2. The Pit

DURING 1930 I awoke to find myself at the bottom of a pit without any known means of scaling its sheer sides.

Since the crash of 1929, men I respected assured me that the economic crisis was only temporary and that soon all the things that had pulled the country out of previous depressions would operate to that same end once again. But the weeks turned to months. The months turned to a year or more. Instead of easing, the economic crisis worsened. The pit grew deeper and I found myself in it.

On the morning of the awakening, I saw for the first time that though I'd been active in the world of finance and production for seventeen years and knew its techniques, I knew less than nothing about its economic and social effects. Yet, by itself a confession of ignorance led nowhere. Friends whose estates I managed, my family, whose interests I represented, and the community at large, in whose economic life I played a sensitive role, all expected me to find the way out of the pit. Yet all I could find within myself was despair. Having been reared by my father to accept the responsibilities of wealth and having been placed by circumstances at the helm of many enterprises, there were times when I felt the whole depression was a personal affront.

Wherein had I been at fault?

Night after night following that head-splitting awakening I would return home exhausted by the pretensions of knowledge I was forced to wear in a daytime masquerade. I would slump forward on a table and pray that by a supreme act of will the answers would somehow be revealed. As an individual I felt myself helpless to do anything. I heard grass-roots talk that "the government ought to do something." But why the government? Wherein is the government different from the individual? Is it not just a sum of all individuals? Or, granting there is a difference, what specifically should the government do?

For instance:

What should be done in a situation where the dollar was so painfully sound when measured by its power to buy goods and services that when prices fell and unemployment increased, the dollar somehow got "sounder"?

What was to be done in a situation such as I faced in our lumber mills, where we would operate at a loss even if men worked without pay?

What was to be done by our banks when loans on homes, farms, livestock, and securities or to business and industrial enterprises could not be paid because values had drastically declined?

What was to be done when the pressure on the banks to "get liquid" so as to meet depositor claims caused a situation where the liquidation of debts made it impossible to pay off debts?

What was to be done when men on the farms and in the cities, who needed each other's goods, were stranded on opposite river banks without the consumer purchasing power by which they could navigate a crossing for trading?

These were not academic questions. They were intimately connected with day-to-day dangers, and particularly the danger of a sudden run on the banks. It didn't matter where the run started. A weak bank that closed its doors could create community tensions of a sort that could close the doors of sound banks as well.

Fortunately, the banks of the First Security Corporation kept their doors open throughout the depression. No depositor lost one penny. But time after time the life of our organization was imperiled by failures or imminent failures in neighboring banks. Physical nearness alone tended to involve all banks in the fate of any one of them. I still grow weak when I think of the runs or threatened runs with which we had to deal.

The first one occurred in 1931 in Ogden. Here one of the most highly regarded and oldest banks in the entire state was the Ogden State Bank. Under the management of the Bigelow family it had served the community well for over forty years. In size it was only slightly smaller than our Ogden banks. But the officers of our banks were, like myself, young men or men relatively new to the community. We didn't have the sort of public confidence enjoyed by the Ogden State Bank. If it got into trouble, what could the community expect of a bank managed by much younger and less experienced men?

I had advance warning of trouble when Archie Bigelow, the president of the Ogden State Bank, revealed to Bennett and me that his bank was facing great losses on its loans due to the deflation, that its capital and surplus were impaired, and that it was losing deposits. But Bigelow felt his bank could be saved if it was merged with our Ogden banks.

Examination of the imperiled bank showed that it was so far gone it would pull down our banks if they were linked to it as a lifesaver. Came the week-end in the late summer of 1931 when doom could no longer be staved off. Word reached us that the Ogden State Bank would not open its doors on the coming Monday.

We knew we could expect a severe run on our Ogden banks; we also knew that when word of it got around, the effect would extend to other areas where the First Security Corporation owned banks. These others had to be alerted and prepared for imminent developments, and because our Ogden banks were the central institutions in our banking complex, it was imperative that they break the run as quickly as possible and stay open at all costs.

The Sunday preceding the Monday when the Ogden State Bank did not open, I called together all the officers and directors of the First National and the First Savings banks. Having a list of all the important commercial accounts held by the Ogden State Bank, I pointed out to the directors and officers of our banks that the firms represented on the list would be without banking facilities on Monday morning when the Ogden State Bank remained closed. Yet they would need to make deposits, get currency, borrow money, and issue checks. The directors of our banks were to pick out the firms on the list with whom they had close personal or business dealings. Then on Monday morning they were to call the heads of these firms, invite them to deposit their funds on hand with our banks, and say that if they needed a loan or currency we would be glad to take care of their pressing needs. I wanted not only to gain an inflow of deposits but to develop confidence among the employees of those firms. They would be paid in checks drawn on our banks, and the combined incoming traffic would help reverse the current of the outgoing traffic we knew was to be expected on the next day.

The officers and directors went at this job with zeal and set in motion what it was hoped would happen.

While this plan was formed to stabilize our commercial accounts held locally, we had cause to fear a concealed run on our commercial and bank accounts that could start at distant points. Specifically, like other city banks, we held balances of many outside corporations as well as of independent country banks in the area. We knew that if the officials of these outside concerns heard of a run on our banks, they would take precautionary measures to avoid getting caught short. They would either ask for a direct transfer of funds or they would make a draft or checks on our banks and deposit them with other banks.

I'd seen this happen many times. I'd also seen its aftermath. The process by which large corporations, for instance, withdrew funds from the hinterland and concentrated them in New York and other large cities hastened the collapse of countless country banks. Having this danger in mind, we felt we had a fighting chance to overcome it if, first, our outside accounts were warned in advance of an imminent run, and, second, if they heard the news directly from us and not from press reports or from some other source. That Sunday night a telegram was drafted for delivery the first thing Monday morning to each of our outside accounts.

The telegram read:

THE OGDEN STATE BANK WILL NOT OPEN ITS DOORS THIS MONDAY MORNING. THIS WILL CAUSE SOME DEMANDS FOR WITHDRAWAL OF FUNDS ON OUR OWN BANKS. WE HAVE ANTICIPATED THIS FOR SOME TIME AND ARE FULLY PREPARED TO MEET ANY AND ALL DEMANDS WHICH ARE MADE UPON US. WE FELT IT DESIRABLE THAT YOU SHOULD GET THIS INFORMATION FIRST HAND.

Fortunately, there was not a single transfer of funds from among the accounts that received these telegrams.

While we made this bid to shore up the confidence of our commercial accounts, we realized that the greatest potential danger lay with the savings group. If they were thrown into panic by a run on our savings bank, the effect would not be self-limiting. Our national bank shared the same premises with our savings bank; a run on the latter would certainly be duplicated in a run on the former. In view of this, all officers and employees of the national and savings banks were contacted that Sunday and asked to be at work the next morning at eight o'clock.

When they assembled the next morning, I told them what they would have to face in a few hours. "If you want to keep this bank open," I said, "you must do your part. Go about your business as though nothing unusual was happening. Smile, be pleasant, talk about the weather, show no signs of panic. The main burden is going to fall on you boys in the savings department. Instead of the three windows we normally use, we are going to use all four of them today. They must be manned at all times because if any teller's or clerk's window in this bank closes for even a short time, that will stir up more panic. We'll have sandwiches brought in; no one can go out to lunch. We can't break this run today. The best we can do is slow it down. People are going to come here to close out their savings accounts. You are going to pay them. But you are going to pay them very slowly. It's the only chance we have to deal with the panic. You know a lot of depositors by sight, and in the past you did not have to look up their signatures, but today when they come here with their deposit books to close out their accounts, you are going to look up every signature card. And take your time about it. And one other thing: when you pay out, don't use any big bills. Pay out in fives and tens, and count slowly. Our object is to pay out a minimum today."

The tellers and clerks ably carried out their part of the act despite the crowd that surged through the doors of the bank the moment they were opened. Someone with an objective turn of mind could have learned much that day about the degree to which banking is understood by the community at large. I recall one depositor, for instance, who in great anxiety closed his savings account and with the currency given him promptly bought a cashier's check. He did not know that if the bank closed, his check would be worth no more than his deposit. But amidst the pushing and shoving inside the bank there was little time to reflect on matters of this sort.

At two o'clock that afternoon Bennett, my brother George, and I met to decide what should be done when the regular three-o'clock closing hour was reached. The crowd in the bank was as taut as it was dense. Some people had been waiting for hours to draw out their money. If we tried to close at three, there was no telling what might happen. But, as in all other things, a poverty of alternatives made us adopt the boldest one. We decided to make an exception of this one day and to remain open so long as there were people who wanted to get their money.

In the meantime a call had been put through to the Federal Reserve Bank in Salt Lake City to send currency to our Ogden banks as well as to all others in the First Security Corporation. The armored car that brought funds to us in Ogden arrived on the scene as in the movies when the Union cavalry charges in to save all from the Indians. The guards strode through the crush inside the bank, and all made way before them.

Of equal importance in the events of the day, Morgan Craft, the deputy manager of the Federal Reserve Bank in Salt Lake City, had been a passenger in the armored car that raced to Ogden. When he entered our bank, I grabbed his arm and led him through the crowd to a black and gold marble counter in the officers' section of the savings bank. Mounting the counter, I raised my hand and called for attention:

"Just a minute!"

There was instant silence.

"Just a minute!" I repeated. "I want to make an announcement. It appears that we are having some difficulty handling our depositors with the speed to which you are accustomed. Many of you have been in line for a considerable time. I notice a lot of pushing and shoving and irritation. I just wanted to tell you that instead of closing at the usual hour of three o'clock, we have decided to stay open just as long as there is anyone who desires to withdraw his deposit or make one. Therefore, you people who have just come in can return later this afternoon or evening if you wish. There is no justification for the excitement or the apparent panicky attitude on the part of some depositors. As all of you have seen, we have just had brought up from Salt Lake City a large amount of currency that will take care of all your requirements. There is plenty more where that came from." (This was true enough—but I didn't say we could get it.)

"And if you don't believe me," I continued, "I have here Mr. Morgan Craft, one of the officers of the Federal Reserve Bank, who has just come up in an armored car. Mr. Craft, say a few words to the folks."

I pulled him up to the top of the counter. He not only said a few words, but threw in one or two for extra measure.

"I just want to verify what Mr. Eccles has told you," he said. "I want to assure you that we have brought up a lot of currency and there is plenty more where that came from."

This, again, was perfectly true. But he didn't say the currency belonged to us. Nevertheless, the mood of the day was so unreasoning that men were heartened by words as meaningless as those which caused them fright. In a split instant the faces before me relaxed in relief. The edge in all voices seemed to vanish. Some people stepped out of line and left the bank. And a happy buzz replaced the waspish one heard earlier. The word was passed to the crowd outside the bank: "They are going to stay open. They are going to stay open."

But the danger had not yet been averted. There is another bank in Ogden, called the Commercial Security Bank, headed at that time by Harold Hemingway. Because of what had happened to the Ogden State Bank, the Commercial Security Bank was also experiencing a deadly run on that Monday. It suddenly occurred to me that if our banks remained open past three o'clock and Hemingway closed his at the usual hour, the contrast would lead to an unjust implication that the Commercial Security Bank was unsound. On Tuesday the run at Hemingway's bank would be even more severe. He would in all probability be forced to close his doors, and this in turn would intensify the run on our banks, which likewise might be irresistible. We had been competitors for business, but this was one time when either we had to hang together or we would hang separately.

I called Hemingway on the phone and told him that we were going to remain open as long past three o'clock as was necessary. I asked him to do the same. He told me he couldn't do that since he had very little currency left. Fortunately, the work of the officers of our banks in bringing in new commercial accounts at the beginning of the day had produced a situation where by three o'clock we had taken in nearly as much in the commercial bank as we had paid out in the savings bank. This, plus the money brought in from Salt Lake City, and the way our tellers did their work, enabled us to lend forty thousand dollars to Hemingway so that he could remain open beyond three o'clock. In this way the first day's storm was weathered. But we knew there was more trouble to come.

At the close of the day I called together the personnel of the banks for another conference.

"Now listen," I said. "A lot of people who've been at work will only hear about this run for the first time when they get home tonight. Tomorrow there will be the makings of another crush, and we are going to meet it by doing the opposite of what we did today. Instead of opening at ten, we are going to open at eight. Nobody is going to have to wait outside of the bank to start any sort of line. When people come in here, pay them very fast. Don't dawdle over signatures. Pay out the accounts in big bills. Above all, don't let any line form. It will mean a continuation of the panic."

This tactic was a homely application of how a compensatory economy worked. On Tuesday the amount we paid out exceeded that of the first day, but the important objective was reached. No lines formed to inspire a hysterical belief that the bank was in trouble. On Tuesday customers came into the doorway of the bank, looked furtively around the lobby, and, seeing that things were peaceful and serene, walked away. And that was the end of that run. I thanked God for the nerves I inherited from my father and mother.

In the fall and winter of 1931–2 it seemed the undercurrent of tension in banking operations had been eased. The marketing of crops brought in some money to the farmers and helped them meet part of the loans that were being called. At the same time a bill was introduced in Congress that provided for the creation of the Reconstruction Finance Corporation. This promised to be of help to hard-pressed banks. Thus it seemed that both debtors and creditors alike were in a better position than they had been in the summer.

The real trouble was yet to come.

In February 1932 I went to Boulder Dam to see how work there was progressing. The Utah Construction Company, whose presidency I had assumed a short while before, on the death of W. H. Wattis, had borrowed $1,000,000 from the Crocker First National Bank in San Francisco in order to participate as a one-fifth interest in building the dam. The sum was to be paid back in seven years, and the bank was committed to lend an additional $600,000 if it was needed.

Since I had negotiated the loan, I was naturally concerned over the success of the work at the dam. What I learned was very encouraging and came as a welcome relief from the banking atmosphere in which I had been living. The excellent progress made by the engineers and builders was achieved at a cost far below our original estimate. Thanks to them, I was assured not only that the loan to the Crocker Bank would be repaid, but that the Utah Construction Company would also make a handsome profit. And with this assurance I began what I thought would be a happy homeward journey.

On the train somewhere between Las Vegas and Ogden I was handed a telegram:

COME IMMEDIATELY TO THE FEDERAL RESERVE BANK IN SALT LAKE CITY.

It so happened that I had but one clean shirt with me. I continued on to Salt Lake City, where I found all its bank presidents assembled in the Federal Reserve Bank. The first words I heard crushed the optimism I gained at the site of the Boulder Dam. I heard that the Deseret Savings Bank in Salt Lake City was in very serious trouble. Its capital, surplus, and reserves were completely wiped out and there was a critical impairment of deposits. It was so far gone that it had exercised its right to require sixty-day withdrawal notices of its depositors. (Such notice is rarely required, it being the custom of banks to pay out savings funds on demand.) It was clear that the Deseret Savings Bank could not stay open unless a substantial sum of money was raised by its stockholders to cover losses. This was impossible under existing conditions.

But this was just one aspect of the crisis. The principal danger lay in a more sensitive quarter. Specifically, the Deseret Savings Bank shared the same premises with the Deseret National Bank, the latter being the oldest national bank in the state. Its founder and first president was Brigham Young. Its directors were among the best-known men in the area; some of them held cross-directorships in the affiliated savings bank. Thus the joint premises shared by the two banks and the prominence of the men who directed them fostered a not unnatural belief. It was that the two institutions were really a single bank owned by the Mormon Church. Consequently, when the savings bank required a sixty-day notice before funds could be withdrawn, it was rumored that the national bank was in trouble. The charge was not true. The national bank was solvent. Nevertheless, under these conditions, more and more depositors in the national bank withdrew their funds. Here there could be no sixty-day notice to act as a break. Payment was on demand. If the national bank failed, moreover, the whole of intermountain banking would be thrown into chaos; it carried the reserves of more country banks than did any other institution in the area. If these reserves were tied up, the country banks would close.

The great prestige enjoyed by the Deseret National Bank because of its age, origin, and directors would in itself extend the range of disaster. What confidence would the public have in any bank should failure hit even the one brought into being by the heroic Brigham Young and thought to be owned by the Mormon Church? Within Salt Lake City proper, a collapse of the Deseret banks would immediately affect two banks the First Security Corporation owned there. These were the National Copper Bank and the First Security Trust Company, which occupied joint premises two and a half blocks south of the Deseret banks. Disaster would leap that distance in a matter of minutes, and in all probability we, and every other bank in the city, would be rocked by it.

At that meeting in the Federal Reserve Bank I was among those who urged the representatives of the Mormon Church to take over the Deseret banks and thus prevent their collapse. Failing in this, I felt that the Walker Brothers Bank, the largest in Salt Lake City, should take them over. But it became evident, after meetings held over a period of several days, that no one would do anything. The bank representatives present at the meetings either were paralyzed by fear or felt they had a better chance to save their own institutions if they did nothing to save the imperiled ones. As for myself, while I had no desire to see our National Copper Bank take over the Deseret banks, once again a poverty of alternatives made a bold course imperative. I did not see how we could possibly escape an enveloping doom that would move inexorably from a collapse of the Deseret banks, especially the Deseret National Bank, to a collapse of our Salt Lake City banks, and then through all our other banks in the intermountain region.

With that uneasy conviction in mind, I put through a call to Bennett in Ogden, asking him to come to Salt Lake City with our attorney, Roy O. Thatcher, and to prepare for a siege. On their arrival I explained what had happened or was about to happen. For reasons already stated, I argued the need for our direct intervention in the affairs of the Deseret banks. They agreed that no other course was left to us.

We were given access to the last examination reports of the two Deseret banks with the idea of consolidating them with our Salt Lake City banks. After several days' work it became evident that, like the Ogden State Bank, the Deseret Savings Bank was too far gone to be resuscitated and would doom any institution that was linked to it. But as I have already said, the Deseret National Bank was solvent. Under the circumstances, it seemed best to isolate the two banks and to concentrate on an attempt to save the national bank, letting the savings bank close. This could be done by consolidating it with the National Copper Bank and moving it over the week-end into quarters occupied by the National Copper Bank. Here the merged banks would operate under a new name. The title would be the First National Bank of Salt Lake City, and for this purpose we would use the charter of the Deseret bank, since it was the oldest national bank charter in the state. We felt that only this arrangement would hold things together on Monday morning when news got around that the Deseret Savings Bank had failed.

As for the directors of the Deseret banks, their alternatives were clear-cut: they would have to accept our proposal or both their banks would close.

While they debated among themselves as to what they should do, the auditing staff of the First Security Corporation was alerted to do the work essential to carrying out the proposed merger. Had the auditors or our attorney, Thatcher, been without previous experience in effecting mergers and reorganizations—had they not beat the clock by their speed and skill—the whole plan would have collapsed. With such able assistance, however, both Bennett and I were free to do the work that fell to us. I handled the final negotiations and contracts with the directors of the Deseret National Bank while Bennett prepared the all-important press releases and communications.

Though the handwriting was on the wall, the directors of the Deseret bank hesitated to read it. Rather than accept the merger proposal, they were planning to close the savings bank and to keep the national bank open in the same quarters. It took the glaring light of a run Saturday morning to remove all resistance to our plans. That Saturday afternoon they agreed to the proposed merger. But this did not entirely ease the tension. The need remained to gain stockholders' approval.

To bring about a merger of two national banks, the legal prelude first calls for approval from the Comptroller of the Currency in Washington. This was readily forthcoming. The law also requires a four weeks' notice to stockholders of both banks, calling them to a special meeting to vote on the proposed merger. Furthermore, two thirds of the stockholders have to give their approval at such a meeting. But we had no time margin for all these steps; all we had was thirty-six hours. The stockholders of the Deseret National Bank were varied and scattered, and no meeting could be called to discuss the merger. All we could do was gain their written commitment that they would vote to ratify such a merger when a legal meeting was called. There was, of course, no problem of consent in the case of our own banks.

It is inconceivable to me that any political headquarters waiting for election returns has ever been subjected to so great a strain as the one we experienced while we waited for the written word of countless stockholders in widely separated places. It was not until eleven o'clock Sunday night that we held in our hands the required commitment representing two thirds of the stock.

In the meantime we proceeded with our preparations for future events. Armored cars were readied to move the money, securities, and books of the Deseret National Bank to the National Copper Bank. The police department was to furnish the guards and escorts. The staffs of the two banks were organized for the next day's work. There would be a teller from the Deseret bank standing side by side with one from the Copper bank so that the customers of the former institution would feel at home in a new setting. And above all, the all-important news story was prepared for readers at the Monday-morning breakfast table.

The largest newspaper in the intermountain region is the *Salt Lake City Tribune*. Bennett posted himself in its office and waited for word that we had received the necessary two-thirds support.

I've always had a warm regard for this paper. Not the least of the reasons why is the way its publisher, editors, and reporters bore themselves on that Sunday night. Though they normally set their presses rolling at ten in the evening, they held off until Bennett heard the word he was awaiting. The personnel of the *Tribune* understood that the fate of intermountain banks would depend to a large degree on how they handled the unfolding news story regarding the Deseret banks. The headline of their story, as well as the text, was written so as to act as a stabilizer on the public mood.

As I remember it, the headline read:

FIRST SECURITY CORPORATION TAKES OVER DESERET NATIONAL BANK AND MERGES IT WITH ITS AFFILIATE THE NATIONAL COPPER BANK.

Implied in these words and in the story underneath was the fact that the First Security Corporation was so strong in all its arms throughout the intermountain region that it could step in and take over the oldest and most conservative bank in the territory. We were in no way affected by the prospect of a thoroughgoing bank panic.

Not much!

While this story rolled off the presses, the funds, securities, and books of the Deseret National Bank were moved to the National Copper Bank. Here the auditing staff of the First Security Corporation finished the job of merging the books of the two institutions. This had to be done between midnight and the time the new, merged bank opened the next morning. At seven o'clock on that Monday morning, while I was seated in the National Copper Bank, the chief auditor of the First Security Corporation brought me the consolidated balance sheet. It was penny-perfect.

That done, I went to my hotel feeling absolutely certain there would be no run. I crawled into bed for my first decent sleep in a week. Though every other bank in town experienced a run —the one at the Zion Savings Bank, owned by the Mormon Church, lasting for three days—the newly merged institutions had no run, nor did any of our other banks in the First Security Corporation. In the late afternoon of that Monday, when it was evident that the First Security Corporation had weathered the crisis, I left for Ogden. Having saved the shirts of many people as a result of a week's effort, I at last changed my own!

(Sometime later on, our consolidated bank took over the closed Deseret Savings Bank to liquidate its assets and to pay off its depositors. After a close appraisal of its assets we set up a credit in our bank representing sixty per cent of each customer's deposit in the Deseret Savings Bank. The liquidation of the assets turned out so well during the next few years that depositors of that bank ultimately regained more than ninety per cent of their savings.)

The result of the merger and the way it was announced had an effect throughout the intermountain region that exceeded our greatest expectations. Thanks to the fact that we had come through the tension in Salt Lake City and elsewhere without a run, the confidence in the banks of the First Security Corporation increased enormously. It was this confidence, in fact, joined to the lessons we had learned in Ogden and Salt Lake City, that enabled us to deal with danger as it showed its face elsewhere.

In August 1932, for instance, the danger area shifted from Utah to one whose hub was Boise, Idaho. There had been three banks in this city. One of them, the Boise City National, was owned locally and had no affiliates. It closed in 1931. Another bank was the First Security Bank, which we owned. And then there was the Idaho First National and a number of affiliated banks owned by a group that Crawford Moore headed. It was nearly equal in size to the Idaho banks owned by the First Security Corporation.

In August 1932 Moore asked the RFC to do for him what it had done for the Dawes bank in Chicago. That is, he offered to keep his banks open on condition that the Reconstruction Finance Corporation would agree to advance whatever might be necessary to meet depositor demands. When the RFC refused to make that commitment, Moore closed every one of his banks over a week-end. This left our bank the only one in Boise and three other smaller towns where we both had banks. We had only last-minute notice of what was to happen.

With the collapse of Moore's organization, the pressure on the First Security Bank of Boise in particular was of a head-splitting sort. We drew on resources from the whole of our banking structure to get the needed currency to the point of extreme pressure. And we were helped in this by the audacity of Lynn Driscoll, the bank's president. Capitalizing on the prestige won by the First Security Corporation during bank crises in other places, Driscoll put a huge banner on the sidewalk outside of our Boise Bank. It read:

YOUR MONEY IS HERE FOR YOU. COME AND GET IT.

This banner, joined to the fact that however much money the depositors withdrew, the bank still seemed able to pay out funds in a bland and unruffled way, at last broke the back of the panic. After a run that lasted two days the depositors began to put their money back into the bank.

We kept our banks open through these and other crises. But to do so, we had to adopt a rough and distasteful credit and collection policy. Living with oneself was not a pleasant experience under those circumstances.

In whatever quiet moments were available I began to wonder whether the conduct of bankers like myself in depression times was a wise one. Were we not all contributing our bit to the worsening of matters by the mere act of trying to keep liquid under the economic pressures of deflation? By forcing the liquidation of loans and securities to meet the demands of depositors, were we not helping to drive prices down and thereby making it increasingly difficult for our debtors to pay back what they had borrowed from us? By our policies of credit stringency in a time of drastic deflation, were we not throwing a double loop around the throat of an economy that was already gasping for breath? In a time of deflation would not the rational policy be one of monetary ease, as against the policy of ease in boom times? But how could we as individual bankers pursue such policies?

The answer was that we were powerless as individuals. What we did each of us had to do if we wanted to keep our individual banks open. Seeking individual salvation, we were contributing to collective ruin. Still, if as individuals we were forced to act as we did, could anyone provide a basis on which we could pursue policies in the public interest without risk of self-destruction because we wanted to serve that interest?

As I looked to the business and financial leaders to answer this central question, their stock reply was that a deflation in values, and a scaling down of the debt structure to meet existing price levels, would in time create a self-corrective force. That is to say, when prices were low, and past debts had been met by some means or other, the condition would lure "natural new investments" by men who still had money and credit and whose revived activity would produce an upswing in the economy. This, in fact, had occurred in some form or other in the forty-odd major and minor depressions or panics the nation had previously experienced. And in almost all of those cases it was the frontier that offered itself as the area where "natural new investments" would be made. In addition to the geographical frontier that would lend itself for this purpose, it was said (and is now) that there exists a great technological frontier that would call forth the investment of large amounts of capital as cheap labor and materials became available.

But would it do so? Those who held these views overlooked the fact that as far as the geographical frontier was concerned, it had largely ceased to exist. Its development in the first instance was based on the availability of free or very cheap land, an abundance of raw materials, and cheap immigrant labor to exploit. But none of these elements was present in the thirties. As far as the technological frontier was concerned, there was another oversight. It was not understood that developments in this field take place in a climate of high prosperity, when the purchasing power of the masses increases their demands for a higher standard of living and enables them to purchase more than their bare wants. In the America of the thirties what hope was there for developments on the technological frontier when millions of our people hadn't enough purchasing power for even their barest needs?

We had changed, moreover, from a great debtor to a great creditor nation. Before the First World War we had to have an export surplus. We expected the rest of the world to provide a market for the things we shipped abroad so that we could pay for and service our obligations held in foreign quarters. But when we became a creditor nation, we had to import more than we sold or else to extend further credits to the rest of the world so that foreign obligations held here could be serviced or paid. Because of its adverse effect on our export position, our new role as a creditor nation had a serious deflationary influence on our economy; our former role as a debtor nation had an opposite effect. I was to elaborate this point more fully in a subsequent appearance before the Senate Finance Committee.

From the point of view of the domestic producer, what need was there for further production when the produce of existing mines, factories, and farms could not be absorbed under circumstances when consumers as a whole did not have the means to buy the things the existing economic plant could produce? What need was there for new capital investments of the sort that in times past had reflated the nation's economy following a drastic liquidation of values? Furthermore, if the liquidation of debts continued at the rate then current, what assurance was there that the influences radiating from a marking down of creditor claims would not result in a further decline of prices? When, if ever, would conditions be favorable for "natural new investments"?

In other words, after we had reduced all debts through the long and painful deflationary process of receiverships, foreclosures, and bankruptcies—which is the principal method by which these reductions can come about under capitalism during a serious deflation—what reason had we to expect that prices would not decline further by a like amount? If all debts could be written down overnight in line with economic necessities, as is possible in a country like Russia, then the problem of maintaining employment would be much simpler. But under capitalist methods a radical scaling down of debts would clearly prolong the depression. Under capitalism it would require the further liquidation of banks, insurance companies, and all credit institutions. It would increase the hoarding of money, decrease its velocity, freeze credit, and make for endless deflation.

And so the question presented itself again: what was to be done?

"Do nothing," some business and financial leaders replied. They argued again that a depression was the scientific operation of economic laws that were God-given and not man-made. They could not be interfered with. Depressions were phenomena like the one described in the Biblical story of Joseph and the seven kine, fat and lean. The leaders said we were in the seven lean years that must inevitably follow the seven full years. And they further explained that we were in the lean years because we had been spendthrifts and wastrels in the roaring twenties. We had wasted what we earned instead of saving it. We had enormously inflated values. But in time we would sober up and the economy would right itself through the action of men who had been prudent and thrifty all along, who had saved their money and at the right time would reinvest it in new production. Then the famine would end.

But was this true? Did economics itself proceed on the basis of God-given laws? Was human interference with them equivalent to blasphemy? My own reaction was that all such talk was naïve. Economics is merely the production and distribution of wealth brought about by the application of labor to raw materials. It is all man-made and has developed by the application of the human intellect to problems that presented themselves from the days of the cave men to our own. The moment the production and distribution of wealth moved beyond a hermit's cave and affected two or more people, economics became artificial in character, in the sense that it was subjected at once to man-made rules and regulations, which were changed constantly in accordance with the needs of a dynamic society.

What passed for the God-given aspect in the operation of economics was nothing more than a determination of this or that interest, specially favored by the status quo, to resist any new rules that might be to their disadvantage. It became apparent to me, as a capitalist, that if I lent myself to this sort of action and resisted any change designed to benefit all the people, I could be consumed by the poisons of social lag I had helped create. I saw at this time, moreover, that men with great economic power had an undue influence in making the rules of the economic game, in shaping the actions of government that enforced those rules, and in conditioning the attitude taken by people as a whole toward those rules. After I had lost faith in my business heroes, I concluded that I and everyone else had an equal right to share in the process by which economic rules are made and changed.

As for the second aspect of the reassurance I was given, was it true that we had been wastrels in the twenties?

Those who in the thirties suggested that this was so were the very same men who in the twenties announced on all sides that there could never be another depression. And they were the same men who in the twenties fed the public with the sort of economic ideas they later called "profligate." The fact is that we were not "profligate" in the twenties. We did not as a nation consume more than we produced. Far from it. We were excessively thrifty.

The supporting evidence, the meaning of which I grasped for the first time, has been given in part already. For instance, there was a decline of ten per cent in postwar prices, as shown by the cost-of-living index from the end of 1921 to 1929. As for the inflation in the stock market, this was financed mainly out of the surplus funds accumulated during the twenties by corporations or wealthy individuals. They supplied most of the credit that enabled the public to purchase on a low-margin basis the inflated stocks that many of these same sources were offering for sale.

But quite apart from these incidental aspects of saving, the full proof of our thriftiness lay in other directions. In the twenties we replaced by a large margin every physical loss we had suffered in the war. We more than balanced a four-billion-dollar annual budget. We paid off seven billion dollars in government debts, made four major reductions in income taxes on the eve of elections, extended ten billion dollars of credit to foreign countries in the form of surplus production shipped abroad. In addition to all this, we added approximately one hundred billion dollars in physical properties to our national wealth.

This last was represented in the form of millions of new homes and apartment houses, thousands of new office buildings, hotels, and other commercial structures. We laid down a cross-country network of new roads to serve the automobiles that were rolling off the assembly lines of an automobile industry that had more than doubled its output. We vastly expanded our entire public-utility industry, and we greatly increased our oil-production and distribution system to supply the growth of the automobile industry. In addition, our religious, educational, and social institutions as well as our cities and state governments greatly improved or expanded their facilities. This vast effort was not the work of a profligate economy. It was the result of an economy that in the aggregate was, if anything, too thrifty.

In a young and expanding economy, such as our fathers faced in their day, it was quite proper to withhold larger portions of currently produced wealth—to save by restricting immediate consumption, as my own father did on his work ventures—so as to provide the tools for future progress. But I began to see that we had reached a stage where further advances in the national income and in our standard of living, even the maintenance of the existing standard, depended on finding an adequate outlet for the nation's savings. For while savings that are invested in new enterprises are beneficial not only to savers but also to the entire economy, savings that find no outlet and accumulate as idle or hoarded funds interrupt the flow of national income and result in a depression.

As mass production has to be accompanied by mass consumption, mass consumption, in turn, implies a distribution of wealth —not of existing wealth, but of wealth as it is currently produced —to provide men with buying power equal to the amount of goods and services offered by the nation's economic machinery. Instead of achieving that kind of distribution, a giant suction pump had by 1929–30 drawn into a few hands an increasing portion of currently produced wealth. This served them as capital accumulations. But by taking purchasing power out of the hands of mass consumers, the savers denied to themselves the kind of effective demand for their products that would justify a reinvestment of their capital accumulations in new plants. In consequence, as in a poker game where the chips were concentrated in fewer and fewer hands, the other fellows could stay in the game only by borrowing. When their credit ran out, the game stopped.

That is what happened to us in the twenties. We sustained high levels of employment in that period with the aid of an exceptional expansion of debt outside of the banking system. This debt was provided by the large growth of business savings as well as savings by individuals, particularly in the upper-income groups where taxes were relatively low. Private debt outside of the banking system increased about fifty per cent. This debt, which was at high interest rates, largely took the form of mortgage debt on housing, office, and hotel structures, consumer installment debt, brokers' loans, and foreign debt. The stimulation to spending by debt-creation of this sort was short-lived and could not be counted on to sustain high levels of employment for long periods of time. Had there been a better distribution of the current income from the national product—in other words, had there been less savings by business and the higher-income groups and more income in the lower groups—we should have had far greater stability in our economy. Had the six billion dollars, for instance, that were loaned by corporations and wealthy individuals for stock-market speculation been distributed to the public as lower prices or higher wages and with less profits to the corporations and the well-to-do, it would have prevented or greatly moderated the economic collapse that began at the end of 1929.

The time came when there were no more poker chips to be loaned on credit. Debtors thereupon were forced to curtail their consumption in an effort to create a margin that could be applied to the reduction of outstanding debts. This naturally reduced the demand for goods of all kinds and brought on what seemed to be overproduction, but was in reality underconsumption when judged in terms of the real world instead of the money world. This, in turn, brought about a fall in prices and employment.

Unemployment further decreased the consumption of goods, which further increased unemployment, thus closing the circle in a continuing decline of prices. Earnings began to disappear, requiring economies of all kinds in the wages, salaries, and time of those employed. And thus again the vicious circle of deflation was closed until one third of the entire working population was unemployed, with our national income reduced by fifty per cent, and with the aggregate debt burden greater than ever before, not in dollars, but measured by current values and income that represented the ability to pay. Fixed charges, such as taxes, railroad and other utility rates, insurance and interest charges, clung close to the 1929 level and required such a portion of the national income to meet them that the amount left for consumption of goods was not sufficient to support the population.

This, then, was my reading of what brought on the depression. How could we get out of it?

"Balance the federal budget and restore confidence," the leaders of the business community replied. They argued that a balanced budget, achieved by cutting down on government expenses, was of importance for several reasons. First, the nation's credit depended on the credit of the government. Second, if the government ran into debt and its credit was imperiled, it would "shake the confidence" of businessmen and they would hesitate to make the new investments that were needed to restore the national economy. Third, if the government continued to spend money at the pace then current, it could only meet its outlays either by borrowing money or by increased taxation.

Increased borrowing would shake confidence. Increased taxation would do the same, since an increase in taxation in an economy already strained would kill off any inducement to businessmen to take the necessary risk of investing new money in productive enterprises.

What sense did this make?

None at all, I concluded. Confidence itself is not a cause. It is the effect of things already in motion. And what was in motion was a condition that would discourage any investor. He could look about him and see on all sides an overaccumulation of capital facilities. What passed as a "lack of confidence" was really nothing more than an investor's recognition of the fact that new plant facilities were not needed at that time; that the existing plant was overbuilt when judged in terms of the effective demand consumers could make on the output of that plant.

As for balancing the budget, this, too, is not a prime mover. An unbalanced budget, I began to argue, was not an independent condition created by a government decision. It reflected a deep-seated unbalance in the economy, and it was the economy that first had to be balanced, and its governmental bookkeeping effects secondarily. *A policy of adequate governmental outlays at a time when private enterprise is curtailing its expenditures does not reflect a preference for an unbalanced budget. It merely reflects a desire and the need to put idle men, money, and material to work. As they are put to work, and as private enterprise is stimulated to absorb the unemployed, the budget can and should be brought into balance, to offset the danger of a boom on the upswing, just as an unbalanced budget could help counteract a depression on a downswing. Timing and method are the essence of the problem in either case. As to methods, I had in mind those which would generate as rapidly as possible a maximum amount of private expenditures with a minimum amount of public expenditures.*

In this connection, I also argued that it was misleading to talk about the federal government as though it were an individual, a family, a corporation, a city, or a state. All parties other than the federal government are obliged to play according to the established rules of the private financial game. Unless their outgo balances their income, they ultimately go broke. But the federal government is in a different category. To begin with, it can make and change the rules of the game according to the needs of the nation. It alone has the power to issue money and credit and thus influence the price structure. Through its power of taxation it has the means to control the accumulation and distribution of wealth-production. And, finally, it has the power to mobilize the resources of the whole nation for the benefit of all the people in it. Neither an individual, a family, a corporation nor a single state of the Union has any one of these powers.

I noted it was strange that during the First World War, when there was no depression, we did not insist on balancing the budget by sufficient taxation of the surplus income. Instead we used government credit to the extent of twenty-six billion dollars. Theoretically this should not have been necessary, because the nation as a whole did not use goods and services in excess of what we produced. Why was it, I asked, that we heard nothing of the necessity of balancing the federal budget in order to maintain the government credit when we had a deficit of nine billion dollars in 1918 and thirteen billion in 1919? Why was it that there was no unemployment at that time? Why was it that with one billion dollars less gold than we had in the 1930 period, we were not concerned about our gold standard?

Was it consistent for political and financial leadership to demand a balanced budget in the depths of the depression; to balance it by inaugurating a general sales tax, which would further reduce the buying power of the people? Was it necessary to conserve government credit to the point of providing a starvation existence for millions of our people? Was the demand for government economy consistent with the silence of these same voices during the war when they profited by an unbalanced budget? Was the present "lack of confidence" in any way due to an unbalanced budget?

Assuming it was not, what, then, would produce the sort of economic situation that could yield profits that could be taxed to balance the budget?

One answer, spoken in a loud voice, called for monetary inflation to help raise the price level. Specifically, what was being demanded was the establishment of a price for silver in relationship to gold under a system of bimetallism, and the devaluation of the dollar in terms of gold by increasing the price of gold. It was said that these measures would raise deflated prices, enable debtors to pay off what they owed, invite new investments, and thereby increase employment, in an endless chain of benefits.

But would they?

My answer was that they would not. They would have little effect upon the purchasing power of the nation, which alone would increase demand and raise prices. They would not create jobs or in any way put money in the hands of those who didn't have any. In case foreigners sold their gold or silver to us, it would give them more dollars with which to buy American goods. This amount of gold and silver sold to us even at increased prices would have only a negligible effect upon our economy. It would, admittedly, increase bank reserves, and therefore the basis for bank as well as Federal Reserve credit. But this in turn would be of little help, since the amount of gold currently held by the Federal Reserve was already in excess of that needed to meet the demands for credit by the banking system.

Having rejected all the explanations accounting for the causes of the depression, and having likewise rejected all the methods I heard proposed for getting us out of the depression, I was brought face to face with this proposition: that *the only way we could get out of the depression was through government action in placing purchasing power in the hands of people who were in need of it.*

I embraced that proposition, but related it to a larger credo I began to formulate at this time. It asserted that:

The main concern in our economy is to assure maximum employment to all its members. In achieving this end, we must, as long as we adhere to capitalism, place our main reliance on private enterprise. Government can and should insist on minimum standards of decency in the mode and conditions of life for its people. Within the limits of the nation's resources, it can and should insist on a minimum income for its families; a minimum age for schooling and employment; a maximum age for retirement; decent and safe conditions of work; increasing benefits for labor as productivity increases; adequate protection and security for the aged and unemployed; and adequate educational, health, and recreational facilities. These standards of honesty and decency can and should be set by the government. But in the final analysis they must, under capitalism, be enforced and supported by the productivity of the business community itself.

Government, under capitalism, cannot and should not do more than care for those individuals left unprovided for, owing to a failure in the private-enterprise system. It should undertake this task in a way that would not displace or compete with private activity. But it can put idle men, idle funds, idle productive facilities, and our unused material resources to work in socially useful ways. It can provide roads, bridges, public housing, educational facilities, hospitals, and many other necessities of modern civilization that private enterprise does not and cannot be expected to provide—as Adam Smith noted in the passage quoted at the opening of the first chapter. Efforts of this sort are the essence of conservation. And, again, according to the maxim of Adam Smith, they should be pursued in increased or lesser degree according to the greater or lesser extent to which private activity absorbs the unemployed and uses the available money, credit, and material resources as it pursues its own ends.

This kind of effort has its sanction in humanitarian reasons. But to the hardheaded it also has its sanction in sound economic reasons. For it is the only way by which we can maintain an equilibrium between the goods and services we are able to produce and effective demand for those goods, represented in mass purchasing power. The federal government alone has the taxing power and the borrowing power to redirect unused savings back into channels where they will fan out and provide the mass purchasing power on which an economy in our advanced technological state depends for its health.

As the pursuit of money had been the organizing principle of my life for almost twenty years, the pursuit of an idea of economic balance now replaced it. Wherever possible I preached the doctrine I formulated over a period of months. The character of the speeches I gave bore no trace of the sentiments expressed three years before. Thus, on March 26, 1931, I told the Bank Management Conference in Salt Lake City:

> The solution of the depression is not an easy one and will not correct itself as some people like to believe. If it were simply a condition of psychology which existed only in the minds of people and

due only to a state of nerves, or if all that was needed was the optimism which has been pumped into the air in vast quantities by political and business leaders for more than a year, then our problem would be much simpler. But industrial depressions cannot be cured by any such shallow remedy. The causes lie too deep and are too complex and widespread to be removed easily. Before we can begin to think in terms of permanent cure and before we can be assured that whatever we accomplish is more than temporary, it will be necessary for us to face more frankly than we have some fundamental economic facts upon which our modern business structure is based.

And again, in June 1932, before the Utah State Bankers Convention:

Our difficulties are not material; they are due, in my opinion, to the failure of financial and political leadership in the world, and particularly in America. They are due to a failure to be able to use the superabundance of wealth which we have been able to produce. We have failed, in the development of our political and financial system, to keep pace with our economic and scientific development.

I believe, contrary to the opinion of most people, that the depression in our own country was primarily brought about by our capital accumulation getting out of balance in relationship to our consumption ability. Our depression was not brought about as a result of extravagance. It was not brought about as a result of high taxation. We did not consume as a nation more than we produced. We consumed far less than we produced. The difficulty is that we were not sufficiently extravagant as a nation.

The theory of hard work and thrift as a means of pulling us out of the depression is unsound economically. True hard work means more production, but thrift and economy mean less consumption. Now reconcile those two forces, will you?

There is only one agency in my opinion that can turn the cycle upward and that is the government. The government, if it is worthy of the support, the loyalty, and the patriotism of its citizens, must so regulate, through its power of taxation, through its power over the control of money and credit, and hence its volume and use, the economic structure as to give men who are able, worthy, and willing to work, the opportunity to work, and to guarantee to them sustenance for their families and protection against want and destitution. If this is not done, the country cannot expect to get the support and loyalty that makes for a good, sound, safe government.

Spoken by anyone else, remarks of this sort might have been followed by a riot. But the bankers could not very well throw me out. They could not surmount the fact that though I talked like a dangerous radical, and though I defied all the canons taught by our fathers, the banking organization I headed successfully overcame a series of crises caused, in some instances, by the failures of other banks.

Some of the bankers nodded their heads in agreement when one among them said: "Eccles is like a poker-player. He plays tight and talks loose." Others shook their heads sadly and repeated what a president of a Western railroad said. "Poor Eccles," he confided to a friend, "he must have had so terrible a time with his banks that he is losing his mind."

From within my own organization there were similar reactions. One day even my close associate E. G. Bennett came to me and said: "All of us know you are overwrought by the general economic situation. But you should also know that some of the members of the board of directors are deeply disturbed by the views you are expressing. They think you are hurting business. And they suggest that in the future you should be much more careful in what you say. You should avoid giving the impression you think all is not well in our economy, because it might create a lack of confidence in our banking organization."

To this I replied: "The people are not so dumb that they don't know something is radically wrong with our economy. And they expect banking leadership to have some ideas of what ought to be done. If, however, the directors of our banking organization feel that I'm a liability—if being president of this company means that I shall have to think and talk as other bankers are doing, rather than express my own views—then the board of directors better get a new president."

But there were other business and professional men in the area who raised no objections to what I had begun to say. Included in this group were Robert Hinckley, Abe Glassman, Darill Greenwell, and Dean Brimhall. (I was related to Dean through his marriage with my half-sister. He was the grandson of a famed Mormon diplomat whose code in dealing with the Red men of the American plains can still be studied with profit by our diplomats who have to deal with the Red men behind the Iron Curtain.) These and a few others had organized themselves under the name of "the Friedenkers" to signify the free-thinking atmosphere of their talks. But the name was dropped soon after the townspeople changed it to read "Free-drinkers."

The accusation implied in this name was not true, though the men who came to the bimonthly meetings of the group had good reason to seek some sort of escape from their troubles. In any case, I was invited to join them on several occasions, and, doing so, repeated what I had said elsewhere about the causes and cures of the depression. The result was that many members of the group seemed anxious to have me spread my wings a bit and argue my case in quarters where ultimate decisions are made.

It so happened that in his capacity as a regent of the University of Utah Robert Hinckley took an active hand in the direction of the Chautauqua-type lecture series sponsored by the university. On two occasions when there were speakers on the program who talked on economic problems, Hinckley invited me down from Ogden to Salt Lake City to attend the lectures as his guest. In this way I first met Paul H. Douglas, then of the University of Chicago and subsequently the exceptionally able United States Senator from Illinois.

In February 1933 I met a second speaker, Stuart Chase, who had been scheduled to speak to a large group of businessmen at the Hotel Utah, in addition to his evening address at the University. At the noonday luncheon I attended, I was placed in a position where I took over another man's audience, though on this occasion, unlike those in my missionary days in Scotland, I did so involuntarily. What happened was a chance event, yet it entered into the web of things that stretched from Utah to a place in the Roosevelt Administration.

While poking at the remains of my dessert, I saw Hinckley rise at the speaker's table and heard him say that Chase had been stalled by a snowstorm and would be delayed in getting to the luncheon. He would therefore introduce him before his arrival and thereby leave an extra margin of time for the address. After a five-minute introduction Hinckley ran out of words and confessed that he had nothing further to say about the speaker. But, he added, his good friend Marriner Eccles was in the audience and he had heard him express some strong views about the current economic situation. He would ask him to take over until Chase arrived.

There was perfunctory applause along with a sigh of resignation. There was nothing I could do but rise and talk. This I did, my theme being the same one I had repeated over and over again in other quarters. After about twenty minutes of this, and just about the time when I'd gained a good running start, a stir at the door told me that Stuart Chase was on the scene. So I promptly sat down. As the period set aside for his address was about over, Chase spoke but a very few words. Afterward, since he had missed his lunch, Hinckley invited me and several other men to join the guest at a table in the restaurant of the hotel. In this way I met Stuart Chase for the first time.

We were no sooner seated than I began to ply him with questions about the "brain trusters," like Tugwell, Moley, and Adolf Berle, whom Roosevelt had gathered around him. It developed that the only one of the trio known to Chase was Rexford Tugwell. Then, perhaps to halt the flow of my questions, he turned to me and said:

"All right, now, supposing you had a job in Washington, what would you do specifically to achieve recovery? You tell me while I'm eating."

This was an open invitation to deliver to him the text of my speech. When I had finished, he was kind enough to remark that I had carried the analysis and action program farther along than had he. Then he said: "Why not get yourself a larger audience?"

Hinckley cut in to observe that I was scheduled to be in Washington to appear before a Senate committee later in the month.

"Well," said Chase, "in that event, why don't you go up to New York and see Rex Tugwell and have a talk with him about the things you've been telling me? I'll write him a letter saying you are coming to see him."

I agreed to make a further trip up to New York, to the financial center of the East, following my trip to Washington, which was then the center of paralysis.