## 3. Conversation in a Booth

REXFORD TUGWELL was delayed at the dentist's and it was noon when he appeared in his office for my appointment. The telegram Stuart Chase had sent beforehand won a friendly reception and an invitation to lunch in a drugstore booth. The setting of food and pills was appropriate to the talk we had about the nation's ills.

As I recall what was said, it seemed that Tugwell had not yet brought himself abreast of the broad conceptions then held by a Columbia colleague, Adolf A. Berle. That is to say, he had not yet fully associated himself with Berle's theories regarding the way money, credit, and fiscal policy could be used by the government in its task of economic revival. Through a fault of memory, I may do Tugwell an injustice in asserting this, which would be unfortunate since I was to be the beneficiary of his friendship; but the tenor of his remarks, as I remember them, indicated his latent fear that the system of private enterprise had outdated itself and that governmental control of the whole economic plant in an immediate and direct way might be necessary.

Tugwell's gloom was not a mere verbal throb of his jaw following his session with the dentist. By the time of my meeting with him, a bank moratorium first declared in Louisiana on February 4, and thereafter in Michigan ten days later, had been duplicated in almost half of the states in the Union. The exact figures were not available at that time, but we now know that in the period between the beginning of 1930 and March 3, 1933, 5,505 banks, with deposits of $3,432,000,000, closed their doors to the public. Not even the best efforts put forth by the Reconstruction Finance Corporation had succeeded in reversing the tide of deflation and collapse. In fact, while in New York, I had phoned my associates in Utah to alert them to the prospect of a national bank holiday.

The banking structure could not withstand the pace of withdrawals then current. It was clear that nothing could be or would be done to stop the final collapse. As is now known, from February 1, 1933 to March 4, 1933 the money outside of banks had increased by $1,830,000,000, representing $1,430,000,000 in Federal Reserve notes and $320,000,000 in gold and gold certificates. At the same time foreign governments and foreign depositors withdrew $300,000,000 in gold earmarked for their accounts, two thirds of all withdrawals being concentrated in the week before the inauguration. By Inauguration Day nearly every bank in the land had been either closed or placed under restrictions by state proclamations. In a sense the Presidential order of March 6, 1933 proclaiming a national bank holiday merely ratified an existing state of affairs.

In the course of my lunch with Tugwell, I gave him a copy of the statement I had made in Washington. As he read the text, he expressed surprise that a banker could urge a program of logical radicalism. But other than the compliment implied in this reaction, I thought my meeting with him, while pleasant, was fruitless. I was mistaken in this belief. I was to hear from him again six months later when, after a synthetic spurt in recovery, the cycle of deflation began all over again and there was no Herbert Hoover who could be blamed for it.

On leaving Tugwell, I had another call to make in New York. George Dern, the ex-Governor of Utah, who was to be the Secretary of War in the new Administration, was then at the Commodore Hotel, readying himself for the inauguration in Washington. Dern was a director of our two Salt Lake City banks. I had been chairman of his State Committee on Unemployment Relief. We could therefore speak freely to each other about creditors *and* debtors, producers *and* consumers, and the need not only to check *deflation* but for *reflationary* measures as well. The management of the nation's economy was not his affair, as Secretary of War, though the War Department under his direction later provided many of the projects on which Work Projects Administration funds were spent. He was much interested in what I had to say, and when I gave him my statement before the Finance Committee, he assured me it would be brought to the eyes of interested parties in Washington.

With this final job of missionary work behind me, I sped back to Utah.

A few days later the President's Inaugural Address, like his earlier campaign speeches, continued to show a will for resolute action. As such it was a brilliant psychological stroke, equal in that hour to Churchill's best in England's "finest hour." But the assertion: "The only thing we have to fear is fear itself," could not of itself check the causes of fear, any more than Churchill's famous passage beginning with the words: "We shall fight on the beaches," could in itself become the steel, fire, and dynamite that could keep the Nazis at bay.

It is said that after Churchill concluded his address on that occasion, Anthony Eden leaned over and whispered to a colleague in the House of Commons: "Fight them with what? Broken bottles?" And the same question: "With what?" applied to the task of fighting the physical causes that in the America of 1933 generated "nameless unreasoning, unjustified terror which paralyzes needed efforts to convert retreat into advance."

The measures taken by Roosevelt to check the collapse of the banking system, to coax or force hoarded currency, certificates, silver, and gold back into the banks, and to bar foreign withdrawals of gold and silver were all successful in attaining their objectives. Within a single month, money outside the banks declined by about one and a quarter billion dollars. Evidence that the greater part of these funds had been hoarded was found in the fact that the most of the paper currency turned back into the banks after March was in the largest denominations, rarely used in day-to-day transactions. Also, within a two-week period

$370 million in gold coin and gold certificates was returned to the Reserve banks and to the Treasury, and an added $260 million was returned in the last part of March. Moreover, during the first three days after the banking holiday, about seventy-six per cent of all member banks of the Federal Reserve System were opened, and an added seventy-two per cent of all nonmember banks were opened by the early part of April.

But the formula that checked the bank collapse had no sooner been laid down than Roosevelt, on March 10, asked Congress to give him authority to make drastic economies in government. The economic philosophy behind this request was the same as the one advanced by him in his campaign speeches, and by all the business leaders before the Senate Finance Committee in February 1933.

As the message of March 10 explained matters, the deficits run by the government in the three preceding years had contributed to the recent collapse of the banking structure, had accentuated the stagnation in the economic life of the people, and had added to the ranks of the unemployed. National recovery, the President explained, depended on strict government economy and a balancing of the federal budget.

The indications of where cuts would be made pointed to the normal administrative functions of the government. But under the authority granted him by this measure, Roosevelt also ordered a halt to the public-works program begun by Hoover. The naked, rusting girders of the Department of Commerce Building in Washington stood for months as a token of Roosevelt's resolve to balance the budget.