RRINER S. ECCLES. . .by Sidney Hyman

pp. x-xi But Eccles did not fit any of the standard molds. Though a radical in the eyes of some, he wrote in 1934: "The main concern of the American economy must be to assure maximum employment to its members. Under capitalism, private enterprise must be the main means to that end. Government can and should insist on minimum standards of decency in the mode and conditions of life for its people. Within the limits of its resources, it can and should insist on minimum income for its families; a minimum age for schooling and employment; a maximum age for retirement; decent and safe working conditions; increasing benefits for labor as productivity increases; adequate protection for the aged and unemployed; and adequate educational, health and recreational facilities. But in the final analysis, these must, under capitalism, be enforced and supported by the productivity of the business community itself."

p. xiii As a free-standing "public citizen" after he returned from Washington to his native Utah in 1951, he aged in ways which fell outside the natural order of things. Though his sight in one eye was eventually impaired, his vision, previously focused mainly on domestic matters, was enlarged to take in a world in which the traditional divisions between internal and external affairs had become as indistinct as a line drawn through water. Though a "pacer" was eventually implanted above his heart to stimulate its beat, his force of will grew stronger whenever he glanced at the clock and was reminded anew that with every tick he had less time left to do what he believed was urgent.

p. 57 His major business decisions were made in the light of four questio which he regularly put to himself: What am I looking at? How do I know wha I think I know about it? Am I sure? If I am sure, what am I going to do about it? Years later, in the trauma of the Great Depression, he was to ask these same questions about the national economy. The answers he then formulated would propel him toward lines of action which riled the high priests of national economic orthodoxy.

p. 70 Second, Marriner's personal success in banking worked to narrow the moral he drew when he saw how the depressions and recessions of the 1920s closed many banks in Utah and Idaho. It was not that the local and national banking structure was inherently unstable. It was not that this instability could be remedied only through organic legislative reforms. The moral he drew was that a natural law of selection was having a more salutary, long-range effect on the banking system than any reforms that could be achieved through legislative means; it was eliminating banks that never should have been created at all and was displacing them with "bigger and stronger banks."

p. 71 In 1928 the two men co-authored a book entitled THE ROAD TO PLENTY, which focused on a century-old fundamental tenet of classical economic thought known as Say's law of markets. According to that law, the financing of production would by itself automatically create enough purchasing power in the economy to move all the goods produced. It followed, therefore, that the needs of production should be attended to first, and demand would then take care of itself.

p. 71 Foster and catchings argued that adherents to Say's law overlooked two facts of life in the business world: First, as industry increases its output, it does not, "for any length of time, proportionately increase its payments to the people." Hence the flow of money to the consumer could not keep pace with the flow of consumer goods; even Henry Ford, despite the vaunted high wages offered by his factory, did not pay workers on his assembly lines enough money to buy all the automobiles they produced. Second, Say's law overlooked the "dilemma of thrift." Though corporations and individuals alike had to save, every dollar saved was a dollar subtracted from the flow of money to the potential consumer. This led to a decrease in effective consumer demand and from there to a depression--unless government moved to offset the deficiencies in demand caused by oversaving.

What then, accounted for the prosperity of the late 1920s? According to Foster and Catchings, the volume of money had expanded sufficiently for public works "to make up the deficit in consumer buying due to savings." In the future, however, private and public outlays could not be left to chance. Government, as a matter of deliberate policy, must put more money into the consumer's hand when business falls off, and less money at times of inflation. "When business begins to look rotten, more public spending." The authors agreed that their proposal would increase the national debt, but this would be true only in times of depression. Besides, said they, a debt increase was not a national calamity: "It means scarcely more than that the people

of the United States collectively owe themselves more money," while the na n gains in real wealth and spares itself "the greatest waste of all . . . the waste of idle plants and idle workers." The most attractive feature of their policy, said Foster and Catchings, was that it involved no fundamental changes in the established order. Instead, "it leaves the whole domain of commerce and finance exactly where they are to-day."

p. 92 First, he dismissed as false all that he heard said--as if in a posthumous echo of his father's voice--about how self-corrective forces would appear in the economy when values had been deflated, and the debt structure had been scaled down to meet existing price levels. He also dismissed as false the collateral saying that when that condition was reached, the men who still had money and credit would make new investments on the "Western" or on the "technological" frontier. Marriner observed that the Western frontier had largely ceased to exist. Its development in the first instance--by men like his father--was based on ready access to free and cheap land, to an abundance of cheap raw materials, and to cheap immigrant labor. None of those elements was present in the thirties. As for investment on the technological frontier, Marriner observed that developments in this field tend to coincide with times of high prosperity when the mass of people have the purchasing power for more than subsistence requirements, and can increase their effective demands for a higher standard of living. But in the 1930s, when millions of people lacked the purchasing power to meet their barest needs, were there any rational grounds on which one could anticipate new investments on the technological frontier? Marriner could see none. What he saw instead were unemployed men arriving on the site of Boulder Dam, where they offered to work for only food and lodging, without asking for the going wage of fifty cents an hour.

p. 94 These two theoretical points squared sufficiently with Marriner's own practical experiences that he not only enlisted himself on the side of the "underconsumptionists" but also brought to their support a formidable mass of personal information. He observed that while there had been a 10 per cent decline in prices between 1921 and 1929, the inflation in the stock market was financed mainly out of the surplus funds that corporations and wealthy individuals accumulated in the twenties. The latter supplied most of the credit that enabled the public to purchase on a low-margin basis the inflated stocks many of these same corporations and wealthy individuals were offering for sale. But he had more impressive proofs to offer of the nation's thriftiness in the twenties:

pp. 94-95 Mass production, he said, must go hand in hand with mass consumption. Mass consumption, in turn, implies a distribution of wealth--not of existing wealth, but of currently produced wealth--to provide men with buying power equal to the amount of goods and services offered by the nation's economic machinery. But, in place of the desired 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. By taking purchasing power out of the hands of the 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. Consequently, as in a poker game when the chips become concentrated in fewer and fewer hands, other players could stay in the game only by borrowing. When their credit ran out, the game stopped.

p. 95 When no more poker chips were available for loan on credit, debtors were forced to curtail their consumption in order to apply the margin saved to the reduction of outstanding debts. But, with the reduction of demand and the onset of underconsumption, prices fell--which increased unemployment, further decreased the consumption of goods, further increased unemployment, led to another fall in prices, wiped out earnings, forced rigid economies in the wages, salaries and work time of those employed--leading to a situation in which one third of the entire working population was unemployed and the national product was reduced by 50 per cent. Yet the aggregate debt burden when measured not in dollars but in current values and income, representing the ability to pay, was greater than ever before,. Fixed charges, such as taxes, railroads 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 the consumption of goods was not sufficient to support the population.

p. 96 Marriner formulated a tenet that became central to his approach to fiscal policy in the years ahead--and to which he consistently adhered:

A policy of adequate government 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.

p. 99 The tenor of his many public utterances about these matters is suggested from the following extract of the address he gave 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 workd, 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. . .

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 means 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 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.

pp. 127-128 At that time, all bona fide New Dealers in Washington--whether registered Democrats, one-time Progressive Republicans or Republicans who had voted Democratic in 1932--looked to the person of President Roosevelt as their party pro tem. All saw in him the instrument through which they could personally contribute to the nation's economic recovery. They were not, however, all of one mind about what should actually be done. Some New Dealers, for example, believed that all the leading economic institutions of the nation must be fundamentally reformed before there could be any recovery. Some, to the contrary, believed that recovery must come first and reform second. Others believed that the free-enterprise system was beyond redemption and had to give way to direct governmental planning of the entire economy--for which the NRA was an initial step. Still others, such as the former law students of Felix Frankfurter at Harvard, believed that the free-enterprise system was salvageable provided some of its central institutions were restructured and placed under the discipline of new laws.

There were also the divisions along the lines of the 1912 pseudo-debate between the adherents to Woodrow Wilson's "New Freedom" and the adherents to Theodore Roosevelt's "New Nationalism". The first believed that since "bigness in business is always badness," the nation's large industrial combinations should be broken up into smaller competing units. The second believed that since industrial bigness was inevitable, "it should be made subject to government regulation in the public interest."

p. 171 Title I, for example, proposed to change the FDIC law so that after July 1, 1935, the rate and nature of FDIC assessments would be liberalized to the advantage of the bankers. Similarly, Title III proposed to give bankers relief from the harsh prospects many of them faced on July 1, 1935, when, under the terms of the 1933 Banking Act, any bank official in the Reserve System who had not repaid the loans he had previously received from his institution would lose his job. As the due date of July 1935 approached, it was apparent that many bankers had not yet paid back their loans, nor was

there any immediate prospect that they could do so. Title III, therefore, among its other desirable provisions, held out the prospect that bankers would be granted a period of grace beyond July 1935.

p. 185 Many changes in the Federal Reserve System stemmed from the Banking Act in 1935, but foremost among these was the reshaping of the Federal Open Market Committee--a change representing a compromise between the Glass and Eccles positions. The House version, which reflected Marriner's preferences, called for an Open Market Committee comprised solely of members or governors of the Federal Reserve Board. The governors of the Federal Reserve banks, for their part, would annually elect five of their number to serve in an advisory capacity to the committee. The board would be required by law to consult with that advisory group before making any changes in open-market policy, discount rates or reserves removed from member banks. But when the consultative process had run its course, the board would have the ultimate power to prescribe open-market policy for the Federal Reserve System, and the policy would be binding on all Federal Reserve banks.

p. 186 Under the old law, the Federal Reserve Board could increase or decrease the reserve balances of member banks during a declared emergency, provided five members of the board and the president of the United States approved. Under the new law, the board by an affirmative vote of four members, and without the prior declaration of an emergency or the approval of the president, could change requirements for both demand and time deposits of member banks. Marriner had argued against any limitations on the extent to which reserve requirements could be changed. Glass, however, objected and his will prevailed. The reserves any bank was required to keep could not be decreased on the initiative of the board below the level specified by law, or increased to more than twide that prescribed level. The new authority granted the board, however, flowed from a recognition that the board was competent to determine the need for changes in reserve requirements without first securing the president's political consent.

p. 188 But he wanted it formally expressed in law, and he saw a chance to do this by writing into Title II a new goal for the Federal Reserve Board. The 1913 goal had called on the board to accommodate the monetary and credit needs of commerce, agriculture and industry. Marriner thought this was so vague as to be meaningless. With the strong support of Steagall, he inserted into the House version a new mandate: the Federal Reserve Board was required "to exercise such powers as it possesses in such a manner as to promote conditions conducive to business stability and to mitigate by its influence unstabilizing fluctuations in the general level of productions, trade, prices and employment so far as may be possible within the scope of monetary action and credit administration." The purpose here, as Marriner explained at the time, was to inform the nation what to expect of monetary management, and yet to leave the Federal Reserve Board discretion as to the choice of means. It would provide the public and its congressional representatives with a standard for assessing the merits of the monetary policies being pursued. It would enjoin the Federal Reserve Board itself to exercise its monetary controls in the interests of the nation as a whole.

p. 210 By the time the legislative fight shifted to the Senate Finance Committee under the chairmanship of Senator Pat Harrison, Morgenthau was back in Washington. As a witness before that committee, he came under the heavy fire of critical senators, including those in the New Deal camp. The latter in particular pointed to the gross errors in the Treasury's estimates of the revenues the tax would produce. They also detailed the ways in which the House schedule for the tax would enable corporate giants to avoid paying any taxes for a year, though the tax would handicap a man starting a new business, and would also prevent small and medium-sized corporations from building up adequate reserves.

pp. 211-212 The response was a "compromise" tailored to the wishes of senators Harry F. Byrd and Walter George and approved by a crushing majority of 18-1 in the committee. Since this represented an "agreement," Harrison was bound not to make a floor fight. The points of the "compromise" in Marriner's view, not only failed to meet the president's immediate objectives but were a backward step in the progress of tax policy. In a note hand-delivered to the president on the morning of May 27, he showed how the terms of the Senate "compromise" would penalize small corporations, make the cost of the corporate form of enterprise virtually prohibitive for small businessmen, constitute a departure from the principle of taxing according to ability to pay, permit wealthy stockholders to continue to evade their fair share of taxation, favor rather than check the growth of economic bigness, and be ineffective in forcing more purchasing power into circulation.

p. 223 In retrospect, when Marriner tried to account for Roosevelt's inertia with respect to bank unification, he arrived at the following hypothesis. The dual banking system--some banks belonging to the Federal Reserve System and some to the state banking system alone--was held in nostalgic affection by FDR. To him, the state nonmember banks were small, democratically controlled institutions, reponsive to local needs, with officers who had the welfare of the home folks at heart. On the other hand, he thought of the Federal Reserve as representing the banking giants, and in a way, conceived of the Banking Act of 1935 as a curb on them. In Roosevelt's view, therefore, to unify the banking system implied either or both of two consequences inimical to his values. One would be the end of the state banking system. The other would be the end of small state banks, since, by being forced to join the Reserve System, they would be vulnerable to destruction by the banking giants.

p. 224 Each state would still have the right to charter and examine banks or, as it saw fit, to permit or forbid branch banking. Bank unification simply meant that banks would no longer have the option of joining the FDIC without joining the Federal Reserve. If they enjoyed the benefits of the FDIC, they would be required to assume the responsibilities of membership in the Reserve System.

p. 233 In publicly taking a slap at the economically disruptive practices of labor as well as industry, Marriner might well have brought his career in government to an end, since organized labor had made major contributions to Roosevelt's victories at the polls. Yet Roosevelt himself, provoked by the rash of strikes, was on the point of colliding with his labor supporters. In a radio speech where he expressed his irritation with labor as well as with capital, he drew on Shakespeare's Romeo and Juliet to say: "A plague on both your houses." John L. Lewis, the head of the CIO, whose unionizing efforts had led to the new wave of strikes, would answer Roosevelt in kind, saying: "It ill behooves one who has supped at labor's table and who has been sheltered in labor's house, to curse with equal fervor and fine impartiality both labor and its adversaries when they become locked in deadly embrace."

p. 238 In the long view of history, it can be argued that Marriner Eccles was a John the Baptist of the new dispensation. In the short view, however, the question whether he would stay on as chairman of the Federal Reserve Board depended on the thoughts of one man, the president of the United States. In late October 1937, Marriner went to Hyde Park to discuss the economic situation with Roosevelt.

pp. 246-247 During the prior period of presidential indecision, congressional hoppers were filled with draft bills calling for new forms of monetary and banking magic to cure the recession. It was Roosevelt's practice to send Marriner written comments in which he derisively dismissed these magic formulas, but in late March 1938, while still at Warm Springs, he received a telegram from state senator Nelson W. Cheney of New York which he could not airily toss aside. The senator complained that small country banks, "trying to loan to your average or needy citizen," were being harassed by examiners who "threw these small loans out of the window," because the customers could not issue "wonderful statements" regarding their financial position. "Why," he asked "cannot the authorities be reasonable and let the small banks help our people?"

In forwarding the telegram to Marriner, Roosevelt asked him to draft a reply to it. The draft was ready on April 6, when Roosevelt was back

in Washington from Warm Springs and a convert to deficit spending. In a memorandum attached to the reply, Marriner noted how Cheney's plea forcefully illustrated a point he had personally stressed during many talks with the president in the last two years--namely, "that there should be a unification of the banking system and consolidation of federal supervisory functions." He added: "The real remedy, in my opinion, for the basic trouble about which the senator complains, is to put examination functions under the same tent and to see that examination policy takes account of changing economic conditions." In a strategically placed next sentence, Marriner suggested that Roosevelt, who was then at work on a congressional message detailing the steps necessary to check the recession, should include in the text a proposal for the unification and liberalization of bank-examination policies. Roosevelt agreed and asked for some draft paragraphs, which were eventually used in his April 14 message to the Congress. For the moment, Marriner had the sense that he was about to emerge personally from a long tunnel of frustration.

p. 261 On another front--the need to unify the banking system--months had passed by, with no congressional reactions to the portions of the 1938 annual report of the Federal Reserve Board which called attention to the creaky structure of the nation's banking system. The Congress, however, did have before it President Roosevelt's bill for the reorganization of the executive branch of the government. As approved by the Congress in May 1939, the bill, among other things, created an Office