5. Pharaoh's Steward

On October 10, 1933, I received an unexpected letter from Rexford Tugwell. He asked when I planned another trip to the East, and added his hope that I could come to Washington, where we could exchange views "about a number of things which are rather pressing problems at the present time." I replied that I was going to be in New York at the end of October to arrange for the seasonal financing of the Amalgamated Sugar Company and would detour to Washington as he requested.

At about the time Tugwell wrote me that letter, there was a long-distance call put through from Washington to Ogden. Jesse Jones was at the other end. He wanted to speak to E. G. Bennett, my banking associate. It turned out that Jones was searching for a practical banker to serve as the Republican director of the newly created Federal Deposit Insurance Corporation.

As established by the Banking Act of 1933, the FDIC called for three directors, who were to set up the new organization and supervise its work. Two of the directors had already been selected. The first, the Democratic member and Chairman of the organization, was a man who owed his appointment to his friendship with Will Woodin. He had no experience in banking. The second member, the Comptroller of the Currency, was placed there by law. He was a lawyer by profession and a political appointee by qualification. He had only recently been designated as Comptroller. The third director of the FDIC by law had to be a Republican.

The law setting up the FDIC gave automatic insurance to national and state banks that were members of the Federal Reserve System. But nonmember banks had to be checked and examined and qualified for admission to the FDIC by the end of 1933. If they were left out, they would probably have to close, since their exclusion would be interpreted by depositors as a sign of their weakness.

Jones realized that a great many of these banks would have to be helped by the RFC before they could qualify for the insurance scheme since, as a practical matter, the RFC could not permit another wholesale closing of banks. It was therefore of supreme importance to Jones that he secure the help of someone who could check and qualify some eight thousand nonmember state banks for FDIC benefits within the time limit specified in the law. The undertaking seemed to be an impossible one. But Wilson McCarthy had told Jones that if there was any man in the country who had the skill to save the situation, it was Bennett. Hence the call to Ogden. Would Bennett be willing to come to Washington as the Republican member of the FDIC?

Bennett asked for time to think matters over. After discussing the proposal with some of us in the First Security Corporation, it was decided he would accept the government post and would be given a leave of absence for that purpose. The rest of us would take over his work. At this time I hadn't the remotest expectation of entering the public service myself.

Bennett left promptly for Washington. There, in an almost superhuman effort, he helped to direct the launching of the FDIC along its present organizational lines.

A few days before I followed him east on business, I went through a trial run of what I was to say to Tugwell. The occasion was a meeting of the Utah Educational Association in Salt Lake City on October 27. Speaking there, I found it necessary to assert what should have been clear by that time: namely, that we were not experiencing "an ordinary cyclical depression of the sort which in a past epoch was ended through a revival of new investments by the expenditure of private capital. Instead, the depression represented the end-phase of an organization, both economic and political, which has existed about a hundred and fifty years the world over."

I continued:

> The assumption of spontaneous revival through new investment has always rested on the belief that people and banks will not indefinitely hold money in idleness. This is a false idea, as this depression has proved. The question is not how bankers and those who have idle money and credit can bring about recovery, but why they should do so, so long as there is no incentive offered in any field for profitable investment. A bank cannot finance the building of more factories and more rental properties and more homes when half of our productive property is idle for lack of consumption and a large percentage of our business properties are vacant, for the want of paying tenants. The government, however, can spend money, because the government, unlike the bankers, has the power of taxation and power to create money and does not have to depend on the profit motive. The only escape from a depression must be by increased spending. We must depend upon the government to save what we have of a price, profit, and credit system.
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> The fundamental economic plans, when they are finally established, will of necessity center on the distribution of purchasing power and in the allocation of income between investment and expenditures. So long as money is used as the means of distribution and of allocation, the fundamental economic plans will be plans for determining the flow of money. These plans will involve public and semipublic expenditures on an expanding scale for cultural and quasi-cultural services. They will involve relief of taxation that rests on the consumer; the reduction of sales taxes, or real-estate taxes, or tariffs, and of public service charges. They will involve the establishment of heavy income taxes especially in the upper brackets. They will involve heavy taxation of undistributed corporate surplus, to force corporation income into dividends and wages. These plans for determining the flow of money are fundamental. Without them or their equivalent, no permanent adjustment can be made.

Having said this, and a few other things, I left for New York and Washington.

In Washington, toward the first of November, I was launched on a round of conferences that lasted three days. At the Department of Agriculture, Tugwell promptly introduced me to Mordecai Ezekiel, who had been with the Department for many years. Then Tugwell said: "You ought to meet Henry Wallace." In a moment the three of us were across the hall and in Wallace's office. The interruptions of ringing telephones, buzzers, and secretaries made an orderly conversation impossible. I suggested a dinner at the Shoreham Hotel, where I was staying. All three accepted the invitation for the following night. Subsequently, Tugwell called me and asked whether he could bring several other guests. Two of them were Harry Hopkins and Jerome Frank, neither of whom I had met before then, but they were welcome and they came. Another addition to the snowballing group was George Dern. He came at my invitation.

I think it is important to say of these men that while they were all devoted to Roosevelt, they viewed him as an instrument through which they could serve the country as a whole. The New Deal belonged to them as much as it did to the President. And they had every reason to fear that something had gone wrong. They at least knew that ringing manifestoes by themselves did not solve problems. The pressures of human distress to which their work exposed them bore home the painful lesson that the task of removing fear and want from the land could not be accomplished within the framework of a balanced budget. On the other hand, they needed more than the doctrine of Christian charity to advance what they wanted to do in the face of strong political resistance. They needed arguments on how a planned policy of adequate deficit financing could serve the humanitarian objective with which they were most directly concerned; and second, how the increased production and employment that the policy would create was the only way a depression could be ended and a budget balanced.

With the exception of Ezekiel and Tugwell, I doubt whether any of the men in my room had ever heard of John Maynard

Keynes, the English economist who has frequently been referred to as the economic philosopher of the New Deal. At least none of them cited his writing to support his own case, and the concepts I formulated, which have been called "Keynesian," were not abstracted from his books, which I had never read. My conceptions were based on naked-eye observation and experience in the intermountain region. Moreover, I have never read Keynes's writings except in small extracts up to this day,

One human note may reveal the many directions in which the New Deal was moving at this time. My business associate, E. G. Bennett, had been in Washington for a month or more working on the FDIC. On my own arrival in the city, I got in touch with him. After arranging the dinner meeting in my suite at the Shoreham, I suggested that he join us when he finished his own work. This he did. I was to learn that the other men with whom I had spent the evening had little idea of what the FDIC faced or what it was meant to do. For his part, Bennett had paid very little attention in the previous month of his stay in Washington to the activities of the men who were with me. So on that night I for the first time gained a sense of two sealed-off worlds: one in which Bennett moved, where the main concern was with the problems of creditor relief, and the world in which my other guests lived, with their main concern for debtor relief. And it was only by chance that the two worlds met, or perhaps collided.

I had arrived in Washington at a time when the search was on for a body of ideas that could bridge the two worlds. Deficit financing except for war or defense could not by itself absorb all the unemployed and put them to work, for the government did not own the means of production; the means were privately owned. If, however, there was to be deficit financing of some sort, there had to be an underlying objective that the deficits were to gain. What should it be and how should it be sought? Tugwell's letter that brought me to the capital was really an invitation to help answer that question.

I have often wondered since then whether I would have won any hearing at all had it not been for my bizarre status as a reputed millionaire banker and industrialist who preached the gospel of logical radicalism. There were, of course, other "tame millionaires" on the fringe of the New Deal camp at that time. W. Averell Harriman and Vincent Astor were among them. But Vincent Astor's presence was largely due to his personal friendship with Franklin Roosevelt. As for Averell Harriman, he had not yet entered directly into the political fray at that time as had his sister, Mary Rumsey. Nor had either of these two men or any others like them suggested an operating procedure that could change the New Deal from an attractive political label into a set of physical facts.

I should risk a loss of all proportion if these words implied that I alone was called to that task. It was out of a multitude of minds converging on Washington from every point in the land that yes-and-no decisions were made. And I should be shamelessly vain if I suggested that the nation suffered from lassitude until I arrived in Washington as a gadfly; that until my advent the President of the United States, the Congress, and men who held major administrative posts were without minds and tongues of their own to think and to speak their thoughts. Yet all narratives of this sort tend by nature to be egocentric. I cannot write of what millions of other Americans thought, said, and did at this time; I can only write of things that fell within the range of my immediate experiences. But I say again that the ultimate character of what was said and done represented a union of the efforts of many other men.

I repeated to my guests the economic views I'd been advancing in various places since 1931. Moreover, I brought to their support the cumulative proof that what the Roosevelt Administration had done up to that point had failed to achieve any organic revival in the economy.

A point was reached in the discussion when one of the men, speaking for the rest, said to me: "Eccles, we are all for your thesis. But how are you going to get around Lew Douglas over in the Bureau of the Budget and Will Woodin, who are holding Roosevelt fast to a budget-balancing policy?"

The question was answered by a second voice: "We ought to work on Dean Acheson. He's open to argument."

When I was told that Acheson was the Under Secretary of the Treasury, the voice went on to say: "It's important that we get the Treasury's support for our point of view if such a program is to get anywhere with the President."

It was arranged that George Dern would bring Acheson to dinner in my suite the next night. Tugwell also agreed to be present. On the following night Acheson did come in response to the invitation extended him. With Tugwell's support, I again argued the case for government-planned deficit financing. Acheson seemed interested and remained for some hours to press home sharp questions and challenges. It is my feeling that if he had not been asked to resign from the Treasury Department soon afterward because of his justifiable opposition to the gold-price policy, it is likely he would have supported the unorthodox fiscal policy we advocated.

On the following day Tugwell took me to meet Secretary of the Interior Harold A. Ickes. Ickes, as always, was plodding through a mass of work and had time for only a short conference. A longer one really was not needed. He expressed general agreement with what I said to him and shook hands, and that was that.

When we left his office, Tugwell said to me: "I'd like to arrange an appointment for you with the President so that you can present directly to him what you think should be done to get us out of the depression."

I replied that I would of course be honored to meet the President, but realized he was pressed for time. It would be best for men like Tugwell, Hopkins, Ickes, and others who held responsible positions in the Administration to do the talking. In all probability members of the official family would have greater success in influencing Roosevelt to take needed action than would a stranger.

Tugwell did not press the suggested meeting with the President any further. He revealed, however, that I had been taken to see Ickes as part of an effort to get me into the Administration. Ickes was responsible for administering the new public-housing legislation, and Tugwell hoped I might consider an appointment to head this program. I told him that I could not possibly take the job; that I knew nothing whatever about public housing; that I was a banker and businessman and not a housing expert. Moreover, I was a Westerner who knew nothing about the slum-clearance problems of great cities, which were the primary concern of the Public Housing Authority. I would fail in the job and would embarrass not only myself but the Administration.

"But," said Tugwell, "what if you should get a wire from the President once you are back in Utah? What if he should ask you to take on that post?"

I told him I'd be flattered by the offer, but would definitely have to refuse. He was convinced at last that I had no aspirations for a public post, nor, with Bennett away from Utah, was I free to accept any such post. To save me the embarrassment of refusing a summons by the President, Tugwell did not persist with this suggestion.

The meeting with the New Dealers seemed just another occasion during which I argued for a course of action I thought would help the national economy. Having said my piece, I returned to Utah and once again was immersed in private affairs and in the problems of state relief. But I had no sooner settled down to this routine than about the middle of December I received a telegram from Washington. A change had occurred in the Treasury Department. Will Woodin, the Secretary, had resigned because of his critical illness and had been succeeded by Henry Morgenthau, Jr., who held a recess appointment. It was

Tom K. Smith, a new assistant to Morgenthau, who signed the telegram sent me. Since I had never met either Smith or Morgenthau, I called Bennett in Washington to ask whether he knew or could learn what was in the wind. Bennett said he was as much in the dark as I was, but he added that he knew Smith, a St. Louis banker, and would make inquiries of him. The next day Bennett called back to say that Smith had no idea what the Secretary had in mind beyond what the telegram stated. It stated that the Secretary of the Treasury wanted me to come to Washington at the earliest possible date to talk over monetary matters.

Having just returned from the East, I was reluctant to go back there after such a short lapse of time. Nevertheless, on Bennett's advice, I wired Morgenthau saying that I would come to Washington after the turn of the year. To this end I left my home in Ogden on the night of January 1, 1934.

I do not know who was responsible for the telegram, but I have always felt that my guests at the Shoreham Hotel on the occasion of the November visit had suggested my name to Morgenthau as a possible aide. With Woodin gone, and with a new Secretary of the Treasury in the pitcher's box, they no doubt wanted to surround him with men who recognized the need for large deficit spending. In this plan—if it was that—they were only partly successful. The part of the plan they did not control proved in time to have stronger supporters in Treasury circles.

As for the Secretary of the Treasury himself, he knew as little about me as I did about him. This was made perfectly clear at our first meeting, at which Tom Smith acted as broker for the introductions. The conversation following our handshake was unsettling. The more we talked, the less I understood why I had been called to Washington. I did not know at the time that Morgenthau was on edge because of his newness on the job. In addition he was beginning to feel the mounting opposition in Congress to the appointment of Earl Bailey as Under Secretary of the Treasury. In fact, it soon was evident that Bailey, a

New York banker, would not be confirmed. His name was withdrawn and he was replaced by Thomas Jefferson Coolidge, a Boston banker, whose economic concepts, I was to discover, belonged to the pervious era.

What came of my first meeting with Morgenthau was a request that I write a report on what ought to be done in the field of money and banking. This could just as well have been written in Utah as in Washington, but Morgenthau probably felt I had to be kept busy at some sort of task until he had more time to see me.

Apart from this request, my summons to Washington seemed to be a brush-off. Morgenthau told Smith to take me to see Herman Oliphant, general counsel of the Treasury Department. Though I was to have my disagreements with Oliphant at a later date, few men in the government had his zeal for public service. Not the least of the things he did was weaving the legal texture for the first Lend-Lease Act. He was one of those men, little known to the public, who work outside the glare of a spotlight, but without whose tedious labors the men in the spotlight would flounder helplessly. It was to be my good fortune as head of the Federal Reserve Board that a score of like-minded men were part of the Federal Reserve organization, most notably men like Chester Morrill and my two close aides, Elliott Thurston and Lawrence Clayton.

At the time of this first meeting with Oliphant he was new in the Treasury, having been brought in by Morgenthau from the Farm Credit Administration, which Morgenthau had previously headed. Amidst the press of his work he had little time to spare. Tom K. Smith, still acting as guide, shunted me off to see Professors Warren and Rogers, who were tucked away in a corner of the new Commerce Building.

I had met Warren before in Ogden. I've already said I was unimpressed by his plan to increase prices by increasing the price of gold. Warren was no doubt an able agricultural economist, but he had much to learn about the way the money and credit system operated. As I've also said, I was surprised to find that Rogers was as much opposed as I was to Warren's plan. He believed, as did I, that the only way commodity prices could be raised was by increasing the means of payment in the hands of those who were willing to spend their money. What was needed was an increase in both the volume of money and its turnover.

My new-found ally and I argued the case against Warren in a three-hour meeting. We did not change his view in the least. He had already sold his plan to Roosevelt as a result of Morgenthau's support. Roosevelt, in turn, was to secure its ratification by Congress.

Several more days passed and I heard nothing further about the important conference with Morgenthau that had brought me from Utah. I told Tom Smith I was tired of sitting on my hands in Washington and was going home. This, on reaching Morgenthau's ears, brought me an invitation to be at his home on a Saturday afternoon, where we could talk without interruption. As that afternoon wore on, the mystery deepened. Morgenthau began by asking whether I objected to personal questions. I told him that I did not, whereupon he asked me about my business connections, my financial condition as well as the condition of my various enterprises, whether any of them had gone bankrupt, and so on. But at last all his questions seemed to be answered to his satisfaction and he took me into his confidence.

"You've been recommended as someone I should get to help me in the Treasury Department," he said. He explained that he had spent the past few weeks examining the workings of his new Department and found its organization completely inadequate. As he put it, "The Treasury is an empty shelf." It had been given increased responsibilities without the staff that could execute them. In short, he was in great need of aid from someone who could take on some of this new work. Would I join the Treasury force as an assistant?

Morgenthau did not state what my exact job would be. Presumably I was to move to Washington from Utah and merely "fit in" somewhere. Even if he had been specific, I was not prepared to give him an immediate answer and asked for a day or so to think about his proposal. I was not a completely free agent in this matter. My coming to Washington would necessitate Bennett's return to Utah. It would also entail increased responsibility for my brothers and other associates in Utah.

Conversation with Bennett disclosed that he was nearing the end of his work with the FDIC and was anxious to return home. In telephone conversations with my brothers and Marriner Browning back in Utah I received a go-ahead sign. But there remained the question of whether I really wanted to come to Washington. Business affairs took me to New York on the following day, and in free intervals I turned this question inside out.

My conflicting desires shaped up into a monologue of this sort:

"Here you are, Marriner, full of talk about what the government should and shouldn't do. You've been talking that way for three years or more in Utah. You've been talking that way before the Senate Finance Committee, before Tugwell in New York, and before a score of men on two visits to Washington. But, apart from community affairs, you've not spent one minute of your life in the public service of the country. You ought to put up or shut up.

"Maybe so. But I've never worked under anyone since I was twenty-two years of age. I've always been my own boss. I'm proud of that. I like to do things in my own way, and in my own time. If I went into the Treasury Department, I'd have to work under a boss and do what I was told to do. I'd have to get to work on time and keep regular hours. It's one thing to talk theory as I've been doing and quite another thing to get into an organization, to work on a team, to shape and carry through a program. Furthermore, I don't know a damned thing about government and lawmaking.

"What you really mean to say is that you've been putting up a grand bluff. You're afraid your theory won't work. You're afraid you'll appear to be a damned fool. You want to stick out in Utah and wear the hair shirt of a prophet crying in the wilderness. You can feel noble that way, and you run no risks. But in Washington it will be different. You will have to share direct responsibilities and risks. So you are playing it safe.

"Well, what of it?

"I'll tell you what of it. If you don't come here, you'll probably regret it for the rest of your life. You'll always feel that in a time of emergency when you had a chance to work in the public service you ran away and hid yourself in your private affairs. Even if you are committed by your interests to living in a private station, it might do you good to learn whether you can be an employee as well as an employer. Maybe some day, after a spell in the public service, you might be a better employer because of it. Maybe it will do you some good to find out whether or not you can take orders as well as give them, and also to learn that you may not know all the answers."

I think most American businessmen have gone through a similar kind of self-examination on being offered a public post. Despite their materialism and their drumfire criticism of all politicians and bureaucrats, governmental service has an attraction for a great many of them. Dangle an ambassadorship, a cabinet job, or a post at the head of a major agency or commission before them and they will lose interest for most other things. Let them get a taste of the position and the flavor remains with them forever. Most other things afterward seem flat or jaded. And to revive the excitement of what they once knew, and to set old juices flowing once again, they will talk interminably of their period in the public service—as I, for one, am doing in these pages.

None the less, while the lure of public service is strong, however assured a businessman appears to be in his private affairs, he generally approaches a public post with a sense of fear. It is not difficult to understand why this should be so. His status in the business world generally represents years of labor during which he acquires both the confidence of those with whom he deals as well as an extra sense of how to put pieces together in a workable way. Moreover, there is a ready gauge for his success: it is the degree of profit he earns.

But in contrast to all this, when he enters the government service his role is that of a novice who is expected to do an expert's job in association with men he does not know. Nor can he gauge his success. The profit element he habitually used for this purpose is gone. Furthermore, he cannot make decisions as though he were a free agent. He is required to do the best job that can be done within the framework of the statutory provisions imposed on him by Congress, or the political responsibilities imposed on him by the Administration. He is always under pressure to do the expedient thing rather than pursue a course that he believes in the long run is in the public's best interest. He may, in fact, sacrifice his public career if he balks at expediency and chooses instead the unpopular course—not as an expression of a contentious nature, but as the logical application of what he believes is right in principle and in fact.

On returning from New York, I saw Morgenthau for a second time and told him I could come to Washington on February 1, 1934 and remain until a year from the following June. This would give my children one full school year in the capital. But I could not make the move until I knew it would be anchored to a specific assignment and a specific position. I had no desire to play the part of a well-heeled Micawber "waiting for something to turn up."

When the issue was put in this way, Morgenthau agreed that I would be designated as his special assistant to deal with monetary and credit matters. Furthermore, he would make the appointment and announce it immediately.

Following the meeting at which these matters were arranged, I returned very briefly to Utah to set my personal and business affairs in order, and then doubled back to Washington and reported for what I thought would be a sixteen-month tour of duty. It would have been impossible for me to stay in the public service for the next seventeen years had it not been for the support and encouragement I at all times received from the members of my family and my business associates in the West. While in Washington, I could always be assured that the business affairs in which my family and I had a large interest were ably handled by my brothers, Spencer, George, and Willard, and by my brother-in-law Joseph Quinny; and apart from my immediate family there was the able management of H. H. Benning, who succeeded me as president of the Amalgamated Sugar Company; L. S. Corey, who succeeded me as president of the Utah Construction Company; Lyman Hyde and Wesley Anderson, with whom I was associated in the lumber business; and, of course, E. G. Bennett and Marriner Browning in the banking and other businesses.

On moving into the Treasury, I represented the Secretary in relations with various government bodies such as the Reconstruction Finance Corporation, the Federal Farm Mortgage Corporation, the Home Owners' Loan Corporation, and the Interdepartmental Committee for the Coordination of Commercial Policies—this last being a group that concerned itself with tariffs under the direction of the State Department.

The financing of government needs was not my direct concern at this time, though what was done seemed to me to be a step in the right direction. The President's budget message of January 13, 1934 violated the budget-balancing philosophy to which he had tried to adhere since the day of his inauguration. He swallowed the violation with considerable difficulty. Following the message, the Treasury Department (in the January before I arrived at my new post) offered one billion dollars in securities for purchase by both bank and other investors.

The part that was financed by the banks expanded the supply of money—which in turn was put in circulation by the government's spending program. The part that was financed by nonbank investors or savers was the money already in existence, which was also put into circulation by the government's program. Both types of financing were needed. Bank financing was needed because the total supply of money had been reduced through the contraction of bank credit from 1929 onward, and also because bank failures took great amounts of deposits out of circulation. Nonbank financing was needed because it put to use the idle balances in the banks and the currency that was being hoarded.

(In this case the problem we faced in 1934 was the exact reverse of the one we faced during the Second World War. I shall have more to say of this in a subsequent section. Here I merely note that the Treasury Department seemed unable to recognize that 1940–5 was not 1934; that a policy that was correct in the period from 1934 until 1940 was a source of lasting mischief in the war years and beyond them. I was to have many sharp exchanges with Morgenthau and his successors because of this different reading of the date on the calendar.)

The first offering of one billion dollars in January 1934 was oversubscribed many times, proving that a balanced budget was not a precondition for confidence in the public credit. New private investments had not gone forward simply because there were no opportunities to invest such funds profitably in new private ventures. And the event also proved there was a substantial sum of idle funds seeking investment, despite the fact that investors strongly opposed a government deficit and yet when they had no other profitable outlet for their funds, they were willing to finance the deficit that gave them a profit.

The question of how to get more of these available private funds into use drew me into the field of housing.