As Warren walked out at 5 p.m. in walked the Antis, Harrison and Black, "who spent nearly two hours with the President. . . . Both Federal Reserve officials belong to the orthodox monetary school and it is not probable that they urged any further monetary experimentation.

". . . in many quarters the belief prevails that Prof. Warren is not as influential at the White House as he was a year ago. . . . Roosevelt expressed to a group of silver advocates . . . that he was disappointed with the results of the gold policy." [43] Another correspondent later reported ". . . Mr. Roosevelt has lost faith in the commodity dollar theories—if he ever had anything more than curiosity to try them out." [44]

For about thirty days Warren was in Europe to attend the Third International Conference of Agricultural Economists at Bad Eilsen, Germany, where he read a paper on The Monetary Situation. He presented an excellent paper describing our experience with devaluation and the experiences of twelve other countries. The economists may not have agreed with his conclusions, but there was no question of the clarity with which the material was presented. It still sparkles! The American and European press was most interested in the statement that "the price of gold must be more than doubled in order to restore the pre-depression price level in any country." [45]

He stopped in London and talked with the gold producers, gold brokers, bankers, and economists on the gold-price problem. His notes carry two interesting phrases: "Sir Walter Layton [46] half agrees" and "Keynes is too changeable—can't tell what he does want."

September 21, Warren met Sir Josiah C. Stamp at Euston Station. Sir Josiah was onetime Chairman of the London School of Economics, Director of the Bank of England, Chairman of the London Midland and Scottish Railway, and found time in the great depression to write papers

[43] Waltman, F., Jr., Money Plans Pondered at White House, The Washington Post, August 15, 1934.
[44] Thurston, E., Higher Price Level Sought by President, The Washington Post, October 11, 1934.
[45] Warren, G. F., The Monetary Situation, Proceedings of the Third International Conference of Agricultural Economists, held at Bad Eilsen, Germany, 26 August to 2 September, 1934, Oxford University Press, Humphrey Milford, London, pages 289–309, 1935.
[46] Walter Layton, Editor of The Economist.

on gold and the price level. Warren recorded the following: "He understands prices well. Says modern society can't deflate as rule of gold standard calls for inflation & deflation—but public social opinion says shall not cut [decrease gold content of currency]. . . . Bankers think inflation wicked but deflation virtuous. . . . Says people do not understand difference [between] internal & external [effects of devaluation]. . . . He . . . [is] best man I have met."

He visited Professor Gustav Cassel in Sweden, and according to his notes Professor Cassel summarized Sweden's solution to her problem as follows: "Sweden did not tie its money to any other currency but chose to tie to commodity prices and has made a success of it."

That Sweden had not experienced the severe deflation of those countries that had maintained the legal price of gold is indicated by the wholesale prices of 40 basic commodities for February 1933. Shortly after this, a bankrupt United States had suspended gold payments. United States commodity prices in currency were substantially lower than the Swedish currency prices, 65 and 88, respectively.[47]

While in Paris Warren "saw Rist—son of Charles [Professor Charles Rist, famed French economist] at J. P. Morgan & Co. . . . said his father had read a book [Prices] and agreed with it."

Since both the President and the Secretary of the Treasury were interested in the European reaction to our program, Warren wrote the latter from London. "There is practically no interest in silver in Germany, France, or Belgium, and a very limited interest in England . . . . in England . . . financial interests are definitely hostile. . . ."

Warren also accurately appraised the economic situation in the countries both on and off the gold standard: "The sore spot in Europe is Germany and the gold standard countries—Holland, Belgium, France, Switzerland, and Italy. Germany got Hitler because she tried an amount of deflation that could not be carried through."

The situation in the countries that were off gold was quite different. "England is having a building boom and looks prosperous. . . . Apparently the conservatives hope that it [price of gold] will not be raised much more, and the less conservative hope and expect that it will be raised considerably more."

Warren returned home the middle of September and wrote the following: "In spite of the infinite variety of price-raising schemes, no country has been able to exercise any control over its general level of prices, except by reducing the gold content of its money."

NOT IN THE DOGHOUSE

Warren lunched with the President, and the press was all agog about whether the professor was going to pull something out of the hat. Columnist Arthur Krock punned that "the hat-rabbits are back in their warrens." [48] G.F.W.'s visit was sufficient to stimulate a first page cartoon showing the professor with an armful of balloons knocking on the door of the White House.[49] It carried the caption, The Stranger's Return. The reason: Roosevelt wanted higher prices that his nostrums were not producing.

Warren reported on his European trip. The President asked if he still

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[47] Pre-World War I equals 100.
[48] The Evening Star, Washington, D. C., October 13, 1934.
[49] The Washington Post, Washington, D. C., October 13, 1934.

was of the opinion that the price of gold should be raised to $41.34. The topic of conversation changed, and Warren was uncertain whether the question was answered. Warren may have thought that he stumbled; the biographers are skeptical of this. The question was probably merely a friendly gesture, as the President was now toying with public works. The most voluminous part of Warren's notes shows that the President asked his opinion of constructing post offices, national highways, toll roads, houses and laying out English Villages every five miles.

The next day, October 12, 1934, at 4:10 p.m. F.D.R. held Confidential Press Conference #150. The part of the conference pertaining to gold and Warren was as follows:

Q: Any comment to make on Professor Warren's visit yesterday?

THE PRESIDENT: No. (Laughter). Some of you people got a bum steer yesterday—several bum steers. . . .

Q: In that connection, could we ask this: Will there be any immediate or near future change in the gold policy? (Laughter)

THE PRESIDENT: I am neither a prestidigitator—

Q: (interposing) Yes, sir. (Laughter)

THE PRESIDENT:—nor an astrologist. Let it go at that. (Laughter)

Warren's diary for that day reads, ". . . Saw Senator Bulkley [of Ohio]. He said disappointed price of gold not raised more in February. . . . October 13 Saw Roper—He talked on abstractions. I went to see him just to let him know I appreciated his function as a landlord of my room. . . . Saw Wallace and ate lunch with him. He has not changed his point of view, but I think he is lacking for friends." Others translate Warren's illegible, seven-letter word as "looking."

Warren was not, as many suspected, in the doghouse with Falla. He was working directly with Morgenthau and not with the President. F.D.R., however, apparently knew what Warren was doing. This is indicated by excerpts from a conversation between the President and Frank Gannett of Rochester, New York, at the White House January 15, 1935. Whether the President told Gannett what he really thought or what he thought Gannett wanted to hear, the record reads as follows: "President told him Warren was 'dead right' and had been right all along. Said 'he (Warren) is working on a plan for me.' " The conversation delineated the plan, although Warren did not. Warren and Oliphant were "working on [a] law and constitutional amendment in case [the] court invalidates [the] law." Since the problem was essentially legal, Warren's role in this major problem was a minor one.

The Gold Clause

The March 1933 embargo forbidding gold payments aroused widespread discussion of the sanctity of contracts. During May 1933 Secretary of the Treasury Woodin refused licenses to export gold to meet interest payments on bonds held abroad. June 5, 1933, "Congress by joint resolution declared that the [gold] clauses in public and private obligations . . . were contrary to public policy and provided that such obligations might be discharged dollar for dollar in legal tender." [50] The fat was in the fire! The resolution was contested and finally reached the Supreme Court.

The question the Supreme Court had to decide was whether or not Congress had the right to cancel the gold clause in private and public

[50] Westerfield, R. B., Money, Credit and Banking, The Ronald Press Company, New York, page 780, 1947.

contracts. Chief Justice Hughes asked one of the government lawyers, "Where do you find any power under the Constitution to alter that bond . . . to change that promise?" The reply was that the Constitution gave Congress "power to coin money [and] . . . regulate the value thereof." [1] On this phrase the government based its legal case.

Harold Ickes [2] reported Sunday, February 10, 1935, "The Administration is somewhat jittery about the gold decision, the rendering of which is being constantly postponed. Chief Justice Hughes announced again yesterday that no decision would be handed down on Monday. . . . It looks like a tug of war on the gold case." A week later on February 18, 1935, the 5–4 majority, led by Chief Justice Charles Evans Hughes, ruled in favor of the government position. Had this not been the case, it has been held that "a grave constitutional crisis" would have been precipitated.[3]

"The Court was split wide open on the case, and the bitterness of the dissenters was plainly evident in Justice McReynold's reading of the minority opinion." [4] In an unusual outburst to be heard in the Supreme Court he said, "God knows, I do not want to talk about such matters but it is my duty. . . . The Constitution is gone."

Predicted Inflation Fails to Materialize

The rise in prices that students of credit had predicted would follow in the wake of the return to the gold standard, January 1934, had not materialized (figure 12). Roosevelt was concerned! There was the usual round of comment. Warren called at the White House! Nothing happened!

A news item on the Dow Jones ticker,[5] March 6, 1935, gives us one version of Roosevelt's reactions: "The dollar is not yet cheap enough in relation to debts, President Roosevelt believes. At his press conference in response to a question as to whether commodity prices had reached the level at which they should be stabilized, the President replied that he did not think the dollar had been put back in relation to debts as far as it ought to go. The President explained that the debt burden has been relieved enormously but not enough yet in his opinion. The debt column, he added, has not been sufficiently reduced in comparison with the asset column. A reporter then asked did that mean further devaluation, to which the President laughingly replied, 'Hold on.' "

Warren's notes record Morgenthau's version. Wednesday, March 13, 1935, Secretary Morgenthau wired Warren to come to Washington for Friday, Saturday and Sunday. "March 15—Washington—Supper at Morgenthaus 7:30." Morgenthau had 13 guests. "Morgenthau said president several times stated, Must raise prices and asked me to start discussion."

As usual, some would revalue, others would hold a world conference, still others lower wages, taxes and the like. "Harrison would do nothing. . . . Viner would call an international conference. He talks of controlling

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[1] Scholastic, Volume 26, Number 1, page 27, February 2, 1935. Adapted from *Scholastic* by permission of the editors, copyright 1935 by Scholastic Magazines, Inc.

[2] Ickes, H. L., The Secret Diary of Harold L. Ickes, The First Thousand Days, 1933–1936, Simon and Schuster, New York, page 294, 1954.

[3] Burns, J. M., Roosevelt: The Lion and The Fox, Harcourt, Brace and Company, New York, page 226, 1956.

[4] Justices McReynolds, Sutherland, Van Devanter and Butler. The majority opinion was read by Chief Justice Hughes, who concurred with Justices Brandeis, Cardozo, Stone and Roberts.

Scholastic, Volume 26, Number 6, page 19, March 9, 1935. Adapted from *Scholastic* by permission of the editors, copyright 1935 by Scholastic Magazines, Inc.

[5] Dictated to F. A. Pearson by Ralph W. Head, of George D. B. Bonbright and Company, Ithaca, New York, March 6, 1935.

the value of gold of central banks. Williams would cut wages and deflate. Coolidge would do nothing. . . . Wallace—If are to do anything would wait till new crop when prices low."

Warren was skeptical of the Viner suggestion that the value of gold could be controlled by an international agreement. He likened this to efforts to control the world exchange value of wheat by an international conference. If by conference a given supply of gold could suddenly support a higher world price level, it would mean that gold would lose value without a normal increase in supply that has formerly gone with low value. When gold loses value, it checks production and stimulates industrial use which eats into the supply. Central banks can render many services in the use of gold but can have only a limited effect on its values.[6]

"March 16, 1935. Saw President about 45 minutes. He showed us how to make a chart. Cut out white space top and bottom and shove it together to show the vertical movement." Although Warren's notes give us no further clues, it appears that the President was not merely doodling or playing the part of a magician. It is apparent that he had in mind and was concerned with the greatest change in organized labor since the upstart A.F. of L. challenged the old conservative Knights of Labor during the depression of the seventies—vertical versus horizontal organization of labor.

Warren continues with F.D.R. comments as follows: "Signed a letter to Hopkins telling him to take over the relief work in Ohio also read Hopkins letter to the Governor, and took out some of the worst stings in it.

"Discussed whether to act now or after he comes back from vacation. . . . I said if act: desirable keep union wages from going up, if President agreed. He said thought Green[7] go along with him." Warren's notes would indicate that silver was in the limelight and that the President was intrigued with symmetalism.[8]

The memorandum prepared by Dr. Warren for Secretary Morgenthau indicates that F.D.R. considered issuing a statement. Warren noted that he questioned "the wisdom of any statement at this time unless some action is to be taken." Warren was skeptical of whether President Roosevelt realized what the monetary policy had done. Later in reply to such a question, Henry Morgenthau said, "not fully."

During the summer and fall Morgenthau sought Warren's counsel on refunding bonds, French revaluation, wages and prices. Warren mentions Dr. Harry Dexter White, who was Morgenthau's adviser about the same time. White was later involved in a communist controversy, and it is odd that some one did not link them and tie a Commy tin-can to Warren's coat tail.

Two Invitations—A Year Apart

"The President and Mrs. Roosevelt request the pleasure of the company of Dr. and Mrs. Warren at dinner, Tuesday evening, January the twenty-eighth, at Eight o'clock, 1936."

This invitation Warren declined because of a previous speaking engagement.

[6] Warren, G. F., and Pearson, F. A., Gold and Prices, John Wiley & Sons, Inc., New York, page 149, 1935.

[7] William Green, President of the American Federation of Labor.

[8] A system of coinage using an amalgam of two or more metals, in this instance, gold and silver; distinguished from bimetallism. January 15, 1935, Morgenthau said the President discussed action to be taken if the law was declared invalidated. Morgenthau stated that the President was fully sold on symmetalism.

On January 20, 1937, Warren was again invited to the White House, but his visits there had practically come to an end. He was in Ithaca writing about gold and prices, and his counsel was not needed in Washington. The reason: the price level was rising in the world and in the United States. According to the President, "We planned it that way."

Yesterday and Tomorrow

Devaluation has been and long will be the result of "trouble" but the nature of these national troubles has changed with passing time. Away back in history, devaluation was a product of the variable weight and the per cent of purity of coins. As a result the poor coins drove out the good coins and irregular but more or less continuous devaluation ensued. That "trouble" was eliminated by improved minting. To chroniclers of old, devaluation was what kings did when they got into troubles, other than war, such as decapitating wives, extravagant living, grandiose palaces and so on. The economic importance at the time was not nearly so great as their role in future literature which grows with passing time. More important was the clash of rival Titans within countries and external wars between countries. This important type of trouble has persisted through the years, and will continue to recur. The economic distress due to declining prices long has been an important cause of the devaluation of currencies. Hopes for elimination of declining price troubles have not and will not be realized until the causes are better understood. Economists have spent more time frowning on devaluation than in examining its real causes.

Devaluation, raising the price of gold, may yet become respectable. During the greatest prosperity in modern history several countries have recently raised their prices of gold, with the approval of respectable, orthodox economists who can do no wrong. Devaluation is an escape. In our modern managed economies, the managing economists inevitably make mistakes which must be corrected and/or covered up. A king can do no wrong! When modern money managers make mistakes that threaten the solvency of a nation, one solution is to turn to the age old remedy—raise the price of gold. Since kings must be protected the next problem is to find a "goat," and it usually is a country with a stable currency.

Raising the price of gold, once a curse, always a cure-all, may in the misty future become esteemed.

The recent raising of the price of gold by managing economists is indirect recognition of the fact that gold is still the keystone in the price-making system of all countries with currencies tied to a given amount of that precious metal, just as when Warren was Presidential adviser.

Appraisal

The gold policy produced an extraordinary range of reactions. It was either unreservedly praised, rather angrily rejected or approved subject to significant reservations (figure 13). This corner was of the third viewpoint. It must be assayed in two different lights. Commodity prices rose almost proportionately with the price of gold. That was all to the good, but it was not enough. An equilibrium in the price level was not restored. If the price of gold had been doubled, that end might have been attained.

The unparalleled depression of the early thirties was due to the fact that deflation, as is always the case, creates great disparities in prices of goods and of services throughout the economy. Flexible prices of farm

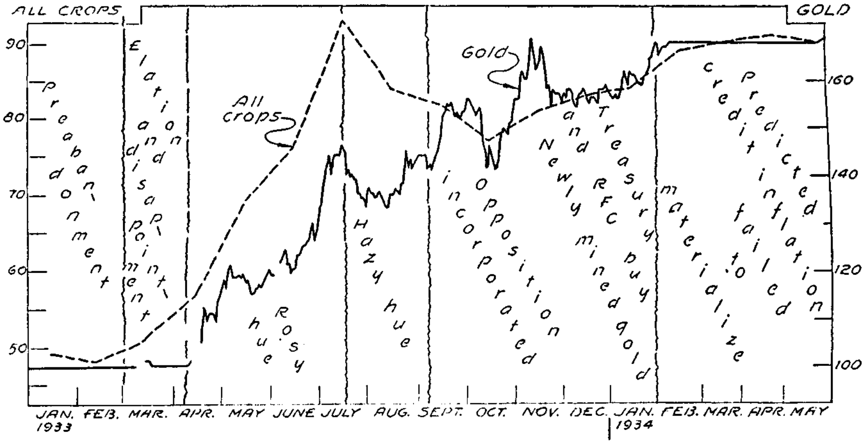

FIGURE 13. INDEXES OF THE DAILY TRADERS' PRICES OF GOLD AND THE MONTHLY FARM PRICES OF CROPS IN THE UNITED STATES, JANUARY 1933 TO JUNE 1934
Farm prices, monthly, fifteenth of the month
Gold prices, daily

Most of the advance occurred during the Rosy Hue, April to July. Crops receded during the Hazy Hue and rose moderately during the gold-buying era. Following the return to gold, farm prices fluctuated around the legal price of gold, ignoring the predicted credit inflation.

products declined much more than the prices of articles farmers bought, disrupting agriculture. From February 1929 to February 1933, flexible prices of farm crops declined 64 per cent, whereas prices of articles farmers bought declined only 36 per cent.

Similarly, flexible prices of urban basic commodities declined relative to the sticky city cost of living, disrupting urban business. From February 1929 to February 1933, flexible urban basic commodities declined 54 per cent, whereas the sticky city cost of living declined only 26 per cent.

It was quite generally agreed that both urban and rural economies can operate at any price level, high or low, provided that its various components are in equilibrium. During 1933 it was quite generally agreed that they were not in equilibrium. The problem was to deflate the high, sticky prices down to the level of the low, flexible prices or to inflate the low, flexible prices up to the high, sticky prices. There was no other alternative.

F.D.R. had plenty of advice on what should be done. One group proposed that the process of deflation should be completed; their remedy, completion of deflation, would have been politically unacceptable. Dr. Warren had the correct remedy: the equilibrium should be restored by inflating the flexible relative to the sticky prices by raising the price of gold.

F.D.R. heeded both groups of advisers. His efforts to complete the deflation process, however, were so microscopic that they can be ignored.

The gold program was a success in that the low, flexible prices rose relative to the sticky prices. The gold program was not a success in that it did not raise them enough. The success involved a principle; the failure, the administration of policy. Let's look at the record. From February 1933 to February 1934, the price of gold was raised 69 per cent; and farm prices rose relative to the sticky prices of articles farmers bought—including interest, taxes and wages—85 and 13 per cent, respectively. Similarly, the flexible urban prices rose relative to the city cost of living, 50 and 5 per cent, respectively.

The index numbers a month before the suspension of the gold standard and a month after a return to it, February 1933 and February 1934, when 1910–14 = 100, were as follows:

Series	February 1933	February 1934	Per cent increase
Legal price of gold	100	169	+69
Farm prices			
Flexible prices of all crops	48	89	+85
Sticky prices of articles farmers bought [9]	104	117	+13
Purchasing power of farm prices in terms of cost of living	38	66	+74
Parity rate	46	76	+65
Urban prices			
Flexible basic commodities	66	99	+50
Sticky cost of living	128	135	+ 5
Purchasing power of urban prices in terms of cost of living	52	73	+40

The inflation of the flexible relative to the sticky prices increased the parity rate for farm crops 65 per cent and the purchasing power in terms of the cost of living 74 per cent. The purchasing power of urban, flexible prices in terms of the sticky series increased 40 per cent. This approach to an equilibrium in urban and rural price structure brought a rising volume of urban business, increasing employment and an advance in prices of securities.

The gold program was not a success in that it did not fully restore the purchasing power and parity rates prevailing during the prosperous twenties, to which most farmers and businesses had become fairly well adjusted. The February 1934 parity rate, 76, was 7 per cent below the February 1929 rate. The purchasing power of urban prices was 13 per cent below the prosperous twenties. The index numbers for February 1929, February 1933 and February 1934 when 1910–14 = 100 were as follows:

Series	February 1929	February 1933	February 1934
Price of gold	100	100	169
Parity rate crops	82	46	76
Purchasing power of basic commodities in terms of cost of living	84	52	73

Warren's notes clearly indicate his repeated recommendations that the price of gold should have been doubled. In that event, the 1929 parity rate for crops and purchasing power of urban prices would have been restored.

[9] Including interest, taxes and wages.

Series	February 1929	Estimated index at doubled price of gold [10]
Parity rate for crops	82	91
Purchasing power of urban prices	84	95

This concludes the appraisal of the accomplishments of the gold program. The next problem is to appraise the net effects of the efforts of the private and the government traders.

Most of the advances in commodity prices occurred in the ninety-day bull market during the private trader era. Relatively little progress was made during the one hundred and forty-five days the government attempted to raise the price of gold (figure 14). The present day nomenclature for the activities of the government traders is backing and filling.

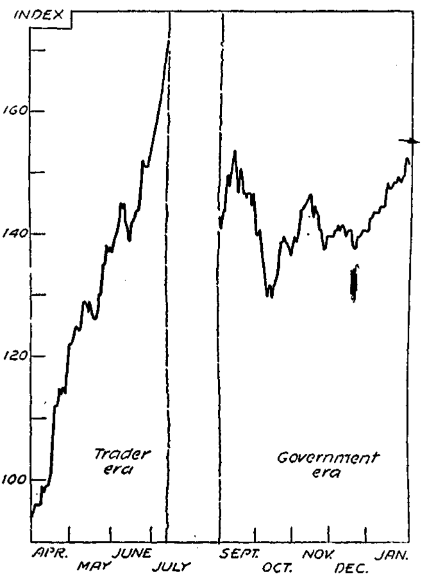

FIGURE 14. DAILY PRICES OF SEVENTEEN BASIC COMMODITIES DURING THE PERIOD OF GREATEST ADVANCE WHEN THE GOLD PROGRAM WAS IN THE HANDS OF TRADERS, APRIL TO JULY 1933, AND DURING THE PERIOD WHEN THE GOLD PROGRAM WAS IN THE HANDS OF THE GOVERNMENT, SEPTEMBER 8, 1933, TO JANUARY 31, 1934

The price movements during the government gold-buying era were insignificant in comparison to those during the trader era.

The government produced a pattern that was too little and too inconsistent. The major changes were that prices rose 8 per cent, fell 15, rose 13, fell 6 and rose 10 per cent. The net result of the five changes extending over five months was an advance of 6 per cent, too little to be of any economic value. Conversely, the trader pattern was consistent; prices generally moved in one direction and were of sufficient magnitude to be a major factor starting the nation on the road to recovery.

The traders produced a pattern of prices that everybody wanted, stunning the experts; the government produced a pattern that only the opposition wanted, confounding the laymen.

From April 18 to July 1933, the private traders in foreign exchange and gold increased the price of gold 73 per cent of the time and decreased it 27 per cent. Stated another way, during this bull market the price of gold rose three days and had a technical reaction the fourth day. The commodity traders responded in much the same way. Commodity prices reacted once for every three-day advance. The net change during the period was a 40-odd per cent increase in the price of gold and a 75-odd per cent increase in the price of commodities.

During the one hundred and forty-five days when the government fixed the price of newly mined gold the quotations were unchanged about half the time and rose about a third of the time, 49 and 37 per cent, respectively. The government carried out the President's orders to advance the price of newly mined gold. That was relatively simple, but ineffective. The problem was to advance the open market or traders' price of gold. To attain that objective the

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[10] Based on the assumption that the proportional changes in the flexible and sticky prices with a doubling of the price of gold would have been in proportion to the actual experiences that accompanied the 69 per cent advance. The calculations were as follows: the price of gold rose 69 per cent and the parity rate 65 per cent. The parity rate rose 0.98 points per one point increase in the index of the price of gold, (165 ÷ 169 = 0.98). With a doubling of the price of gold the parity rate should have almost but not quite doubled, (0.98 × 200 = 1.96). If this factor is applied to the parity rate of February 1933 the rate would have been 91 (1.98 × 46 = 91).

officials bought gold in the foreign markets to weaken the dollar, but that this was ineffective is indicated by the fact that about one-half the time the traders' market price of gold advanced and half the time it declined. Commodity prices, of course, followed the traders' price of gold:

Change	Traders' prices of	
	Gold	Commodities
Decreases	53	47
Increases	47	50

The net result during this period: prices of commodities rose a little less than 10 per cent and gold a little more.

A great mystery surrounds this period. It would appear that the price of newly mined gold declined one day in seven and advanced every third day. All the trader knew was that it was the policy to buy gold in foreign markets to raise commodity prices, but the trader could see no evidence of a concerted effort to carry out that policy. Naturally, the foreign exchange and commodity speculators played a waiting game—backing and filling. The only difference between the two types of market was the ratio of the number of increases to the decreases.

Market	Gold	Commodities
Bull	3 to 1	3 to 1
Backing and filling	1 to 1	1 to 1

The small conflicting changes during the latter period tied into a granny knot the gold program. It is only natural that the entire gold program was and still is appraised in terms of knots. It is little wonder that because of its last phase the whole gold program got the moth-and-the-flame treatment from economists, bankers and columnists.

By comparison the price movements during the government gold-buying era was insignificant in comparison to the trader era. The government produced a pattern that was too little and too inconsistent. Conversely, the trader pattern was consistent; prices generally moved in one direction and were of sufficient magnitude to be a major factor starting the nation on the road to recovery. The traders produced a pattern of prices that everybody wanted; the government produced a pattern that bewildered both farmers down the road and unemployed laborers on Main Street.

From mid-April to mid-July the price of gold rose and commodity prices zoomed, employment increased, the stock market rose and business activity improved. Everyone was engrossed in recovery and was unconcerned about dollar depreciation or the price of gold or that the traders and speculators were doing what everybody wanted done.

From the following September to January commodity prices floundered and everyone was concerned about the secretive activities of the RFC gold-buying program and the failure of further substantial improvement to get underway.

It made no difference whether the price of gold was fixed by traders in the market place or manipulated by government officials in marble halls. Commodity prices in dollars moved with the price of gold, as commodity prices in world markets in terms of gold were stable. Unfortunately, however, the government program was too little and too inconsistent to be of any interest to farmers and businessmen. The trader program had swept the opposition off their feet. The government program, on the other

During both periods the public had sublime confidence in F.D.R. When the program was a success, it was F.D.R.—not gold. When the program was not a success, it was gold—not F.D.R. Be that as it may, both phases of the program demonstrated the soundness of Warren's position that the dollar price of commodities was closely related to the dollar price of gold so long as the world price level was stable.

The gold program acquired public disfavor during the government buying phase because commodity prices were closely related to the price of gold and not because they were unrelated. In some respects the reaction is a good illustration of Warren's comments about the cats thrown over the clothesline with their tails tied together. When in deep trouble, people often fight blindly whatever is in front of them instead of trying to correct the cause of their difficulties.

As a Presidential adviser Warren behaved like the man of distinction that he was. Warren was an adviser par excellence! He had an uncanny insight into what an adviser should and should not be that is a hallmark of genius. He was of the opinion that he should not strut before the White House spotlight. As a Presidential adviser Warren was a wise, old owl. For a year he let the Skipper talk and, being a good, bell-bottom gob, kept quiet. Warren had no Washington files but carried all of his papers in a battered, brown brief case. He slipped in and out of the side entrance to the White House. He never spoke to the press, wrote no articles, refused to air his views.[11] Never before, however, had any agricultural economist, or 365-day adviser been the subject of as much editorial and general news comment in the national and European press as had G. F. Warren.

Harris & Ewing

PORTRAIT 5. GEORGE FREDERICK WARREN

He looked and deported himself like the man of distinction that he was.

He weathered his new titles and epithets — Rubber-Dollar Warren, Bologna-Dollar Warren, mystery man, brain truster, chicken farmer, fact ferret, dirt farmer, milk farmer, mysterious professor, gold dust twin —not always applied in affection. Dr. Warren endured the slings and arrows with unusual calmness. Warren was charitable to his critics who were, of course, right in terms of their hallowed traditions. Any man who tinkers with the currency will always be a traitor to the cause of sound money.

Even Warren's severest critics bowed down to his courage and forthrightness. The charges and counter charges, however, obscure the fact that Warren the gladiator walked off the field a winner.

Incredible is the adjective that best fits Warren. So far as prices were concerned, he had the golden touch of Midas. A most significant single fact about the gold controversy is that Warren achieved in large part

[11] Warren delivered one address in Washington, D. C., May 12, 1933. This was for a conference on "The Economic Status of the Negro" sponsored by the Julius Rosenwald Fund. His paper on "The Agricultural Outlook" contained nothing on his relations with F. D. R. In fact there was nothing to raise the eyebrows of the press. He did, of course, address groups of farmers and businessmen in New York State and throughout the nation. During the ten months of 1933 that he was in the country he delivered seventy addresses. So far as F.D.R. was concerned Warren was always a "tight-lip."

what he set out to do, but there remained a hard core of resistance that was not his fault. Warren was at times praised and at other times reviled.

Other writers who will review this never-to-be-relived year will conclude that in spite of ridicule and recriminations Warren was supremely level-headed in his diagnosis of the cause and cure of the trouble, in his association with the Antis and in his capacity as Presidential adviser. They will agree that he got most, but not all, of what he thought was in the best interest of the nation. It is one thing to attain an end; it is another to satisfy men's minds.

F. A. Pearson, W. I. Myers and A. R. Gans

Tailpiece

This article is poorly timed! There is no interest in gold. The number of persons who believe that it is a factor in our price level is at an all-time low. The interest in gold naturally wanes and waxes with prosperity and depression.

Revival of interest in gold almost certainly would accompany a repeat performance of the combination of the economic forces that, in the past, caused our great depressions and did carry or nearly carried the nation off the gold standard: falling prices and declining building activity.[12]

There were two notable periods when this occurred:

1929–1934. Falling prices and declining building swept the nation off the gold standard. The dollar was revalued.

1836–1843. Falling prices and declining building again carried the nation off the gold standard. Gold payments were suspended for seven years. The dollar was not devalued.

There were three other periods which differed from the above only in degree:

1817–1824. Falling prices and declining building forced most of the nation's banks to suspend specie payment. The dollar was not devalued.

1873–1878. Falling prices and declining building activity caused a sharp rise in the greenback [paper money] price of gold. The dollar was not devalued.

During the War Between the States the gold standard was suspended and the price of gold more than doubled. During the postwar boom the premium for gold declined from 158 to 10 per cent. With the Panic of 1872–3 the premium rose. The unfavorable combination of falling prices and declining building activity delayed the return to the gold standard, 1878, much longer than otherwise would have been the case.

1891–1897. Falling prices and declining building was not accompanied by a suspension of the gold standard. This was probably due to the fact that a loan by J. P. Morgan and other New York bankers to the United States Treasury enabled President Cleveland to maintain gold payments.

It is difficult for a country even as rich as the United States to maintain a fixed price of gold when spectacular declines in building and prices occur at the same time. If this unfavorable combination rears its ugly head, interest in the subject will be renewed and the running narrative of the experience of G.F.W. and F.D.R. during the Great Maelstrom may not have been in vain.

[12] Pearson, F. A., Myers, W. I., and DeGraff, H., Prices, Building and History, Farm Economics, No. 183, pages 4758–4771, December 1951.