4. The Second Pit

WHILE NEWSPAPERS praised Roosevelt's budget-balancing message of March 10, my heart sank when I read what he said; for it seemed to me in Utah that his text meant that our economic affairs, guided by this philosophy, were bound to get worse. I find in my files a circular letter I wrote for distribution at this time among my associates, copies of which I sent to Rexford Tugwell and to Senator Robert La Follette. Its opening lines read:

> Referring to the manner in which our new administration is handling the present financial crisis, it seems to me that if the proposed policy is carried out, it can only result in further drastic deflation, decrease in buying power and greater unemployment.

To this Senator La Follette replied in agreement:

> I am devoting such energy and using such contacts as I have in an effort to convince the administration of the absolute necessity of an adequate program and of its being launched as speedily as possible. Time is the most important factor in the situation just now. Whether they realize it or not, the economy bill has launched an engine of deflation which in my humble judgment will create a crisis in the near future unless a program is launched to counteract it.

The emergency banking legislation admittedly saved the banking system and had temporarily re-established hope and confidence. The Emergency Farm Mortgage Act and the Home Owners' Loan Act, which was passed later, greatly helped not only the mortgage debtors but their creditors as well. Yet these measures did not deal with the basic causes of economic collapse; they dealt only with effects. They temporarily checked a further decline. They did not create the purchasing power needed to stimulate production and thereby put the unemployed to work, and in the absence of an increase in purchasing power, no restoration of confidence based on a promise to balance the budget would take place. Employers would not hire men to produce goods and services that couldn't be sold. Government deficit spending financed largely by the banks was needed on a vast scale if the millions of unemployed men were again to find work and the idle factories fully utilized.

Apart from the management of my private affairs, I was at this time chairman of the Utah Committee on Relief, as I've said earlier. The day-to-day operations of the committee were in the hands of Robert Hinckley, who was to become its full-time manager. From our grass-roots observation post I failed to see where a balanced budget would help us in our task. Locally we had strained private giving to the limit. We could only give inadequate care to the most destitute cases. We could not put people to work.

As a measure of relief from what everyone faced, the Reconstruction Finance Corporation was authorized to make available for relief purposes, upon application by the states, a sum of money to be deducted from federal road funds when they were later appropriated by Congress and allocated to the states. Out in Utah, Robert Hinckley and I felt that the funds the RFC made available would be only a drop in the bucket in comparison to the sums of money that would have to be forthcoming. Moreover, the funds would never be paid back, or taken into account, or deducted from the road funds. If this was the case, then we should get all the funds the RFC was willing to let us have. Even these would be entirely inadequate, however closely we rationed them to the people who needed help. Actions based on this assumption brought us some criticism from Wilson McCarthy, one of the directors of the RFC. McCarthy was a citizen of Utah, an associate in my banking organization, and a close personal friend of both Hinckley and me. In the course of a tour of Western states made in connection with his official duties, he met with the State Relief Committee in Salt Lake City. He told us at this time that it was somewhat embarrassing for him to have his home state use more per capita of RFC relief money than any other state in the Union.

My reply was that we had no sense of guilt whatever. All that we got was not nearly enough. Moreover, I was opposed to the philosophy of holding relief grants down to a starvation basis when there was no opportunity for the unemployed to work. This practice was based on the belief that if people on relief were not coddled, their discomfort would goad them to find work. But the belief was a carry-over from frontier days when it was thought that only wastrels were unemployed. Mass unemployment, I continued, was not a by-product of any prior moral collapse on the part of the individual. It was the fault of an unbalanced production and distribution system. And this being so, if we wanted to end relief, we could do so only by removing the underlying causes that made it necessary. I would therefore continue to shout for more relief money. If any accusations were to be made, it was that public officials elsewhere did not join the shouting. Too many of them were still living in the nineteenth century. McCarthy did not press his criticism after this outburst.

Within Utah, and throughout the country, the impression has been fostered that the Mormon Church "took care of its own" during the depression of the thirties. Yet the facts do not square with this impression. It wasn't that the church didn't want to take care of its own; it was more than diligent in this respect. But within an economy that was prostrate no organization or group could be expected to provide care for its adherents. The Mormon Church, like all other religious or charitable organizations, could be no better off than its members, and these members were in straitened circumstances. Church investments, like investments held in all other quarters, were unproductive. As a matter of fact, at the bottom of the depression, its Utah-Idaho

Sugar Company sold its Canadian factory to meet long-overdue payments for sugar beets and to gain working capital to keep the company going.

From my own point of view, there was no reason why a church should be expected to "take care of its own." So long as members of a church or any such group are carrying their part of the federal debt and are paying taxes used for public purposes, they not only are entitled to receive but would be unwise if they did not take the kind of assistance granted all citizens who are in need of public benefits. (It would be equally unwise for the state to refuse to take federal funds for roads, reclamation, hospitals, and other socially useful works. So long as the state contributes to the welfare of the economy as a whole, if it is not going to be put to a great disadvantage it must take at least its fair share of federal funds.) The Mormon Church should be commended for its efforts to take care of its needy members who are not being helped by the state or federal governments, or who are getting inadequate help from those sources. But it is impossible for any organization other than the federal government to carry the massive relief burden imposed by a severe and sustained depression. One final word is relevant here. In the interest of the economy as a whole, if there is a justification for any group to store goods, it would be during a depression when there are unemployment, surplus goods, and low prices and not during a boom period when there are full employment, scarce supplies, and high prices. In the former case, stockpiling would help recovery; in the latter, it adds to inflation.

In the months that followed immediately after the appointment of Harry Hopkins to administer the Federal Emergency Relief Act, there was no discernible progress in dealing with the problem of unemployment. The grants by the FERA, being in the nature of a dole, merely duplicated the pattern of private charity. It checked starvation and death, but it did not create new jobs. The establishment of the Civilian Conservation Corps promised that something would be done for young people. But what of the millions whose age did not qualify them for the CCC? The Public Works Administration was offered as a reply. Yet instead of getting to work speedily, as I had urged before the Senate Finance Committee, the PWA projects, for a variety of good reasons, were launched a drop at a time, when a tidal wave was needed.

Witnessing this course of events while in the West, I made life uncomfortable for all who came near me. I was irritable and impatient. Unlike Hamlet, I did not curse my fate that I was born to set the world aright. I had asked my questions for three years, reached what I thought were true answers, and, never being given to modesty, I felt that those answers could set the world aright if only men in high places listened to them. In this feeling, of course, I was no different from thousands of other Americans who felt their advice was being ignored. From various places in Utah and Idaho where my business affairs took me, my eye raked the nation's capital and I judged every move there for its bearing on the general plan for recovery I had urged. Any peep from Washington bounced back as a roar from my mountainside.

Thus, I wrote a long memorandum to Secretary of War Dern on March 30 in bitter criticism of Roosevelt's budget-balancing message and restated again the reasons why I thought a broad-gauged government lending and spending program was essential. In reply, Dern informed me that he had discussed my thesis at a Cabinet meeting and had called it to the attention of Secretary of the Treasury Will Woodin. But he went on to say that he did not think the Administration would endorse the sort of ideas I expressed. On the contrary, the Administration was committed to "the sound economic policy of a balanced budget." Moreover, after one particular proposal I made, I was told that "Woodin was opposed to the guarantee of bank deposits."

Or again, in answer to an inquiry by Senator John G. Townsend, Jr., I wired back on April 20:

Any form of inflation to be effective must involve getting money to source of consumption. Recommend this be done by five billion dollar government bond issue to be purchased by Federal Reserve Banks and credit passed to Treasury Department not offered to public. Otherwise no inflation would result as no new money would be created. Money thus created to be distributed five hundred million for unemployment relief and all kinds of self-liquidating projects and public works. Also favor refinancing home and farm mortgages at low rate on long-term basis. The above action I believe would effectively bring about controlled inflation.

Administration leaders in these early weeks were not unaware of the pressing need to restore national purchasing power. They aimed to do so by raising commodity prices through a devaluation of the dollar in terms of gold. Viewed in a reverse image, they meant to raise commodity prices by increasing the price of gold in terms of dollars. This intention was clearly set forth by President Roosevelt in his press conference on April 19 (though the full extent of devaluation did not occur until formal devaluation by law took place on January 31, 1934). The economic principle expressed at that press conference was clear enough. If, for instance, the gold content of the dollar that goes to pay for a bale of cotton was decreased, then after devaluation you'd have to pay more dollars for the same bale. This price increase would theoretically increase the earnings of the cotton producer and he in turn, having more purchasing power in his hand, would increase his own demand for goods. Or, stating it differently, when less gold would be required for purchases expressed in dollars, more purchases would be made from sources having gold, and this inevitably would raise commodity prices, and thereby purchasing power.

While Professor Lindsay Rogers was said to have been associated with Professor George F. Warren in selling the scheme to Roosevelt, I was to learn at a later date that this was not true. Rogers was strongly opposed to the plan for a good reason. As a result of the banking measures taken earlier, the very few

Americans who held any gold were required to surrender it. The millions of destitute and unemployed had neither dollars nor gold. How, then, could an increase in the price of gold that might be exchanged for more dollars reflect itself in an increase in effective purchasing power? How could this action create more effective consumer demand? So far as increasing domestic purchasing power was concerned, the results would be nil.

What dollar devaluation succeeded in doing was to attract the gold of the world to American shores, in exchange for which foreigners received more dollars. A substantial increase in our exports resulted as the new supply of dollars was spent on the purchase of American goods. But ultimately the policy brought us more than three fourths of the gold of the world, for which we had no use.

This could have been foreseen long before the devaluation policy was approved. In my testimony before the Senate Finance Committee, I had argued that there was no need to devalue the dollar in terms of gold, or increase the price of gold in order to raise commodity prices. Devaluation by itself would not bring about any increases in prices. Prices could be raised only if the government created effective purchasing power by a spending-lending program based on deficit financing. If this was done, there was no need to resort to the devaluation program. With the existing supply of gold and without any change in its price the banking system could expand its operations to meet all monetary and credit needs.

I do not know what alternatives Roosevelt faced on April 19, when he revealed his intention to devalue the dollar. And assuredly any judgment made of what he said at the press conference has to take into account all the political pressures to which he was subjected. But politics was not my concern. What I read in Utah on April 19 was a bad policy in itself, coming as it did after the economy message of March 10. I wrote Secretary Dern to say:

It seems to me that the government is attacking our economic problems in the usual orthodox manner and I see little fundamental change in the methods they are pursuing and those pursued by the Republican Administration. New York, as usual, seems to be in the saddle, dominating fiscal and monetary policy.

The President's early summer announcement of plans for NIRA deepened my fears still more. Despite his claim that the NIRA was not monopolistic in character but would merely end cutthroat competition and put people to work, its premise foreshadowed an opposite end result. It assumed that prices could be raised by restricting production. This, of course, is the heart within the heart of any monopolistic practice. It was no accident that at a later date Justice Louis D. Brandeis, the lifelong foe of monopolies, should have been foremost among the justices on the Supreme Court who killed the NIRA.

Still, in those early days there was scant disposition to listen to voices crying of woe that was to come. After the three or four years of stagnation *something* at last was being done. It didn't matter what that something was, so long as it gave the appearance of motion. Only later on could people see that the cloth of gold being spun before their eyes was spun of air, and that the king, after all, was as naked as the day he was born.

What helped deepen the illusion of progress was the fact that production statistics did show a marked upward swing in the two-month period between the formal establishment of NIRA in July and the time the codes went into effect on a broad scale in September. Unfortunately, the why of this spurt was ignored.

Inside the business community, it was expressed in the phrase: "Beat the Code." In that two-month period businessmen produced at a furious pace to take advantage of existing low wages and prices in producing goods for resale at higher prices and before the curtailment of production authorized for the fall. But instead of a happy windfall of profits that was expected, the September wind proved a harsh one. By increasing wages along with prices, the codes did give temporary help to those who already held jobs. At the same time they made matters worse for those who did not have jobs, since prices were jacked up while pocketbooks remained flat. The efforts made by people like Mary Rumsey and Paul H. Douglas in the consumer division of the NIRA to close the gap between consumer income and prices were to no avail. They were brushed aside by monopoly forces to which the law gave a free hand.

And so in the end all of General Hugh Johnson's trumpets, parades, and placards summarized themselves in a grim paradox. Labor could get high wages and no jobs: businessmen could get higher prices and no markets. As with much that had been done up to that time, the NIRA missed fire as a reflationary measure. It did not provide the necessary consumer purchasing power, which alone could bestir and sustain an increase in production.

Soon after the codes went into effect this became clear. The great confidence generated in the banking system by Roosevelt began to wane and new bank failures were taking place as a natural result of the neglect of basic economic problems. NIRA had merely stimulated an inventory boom, which was self-defeating.

Historians for the period have generally overlooked how close we came to a second economic collapse in the fall of 1933. Even Mrs. Roosevelt has overlooked it in her absorbing book *This I Remember.* Yet during the recession of 1937–8 she remembered what happened in late 1933 with a clarity that irritated the President.

On the occasion in 1938 when she did this, I was Roosevelt's guest at Warm Springs, having been called there to discuss steps by which the nation's economic activity could be revived. Our talk carried past the cocktail hour and through dinner, with the President at his jovial best. Mrs. Roosevelt joined in this discussion. Referring to the recession then current, she said at one point:

"I suppose people will call this 'the Second Roosevelt Depression.'"

The President sat upright in his chair.

"No, dear," he correcte her, "'the First Roosevelt Depression.'"

"It's the second one," Mrs. Roosevelt insisted.

With an edge to his voice, the President replied:

"The first!"

"But, Franklin," Mrs. Roosevelt said, "aren't you forgetting the depression in the fall of 1933 after you tried to balance the budget and after the NIRA codes went into effect?"

I had meant to remain an armed neutral in this exchange, but the President looked in my direction for support. I regretted I could not give it to him. My memory told me that Mrs. Roosevelt was right and he was wrong on this issue of fact, and I managed to say just that.