

I. War Nerves

A FEW DAYS before the Nazi march on Poland in September 1939, I was involved in a ludicrous incident that was repeated in other forms during the war years. President Roosevelt had asked me to lunch with him so that we could talk at length about the effect an outbreak of war would have on our domestic economy. So far as the government security market was concerned, I could bring him a reassuring word. The Federal Reserve System had months before prepared itself to check any violent market swing in the event of war abroad.

But there were other problems I wanted to present to him. Foremost among them was the grave inflationary threat caused by the war flight to America of foreign capital in the form of gold. During the year ending August 1939 our acquisition of foreign gold reached the unprecedented total of \$3.4 billion. This was in addition to the vast and unneeded amount of gold we already had. It created a basis for further vast credit expansions by the banking system and a cheapening of money when defense and war demands brought about a scarcity of goods and services. The Reserve Board was deeply concerned by this development, and its proposal to meet it merited, I thought, the President's attention.

On arriving at the White House for my luncheon engagement, I was told by General "Pa" Watson, secretary and military aide to the President, that Roosevelt was running behind schedule in his appointments. Senator McAdoo, who had been defeated the year before by Sheridan Downey in California's Democratic primary, was with him at the moment.

Watson unsuccessfully tried to end the talk inside the President's office, and it was after a delay of more than twenty min-

utes in all that Roosevelt buzzed Watson, indicating that I was to be brought in. On entering his office, I saw McAdoo standing over the President's desk and talking earnestly about California politics. Roosevelt interrupted McAdoo long enough to ask whether he knew me. The Senator snorted a greeting and kept right on talking.

At this the President said, as he indicated the side of his desk: "Bring up a chair, Marriner." Then he added pointedly to McAdoo: "Marriner and I are just about to have lunch."

Most men would have left before this, but not McAdoo.

"Oh, that's all right, it's perfectly all right," he said airily, "you two boys go right ahead—I'll talk while you eat."

A warming oven was rolled in next to the President's desk. He pushed back the cover and pulled out a plate. It was scorching hot. He juggled it in an uncertain way as he held it out to me. I should have had enough sense to relieve him of it instantly. But even in the presence of the President of the United States instinct told me to reach for a napkin first to insulate my hand when I took the plate. A second later, when the food was before me on the table, I apologized to the President for my banker-style caution. He continued to shake his fingers for a while. McAdoo, in no way thrown off balance, continued to stand over us, talking of things close to his heart. For the added ten minutes he remained there, neither Roosevelt nor I said a word. By this time, my whole insides were aflame with irritation over the Senator's intrusion. But finally he turned to go.

"Now, remember, Franklin," he said to the President as he wagged his finger at him, "I want to leave one last thought with you. When it comes to appointing any of those federal judges in California, I wish you would take the matter up with me instead of with that son-of-a-bitch Downey. You know you can rely on me to steer you correctly."

When McAdoo was out of the room, all thought of him seemed also to have left Roosevelt's mind. He turned to me

and, as though I had just come in, said cheerfully: "Well, Marriner, and how are you today?"

The example of the President's patience and courtesy in the face of McAdoo's great provocation to anger made me lie outrageously.

"Well, I'm fine, Mr. President. Just fine."

A minute later the President motioned to a waiter to remove the food before us, but it seemed to be a double signal understood in another quarter. In scampered Fala, the President's Scotty. Roosevelt opened a desk drawer, took out a ball, and threw it across the room. Fala raced after it, brought it back, and the game was continued in this way for four or five minutes.

I simulated interest and felt like a hypocrite every time I voiced a word of praise for the beast's tricks. Fala was a fine dog and justly beloved by his master. Still, when minutes alone with the President represented the margin between alternative national policies, any intrusions on those minutes, so far as I was concerned, were offensive, and especially after the McAdoo episode.

At last the President said to Fala: "That's enough now. I've got to get back to work."

This was a signal for me to start talking. I began to present an action program to cushion the impact on our economy of an outbreak of war in Europe and the inflow of gold from abroad. After three or four minutes of this I lost my audience. Roosevelt was looking around the room to locate Fala. When he found him, there was a Presidential bellow: "Well I'll be God-damned! Marriner, do you see what I see?"

I did. Fala was off in a corner of the room purging himself on the rug.

Roosevelt quickly pressed a button. A guard entered the room and was ordered to rub the dog's nose in the mess under the general supervision of the President of the United States. The

procedure from start to end, plus a post-mortem discussion, took five or ten minutes more. And finally, when this historic event in White House annals had run its course, Roosevelt said to me: "And now, Marriner, we can talk about our *business*."

Which, of course, was no longer possible. General Watson appeared in the doorway to announce the next visitor. Between McAdoo and Fala, the hour set aside for a luncheon discussion with the President had expired.

The blocks between the White House and the Federal Reserve Building on that day were blanketed with a layer of volcanic ash as I made my way back to my office. Arriving there, I was met by my two associates Elliott Thurston and Lawrence Clayton, who were anxiously awaiting the report of my lunch with the President.

"Well?" they asked eagerly.

"I was with him for an hour and a half."

"And—?"

"And nothing! Not a damned thing that was worth while!"

Then I told how a policy decision had been delayed while McAdoo said his piece about California judges and Fala went through his act. And it was not until Thurston and Clayton met my faithful report with unbecoming laughter that I mustered a sickly smile of my own.

I say this ludicrous event was repeated many times in the war years proper. A few minutes with Roosevelt was a prize sought by all. To gain it and exploit it took as much advance planning as if the objective was a D-day landing. And when at last an appointment was set, a host of distractions often cut across what was discussed and what was to be decided.

The distractions most often arose from the character of the Presidency itself. For each of the President's multiple roles a matching force in his immediate vicinity wanted him to concentrate on that one role and no other. The McAdoos, with their absorbing interest in California's federal judgeships, were duplicated in other persons whose absorbing interest was the

farmer, or the laborer, or the big and little businessmen, or the ground forces, the naval forces, the air forces, the Latin Americans, the English, the Russians, the French, the Chinese, the enemy, the neutral powers, and on and on through all the list of things that make the globe. And always and forever, when Roosevelt was about to get to the root of one matter, something that followed the law of its own being would foul up the air. The President would have to drop everything while the mess was attended to.

Like other men, I often became irritated when what I had to say regarding events on my sector of the defense and war front did not reach the President's ears. The other wartime administrators I knew also seemed to see the war in terms of what loomed up in their direct line of sight. It was not from any lack of zeal, but from a full flood of it, that we snapped at one another and harassed the President when we saw things go badly.

On my limited part of the war front I felt a number of mistakes were made, and I will state them presently. But in a hindsight view of the war as a whole, the impressive fact is that more mistakes were not made. As for Roosevelt, when I recall the din in which he lived as we vied for his support and attention, I marvel that he was able to see, not just single administrators, but the world; that he was able to fill not just one role of the Presidency, but all its roles.

That he did just this was vividly shown in an incident I reconstruct here in answer to those who say Roosevelt was tardy in getting our defenses in order.

Early in January 1940 I was back at the White House for another lunch with the President. At this time the rate of recovery from the 1937-8 recession had brought the level of our economy to within hailing distance of where it had been before the slump. We seemed, in fact, to have reached a stage where substantial profits to business as a whole were developing irrespective of the volume of operations. An analysis made at the time of about a thousand leading manufacturing corporations indi-

cated that their profits in 1937 stood at 10.5 per cent of net worth; that while they had declined to 4.3 per cent in the depression year of 1938, they had recovered to 8.4 per cent in 1939. Moreover, of the forty manufacturing lines surveyed, three fourths showed profits above 5 per cent, and none showed any deficits.

But on the other side of the ledger, despite the relatively good last quarter of 1939, unemployment never fell below eight million during the year. This represented about one sixth of the total labor force available at that time. All in all, approximately ten million additional workers had found jobs in private enterprise since 1933. Despite this, the high level of continued unemployment was due to the entry into the labor market of an estimated half a million new workers each year.

When industry had accommodated itself to the depression, as the size of its earnings is evidence that it did, there was a strong disposition to freeze the army of unemployed at eight or ten millions. This was to be done by reducing public employment in the measure to which private employment increased. But in view of the steady growth in volume of new labor, any decrease of public employment by half a million whenever private employment absorbed an equal amount would make no net reduction in the total number of unemployed.

The need to continue appropriations for public works formed the substance of my argument with the President during our lunch in January 1940. I was about to leave his office when he said:

"By the way, Marriner, how would you like to stay here awhile longer? The boys from the Bureau of the Budget are bringing over a draft copy of my budget message, which will be sent to Congress next week. I'd like you to stay if you can spare the time and give me any suggestions you'd like to make."

I was naturally pleased by this invitation.

"However," Roosevelt continued, "don't ever tell Henry Morgenthau that you sat in on this meeting. You know the budget

is a very sore spot with Henry and he will be deeply offended if he knew you had judged its contents beforehand."

I assured him that I would say nothing of my presence on that occasion.

In a moment the budget message was brought into the room, along with Harold D. Smith, the Director of the Bureau of the Budget, Jack Blansford, the Deputy Director, and Lauchlin Currie, one of the President's new assistants. There was a bit of horseplay when Roosevelt ceremoniously introduced me to "Dr. Currie" as though I had never before seen him in my life.

Of Currie, Roosevelt had some months before called me on the phone to say: "Marriner, I guess you're going to give me hell."

Without knowing what he had in mind, I replied: "Mr. President, I don't know what good it would do me to give you hell, even if I wanted to."

"Well," he explained, "I'm going to steal Lauch Currie from you. I need him here as one of my assistants." He quickly baited the hook. "I'm sure you will realize," he continued, "that it isn't such a bad thing after all as far as the Board and you are concerned. You, of course, see the advantages at once of having a friend in court who can represent and speak for *your* point of view."

Needless to say, Currie changed jobs without further argument.

Following a reading of the budget message, the President turned to me for comment. I told him that, apart from some minor suggestions, there was but one observation I felt was important. I noted that \$500,000,000 had been cut from the previous year's relief appropriation; I felt this was a great mistake in view of the fact that there were still over eight million unemployed and that not more than three million of these had ever been cared for by the government even before relief appropriations were cut.

To this the President replied: "You are absolutely right. But

with the war in Europe likely to spread, we simply must get an increase in the military budget from last year's \$1 billion, to \$1.5 billion in the coming year. To do this with the total budget being what it is, the budget for relief is the only place from which I can transfer the additional funds that are needed for the military. Congress simply will not support an increase in the total budget so as to increase our military preparedness. There is no real pressure in the country for expenditures of that sort—but Congress will later on support a further relief appropriation as pressures develop on all sides. In this roundabout way, I hope ultimately to take care of the unemployed. But even so, Marriner, despite the immediate decrease in relief appropriations, it is going to be extremely difficult to get Congress to pass the military budget."

When this was said, I expressed the view that he should try to get the increase he wanted in the military budget without cutting the relief budget by presenting all the facts to Congress. If the state of our affairs called for such an increase, I felt certain Congress would authorize it. But Roosevelt remained unconvinced that Congress would act in this way. Events were to prove that I was wrong and that Roosevelt was absolutely right.

After that meeting with him I carefully watched the progress of the budget through its tortured congressional career. At the time the Nazis launched their attack on the Lowlands on May 10, 1940, the military budget had not even been reported out of the committees of either the House or the Senate. As a matter of fact, the committees had made substantial cuts in numerous provisions amounting in the aggregate to more than \$100 million.

Of course, when the Nazis captured Paris, the door to appropriations burst open and within sixty days Congress appropriated huge sums for defense. Still, the Roosevelt-haters have rewritten the previous history to make it appear that he was blind to the nation's defense needs.

I have in my files a further reply to the hatemongers. It is a

letter from the President, dated March 4, 1940, roughly two months before the Nazi attack on the Lowlands began. It reveals again how Roosevelt by this time had begun to judge most problems in terms of their bearing on the international situation. The issue that lay behind the letter was a mild difference of opinion—of little consequence, as later developments were to prove—between Henry Morgenthau and me. Without debating its character, it is sufficient to say that when the issue was referred to Roosevelt, he decided it in Morgenthau's favor. He explained why he did this in the letter dated March 4, 1940, the significance of which lies in its opening sentence:

I have had to decide on refunding \$738 million of notes—because honestly I am fearful of the international situation, and, confidentially, the news from Welles' visit in Berlin does not make me any happier. Therefore, I think it best to get a little more than half of the refunding out of the way rather than less than half. We can always use a portion of the stabilization fund for debt retirement later on.

The boyish word "honestly" in this letter of explanation was of a piece with the extraordinary patience and courtesy he showed McAdoo. It also set the tone of his dealings with the rest of us—despite our clamors—throughout the war years. When he showed a flare of temper, there was more than ample cause for it. One such instance came the day after the Nazis entered Paris.

I had gone to the White House on that day to discuss certain aspects of the defense program. As I walked to the President's desk to shake his hands in greeting, I saw his face was covered by a thundercloud.

"How are you today, Mr. President?" I asked.

"I'm damned mad," he answered.

"I hope you're not mad at me," I said.

"No," he said. "But do you know who just left this office? It was the French Ambassador. I called him over here to try

to find out what the French Army and Navy and his government were going to do now that the Nazis were in Paris. And what do you think he told me? He stood there in front of me and beat his breast. 'Mr. President,' he said, 'France will live *on* and *on* and *on!*' I asked him again what the French government, Navy, and Army were going to do and again he beat his breast. 'France will live *on* and *on* and *on!*' Do you know what I said to that?"

"No, sir, I don't," I said.

"I said: 'Jee-sus Christ!'"

"But that isn't all that happened today," Roosevelt continued. "When I woke up this morning, the first thing I saw was a headline in the *New York Times* to the effect that our Navy was going to spend two billion dollars on a shipbuilding program. Here I am, the Commander in Chief of the Navy having to read about that for the first time in the press. Do you know what I said to that?"

"No, Mr. President."

"I said: 'Jesus *Chr*-rist!'"

Having unburdened himself in this way, the President's anger subsided and he became reflective.

"The Treasury," he said, "is so large and far-flung and ingrained in its practices that I find it is almost impossible to get the action and results I want—even with Henry there. But the Treasury is not to be compared with the State Department. You should go through the experience of trying to get any changes in the thinking, policy, and action of the career diplomats and then you'd know what a real problem was. But the Treasury and the State Department put together are nothing as compared with the Na-a-vy. The admirals are really something to cope with—and I should know. To change anything in the Na-a-vy is like punching a feather bed. You punch it with your right and you punch it with your left until you are finally exhausted, and then you find the damn bed just as it was before you started punching."

My own feeling was that the Treasury still took the palm for obstinacy.

I regret to say that each of us who served in Washington during 1940-5 fought a civil war within an international war. Apart from encounters with other agencies of government and congressional committees, my principal disagreements were with Henry Morgenthau, the Secretary of the Treasury. I hasten to add that Morgenthau's great services to our allies in the period before Lend-Lease was enacted have been too little noticed. At a time when most liberals were disentangling themselves from a sentimental isolationism, the Treasury Department, under pressure from Henry Morgenthau, did its level best to get England and France the supplies they needed. For this Morgenthau deserves great credit.

I personally recognize the fact that it was he who first recommended to the President that he appoint me head of the Reserve Board. Yet we did disagree sharply in the war years, and those disagreements, in so far as they affected public policy, belong in a public record. I qualify this again by saying that in general we agreed on the objectives that were being sought during the war period. We both wanted to secure for our allies and our military establishment all the resources and manpower that were needed to win the war as quickly as possible, along with the means of paying for the costs of victory.

We disagreed on the methods by which these objectives should be reached. Unfortunately, as our tempers were rubbed raw by the pressure of events, the character of our disagreements were often distorted into disagreements over objectives. And this, in turn, in the tense and nervous war atmosphere, invited charges and countercharges of a sort that I, and, I am certain, Morgenthau, regret to this day.

Still, I do not know whether they could have been avoided, regardless of who was Secretary of the Treasury or who was Chairman of the Board of Governors. In the shadows that conceal the boundaries of the Treasury Department and the Fed-

eral Reserve System, spite-fence cases are bound to arise, with each party claiming that the other fellow is a poacher on territory that doesn't belong to him. And when both parties are equally ardent in their views, then the shadowland becomes a battleground for some rough infighting.

For all parties concerned, one of the most unhappy of these episodes occurred in May 1943. The issue that provoked the clash seemed innocent enough. It was the question of setting up a permanent organization to direct the sale of war bonds.

For several years before the day indicated, the War Savings organization had been set up on a state basis and operated directly under the Treasury. Of the funds borrowed by the government, the state organizations raised less than one fifth. In the spring of 1942, to raise the remaining four fifths, a Victory Fund Committee was set up on the basis of Federal Reserve districts, with the presidents of the Federal Reserve banks serving as chairmen in their respective districts by appointment of the Secretary. I served as liaison officer between the various chairmen.

In December 1942 and April 1943 these state and Federal Reserve sales organizations were temporarily merged on a Federal Reserve district basis under the War Finance Committee. Everyone agreed the arrangement should be made permanent until the end of the war. In this way all the earlier confusion and division of authority between state and Federal Reserve organizations could be avoided.

With this in mind, Morgenthau invited the presidents of the Reserve banks and me to meet with him at the Treasury on Friday morning, May 14, 1943. It turned out to be an unpropitious day for any sort of meeting at the Treasury, for on the day before, I seemed to have ended all joy in the Treasury because of my testimony before the House Banking and Currency Committee.

While the Treasury Department was hailing itself for the success of its recently concluded bond drive, whose offering of

thirteen billion dollars was heavily oversubscribed, I called the committee's attention to the fact that altogether too large a part of these securities was purchased by banks instead of non-bank investors. (The significance of financing the government's deficit by the commercial banks will be shown later.)

Talk of this sort seemed to be a slap at Morgenthau. His reaction came unexpectedly on May 14, during the meeting with Federal Reserve officials. At the outset all seemed calm on that occasion. The Secretary presented copies of a proposed plan of organization, remarking that it was offered merely for discussion; he wanted us to consider the merits and demerits of the plan. He went on to say that while some differences of opinion could be expected, he thought a satisfactory solution could be worked out by the group. After some discussion it was agreed that the meeting should adjourn long enough to give the Federal Reserve presidents a chance to consider the plan. They were to report back that afternoon.

Accordingly, the presidents and I met together and decided that the Secretary's proposal was acceptable, subject to a few modifications. The changes we proposed involved the selection of personnel, a clarification of the lines of their responsibility, and the means of their payment. It was the consensus of the presidents, in which I fully concurred, that they should have the right to initiate the appointment of the sales managers and other executive personnel who were to serve under them. This was to be done subject to prior consultation with and approval by the Secretary of the Treasury. In Morgenthau's version, these men were to be selected by the Secretary after consultation with the Reserve Bank presidents. The suggested change merely accorded with good administrative practice: that the presidents should have the initial right of nominating the men for whose work they would be responsible.

These changes were incorporated in a revised draft of Morgenthau's plan and were presented to the Secretary and to his staff when the two groups resumed their meeting in the after-

noon. The Secretary suggested it would expedite matters if he and his staff were to retire to his office to consider the redraft.

On the surface all still seemed calm and amiable. He was gone for about fifteen minutes.

When he returned, his first words were a thunderclap. He stated that what he was about to say would not be liked, but he was going to say it to our faces anyway.

The following, based on notes taken at the meeting by a Reserve Board stenographer, is a reconstruction of his remarks:

He began by recalling an incident he said had happened soon after he became Secretary of the Treasury. He had been invited to the home of George L. Harrison, president of the Federal Reserve Bank of New York. There Harrison and Owen D. Young stood over him and said: "You will do what we want you to do or we will not support your government bond market."

This incident, Morgenthau said, left an impression on him that he could never forget. It was one of many like it where the Federal Reserve System "pointed a gun at his head" to make him do what the System wanted done. He went on to say that since he was Secretary of the Treasury, he was not going to turn government financing over to the Federal Reserve System; that the organization proposed by the presidents was an attempt to take control away from him, and that he would not wait for Roosevelt to ask for his resignation if he should accept this proposal. He informed us that he had seen this thing coming and had gone to Roosevelt about it. All through the bond drives, he said, the presidents of the Reserve banks had sought to wrest control from the Treasury and take credit for the job, and this was not done from any patriotic motive. He had been shamed and humiliated by them on his recent trip across the country.

He continued: "You think I am incompetent to handle my job and that it should be turned over to you. You think I haven't learned anything in the years of experience I have had

as Secretary. I worked with Governor Roosevelt for a period of time. I organized the Farm Credit System and did a difficult job in that field. And yet you don't think I know anything. I can do this job. If you want to accept me on my own terms, I would like to have you. But I am not going to bargain with you. I don't have to. You need me, but I don't need you. I am not going to turn this job over to you and have nothing to do but sit back and do what you say. Before that I would resign."

He added: "I am not seeking the favor of any bank or other financial institution, and when I leave the Treasury I am not going to work for a bank as some of you are. I am at peace with the world. There have been no disputes in my Department such as in others. I am on good terms with bankers, the various state organizations, with the Congress, and have willing and patriotic volunteer workers who are anxious to help out. I am not going to put the President in the position in which he has been placed by an ultimatum of John Lewis. I told General Marshall that he could go ahead without any worry about the financial end; that he would not have to make any decision on purely financial grounds. I can do this job with you on my terms, or without you. I am not going to turn it over to you when I have the responsibility to the President for it. That is the way I feel about it. You can take it or leave it."

This outburst left us dumbfounded. After a painful silence I managed a reply. I told him that his words came as a shock and that I could not understand what prompted them. There was no attempt by the Federal Reserve System to take over any of the responsibilities of the Treasury. At his invitation we had taken his plan with the understanding that he wanted us to consider it and discuss it. We understood, further, that we were free to suggest any changes we felt would strengthen the bond-drive organization. Our only desire was to help shape a workable organization. In fact, there was no great difference between his plan and the revisions we had suggested in it.

Several of the Reserve Bank presidents joined in to say that they were at a loss to understand the Secretary's attack on them; that they had co-operated with him to the limit of their ability; that his charges were unfounded; that since he had expressed such complete lack of confidence in them, they could not understand why he was still willing that they should head his district organizations even on his own terms.

After some further discussion Morgenthau left the room, and the suppressed fury of the Reserve Bank presidents filled the vacuum he left. On that day and for several days thereafter they made it clear that unless the differences between themselves and Morgenthau were composed, their continued participation in the war-financing efforts would end or be on such a basis that they would no longer wish to assume the large degree of responsibility they had thus far shouldered for the successful conduct of the campaigns. In this sentiment they were joined by the entire Board of Governors of the Reserve System.

The tension was so near bursting-point that I feared the presidents of the Reserve banks would issue a public blast at Morgenthau and then walk out on their jobs.

There had been so much squabbling of a similar character in other quarters of the government that it seemed inhuman to burden President Roosevelt with an added squabble whose mainsprings were formed of taut nerves, weariness, and injured pride. Still, the possibility of a walk-out provoked by a disagreement over a minor point of organization could do more damage to public confidence in the government than one provoked by a disagreement over a major war policy. In the search for advice as to what I could do to head off more trouble, I turned to Justice Byrnes, who was then serving as War Mobilizer.

I told him what had happened, showed him a report of what Morgenthau had said, and confessed my fear of a possible walk-out of Reserve Bank presidents unless Morgenthau made some amends. I asked him whether he felt the whole matter was of

sufficient importance to have it brought to Roosevelt's attention. He said that it was important that I do so, and accordingly arranged for me to see the President on May 24. And, as usual, that harassed and overburdened man, on hearing my report of what had happened, took the necessary steps to soothe the bruises suffered on all sides. The war-financing program limped its way forward to V-J day.