Academic Economists did not Soil their Hands:

Gold, the 'Brains Trust,' and FDR

by

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Abstract

In this paper I revisit the period leading to the abandonment of the gold standard by the U.S. in 1933. I analyze what the important players – and in particular FDR and the members of the "Brains Trust" – though about the gold standard. My conclusion is that during the campaign, neither Roosevelt nor the members of his inner circle had a strong view on gold or the dollar. They did believe in the need to experiment with different policies in order to get the country out of the slump. Tinkering with the value of the currency was a possible area for experimentation; but it was an option with a low priority, lower than implementing a public works program, and passing a bill that included crops allotment. Until inauguration day FDR's views on the gold standard were ambivalent and noncommittal; he was neither a diehard fan of the system, nor was he a severe critic.

Keywords: Gold standard, devaluation, Brains Trust, Irving Fisher, compensated dollar, Franklin Delano Roosevelt, Great Depression.

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1. Introduction

The abandonment of the gold standard in April 1933 is generally considered to be the turning point in the Great Depression. [1] As a result of the devaluation of the dollar the country experienced large capital inflows that were monetized by the Federal Reserve. This resulted in higher credit and helped generate an expansion in aggregate demand and, more importantly, a reduction in unemployment. The centrality of the devaluation is clearly captured in the following two quotes. According to Romer (1992, p.781):[2]

> "Monetary developments were a crucial source of the recovery of the U.S. economy from the Great Depression… The money supply grew rapidly in the mid- and late 1930s because of a huge unsterilized gold inflow to the United States… [T]he largest inflow occurred *immediately following the revaluation of gold mandated by the Roosevelt administration in 1934*."

In his Nobel Lecture, Robert Mundell said that if the gold standard had been abandoned earlier, world history would have changed drastically: "Had the price of gold been raised in the late 1920s… there would have been no Great Depression, no Nazi revolution and no World War II."[3]

A number of historians and economists have argued that the devaluation was a deliberate policy conceived during the 1932 campaign by FDR and his close advisers – a group known as the "Brains Trust."[4] In his 1952 memoirs, former president Herbert Hoover made this point clearly (Hoover 1952, p. 279):

> "Both Secretary [of the Treasury Ogden] Mills and I were confidentially informed early in the campaign that some of Mr. Roosevelt advisers proposed an abandonment of the gold standard or devaluation, and the substitution of a 'managed currency' as an overall method of raising prices and wages…"

The word "confidentially" is fundamental to understand the dynamics of this episode. If devaluing the USD was indeed part of FDR's economic program, he would not have publicized it or discussed it with the press. The sheer hint of devaluation would have created a stampede and financial panic, and a major drain in the gold reserves. That is, if it was seriously considered, the

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[1] As will be seen in Section 7 of this paper, it is not straightforward to determine the exact day the U.S. got off gold. What is clear, however, is that the USD was officially devalued on January 31, 1934.

[2] Emphasis added.

[3] Mundell (2000), p. 230. Other scholars that have emphasized the role of the devaluation of the dollar include Eichengreen and Sachs (1986), Eichegreen (1992), Bernanke (2000), Bernanke and James (1991), Temin (1989), and Irwin (2012). It is not possible to do justice to the copious literature on the Great Depression; see, however, Bordo, Choudhri and Scwhartz (1995), Meltzer (2003), De Long (1990), Obstfeld and Taylor (1997), and Calomiris and Wheelock (1998).

[4] See the discussion in Tugwell (1977), pp. 12-16. H. Parker Willis, the senior monetary theorist at Columbia's School of Business was among those that believed that the members of the Brains Trust were "encouraging Roosevelt in fantasies about easy money" and devaluation. Tugwell (1977), p. 12. See also Kemmerer (1944), p. 123.

plan would have been kept under wraps, and would have been known only to a very small number of people.

In this paper I revisit the period leading to the abandonment of convertibility, and I make an effort to set the record straight on what the important players – and in particular FDR and the members of the "Brains Trust" –though about the gold standard. My conclusion is that during the campaign, neither Roosevelt nor the members of his inner circle had a strong view on gold or the dollar. They did believe in the need to experiment with different policies in order to get the country out of the slump, and tinkering with the value of the currency was a possible area for experimentation; but it was an option with a rather low priority, certainly lower than implementing a massive public works program, creating the Civilian Conservation Corps (CCC), and passing an agricultural bill that would implement a crops allotment system.[5] FDR advisers believed that the gold standard generated cycles of deflation and inflation, but there was no formal plan to implement a devaluation, neither were there any studies analyzing what would be the possible consequences of abandoning the gold standard. Moreover, my analysis of different documents, diaries, memoranda, and memoirs suggests that FDR and his main advisers did not quite understand how a devaluation of the dollar was supposed to work; in particular, there was no clear understanding of how it could affect trade flows. Further, they had no inkling of how large a possible devaluation would have to be. I also show that during the period under analysis – all of 1932 and the first two months of 1933 – George F. Warren, the Cornell professor that would achieve great notoriety in the second half of 1933, had no influence over Roosevelt's thinking on the currency. Until Inauguration Day (March 4th 1933) FDR's views on the gold standard were ambivalent and noncommittal; he was neither a diehard fan of the system, nor was he a severe critic.

What adds interest to this story is that the U.S. was not "forced" off the gold standard, as the United Kingdom in 1931. It is true that during the early months of 1933 there were substantial gold outflows, but in April 1933 the stock of monetary gold exceeded $4 billion, amply meeting the Federal Reserve's "cover ratio." Moreover, the outflows were not the result of a negative current account. They responded to uncertainty about how the incoming Administration was going to handle the banking crisis that had taken a turn for the worst during the weeks before inauguration. Political instability, including the assassination attempt on the President on February 14, also contributed to uncertainty.[6]

My interest in this paper is on the period leading to the abandonment of the gold standard on April 19 1933. For this reason, the many and important events that took place between that date and the official devaluation of the dollar on January 31 1934 – including FDR's gold buying program – are only discussed briefly in Section 7.

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[5] See Lindley's (1933) classical study of the first year of the Roosevelt administration.

[6] At the time the Twentieth Amendment had been passed but was not in effect yet. Thus, Roosevelt took over on Sunday March 4, 1933.

The rest of the paper is organized as follows: In Section 2 I provide some information on the state of the economy in 1932. This serves as background for the analysis that follows. In Section 3 I deal with the formation of the Brains Trust in 1932, and I discuss the qualifications, experience and training of its senior members. Section 4 concentrates on the campaign. I discuss the position of the Brains Trust with respect to gold, inflation, "reflation," prices, and the dollar. The analysis focuses on the "compensated dollar," including Irving Fisher's distinction between policies aimed at "correction" and those geared at "safeguarding" price stability. In Section 5 I discuss the nature of FDR's assurances regarding the gold standard during the campaign, and I analyze an important (but little known) speech delivered just days before the election (the Covenant Speech). Section 6 deals with the transition, the preparations for the London Economic and Monetary Conference, and with the question of whether to "stabilize the exchanges." Section 7 contains a rendition of what happened between March 4 1933 and January 31 1934, when the dollar was officially devalued. Section 8 has the conclusions.

2. Background: The economy in 1932

From today's perspective it is difficult to imagine the depth of the Great Depression. Between 1929 and 1932, Gross Domestic Product (GDP) measured in current dollars declined by almost 50%, production of durable goods, including automobiles, dropped by 81%, and the value of agricultural production was down by an astonishing 63%. During the same period employment declined by almost 50% – that is, one out of every two people that in July 1929 had a job had lost it by March 1932 –, and the number of unemployed surpassed 15 million people. Those that still had jobs were earning much less than during 1929: according to the Federal Reserve, average wages had declined by 67%, and cash income in the rural sector had gone down by more than 70%.[7] See Table 1 for some details.

One of the most destructive aspects of the crisis was the generalized decline in prices. Between mid 1929 and mid 1932 the index of wholesale prices went down by approximately 70%; during the same period the cost of living declined by 40%. Things were particularly bad in the agricultural sector, where the prices of some crops were so low that it was not worth it to harvest them. Between 1919 and 1932 the average value of an acre of land for farming declined by almost 60%; the average price of cattle dropped by 63%, and that of hogs by almost 80%. The price of a dozen eggs went from 41.3 cents in 1919 to only 14.2 cents in 1933 – a decline of 66%. A bushel of wheat that in 1919 had commanded $1.53 was sold at 13.5 cents in 1932. And the price of cotton, the commodity that Roosevelt would monitor throughout his presidency, experienced a decline from 35.34 cents per pound in 1919, to 6.52 cents in 1932 – a reduction of 82%.[8]

[7] These data compare, for each variable, the peak and the trough throughout the cycle. The data are from "Historical Statistics of the United States: Colonial Times to 1957," and from Sachs (1934).

[8] As always, the base year makes a big difference in comparisons. In 1919, and mostly as a result of the Great War, agricultural prices peaked around the world. That is why, as noted below, when talking about the goal for higher prices FDR mentioned 1926, and not 1919.

As soon as he was sworn in as President, FDR pointed out that he wanted to see a price of cotton above 10 cents a pound by the end of 1933. In May, however, his goal became more ambitious, when he announced that the objective of his economic policy was to return agricultural prices to their 1926 level. For wheat that was $1.22 per bushel, while for cotton it meant 12.5 cents per pound, almost double of what it had been during 1932. Throughout 1919-1932 prices of manufactured goods and of inputs used in the agricultural sector also declined, but by much less than those of agricultural commodities. [9]

Figure 1 contains monthly data from1915 through 1940 for the quantity of money (M2), the monetary base (or high powered money), the stock of monetary gold, and the multiplier (See the Appendix for data sources). The April 1933-January 1934 period is shaded. The story that emerges from these graphs is well known and forms part of the "received wisdom" on the Great Depression.[10] Although the monetary base increased by 18.3% between September 1929 and April 1933, the stock of M2 money *declined* by 34.7% during the same period. The reason for this drop was the collapse of the multiplier. Although the stock of monetary gold remained flat, at approximately $4.1 billion, it experienced significant month to month variations in 1931, 1932, and early 1933. Figure 1 also shows the relaxation in monetary conditions after the January 1934 (official) devaluation of the dollar. As may be seen, this was the result of the increase in base money, which, in turn, was the consequence of large gold inflows; the multiplier remained essentially flat. Finally, this figure also captures the change in monetary policy stance in 1937, when the Federal Reserve began to sterilize monetary inflows.

In Figure 2 I present weekly data on the USD/Sterling and USD/French Franc spot exchange rates between 1921 and 1936. Both rates are in the form of "dollars per unit of foreign currency." As before, the transition period between April 1933 and January 1934 is shaded. This figure captures much of the history of global currencies during these years, including: (a) the return of Britain to gold in May 1925; (b) the re-pegging of the Franc (at a much depreciated level) in late 1926; (c) the devaluation of the USD in April 1933; (d) the period of a "managed" currency between April 1933 and January 1934; (e) the adoption of the new dollar parity in January 1934; and (e) devaluation of the French Franc in October 1936.

In Figure 3 I present monthly data on the wholesale and consumer price indexes from 1910 through 1940. In Figure 4 I display data for four of the most important components of the wholesale price index for 1923-1940. The data in Figure 3 show the rapid increase in prices during the Great War, followed by a long and acute disinflation. It also confirms that prices began to increase in 1933-34 after the U.S. abandoned the gold standard. The data in Figure 4, on the other hand, show that the decline in prices was anything but uniform; farm and food prices declined much more acutely than prices of manufactured goods, metals, and services.

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[9] These data are from various tables in "Historical Statistics of the United Sates: Colonial Times to 1957," U.S. Department of Commerce, 1960.

[10] Friedman and Schwartz (1963).

3. The Brains Trust

In March 1932, Sam Rosenman and Basil "Doc" O'Connor, two of Roosevelt's long-time associates, decided to put together a small group of advisers to assist the Governor gather information for speeches and press conferences. The Democratic convention was approaching quickly, and it looked as if FDR was going to get the two thirds of the votes required for the nomination. During the earlier parts of the primary campaign Roosevelt had assailed the Republican administration for letting the economic situation deteriorate markedly and for allowing unemployment grow to 15 million people. What he hadn't done, however, was make specific policy proposals on how to get the country out of the depression; most of his statements were general and without much forward looking content. Now that he had the largest number of delegates the press was scrutinizing every one of his statements. They were looking for inconsistencies, platitudes, and knowledge gaps. Ernest Lindley, an influential reporter that followed the campaign closely, thought that Roosevelt "ought to say more than he had been saying about what has to be done."[11] Walter Lippmann wrote that FDR was "a pleasant man who, without any important qualifications for the office, would very much like to be President."[12] And a New York Times editorial compared President Hoover's specific plans for getting out of the slump with what the editorialist considered to be the Governor's collection of generalities: "The contrast between the two leaps to the eye of every reader. Mr. Hoover is precise, concrete, positive. Governor Roosevelt is indefinite, abstract, irresolute…"[13]

The first member recruited for the advisory group – which would soon be known as the "Brains Trust" – was Raymond Moley, a 46 year old law professor at Columbia University. Trained as a political scientist, Moley was an expert in the administration of criminal justice. He had advised Roosevelt on New York state judicial issues and had been Director of the state's Commission on the Administration of Justice. Moley was a gifted writer and had a remarkable capacity for synthesizing complex issues into a few memorable phrases. Two of his many contributions to the campaign were drafting the "Forgotten Man" speech and coming up with the term "New Deal."[14]

The second member of the Brains Trust was Rexford G.Tugwell, a 41 year old economics professor at Columbia. Tugwell earned a Ph.D. in economics from the University of Pennsylvania, and was convinced that modern management techniques could bring generalized prosperity. He believed, however, that if left on its own, modern industry would fall in the traps of "overproduction." In order to avoid wasteful situations, some sort of planning was of essence. After visiting the Soviet Union in the late 1920s he became an even stronger believer in the merits of economic planning. Although he was a tenured professor at Columbia, he was not a

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[11] Cited in Tugwell (1968), p.94. Lindley later wrote a classical book on the first year of the Roosevelt administration. See Lindley (1933).

[12] The New York Herald Tribune, January 8, 1932.

[13] "Hoover and Roosevelt," The New York Times, May 24, 1932.

[14] On the origins of the Brains Trust and on how the group got its name see the memoires by Moley (1939) and Tugwell (1968). For a historical analysis that puts the Brains Trust in context – and for a detailed timeline – see Shlaes (2007).

member of the Graduate School, and his teaching was confined to undergraduates. Years later he would write that talking about economics with Roosevelt was like teaching the rudiments of the discipline to college freshmen.[15]

The third recruit was Adolf Berle, also a professor of law at Columbia. He graduated from Harvard Law School at age 21, and briefly worked at Louis D. Brandeis's law firm in Boston. It was indeed from Brandeis that Berle got his dislike for large banks, trusts, and financiers. In 1932 he co-authored an influential book on the modern corporation that showed, in a systematic way, how economic power had become concentrated in America, and how difficult it was to govern companies when ownership and control were not in the same hands. This book, which is still in print, provided one of the early treatments of what we know today as the "principal agent problem" (Berle and Means, 1932).[16]

Until that time no presidential candidate had ever conveyed a group of academics to provide technical advice on campaign and policy issues.[17] As a result, Professor Moley and his associates attracted immediate attention (and criticism) from the press. They were followed, and "reporters besieged [them]… for a word"; at times they were treated with respect, while at others they were ridiculed.[18] FDR referred to them as "my privy council," and in more than one occasion the press called them, rather derisively, "the professors" or "the ghost-writers." [19]

4. Gold, the Brains Trust, and the 1932 campaign

In early 1932 none of the three senior members of the Brains Trust had strong views on the gold standard or on the value of the dollar. Rex Tugwell, the only professional economist in the group, was not a monetary theorist, nor was he what we call today a macroeconomist. His fields were industrial organization, planning – to which he sometimes referred to as "scientific management" –, and agricultural economics.[20] His knowledge on the subjects of money, gold and exchanges came from the fact that in 1925 he had published (jointly with Thomas Munro and Roy E. Stryker) a college textbook based on his lectures at Columbia's famous year-long

[15] Tugwell (1968), p. 73-82.

[16] As the presidential campaign unfolded, three new members joined the advisory group as somewhat informal Brains Trust "associates": Robert K. Straus, a graduate of Harvard's Business School, Hugh Johnson, a lawyer that for many years had worked for financier and FDR supporter Bernard M. Baruch, and Charles W. Taussig, a successful businessman that in 1932 was President of the American Molasses Company and the Sucrest Corporation. As the campaign moved forward other professionals wrote memoranda and gathered information for the Brains Trust. Although they were not full members of the mythical group, they made important contributions to the campaign. The list includes Joseph McGoldrick, James W. Angell, Schuyler Wallace and Howard Lee McBain. Of these, only Angell was a professional economist. Not one of these advisers was paid for his services.

[17] An interesting question – and one that is beyond the scope of this paper – is comparing the Brains Trust to "The Inquiry," the group set up by Woodrow Wilson in 1917 to advise him on how to handle the forthcoming peace process. The Inquiry was much larger, and it mostly worked in secret. Many of its members were, as in the case of the Brains Trust, associated to Columbia University.

[18] Time magazine, July 3, 1933, quoted by Tugwell (1952) in the introduction to his revised New Deal diaries in Namorato (1992), p. 376.

[19] Moley (1939, p. 21-22).

[20] See Tugwell's 1952 introduction to his revised New Deal diaries. Reproduced in Namorato (1992, p. 291).

course on Contemporary Civilization. In the 1952 introduction to his New Deal diaries Tugwell wrote this regarding his (lack of) expertise on monetary and fiscal policy:[21]

> "I told [the Governor] what I knew and thought which was little enough, except that I was prepared with a satisfactory precis, having written an elementary economic text whose relevant passages I could display."

He then stated that although the textbook was co-authored, he had been in charge of the chapters on money, gold, and exchanges. He then candidly added: "I wrote the financial and monetary passages, having them checked by my friend and senior colleague at Columbia, E.E. Agger, whose field it was."[22]

In addition to *American Economic Life*, by 1933 Tugwell had written or edited eight books. In none of them there is any mention of money, gold, or exchanges. Nor is there any reference to these subjects in the five articles that he had published, until 1933, in some of the world's top academic journals in economics – the *American Economic Review*, and the *Journal of Political Economy*.[23] In later writings, Tugwell came back to the fact that neither he nor the other members of the Brains Trust knew much about gold or exchanges: "We were not monetary theorists, and we said so repeatedly."[24] Then he added that "I had told him [FDR] frankly that my own knowledge of monetary theories came only from dealing with them as a part of the courses I taught, and since the others were not more expert, I wondered why he discussed… [monetary policy] with us."[25]

4.1. The "compensated dollar"

In *American Economic Life* the issue of money and the gold standard is addressed for the first time in section 6 of Chapter 16. It is then tackle again in Chapter 17. Chapter 16 is titled "Industrial Coordination and Control," and the section on monetary conditions is titled "Money, Shifting Levels of Prices, and their Stabilization." Chapter 17 is "The Relation of the Financial Organization to Industry," and is divided into six sections: "The Place of the Financial Organization," "Media of Exchange," "Bank Credit," "Money and Prices," "The Collection and Allocation of Prices," and "The Old Banking System and the New."

Interestingly, the most basic material is in Chapter 17, where a simple exposition of the quantity theory is provided (pp. 335-337), the difference between money and credit is explained (pp. 334-335), and the institutional organization of the Federal Reserve System is presented (pp. 339-342). The discussion on gold is limited, and no detailed explanation of the mechanics of the gold

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[21] Tugewell (1952), reproduced in Namomoto (1992), p. 299.
[22] Tugewell (1952, footnote 8), reproduced in Namomoto (1992, p. 299).
[23] Tugwell was a prolific writer, and many of his pieces were published in the popular press. In 1925 he became a contributing editor of *The New Republic*. For his complete bibliography until 1959, see Sternsher (1964).
[24] Tugwell (1968), p. 98.
[25] Tugwell (1968), p.165.

standard is provided. The chapter does mention that money is backed partially by bullion, but it doesn't delve into the relation between gold flows and the external accounts.

The discussion in Chapter 16 is rather more sophisticated, and concentrates on price variability and uncertainty under the gold standard. Tugwell et. al. write:[26]

> "[O]ur dollars, being constituted as they are, shift in value. That is to say that although they are nominally based on a fixed standard, they actually will buy more goods at one time than at another... [I]t is a *constant source of uncertainty* that the dollar shrinks and expands in purchasing power… This may seem a strange phenomenon at first. But it is *directly consequent* upon the fact that we have adopted gold as the standard of money and that the dollar has been made equal in value to 23.22 grains of it."

Uncertainty, the authors say, "makes it almost impossible to plan exactly any distance ahead." As a possible solution to this "constant source of uncertainty," Tugwell and associates present Irving Fisher's "compensated dollar" proposal that would peg the value of the dollar to a basket of goods (commodities) instead of pegging it to gold. They write: "This dollar… would at least not forever shift in its power to purchase other commodities and would therefore bring about a necessary stabilization of the general price level…"[27] Tugwell and associates end the section with a guarded endorsement of Fisher's compensated dollar plan (p. 320):

> "We think that no one can say whether such a plan for stabilization would operate successfully. The arguments for it seem to outweigh those against it; and on the whole it seems to promise more than could possibly be lost by trying it."

Eight years later Tugwell still believed that a compensated dollar could help generate a more predictable environment that would allow firms plan ahead. In January 1933, as he worked with the President-elect on how to deal with the intergovernmental debts, Tugwell wrote in his diary: "My view is that we ought to go off gold in international exchange so that we can manage [the currency] internally."[28] And in his memoirs he stated that he "had long been converted to Fisher's commodity dollar – that is one having the general backing of many commodities besides gold."[29]

Irving Fisher first sketched the idea of a commodity dollar in his 1911 book *The Purchasing Power of Money*.[30] The first detailed presentation of the proposal was contained in a paper published in the *Quarterly Journal of Economics* in 1913. In the introductory paragraph Fisher says that the goal of the scheme "is rendering the gold standard more 'stable' by virtually

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[26] Tugwell, Munro and Stryker (1925), p. 319. Emphasis added.
[27] Tugwell, Munro and Stryker (1925), p. 320.
[28] Tugewell (1933), reproduced in Namomoto (1992), p. 60.
[29] Tugwell (1968). P.98.
[30] The proposal is sketched in Chapter 13, Section 5. Fisher writes in the "Suggestions to Readers" that this chapter will appeal mostly to "currency reformers." The term "compensated dollar" doesn't appear in this book.

increasing the weight of the gold dollar so as to compensate for losses of purchasing power."[31] Under the proposal, dollar coins would cease to circulate and would be replaced by a "virtual gold dollar" with a variable gold content. Although his discussion relies on the case where there are positive inflationary pressures – a situation that calls for a currency appreciation, or for "increasing the weight of the gold dollar" –, it is evident that the argument is perfectly symmetrical for a period of deflationary forces; this would call for *decreasing* the weight of the gold dollar. The article has two lengthy appendixes. The first is aimed at dispelling the notion that this system would encourage speculation in gold, and the second contains an example on how the gold content of the dollar would have evolved between 1896 and 1911 under his program.

In the years that followed, Fisher worked strenuously on refining the plan, and in 1920 he published a 305 pages book titled *Stabilizing the Dollar*. The subtitle illustrates clearly Fisher's policy objectives: "A plan to stabilize the general price level without fixing individual prices." Most of the technical details are confined to an 88 page Appendix I. Appendix II is devoted to answering the criticisms that the proposal had generated since its inception in 1911. And in Appendix IV he lists a number of authors, some of them very prominent, which according to him were precursors of the the compensated dollar idea. As time passed Fisher was able to convince some members of Congress to support his plan, and in late December 1922 the House of Representatives Committee on Banking and Currency held lengthy hearings on a bill sponsored by Congressman T. Alan Goldsborough from Maryland. [32] Although the bill never got out of Committee, Fisher was not discouraged; he continued to work on the issue, and in his books *The Money Illusion* (1928), and *Booms and Depressions* (1932) he devoted long passages to the plan.

Fisher criticism of the gold standard was based on the simple idea that since gold was both a medium of exchange and a commodity, its value would permanently fluctuate.[33] Let P^G be the relative price of gold in terms of a basket of goods. This price will vary according to supply and demand conditions. Supply is mostly determined by mineral availability, new discoveries, and mining costs in different parts of the world. Total demand, on the other hand, depends on both the demand for monetary uses and the demand for other purposes. Let E be the price of gold in dollars, or exchange rate. If P is the price level – expressed as dollars per basket of goods – then, conceptually it follows that:[34]

$$P_t = E_t \, P_t^G \tag{1}$$

[31] Fisher (1913, p. 213)

[32] The Bill was designated as H.R. 11788, 67 Congress, Second Session. Congressman Goldsborough introduced a slightly revised Bill in 1924, H.R. 494, 68 Congress, First Session. Its fate was the same as the first bill.

[33] This, of course, was not an original criticism. It had been made by a number of economists, including Jevons and Marshall.

[34] This assumes that the baskets of goods in the right hand side and left hand side are the same. This is a specific version of the purchasing power parity (PPP) proposition, and assumes a unitary pass-through. This equation does not appear in *Stabilizing the Dollar*. Patinkin (1993) uses a very similar expression in his discussion of Fisher's currency reform proposals.

If the dollars price of gold (E) is fixed, at, say, $20.67 per ounce (as had been the case in the U.S. since 1834), the price level would move in strict proportionality with the relative price of gold. With a fixed E, the variance of the price index would be, $\sigma_P^2 = E^2\sigma_G^2$, a high number, given the volatility of the relative prices of commodities.

Fisher's proposal was that instead of being pegged to gold, the currency value should be linked to a basket of goods, as a way of stabilizing the price level.[35] A direct implication of this proposal is that the price of gold in terms of dollars E would cease to be a fixed number, and would fluctuate frequently. At the conceptual level, the idea was that $dlog\ E_t = -dlogP_t^G$. The practical suggestion, however, was to adjust E according to the discrepancy between the observed price index (with some lag) and the index in the base base year: $\Delta logE_t = \theta(logP^* - logP_{t-j})$. In most of his examples the factor of proportionality θ , which he calls "adjustment," is set equal to one.[36] Fisher suggested that the change in E would be limited to a certain predetermined value, say 1% per quarter. If, for instance, $-\Delta logP_t^G$ was 3%, it would then take three quarters to go through the exchange rate adjustment required to offset the change in the relative price of gold and to stabilize the price level. An important feature of Fisher's proposal is that there would be a 1% spread between the selling and buying (or mint) price of gold. He called this spread a "brassage," and its purpose was to discourage speculation stemming from the fact that, under certain conditions, market participants would know in advance by how much the price of the dollar would change in the months to come.

In Appendix I of *Stabilizing the Dollar*, Fisher presented a diagram that showed the actual evolution of the (wholesale) price level between 1990 and 1919, and the much more stable price level that would have prevailed if his scheme had been in place – see Figure 5. As may be seen, until 1915 the hypothetical price index shows remarkable stability in comparison to actual prices – in fact, in every single month it is within 4% of parity. While the observed index was almost 140 in January 1915, the simulated index is only 104. After the war, and mostly due to the cap on the bi-monthly adjustment in the price of gold, the hypothetical index increases significantly; but still, at its peak, in 1918, it is approximately one half of the actual index.[37]

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[35] Of course, Fisher realized that an alternative to his proposal was to stabilize the price of gold relative to goods, and discusses this possibility in several of his writings. This could be attempted, for example, by the main producers of gold – the U.S. and the U.K., then South Africa's colonial power– who could form a cartel. In fact a proposal along these lines had been made by South African academic Professor Lehfeldt. Controlling P^G, however, was less practical than frequently adjusting E.

[36] In every one of Fisher's writings on the subject, and in all the criticism of his plan, the issue of what type of price index is to be used is very central. This was, to a large extent, due to the newness of index numbers, and to the fact that many people didn't understand and/or trust them.

[37] This simulation is based on a number of assumptions regarding the pass-through from E to P, the adjustment lag, the width of the "brassage," and the long run trend in the general price index. Fisher discusses them, as well as alternative assumptions, in Section 9 of Appendix I of *Stabilizing the Dollar* (p. 183).

Although in Fisher's simulation the starting point is dictated by data availability (January 1900), the initial year corresponds to a period of relative macroeconomic equilibrium. In that regard, stabilizing prices at that level makes (some) sense. All it is required is to make small adjustments to E – which in this exercise are confined to a maximum of 1% every two months – to maintain stability. The situation in late 1932, however, was very different. The nation had gone through more than three years of deflation, and the goal was not to stabilize prices at the prevailing levels; the objective, on the contrary, and as FDR would repeat again and again, was to restore prices to their 1926 level. In order to get back to this point, the Wholesale Price Index had to increase by 56% relative to its December 1932 level.

In *Booms and Depression* Fisher calls a large and once-and-for-all, adjustment in prices a "correction," and he distinguishes it from the repeated manipulation of E required to maintain prices stability, which he calls "safeguard." This is an important distinction: price stability may be "safeguarded" through small and frequent changes in the price of gold E, in a way that is not very different from the "crawling peg" exchange rate regime adopted in the 1960's, 1970, and 1980s by a number of developing countries, including Brazil, Chile and Colombia. It has also some similarities to the "exchange rate targeting" monetary policy run by the Monetary Authority of Singapore. The key in all of these cases is that the changes in E are small – Fisher himself thought that an upper bound of would be 2% per quarter –, and frequent. Most supporters of the "compensated dollar" scheme were attracted by this feature of the system, by the frequent and small changes in E that would help stabilize the price level. A "correction" in contrast requires a (very) large change in E; if the situation is one of deflation, this means a large increase in E and devaluation. For instance, In late 1932, a simple and straight forward application of Fisher's partial equilibrium simulation would have indicated that a price of gold of $32.25 was needed in order to achieve the 1926 price index goal. Many economists, including Tugwell as we will see, were leery of devaluations of this magnitude. In particular, they thought that they could unleash a process of repeated and increasingly large "corrections," and a rapid inflationary process. There were also unknown secondary effects, including changes in P_t^G that could feed back into prices in an unpredictable fashion. Also, large changes in E could generate – as indeed they did after January 1934 – serious legal problems stemming from the fact that a very large fraction of both private and public debts were indexed to the price of gold through the so called "gold clause." In a December 16 1932 letter to Ray Moley Fisher wrote: "Personally, I would like to cut loose from the gold standard, but it is not an easy matter both because of the absolute necessity of *gradually* changing the price of gold and of the complications of the gold clause contracts."[38]

In *Stabilizing the Dollar* Fisher pointed out that his proposal was compatible with the quantity theory, and he emphasized that the mechanism through which the compensated dollar would impact the price level would be increases and decreases in the quantity of money. In later writings he added that in order for the scheme to work properly it would require the intervention

[38] The Raymond Moley Papers, The Hoover Institution, Box 107.

(or, in his words, "good will") of the Federal Reserve.[39] This point, which may seem almost anecdotal, becomes important when Fisher's compensated dollar is compared to George F. Warren's gold buying plan, the program that dominated America's policy towards gold and the dollar in the second half of 1933. After explaining their basic equation, Warren and Pearson (1935, p. 94) write that their analysis "has no relationship to the formula $MV = PT$… No one of [our]… factors correspond to any factor in $MV = PT$."

Given Tugwell's endorsement of the "compensated dollar," it would have been logical for him to seek Fisher's advice or, at least, his comments on the monetary situation. This, however, was not the case. On January 14 1933 – after the election and before inauguration – Tugwell wrote in his diary:[40]

> "Irving Fisher has tried to see me a number of times this Summer and Fall (sic). Except for one occasion… I have managed to avoid him. However, last night he caught me fairly at dinner at the Cosmos Club and proceeded to try to pump me as to my views and impress me with his. I do not believe in outright inflation. Our policy has been shaped toward a pragmatic handling of prices."

And in his memoirs Tugwell points out the he became very concerned when he found out that Fisher had "made his way uninvited to Albany and spent some time with Roosevelt." Tugwell thought that Fisher was overbearing. He wrote that the Yale professor had "become something of a fanatic, and Roosevelt always enjoyed talking to fanatics. The impression this visit made [on FDR] was one we knew would have consequences."[41]

In addition, by 1932 Fisher's reputation had been badly damaged by his prognostications about the stock market. At a dinner organized by the Purchasing Agents Association on October 15, 1929, he said that stock prices had reached "what looks like a permanently high plateau." He then took issue with the views of Roger W. Babson, a successful financier and public man, who had predicted a significant market retreat. Fisher said "I do not feel that there will soon, if ever, be a fifty or sixty-point break below present levels such as Mr. Babson has predicted." Fisher ended his allocution by saying that he expected "to see the stock market a good deal higher than it is today, within a few months."[42]

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[39] Notice that Fisher published his original 1913 paper before the creation of the Fed. Interestingly, in Appendix II of *Stabilizing the Dollar*, Fisher argues that his proposal is so general that it should be supported by those that believe in the quantity theory (as himself), and also by those that reject the quantity theory (pp. 215-217). On the need to count with "the good will" of the Federal Reserve, see the Hearings for Bill H.R. 1488, House of Representatives, Congress of the United States (1922), p. 27-28. See, also, Fisher (1928), p. 192-193. See Patinkin (1993) for a criticism of Fisher's plan that centers on the tension between the compensated dollar and the equation of exchange.

[40] Tugwell (1935), reproduced in Namorato (1932 p. 60).

[41] Tugwell (1968), p. 98.

[42] The New York Times, October 16, 1929.

In the final analysis, when it came to actual policy – as opposed to conceptual or textbook discussions –, the members of the Brains Trust wanted to avoid any measures that could generate inflation, including a currency "correction" *á la* Fisher. In August of 1932, Adolf Berle wrote a memo to the Governor where he said that "[a]s a matter of ideal economics a 'managed currency' might be a good thing. But we have not got as yet the political machinery for that purpose in sight. Witness the bonus agitation; and the several drives on the currency when there is not a treasury surplus… The conclusion is that… [i]t is not the time to support inflation."[43]

Tugwell comes back to this point in the 1952 introduction to his revised New Deal diaries: "I was an ardent believer in a stable currency and was therefore *violently opposed to inflation* as a continuing policy."[44] And in his memoirs he recalled a conversation with FDR on monetary policy: "I knew it was fashionable to speak [about]… 'reflation'; that might not sound so dangerous to some people, but we ought not to fool ourselves: it meant cheap money, no better than greenbacks or freely coined silver."[45]

4.2 Experimentation as a policy principle

FDR was not as fearful about inflation as his advisers. If a moderate amount was required to achieve his two fundamental goals – increasing agricultural prices and reducing unemployment – he was willing to live with it. But he was certainly not an "inflationist" in the sense of Bryan. More than anything, Roosevelt was an "experimenter." He liked to consider – and sometimes try – different methods and tools, and see if they would produce the desired outcome. "He liked to elaborate possibilities, play with alternatives, and suggest operating improvements."[46] His desire to experiment came clearly in the Oglethorpe Speech:[47]

> "The country needs and, unless I mistake its temper, the country demands bold, persistent *experimentation*. It is common sense to take a method and try it: If it fails, admit it frankly and try another. But above all, try something. The millions who are in want will not stand by silently forever while the things to satisfy their needs are within easy reach."

This wish to experiment, of course, extended to monetary issues. In February 1933, Moley was acting as an intermediary in conversations between the President-elect and Senator Carter Glass, to whom Roosevelt had offered the post of Secretary of the Treasury. Moley writes in his 1939 memoirs: "I didn't know the exact nature of the President-elect's monetary plans. But I knew his experimental, tentative, and unorthodox temperament."[48]

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[43] The "bonus agitation" refers to the demand by WW I veterans to be paid a promised bonus. Berle (1973), p. 55-56.
[44] Tugwell (1935), reproduced in Namorato (1992) p. 301. Emphasis added.
[45] Tugwell (1968), p. 158.
[46] Tugwell (1968), p. 58.
[47] Delivered on May 22, 1932. The Public Papers and Addresses of Franklin D. Roosevelt," Vol 1, 1938, pp. 639-647, emphasis added. This speech was drafted by noted journalist Ernest Lindley.
[48] Moley (1939), p. 121.

The idea of experimenting meant that most options had to be kept open and on the table for as long as possible, and that no commitment was to be made with respect to one policy or another. This was indeed the situation with respect to gold and the value of the dollar. Almost one month before inauguration, Tugwell consigned the following thought to his diary:[49]

> "The issue which seemed most important was the question of the maintenance of the gold standard… This is a question, of course, that is deeply troubling to the country as a whole… I have taken the position that the President [elect] ought not to commit himself too deeply on either side of it until the necessities of the case have a chance to dictate their own policies... [T]his matter ought to remain for the moment in a flexible state… [W]e ought to be prepared to consider all kinds of *improvised* ways of meeting the exigent situations which I feel we are apt to find ourselves in during the next few months."

In the matter of what type of "experiments" to undertake once FDR was in power, Tugwell and Berle called for planning and massive public works, even if it meant an unbalanced budget in the short run. Both, however, were reluctant to use devaluation as a way of dealing with deflation. In his 1968 memoir Tugwell writes about the discussions during the campaign on future policies (Tugwell 1968, p. 97, emphasis added):

> "I argued… [that] there was no escaping the conclusion that if anything really remedial was to be done, it must start with a massive enlargement of buying power furnished by federal funds…. Such a program might have the same eventual result as the *devaluation of the dollar* being advocated by Irving Fisher…"

Tugwell was also insistent on the need for "relative prices" to be realigned. The deflation had moved many prices out of line with each other, and planning of some sort – probably along the lines of the future NRA – could bring prices in different sectors back into equilibrium. Only then, he though, it made sense to talk about "reflation." Just before the election Tugwell told the Governor that the "real trouble was lack of correspondence, of fair relationship among prices, and a general lifting would not cure that."[50] In a paper written with R.S. Strauss in August 1932, Tugwell came back to relative prices and their misalignment: "It is not the collapse of prices but the collapse of some prices and the rigidity of others which has resulted in the present untenable predicament."[51]

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[49] Emphasis added. Of course, not everyone agreed with this view. In the same entry to the diary Tugwell writes that Walter Stewart, an adviser on issues related to intergovernmental debts, believed that FDR "ought to say what his intention is with respect to this question very publicly." The entry is from Tugwell's 1933-35 diary, edited by Namorato (1992, p. 77).

[50] Tugwell (1968, p 158), emphasis in the original. This view, Tugwell would recognize more than thirty years later, neglected the fact that a general price level hike would help dilute the real value of debts, whose burden had greatly increased since 1929 as a result of deflation (Tugwell 1968, p, 158-159).

[51] Raymond Moley's papers, The Hoover Institution. Box 107.

The Democratic Party platform, drafted by A. Mitchell Palmer, who had been Attorney General during the Wilson administration, also left open the possibility of currency experimentation. This was done by the right choice of words: instead of pledging support for the gold standard, or an unchanged value of the dollar, it talked about the need to maintain a policy of "sound money." Walter Lippmann referred to the platform as having Wilsonian values, and noted that it "starts with a declaration for drastic economy and a sound currency. It does not contemplate a currency inflation in the spirit of Bryanism or an expansion of governmental activity to create a new social order."[52] On July 30 FDR reaffirmed the party's policy stance on money in a radio address, when he said: "A sound currency [is] to be preserved at all hazards, and an international monetary conference called, on the invitation of our government, to consider the rehabilitation of silver and related questions."[53]

Tugwell, who in spite of not being a monetary theorist, was a solid economist, was concerned that maintaining "sound money," however vague the term was, and remonetizing silver, were contradictory policies.[54]

In his 1939 memoir Moley writes repeatedly of his efforts to push back on those that wanted FDR to follow an "internationalist" policy and give the dollar and gold a priority during the first months of the administration. He writes that he "would lean heavily on… Rex Tugwell and Adolf Berle, who agreed with me in opposition to traditional internationalism…" And he adds that it was important to let everyone know "that Roosevelt was likely to be no Herbert Hoover or Henry Stimson on foreign affairs. It was a warning that the New Deal rejected the point of view of those who would make us parties to a political and economic alliance with England and France…"[55] As it turned out, and as it will be discussed in Section 6, it was not possible to keep the new President away from international issues. Even before he was inaugurated he had to deal with the intergovernmental debts crisis and had to decide what the American position would be in the London Economic and Monetary Conference that had been conveyed for the first half of 1933.

Beatrice Bishop Berle, Adolf's wife, kept a diary where she wrote down her views on what was going on in the campaign, and where she tracked her husband's thoughts and activities. Mrs. Berle's diary is, indeed, an invaluable source for unearthing the granularity of this intense period. On October 16 1932 she wrote: "F.D.R. it seems… does not consider the gold standard as the basis for all sound economic life. He is flirting with the idea of a managed currency."[56] A day later, however, on October 17, Adolf Berle wrote a Memorandum for the files wherehe stated "I

[52] Lippman (1932), p 309.
[53] Xxxxx Item 132 p
[54] Tugwell (1968, p. 378).
[55] Moley (1939), p. 71 and pp. 78-79. Emphasis added.
[56] Berle (1973), p. 72.

gathered that the governor would rather stay on the gold standard than not. But he is not undertaking to say now what the policy will be."[57]

These two entries captured clearly the state of affairs in October 1932: no one knew – not even FDR – what to do regarding the gold standard. Ideas were muddled and it seemed that anything was possible. What is clear, however, is that contrary to what Herbert Hoover and others argued, by Election Day there was no grand (or small, for that matter) plan to take the country off gold and debase the dollar.

5. The Covenant Speech

Herbert Hoover barely campaigned during the first nine months of 1932. He believed that his post was at the White House, dealing with the nation's many problems. He also believed that voters would understand that the Depression was the result of external forces and that he had done everything possible to ameliorate its effects. In October, there was a new wave of bank failures and prices fell once again. Reelection didn't look so clear after all, and the President decided to campaign aggressively and to go on the attack.

In his memoirs Hoover wrote: "Secretary Mills and I determined to smoke out in the campaign the whole devaluation-managed currency and fiat money issue." On October 4th, in what he considered to be his "campaign launch," the President gave, in Des Moines, a thundering speech, where he explained the importance of the gold standard, stated how close the nation had been to a terminal crisis, and remarked with vehemence and great force that if Roosevelt was elected the country would move towards a chaotic future. He said: "Going off the gold standard is no academic matter [presumably a reference to 'the professors' of the Brains Trust]." He then referred to the gold clause on contracts – a clause that Congress would repeal on June 5 1933 – and said "our people have long insisted upon writing a large part of their long-run debtor documents as payable in gold." Hoover then stated that in February the nation had been two weeks away from being unable to "hold to the gold standard… [and] to meet the demand of foreigners and our own citizens for gold." He then said that his "administration kept a cool head and rejected every counsel of weakness and cowardice… We determined that we would stand up like men, and render the credit of the United States government impregnable."[58]

A few days later Hoover was back on the offensive and in Indianapolis he said that "the Democratic candidate has yet to disavow the [idea]… to issue greenback currency…" And on October 31st he said in New York that "fiat money is proposed by the Democratic party as a potent measure for relief from the depression". But this path, he warned, would produce "one of the most tragic disasters to… the independence of man."[59]

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[57] Berle (1973), p. 73.
[58] Hoover (1952), 280-283.
[59] Hoover (1952), 284.

In view of these attacks, the Roosevelt campaign decided to follow a two part strategy. First, Senator Carter Glass, a venerable figure that was known for his orthodoxy in monetary affairs, was recruited to give a radio speech on the subject of gold and money. Second, it was decided that the candidate himself would respond directly to Hoover attacks a few days before the elections.

Glass's speech was a masterful piece of oratory. It opened with references to Hans Christian Andersen, Karl Grimm, and Aesop. The old Senator then moved to the history of monetary policy in the United States, and to what he called Hoover's "ingratitude" towards him and other members of Congress that had stood by the President during the crisis. He argued that the Democratic Party had always supported stability, gold and low inflation. He then criticized Secretary of the Treasury Ogden Mills for allowing thousands of banks to fail. He closed with a reference to his party's platform and he assured his listeners that the Roosevelt administration would pursue the policies of sound money.[60]

Immediately after Hoover's first attack, FDR's advisers began to think on how the candidate could best respond to the accusations that he was going to lead the country to inflation, devaluation and perdition. Adolf Berle wrote in his diary:[61]

> "[We were drafting] a speech answering Hoover at Des Moines. We decided to eliminate the gold standard part, because the financial district already made that argument; also because the Governor said. 'I do not want to commit to the gold standard. I haven't the faintest idea whether we will be on the gold standard on March 4th or not; nobody can foresee where we shall be.' *I gather that the government would rather stay on the gold standard than not*. But he is not undertaking to say now what the policy will be."

On November 4 1932, at the Brooklyn Academy of Music, Roosevelt replied to Hoover's claim that he was a "devaluationist." He opened by praising Senator Carter Glass for his "magnificent philippic." He then forcefully denied that he was considering tinkering with the value of gold. He said "the President is seeing 'rubber dollars.' But that is only part of his campaign of fear." But the most important part of the speech was reaffirming a point made by Senator Glass in his radio address. The Senator had said that the fact that the government sold gold-denominated debt to the American people implied a solemn promise, indeed a covenant that the debt would be honored as issued. FDR reiterated that this was indeed the case: there was a covenant between each U.S. government and the American people. He then repeated that the Democratic platform declared that sound currency had to be preserved at all hazards, and repeated what he had said on June 30: "Sound money is an international necessity; not a consideration for one nation alone. That is, I want to see sound money in all the world… Sound money should be maintained at all regards."[62]

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[60] The complete speech was reproduced in the New York Times on November 2 1932, pp. 12-13.
[61] Berle (1973), p. 73. Emphasis added.
[62] "Text of Governor's Roosevelt Speech at Brooklyn Rally," The New York Times, November 5, 1932, p. 10.

To some, this speech is the ultimate example of a cunning politician's doublespeak; he pledged support to sound money and not the gold standard. Further, when referring to the covenant implicit in the gold clause, he said it in a way that could be interpreted as it being a statement by Senator Glass. This, indeed, was Hoover's interpretation in his memoirs. But there is another reading. The Covenant Speech was sincere, and the decision to avoid a pledge to maintain the gold standard was not because of the Governor's maliciousness, but it reflected, as Adolf Berle pointed out in his diary, FDR's genuine doubts and hesitations. He plainly didn't know what to do. Be it as it may, it is interesting to note that five years later, when the first volumes of FDR speeches and public papers were published, the Covenant Speech was not included. Indeed, today it is difficult to find a complete version of what the candidate said on the verge of the elections.

6. The transition: Rumors and more rumors

On November 8 1932 Franklin Delano Roosevelt was elected president by a landslide. He clearly had a mandate from the American people. He had promised to focus on domestic problems and to relegate international issues to a secondary plane; he had also committed himself to follow "sound money" policies. For many, including for Senator Carter Glass, this meant that the gold standard would be maintained at any cost. To others, the gold issue continued to be on the table, and devaluing the dollar was not completely ruled out; what to do would depend on the circumstances.

6.1 Views on gold in early 1933

During the transition, supporters and detractors of the gold standard continued to put pressure on the President-elect. In a memorandum written in November 1932, Tugwell wrote that "[w]hatever stance Governor Roosevelt takes, he can be sure that half of the economists will be on his side, and half will be against it. There can be no bitterer academic dispute than the dispute that has been raging over what can and should be done about the fallen price level. The plain truth of the matter seems to be that very little is really known about monetary problems, and opinion seems to be as much matter of temperament and moral upbringing as of rational thought process."[63]

Of course, Irving Fisher was not the only critic of the system; there were many others. For example, in 1922 a number of economists and practitioners had submitted statements to the House of Representative in support of the Goldsborough bill. One of the most prominent ones was James Harvey Rogers, a Yale Professor that in the second half of 1933 would become a key adviser to Roosevelt, and who would play a central role in drafting the Gold Act of 1934.[64] In 1931 Rogers published a book titled *America Weights her Gold*, where he argued that "among the most illuminating anomalies of our so-called advanced civilization is the gold standard. To the rationally inclined, that the weight of anything should be chosen and continued to be used as

[63] The memo was co-authored with Robert Strauss. Raymond Moley's papers, The Hoover Institution. Box 107.
[64] In 1922 Rogers was at Cornell. In 1932 he was the Sterling Professor of Economics at Yale.

the standard of value is strange enough. That it should be the weight of a substance which at the time of its choosing was usable only for ornament is even stranger."[65] Rogers met once with FDR before inauguration. The conversation, however, did not go very far. In the second half of 1933, However, Rogers would become an assiduous visitor to the White House, and his views became increasingly influential.

At the political level, Henry Wallace, the editor of the popular publication on agricultural issues *Wallace's Farmer*, was a key supporter of the Fisher plan. In 1933 Wallace became Secretary of Agriculture, and Rex Tugwell's direct boss – Tugwell was named Assistant Secretary in the Department of Agriculture. Henry Morgenthau Jr., a friend and neighbor of FDR in Dutchess County, who in March was appointed Governor of the Farm Relief Administration and that eventually replaced an ailing Will Woodin as Secretary of the Treasury, was also a critic of the gold standard. Morgenthau believed that uncoupling the value of the dollar from gold was a requisite to increase agricultural prices and, in that way, bring relief to farmers. His main concern was not gold itself, but relative prices; for him the goal of policy – and a required step towards recovery – was increasing the price of agricultural products *relative* to manufacturing goods. Morgenthau's views had significant support in Congress, especially among those that favored the remonetization of silver. The *Committee on the Nation*, a private group financed by William Randolph Hearst and Henry Ford, among others, also supported the abandonment of gold and financed a number of books and pamphlets on the subject of gold.

But neither Fisher nor Rogers were the most influential academic detractors of the traditional monetary system. The title of the "chief critic" went to George F. Warren, a rather obscure professor of agricultural economics from Cornell, who was very close to Henry Morgenthau. This is what Herbert Hoover had to say about Warren: "Roosevelt… had fallen into the hands of George F. Warren, a professor of agronomy at Cornell University… His academic guarantee was that devaluation…would raise prices and wages." As it happened, during the second half of 1933 the United States' monetary and external policies were highly influenced by Warren's theory that linked in a rather mechanical way the price of gold with the price of agricultural products. According to his analysis – undertaken with statistician Frank A. Pearson, and based on centuries of data examination –, if the price of gold (in terms of dollars) was increased through a devaluation, there would be an almost instantaneous and proportional increase in agricultural prices.[66] Roosevelt, the experimentalist, the man that loved to *épater le bourgeoise*, the president that had promised to take care of the forgotten man from the rural states, decided to try out Warren's theory, during the second half of 1933. The move was controversial and created great uncertainty. But not only that, its results were questionable and led Keynes to make his famous

[65] Rogers (1931), p. 209.

[66] Warren and Pearson (1933, 1935). During 1933 and 1934, many criticisms of the Warren-Pearson theory were published. See, for example, Pasvolsky (1933). For a recent defense of Warren's theories and policy recommendations, see Sumner (2013).

quip that "the recent gyrations of the dollar have looked to me more like a gold standard on the booze than the ideal managed currency of my dreams."[67]

In early 1933, the gold standard also had a number of prominent defenders. For them it was essential that the U.S. had a monetary system based on a metallic standard. The most prominent and respected supporter of gold was Edwin W. Kemmerer, a banking professor at Princeton, who had helped found the central banks of many Latin American countries and was known as "The Money Doctor." A letter drafted by him, and signed by ten member of the Princeton faculty, said that maintaining the gold standard was essential for regaining "public confidence and… [for] an orderly and enduring economic recovery."[68]

Other respected academics that supported the gold standard included Princeton's Frank Fetter, Columbia's H. Parker Willis, and Harvard's Joseph Schumpeter, who believed that there was very little, if anything, that policymakers could do to fight the Great Depression; he was particularly skeptical about the possibilities of an active monetary policy response. In 1933 Schumpeter wrote that there was a strong "presumption against the remedial measures which work through money and credit… [P]olicies of this class are particularly apt to keep, and add to maladjustment, and to produce additional trouble…" Schumpeter's Harvard colleague S.E. Harris had a similar view. In November 1933 – that is, after the gold embargo, but before the Gold Act – he wrote that "the abandonment of the gold standard seems to have been a doubtful measure." He then added that the gold embargo "resulted in shattered confidence… [and] gave the government the courage to experiment with fatal high cost policies…"[69]

A number of academics, including Jacob Viner, who in early 1934 would become an adviser to the Treasury, had intermediate or mixed views regarding the gold standard. They agreed that it had become highly unstable, but did not think that there was an obvious replacement for it. In his 1932 Harris Lecture, Viner said that "it seems wise policy for countries still on the gold standard to exploit more fully its possibilities of service before abandoning it as utterly incorrigible. But the gold standard has rightly been put on the defensive, and only substantial assurance of better performance in the future than in the past will entitle it a new lease of life."[70] Viner and many of his Chicago colleagues were highly pragmatic and critical of the way in which the Federal Reserve had acted since the mid-1920s. They argued vehemently that a central bank had to pursue a countercyclical policy in order to smooth economic activity through time, and avoid major cyclical gyrations.[71]

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[67] The New York Times, December 31 1934.

[68] "Attack on Inflation made at Princeton," The New York Times, December 7, 1933, p. 2.

[69] This article was written in 1933 and published in 1933. See, Schumpter (1934), pp. 20-21. Emphasis in the original. Harris would go on to become a convinced Keynesian. In 1936 he published the best book on the devaluation published around that time.

[70] Viner (1932), p. 39.

[71] See the "Recommendation of Twenty-Four Economists," released on January 31, 1932. The complete recommendation is reproduced as Appendix I in Wright (1932), pp. 161-163. In mid-1933 a smaller group of Chicago economists made a more specific proposal for reforming the monetary system, which they sent to the

Keynes was another critic of the traditional gold standard. Indeed, in 1924 he wrote what has become a famous quote: "In truth, the gold standard is already a barbarous relic."[72] In the *Tract on Monetary Reform* he also said that "in the modern world of paper currency and bank credit there is no escape from a 'managed' currency, whether we wish it or not…"[73] However, Keynes views evolved, and by late 1932 they were much more nuanced. In 1933, he devoted Chapter V of *The Means to Prosperity* to the gold standard and the creation of an "international note issue" linked to gold (a precursor of his *Bancor* from the 1940s).[74] He wrote that the "notes would be gold-notes and the participants would agree to accept them as the equivalent of gold. This implies that the national currencies of each participant would stand in some defined relationship to gold. *It involves, that is to say, a qualified return to the gold standard*."[75]

Keynes' "support" for gold was very idiosyncratic and subject to a number of qualifications. What his plan implied was adopting a new type of monetary system with greater flexibility to undertake countercyclical monetary policies. More importantly, his "international notes" would greatly increase worldwide liquidity, and reduce central bankers' apprehensions about "free gold." Keynes also believed that a once and for all depreciation of "national currencies" – notice the plural – would help increase "loan-expenditure," as central banks would be "be satisfied with a smaller reserve of international money."[76] A key question, and one that would dominate the London Conference in June 1933, was at what rates the new parities should be set and currencies stabilized.

In many ways, Keynes proposal for a "qualified return to the gold standard" of 1933 was similar to James P. Warburg's plan for a "modernized gold standard." Warburg's program, developed in early 1933 in preparation for the London Economic and Monetary Conference, was based on the idea of reducing, in every country, the gold "cover ratio."[77] The goal of both schemes was to "relieve the anxieties of the world's Central Banks, so as to free their hands to promote loan-expenditure and thus raise prices and restore employment."[78] Interestingly, while in the 1924 *Tract* there are several laudatory references to Irving Fisher and his "compensated dollar" plan, in 1933 there is no reference to either of them.

Secretary of Agriculture Henry A. Wallace. This scheme received the name of the "Chicago Plan." Surprisingly, Viner was not among the sponsors of this more detailed Chicago plan.

[72] Keynes (1924), p. 172.

[73] Keynes (1924), p. 170.

[74] Chapter IV contains Keynes proposal for the World Economic Conference. See the discussion below. This pamphlet put together (somewhat) revised versions of four articles that Keynes published in The Times of London in March 1933.

[75] Keynes (1933), p. 30. Emphasis added.

[76] Keynes (1933), p. 20

[77] Warburg, the heir of a prominent banking family, was an unpaid adviser to the government during the preparations for the London Conference. He attended the Conference as a member of the American delegation. On his plan, see Warburg (1934), Appendix A, pp. 237-257.

[78] Keynes (1933), p. 30.

As the debate on gold dragged on in seminar rooms and in the pages of newspapers and magazines, the members of the Brains Trust continued to labor away. Among other things they had to deal with a deluge of letters to the President-elect – and to themselves, for that matter – with all type of proposals on what to do to bring the crisis to an end. Many of the suggestions had to do with the agricultural sector; other focused on the banking system, which looked increasingly weak; and yet other had to do with the currency and ways to bring deflation to an end. Some of the proposals made sense, and some were based on fantasy. Among the useful suggestions in Ray Moley's archives is a letter from financier and FDR friend René Leon, who suggested looking into the 1917 *Trading with the Enemy Act* to determine whether the President had the legal power to limit gold outflows.[79] Among the more fanciful suggestions was Irving Fisher's proposal for issuing indexed money.[80]

During these transitional months the members of the Brains Trust continued to be skeptical about the merits of a devaluation. In a comprehensive memorandum written to the President-elect on January 26 1933 Adolf Berle wrote that "[t]he theory is that inflation of the currency [another name for devaluation] will raise prices. Historically it does not do that for a long while." He then added that since a stepwise devaluation usually did not work, governments tried a second and a third correction. "Generally, a third shot creates a panic; there is flight from the currency, everybody wanting to turn their dollars into property… You [FDR] put it accurately when you said that the activity resulting from inflation was the activity of fear."[81]

On November 17 1932, FDR met with Professor H. Parker Willis, a monetary theorist from Columbia. The conversation dealt with the international monetary system and the upcoming London Conference. Two days later, Willis wrote to Senator Carter Glass, summarizing the meeting. His account, captures, once more, the the President-elect did not have a clear idea on what he wanted to do about gold or exchanges. Parker Willis wrote: "[T]he President-elect… discussed at some length various problems concerning international relations [term then used for global economics issues]… but he expressed very little definite opinion…"[82]

6.2 <u>The London Economic and Monetary Conference</u>

On November 13, barely five days after the election, the President-elect was informed that the U.S. was about to face a major international crisis. The intergovernmental debt moratorium in place since mid-1931 had expired in June. On November 10 the United Kingdom and France informed the Hoover administration that they were unable to make the payment scheduled for December 15, and requested an extension of the moratorium. In the weeks that followed the President and the President-elect met two times, and their representatives began around the clock

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[79] Indeed, this piece of legislation was invoked on march 6 to declare the banking holiday, and impose a gold embargo.

[80] Raymond Moley's papers, The Hoover Institution. Box 107.

[81] Raymond Moley's papers, The Hoover Institution. Box 102.

[82] Both the Willis letter and Rogers' memorandum were attached by Tugwell to his Revised Diary. Tugwell (1952), as reproduced in Namorato (1992, p. 368-372).

discussions on what to do. Hoover wanted to form a commission formed by members of Congress and of the administration to consider further debt relief. FDR, on the other hand, believed that debtors had to make the payments as scheduled. Behind these positions were deep disagreements on what the U.S. foreign policy should be. Hoover was an "internationalist," while FDR believed that his government should give priority do domestic policies and get recovery going before any substantial initiative regarding debt was launched.[83]

The intergovernmental debts problem was complicated by two additional issues moving in parallel: the U.S. and the European nations were working on disarmament, and an Economic and Monetary Conference had been convened to discuss issues of policy coordination and the recovery. Hoover and the Europeans wanted all three issues – debts, disarmament, and economics – to be discusses jointly, and they argued that the Conference should begin, at the latest, in April 1933. The President-elect and his team, on the other hand, believed that the three problems had to be approached separately and that the Conference should take place much later during the year. [84] This, for two reasons: they didn't want to be distracted with foreign affairs questions during the first few months of the administration, and they wanted time to understand the issues to be discussed at the conference, including the possible return of the United Kingdom to the gold standard, and how to deal with the fact that France had been accumulating gold reserves at a very rapid clip.[85] After long negotiations and much wrangling, FDR's views prevailed, and the London Conference was scheduled for June 1933. It was suppose to be a long meeting with delegations from almost every country in the world and a very broad agenda.

6.3 Stabilizing the exchanges

As soon as a date for the Conference was set, FDR asked the members of the Brains Trust to work on it. Moley was in charge of coordinating a team that included Treasury experts, banking advisers, some members of Congress, as well as professionals from the Federal Reserve.[86] The request to work on the Conference, which among other things meant meeting with foreign delegations, came on top of other assignments, such as thinking on how to provide immediate

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[83] These two positions reflected different interpretations on the causes of the depression. For Hoover, the main cause was a succession of external shocks; returning to prosperity, thus, required an active stance regarding world economic affairs. FDR, on the contrary, believed that the depression was the domestic policy mistakes.

[84] Not everyone in FDR's circle agreed with these views. The seasoned diplomat Norman Davis, for example, pushed for an early Conference that would address the broadest possible set of issues.

[85] The United Kingdom and a number of countries linked to sterling went off gold on September 21, 1931. A number of countries followed during in the months to come: Denmark, Norway and Sweden on September 29; Finland on October 12; Canada on October 19; and Japan on December 13, 1931. Four Latin American countries went abandoned the gold standard even before the U.K.: Argentina (12/1929), Brazil (10/1030), Mexico (7/1931) and El Salvador (10/1931).

[86] Moley had been the only person to accompany FDR to his first meeting with Hoover, where they discussed the end of the moratorium and the upcoming London Conference. In that first meeting, held on November 22, Hoover was with his Secretary of The Treasury, Ogden Mills, who had been a classmate of FDR's at Harvard and was his neighbor in Hyde Park. Roosevelt and Mills disliked each other immensely.

relief to debtors, especially in the agricultural sector, and helping the President-elect assemble the Cabinet.

On January 13 1933, Tugwell wrote in his diary that he had met Herbert Feis, a senior adviser to the Secretary of State about the preparatory negotiations for the London Conference:[87] "He [Feis] said that things are going well… This is contrary to press reports… The press has it that the British reluctance about currency stabilization is hampering everything. It may be; but we, also, might meet them by going off gold, I suppose. It's worth considering at any rate." [88] The key words in this entry – "might," "I suppose," "worth considering" – capture, once again, the doubts that Tugwell and his colleagues continued to have with respect the whole gold question.

Feis was not particularly impressed with FDR advisers: "My first talks with the assorted members of the Brain Trust (sic), the publicized set of Roosevelt's assistants and ghost writers, left me puzzled. Their knowledge of foreign affairs seemed to be slighter than their assurance."[89] This view was quite generalized among those that worked on the preparations for the Conference. Frederick Leith-Ross, a top level economic adviser to the British government and an expert on the gold standard and global finances that in early 1933 participated in the early negotiations had this to say about the Brains Trust and their role in the discussions about the future of the financial system:[90]

> "[T]he President seemed to rely more on a coterie of personal advisers… than on his ministers… These personal advisers were mostly professors and were locally known as the 'Brains Trust'… The principal of the Brains Trust with whom I had to deal was Professor Moley, who had been a professor of Criminology at a girls' college… [Moley] was free of prejudices and ready to appreciate arguments put to him but almost completely lacking in detailed knowledge of many of the questions that we discussed… With him were Dr. Feis (who had attended the Preparatory Committee at Geneva), Mr. Tugwell and Mr. Taussig, all competent economists but with little experience in finance."

Leith-Ross went on to consign that more often than not his American counterparts didn't quite know what to think or what position to take on the different issues to be addressed in London: "I remarked at the time [early 1933] that they sometimes gave me a restful interlude by embarking on an economic controversy between themselves which made me wonder whether we were engaged on inter-governmental negotiations or attending a debating society."[91]

One of the key issues to be addressed at the London Conference was "stabilization of the exchanges." The idea was to stabilize exchange rates for at least the duration of the Conference,

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[87] Feis went on to write a valuable memoir of his experiences during this period, when he was involved as an adviser to both Secretaries Henry Stimson and Cordell Hull. Feis (1966).
[88] Tugwell 1935) as reproduced in Namorato (1992, p. 59).
[89] Feis (1966), p. 1.
[90] The "girl's college" quip refers to the fact that Moley's official university appointment was at Barnard College. Leith-Ross (1969), p. 165.
[91] Leith-Ross (1968), pp. 166.

and as a prelude for a possible return to the international gold standard. Because of the importance of Great Britain in the world economy, this discussion implied mostly – but not exclusively – at what rate to stabilize the pound sterling. Keynes proposal for the Conference – contained in Chapters IV and V of *The Means to Prosperity* –, was based on the idea that every country would adopt his "qualified gold standard" with fixed exchange rates, greater monetary flexibility, and the ability by central banks to facilitate massive "loan-expenditures."[92]

Almost everyone thought that stabilizing the pound was a step in the right direction, but the question was at what rate? Between May 1925, when Britain returned to the gold standard, and September 1931, when it went off gold, sterling had been fixed at its historical level of 4.86 dollars per pound.[93] In early February 1933, when negotiations on the London Conference intensified, the market rate was $3.40 per pound, implying a depreciation of sterling of 30% from par. This, according to the American negotiators, gave the sterling area countries an unfair competitive advantage in world markets. Stabilization was to occur, they argued, at a significantly stronger value for the British currency.

Moley believed that the stabilization of exchanges was important, but that negotiations on this issue – and on the tariff – should not distract the incoming administration from the need to get domestic recovery going. In his 1966 memoirs he writes: "It seemed to me that… the stabilization of British and French currencies could not have much to do with the primary need for recovery in the United States. Further, coming to terms on these issues would take months, while the restoration of public confidence by vigorous domestic measures would produce results at home almost immediately." (Moley 1966, p.53).

FDR's closest advisers believed that different countries deserved different degrees of consideration. On November 15, only two days after FDR found out about the impending debt crisis, Adolf Berle sent a long memorandum to Moley, where he wrote that the French were not "entitled to much consideration. The drive on the American gold last summer suggests that the Quai D'Orsay would not have been wholly sorry to see the United States go off the gold standard, permitting payment of the American debt in depreciated dollars instead than in gold." [94]

The British believed that stabilization was fundamental, but didn't quite know at what rate it was appropriate to do it. This view is aptly summarized by Leith-Ross (1968, p 168) in his memoirs: "While we did not question the desirability of the eventual return to a stabilized exchange rate, we felt that more experience was needed before we could decide what precise rate we would be able to maintain."

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[92] Keynes plan for the Conference would evolve into his Bretton Woods plan. See Steil (2013) for a fascinating account of the interaction between Keynes and Harry Dexter White in 1944.

[93] Strictly speaking, until September 1931 the pound was tied to gold, and so was the USD. Consequently, both currencies had a fixed exchange rate between themselves (they exhibited minimal fluctuations within the "gold points").

[94] Berle (1973), p. 80.

During the months to come, the question of at what level to stabilize the exchanges continued to be a dominant one. At some point in early April, Professor Oliver Sprague, a Treasury adviser that had been FDR's economics teacher at Harvard and a consultant at the Bank of England, suggested stabilizing it at $3.65; a few days later Moley talked of $3.85.[95] And in early June, Leith-Ross pointed out that recent fluctuations in the currency market made the decision very difficult. "Sterling which not long ago had been worth less than $3.20 was now fetching over $5.20."[96]

The question of at what level to stabilize the exchanges is directly related to whether the currency is "in line with fundamentals," or if, on the contrary, it is misaligned (overvalued or undervalued). Nowadays this type of analysis has become routine, and is periodically performed by the multilateral institutions (IMF, World Bank), central banks, and investment banks. In the late 1920s and early 1930s technical analyses on these issues were mostly confined to purchasing power parity calculations. Indeed, this method had been used by Cassel and Keynes when looking at the interwar situation in Europe.[97] Interestingly, there are no discussions in the Brains Trust diaries or memoires along these lines. Indeed, in the early 1930s the economics profession did not focus on possible exchange rate misalignment when discussing the possibility that the U.S. would go off gold. Most of the discussion emphasized the monetary side, tending to ignore the trade implications of the problem. In addition, there were very few (if any) detailed analyses on how a devaluation would affect the balance of trade, and through this channel gold flows. This is, in many ways, surprising, given that Alfred Marshall had published his *Money, Credit and Commerce*, with its detailed discussion of the role of elasticities in international trade in 1924.[98]

Analyzing in detail whether the dollar was misaligned in the early 1930s is well beyond the scope of this paper. However, and in order to have some notion about orders of magnitude, in Figure 6 I display the evolution of two monthly trade weighted real exchange rate indexes for the USD for this period – RER4 and RER5. The RER4 index includes the United Kingdom, Canada and France; the RER5 adds Italy and Switzerland. These indexes have a base of 1913=100. The Figure captures, clearly, the effects of a number of shocks and policy decisions on the U.S. real exchange rate. In particular, it is possible to see the consequences of the suspension of the gold standard during the Great War, the return to the gold standard by the sterling area countries (the U.K. and Canada) and Switzerland in 1925, the return to gold by Germany in 1924, and by France and Italy in 1926. The devaluation of sterling in September 1931 is captured by the positive spike in the RER during that month; and the devaluation of the dollar in 1933-34 by a spike in the opposite direction in both indexes. The devaluation of the French and Swiss Francs are also clearly captured by the data. In Figure 7 I present data on the evolution of the current account balance over GDP for 1919-1937. As may be seen, in every year between 1919 and 1932

[95] See Raymond Moley's Diary for 1933. The Raymond Moley Papers, Hoover Institution, Box 1.
[96] Leith-Ross (1968), p. 168.
[97] Cassel (1922), Keynes (1923).
[98] The development of the formal Marshall-Lerner condition was still ten years away.

the U.S. ran a current account surplus. These were very large in the years immediately following the Great War, reflecting the very high prices of agricultural commodities. After 1923 the surpluses hover around 0.5% of GDP.

These Figures show two things: (a) In late 1932 the RER indexes for the USD were between 12% and 16% higher than in 1913. That is, the dollar was approximately 14% stronger than it had been just before the war. (b) In 1931 and 1932 the U.S. was still experiencing a current account surplus. In spite of the week to week fluctuations in gold flows that followed the U.K.'s abandonment of gold, the overall contribution of the current account to the stock of bullion was positive. Taken together these two figures suggest that the USD may have been slightly overvalued at the time. This would have called for a small correction in the exchanges relative to the pre war levels. Neither the RER data nor the current account information suggests that a massive correction of the exchanges was needed. In fact, according to the data in Figure 6, in the months immediately after the official devaluation of the dollar the rear exchange rate collapsed reaching some of the lowest levels in the period. It is tempting to say that by devaluing the dollar the U.S. becae a "currency manipulator."

6.4 No one knew where FDR stood

During the 1932 campaign the general sentiment was among the population had beeen that in spite its shortcomings the gold standard was the best system America could have. However, as Inauguration Day approached and the Depression deepened, sentiments among some began to change. Moley characterized the situation in the weeks before inauguration as follows:

> "[A] source of trouble in [early] 1933 was the growing talk in Congress, in the press and in semi-private talk that the gold value of the dollar would be reduced. For the first time in history, talk of a cheaper dollar was not the monopoly of populistic farmers…. This time it came from urban politicians, college professors and even some of the more prominent businessmen…"

Instability was also fueled by some of the incoming members of the Cabinet. For instance, on January 31, Henry Wallace, just appointed as the next Secretary of Agriculture said: "The smart thing to do would be to go off the gold standard a little further than England has." In an effort to straighten things up, George Harrison, the President of the New York Federal Reserve Bank contributed to the unease. On January 31 he issued a statement stating that a devaluation would not solve the deflation and would create serious dislocations.[99] This uncertainty, plus the perilous state of banks of all sizes and from all over the nation, resulted in increasing withdrawals of gold from the banking system. It was not only big financiers and speculators, but also run-of-the-mill middle class families that were concerned about the future and their savings. And in the middle of this talk and upheaval FDR didn't appear to have a strong view on what to do, or how to handle the situation. If anyone would know this, it was Moley, who saw Roosevelt for several

[99] The New York Times, January 31, 1933. See also Hoover (1952), p. 200.

hours every day. According to him, "in the midst of all the talk of "reflation" by dollar manipulation, no one knew where the President-elect stood."[100]

In late February the Brains Trust's views on the dollar and the gold standard had not changed from what they had been during the campaign. That is to say, Moley, Tuwell and Berle *did not have* a strong or definitive position on these matters. They continued to waver and doubt; they still believed in the merits of experimentation and of leaving all options open; at times they looked at "compensated dollar" scheme with sympathy, and at others they strongly criticized those that believed that most problems stemming from the Depression could be cured by the simple manipulation of the price of gold. To put it simply, on March 4th, the day Franklin Delano Roosevelt was to take over as President, there was no plan for taking the U.S. off gold and devaluing the dollar. Worse yet, there was not plan for saving the banking system, which was about to collapse. It seemed that in many ways FDR and his team were taking the idea of improvising a bit too far.

7. A note on what came later

On Inauguration Day the Brains Trust was effectively disbanded. Ray Moley became Assistant Secretary of State and for a few months he continued to be FDR's confident. He would meet with the President every morning, while FDR was still in bed. Rex Tugwell became Assistant Secretary in the Department of Agriculture and immediately immersed himself in efforts to pass the AAA with its controversial crops allotment provision. Adolf Berle decided to stay in New York and continue to practice law. He would occasionally write to FDR and they would sometimes meet for a chat, but during the First New Deal Berle had no government obligations.

Formally, this paper should end with the dissolution of the Brains Trust, but doing so would mean leaving too many things dangling, and a good suspenseful story without a proper end. The purpose of this Section, thus, is to briefly go over the gold-related events that occurred between inauguration and the official devaluation of the dollar on January 31 1934.[101] At that time the price of gold was set at $35 per ounce, a price that prevailed until August 1971 when President Richard Nixon closed the Treasury's "gold window" And the dollar was once again devalued.

7.1 The gold embargo

On March 4, 1933, the day Franklin D. Roosevelt was inaugurated as president, the nation was facing the third banking crisis of the Great Depression. Trouble had begun two weeks earlier in Detroit, when on February 14 the Guardian National Bank, an institution controlled by Henry Ford and one of the largest banks in Detroit, had been closed by regulators. The crisis spread rapidly throughout the nation. Fearing for their savings, the public withdrew hordes of currency and gold from banks, both small and big.

[100] Moley (1966, p. 135).
[101] The title of this section is taken from the last chapter of Rexford Tugwell's 1968 memoirs.

In the early hours of March 6, less than 36 hours after moving into the White House, the new President signed *Presidential Proclamation No. 2039* declaring a national banking holiday. The reason given for this drastic measure was to "prevent the export, hoarding, or earmarking of gold or silver coin or bullion or currency."[102] See Figure 6. During the week that followed officials of the incoming and outgoing administrations drafted legislation aimed at closing insolvent banks and reestablishing confidence in the nation's financial system. On Thursday March 9 the *Emergency Banking Act* was approved by both houses of Congress, and on Monday, March 13, banks deemed to be healthy began to open. Two days later, the president signed *Executive Order N. 6073*, "Relative to the Reopening of Banks." Among other provisions it stated that "until further order, no individual, partnership, association or corporation, including any banking institution, shall export or otherwise remove… any gold coin, gold bullion or gold certificates." In some aspects, however, the Order was confusing as it said that, after all, gold could be exported "under license issued by the Secretary of State."[103] Most people thought that the prohibition to hold and export gold was a temporary measure and that things would soon return to the way they had always been.[104]

During the first days of the new Administration there was utter confusion regarding its policy towards gold and the dollar. Very early in the morning of March 6 (at 1 AM or so) and immediately after the banking holiday was announced, Secretary Woodin told the New York Times that it was "ridiculous and misleading to say that we are off the gold standard… We are definitely on the gold standard. Gold merely cannot be obtained for several days." The next morning the front page of the Times illustrated the gravity of the situation. An eight columns headline announced the bank holiday. Some of main stories' titles were: "Roosevelt puts embargo on gold," "Prison for gold hoarder," and "City scrip to be ready today or tomorrow to replace currency." Buried among this news, on the leftmost column, there was a story from Germany titled "Hitler bloc wins a Reich majority." See Figure 8.

On March 13, when many banks reopened, something extraordinary happened: the public re-deposited massive amounts of currency in their banking system. Many analysts credited FDR's *First Fireside Chat*, delivered on Sunday March 12, for the return of confidence. Gold, however, was returned to the banking system at a slower pace. On April 5, and as a response to the slower return of bullion, the president signed *Executive Order No. 6102* ordering the public to sell all gold holdings to the Federal Reserve; from that point onward the holding of gold in excess of $100 was prohibited. The Order, however, contemplated three exceptions, and stated that some exports of gold would be allowed by the Treasury.[105] Surprisingly, during the days that followed, currency markets remained calmed and the dollar was stable.

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[102] "The Public Papers and Addresses of Franklin D. Roosevelt," Vol. 1, p. 24.
[103] "The Public Papers and Addresses of Franklin D. Roosevelt," Vol. 1, p. 55. That same day Senator
[104] See Friedman and Schwartz (1963), p. 462-63, for an interpretation along these lines.
[105] "The Public Papers and Addresses of Franklin D. Roosevelt," Vol. 1, p. 111.

7.2 We are off gold

On April 18, immediately after the Easter holiday, the dollar came under significant pressure, and, for the first time since the embargo, broke through the "gold points," making the export of gold profitable. The next day, President Roosevelt decided to stay in the White House living quarters throughout the morning. He had a slight cold and wanted to prepare for a press conference he had called for that evening. At 9 A.M. he had breakfast with Secretary of the Treasury Will Woodin, Budget Director Lewis Douglas, Postmaster General (and old associate and adviser) Jim Farley, and Ray Moley. When the Secretary of the Treasury walked in, the President looked at him and said:[106]

"Mr. Secretary, I have some very bad news for you."

Woodin, whose face had been wreathed in smiles, became somber, as he didn't know what the news could be. FDR continued:

"I have to announce to you the serious fact that the United States has gone off the gold standard."

The Secretary opened his eyes wide, threw up both of his hands, and said:

"My heavens! What, again?"

In 1966, when commenting on this meeting, Ray Moley wrote that the episode and, in particular, Woodin's reaction, "well expressed the difficulty of fixing with exactness the date when the United States abandoned the gold standard."[107] Almost a year later, in 1934, the President wrote that "many useless volumes could be written as to whether on April 20 [1933] the United States actually…abandoned the gold standard." He then added: "In one sense we did not, because the legal gold content of the dollar was unchanged and because the government and the banks retained all gold as the basis for currency. On the other hand, gold here in the United States ceased to be a medium of exchange."[108]

At first everyone – and maybe even the President – thought that the gld embargo would be a temporary measure that would be lifted once the banks' situation became clarified, and healthy banks were back in full operation. But any hope to a temporary measure was ditched when it became clear that the Senate would only pass the Agricultural Adjustment Act if it contained some measures forcing the President to implement inflationary measures. What FDR was able to

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[106] FDR's appointments' diary and, more importantly, the White House usher's log allow us to know who he met every day during his presidency. According to these documents, in the morning of April 19,, 1933, FDR "remained at house" with a "slight cold." The list of those that had breakfast with him on that day is also in this log. See, http://www.fdrlibrary.marist.edu/daybyday/daylog/april-19th-1933/. Excerpts of the press conference related to the banking and gold situation may be found in "The Public Papers and Addresses of Franklin D. Roosevelt," (1938), Volume 2, pp. 137-141. There are a number of sources and versions of this breakfast meeting, including one by FDR himself. What follows is mostly based on Roosevelt (1934), pp. 61-62, and on the New York Times article "Roosevelt traces bank crisis in book," April 12, 1934 (p.3).

[107] Moley (1966), p. 298.

[108] The New York Times, "Roosevelt traces bank crisis in book," April 12, 1934 (p.3)

do was convince Senate leaders to change the legislation from one that requested him to take certain measures to one that gave him a few options for action. That was indeed what the Thomas Amendment did. Among these options was reducing the gold content of the dollar by up to 50%.[109] In 1939 Moley wrote that by acquiescing to the Thomas Amendment, FDR accepted the inevitable.

In 1938, five years after these events and after the dollar had been officially devalued and contracts in terms of gold had been abrogated, Roosevelt came back to this issue. On the occasion of the release of the first volumes of his Public Papers the President wrote:[110]

> "While many of the acts of the administration up to this time [April 19, 1933] were emergency measures, they indicate, nevertheless, a consistent pattern as yet roughly formed, but designed for the purposes of gaining for the American dollar freedom – freedom at home from the threat of instability and freedom abroad for the beginning of a new realignment to the other currencies of the world."

If the members of the Brains Trust did not participate in any way in the decision to abandon the gold standard, did any other economist – or economists – advise the President to this effect? Once again Moley, the only person that met with FDR almost daily during the first six months of his presidency, provides an informed perspective: "A great deal has been written and said about Roosevelt's belief at that time in the idea of Professor George F. Warren of Cornell, that prices could be regulated from time to time by changes in the value of gold. I heard nothing from Roosevelt about the Warren theory in those days in the spring, but later, in August, he began to toy with the idea of using it to raise prices, which had lagged in midsummer after the early rise."[111] This assertion is confirmed from an analysis of the White House visitors' log. George Warren did not see President Roosevelt until July 24, 1933, when they had a brief meeting at 12:05 PM. They met again (twice) on the 8th of August. Warren and FDR would meet a total of 21 times between July and January 1934. The same source shows that during the first half of the year the President did not meet with Professor James Harvey Rogers, the man that, jointly with Warren, would be very influential on monetary issues during the second half of 1933. Their first meeting was on July 12 at 5:30 PM. FDR's uncle, the banker Frederic Delano, also attended that meeting.

7.3 *Roosevelt's "bombshell," the gold buying program, and the Gold Act*

On June 7 the government sold, for the first time in almost fifteen years, debt that didn't have a clause that explicitly stated that these were gold-denominated obligations. On June 5 Congress

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[109] The other options included issuing up to three billion dollars in "greenbacks," accepting payment for foreigndebts in silver (up to $200 million), allowing the Reserve banks to undertake up to three billion dollars in opne market operations. in silver

[110] "The Public Papers and Addresses of Franklin D. Roosevelt," (1938), Volume 2, p. 144

[111] Moley (1966), p. 304. He makes a similar pint in his earlier memoirs; Moley (1939), p. 161

issues a *Joint Proclamation* abrogating the clause that linked debts to the (official) price of gold, for all future and past, public and private, contracts.

On June 3 the *London World Economic Conference* was officially opened. In the weeks to come the the U.S. delegation, which was headed by the Secretary of State Cordell Hull, slowly made progress on all fronts under discussion. In particular, a preliminary agreement was reached with the British and the French for stabilizing currency values during the duration of the conference. This was viewed as a prelude for a more permanent stabilization plan and, even, for an eventual return to the gold standard (possibly at new parities). On July 3, however, all hopes for stability were shattered when the head of the American delegation – Secretary of States Cordell Hull – received a long cable from the President informing him that he would not agree to any attempt to pegging the value of the dollar. The cable stunned every delegate, and came to be known as "Roosevelt's bombshell." Two days later the President held a press conference where he explained his decision as follows:[112]

> "The whole question comes down to the word "stabilization." We have a very different thought about the definition of the word than do some of the Continental countries… We are not ready to export gold… and we are not ready to go along on the creation of some stabilization fund which might obligate us to export gold."

The markets reacted instantaneously. That week the USD lost 8.1% with respect to the pound, and 9.4% relative to the French Franc. The official price of gold, however, remained fixed at its historical level – set in 1834 – of $20.67 per ounce.

In early August, Administration lawyers began to explore the possibility of the government buying – on consignment – newly minted gold at a price that exceeded the official parity. Original discussions revolved around a price of $28 per ounce.[113] On August 29, 1933, the plan was announced through *Executive Order No. 6261*. This Order moved the U.S. closer to an official devaluation of the USD in terms of gold. As explained by FDR himself, the price to be paid for newly minted goal was to be "equal to the best price obtainable in the free gold markets of the world."[114] On October 22, the President announced, during his Fourth Fireside Chat, that he was expanding the gold buying program. He said that the "United States must take firmly in its own hands the control of the gold value of our dollar."[115] He then described the expanded policy as follows:

> "I am authorizing the Reconstruction Finance Corporation to buy gold newly minted in the United States at prices to be determined from time to time after consultation with the Secretary of the Treasury and the President. Whenever necessary to the end in view we shall also buy or sell gold in the world market."

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[112] "The Public Papers and Addresses of Franklin D. Roosevelt," Vol. 1, pp. 268-269.
[113] Acheson (1965), pp. 177-178.
[114] "The Public Papers and Addresses of Franklin D. Roosevelt," Vol. 1, p. 352.
[115] "The Public Papers and Addresses of Franklin D. Roosevelt," Vol. 1, p. 426.

During the months that followed prices paid for gold increased steadily from $29.01 per ounce on October 21, to $31.96 on October 30, $33.32 on November 11, and $34.06 on December 30, 1933.

On January 15, 1934, when the price paid by the RFC for gold was $34.06, the President sent a message to Congress requesting legislation to "organize a sound and adequate currency system."[116] Two weeks later, on Tuesday January 30, Congress passed the Gold Reserve Act of 1934, giving the President authority for setting a new official price of gold. The next day FDR issued *Presidential Proclamation No. 2072*, fixing the price of gold at $35 an ounce. The long path to a new parity had reached its destination. The new parity remained in place until August 15, 1971.

8. Concluding remarks

President Roosevelt did not take the US off the gold standard because he was convinced that this was the best course of action, or because he had a comprehensive, brilliant, and detailed plan on what to do in the international arena. FDR took the US off gold because he ran out of options. He had almost no alternative but to do what he did. What is interesting is he did run out of options so quickly: the final banking crisis had exploded days before he took over, and the Senate's decision that go for inflation gathered tremendous force in early April. The banking crisis forced him to put in place the gold embargo on March 6, and the Senate actions forced him to go along with the Thomas Amendment on April 18. Given the circumstanes, one may argue that he never had a fighting chance for maintaining the country on the gold standard.

What is remarkable from today's perspective is that this whole program was undertaken with, basically, no input from professional economists. Of course, Rex Tugwell was there, but as pointed out repeatedly throughout this paper, his expertise on monetary issues was (very) limited. FDR would occasionally talk to bankers – including his uncle Fred Delano –, and journalists with some knowledge on financial matters, but these were not real experts. As noted, during the campaign he met (once) with Irving Fisher, and after the election he had a conversation with James Harvey Rogers and H. Parker Willis, but none on these meeting was a profound strategy session. Occasionally he would talk to the top echelon of the Federal Reserve System – Eugene Meyer, Eugene Black, and George Harrison –, but once again there was no detailed plan discussed in these meetings. The fact of the matter is that there was no team of economists assigned to analyzing the "gold problem" and coming up with concrete suggestions. This paucity of professional advice continued during 1933 and all the way to the passing of the Gold Act of January 1934. It is true that starting in mid-July 1933 he met frequently with Professors George Warren and James Harvey Rogers, but these meetings were ad-hoc and unstructured – they often took place early in the morning while the President was still in bed –, and not a single in depth study on the consequences of the devaluation was presented to the

[116] "The Public Papers and Addresses of Franklin D. Roosevelt," Vol. 2, p. 426

President. After October 22 these early meetings were mostly to determine the RFC price for gold for that particular day.

The absence of able and qualified advisers was commented by Walter Lippmann after FDR boycotted the London Conference with his "bombshell" letter. In a dispatch from London dated July 4 1933 Lippmann wrote: "Mr. Roosevelt cannot have understood how completely unequipped are his representatives here to deal with the kind of project he has in mind. For one thing, they do not know what is in his mind. For another, *there is not among them a single man who understands monetary questions sufficiently to debate them*."[117]

FDR's personality had a lot to do with the absence of qualified advisers. He didn't like to be told what was right or wrong; he liked less so to be told what to do. And although his formal training in economics was very basic, he was convinced that he knew better, and could determine what was good for the nation. As Tugwell put it, FDR "had learned not to take intellectuals too seriously." But, there is another side to the story. In order to work as advisers, economists have to be interested in applied work and in policy issues. At the time, however, very few academics thought that they should be engaged in practical matters. They lived in an ivory tower, and they liked it. In 1966, more than thirty years after the U.S. had abandoned the gold standard, Adolf Berle wrote to Ray Moley and commented on their work for Roosevelt during that magical year when, jointly with Rex Tugwell, they were known as the Brains Trust: "At that time academic economists did not soil their hands with practical questions. Application of their science is almost entirely a post-New Deal phenomenon."[118]

[117] The New York Herald Tribune, July 4, 1933. Emphasis added.
[118] Letter from Berle to Moley, dated February 2 1966. Reproduced in Berle (1973), p. 79.

Table 1

Evolution of Selected Indexes between 1929 and 1932

	1929 High[a]	Depression Low[b]	Percentage change
Index of Production (Federal Reserve)	126.5	56.2	-55.6%
Production of Durables	134.6	25.6	-81.9%
Production of Non-Durables	119.5	79.6	-33.4%
Index of Employment (Federal Reserve)	102.8	56.6	-44.9%
Wholesale prices (All commodities)	96.5	59.6	-38.2%
Cost of Living (N.I.C.B.)	100.1	72.2	-27.9%
Index of payrolls (Federal Reserve)	110.9	36.5	-67.1%
Index of cash farm Income	118.4	47.8	-59.6%

[a] The 1929 high was achieved, for most variables, between June and August 1929. The only exception is the Index of Payrolls with a peak in April 1929.
[b] The low point was achieved for most variable March and August 1932. The only exception is the Index of Cash Income for Farmers, with a low in February 1932.

Source: Sachs (1934, Table III)

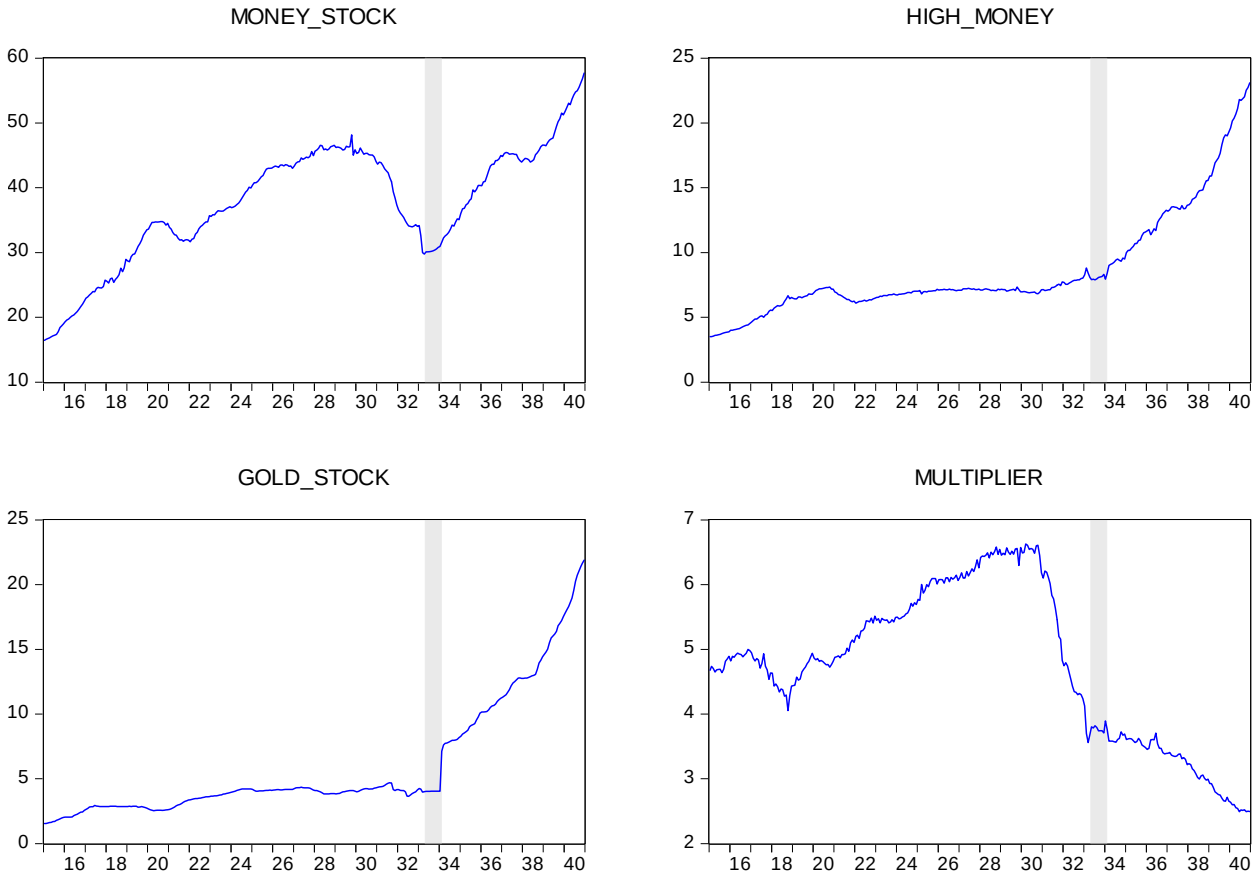

Figure 1: Monetary conditions, 1910-1940

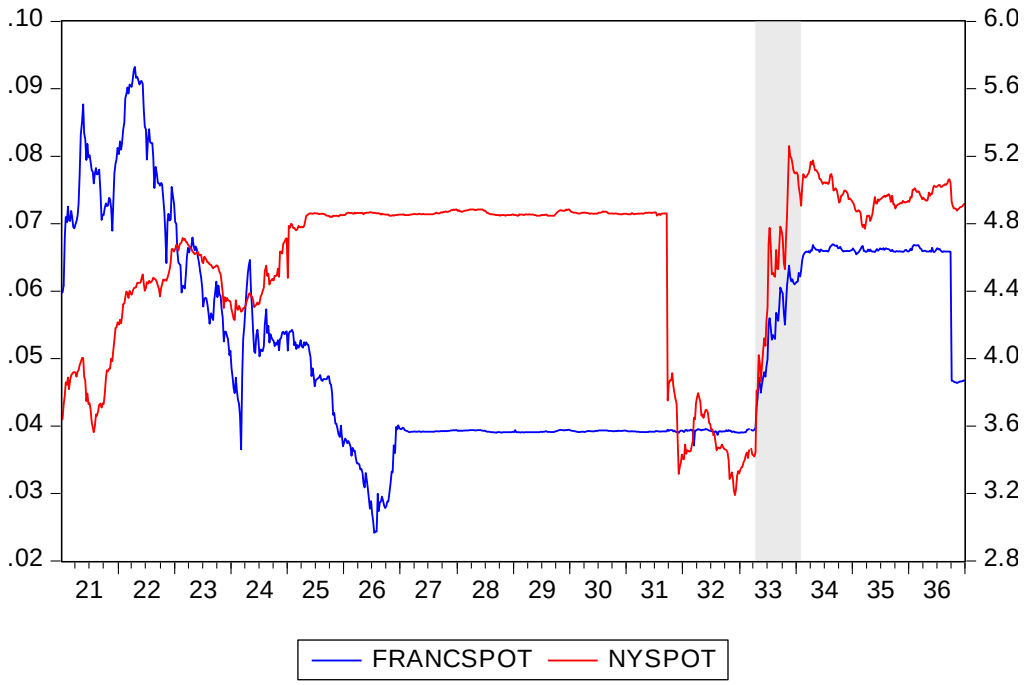

Figure 2: Dollar-Sterling and Dollar-French Franc exchange rates, Weekly, 1921-1936

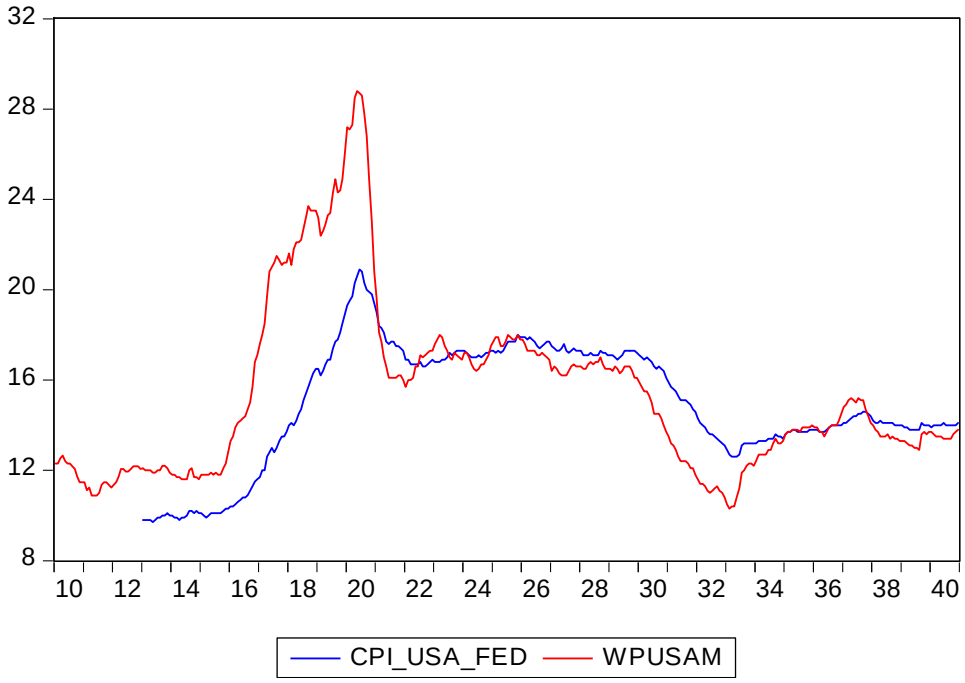

Figure 3: CPI and WPI Price Indexes, 1910-1940

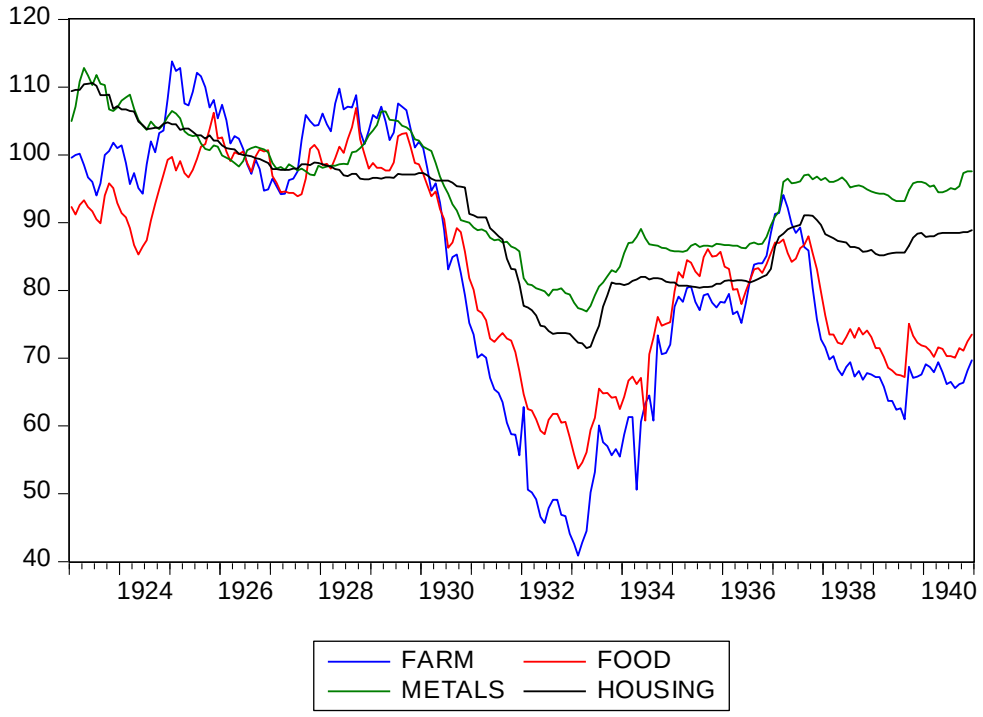

Figure 4: Components of the Wholesale Price Index, Monthly 1923-1940

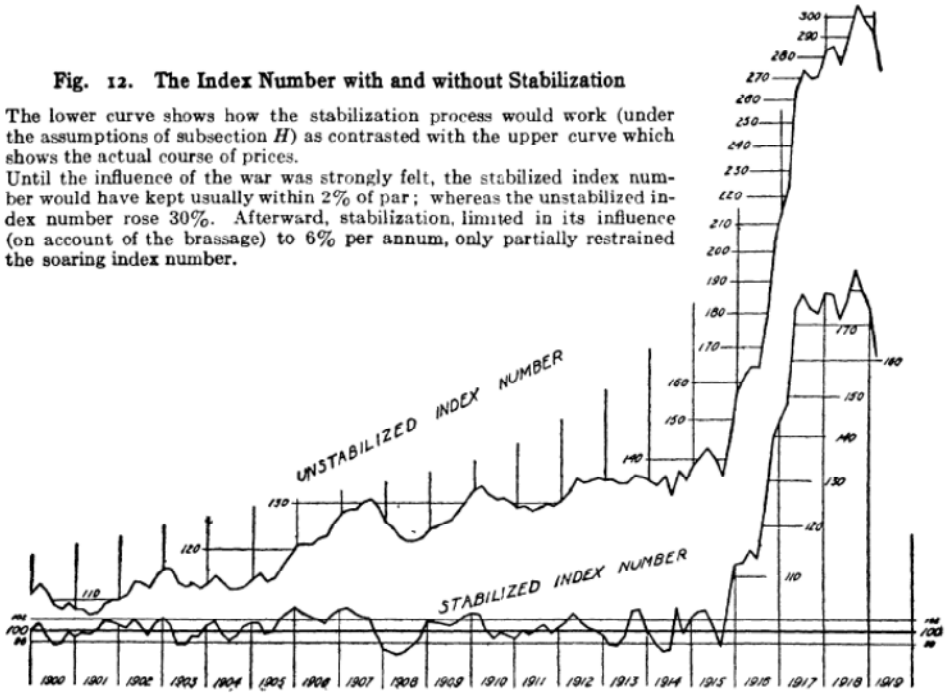

Figure 5: Fisher's compensated dollar simulation

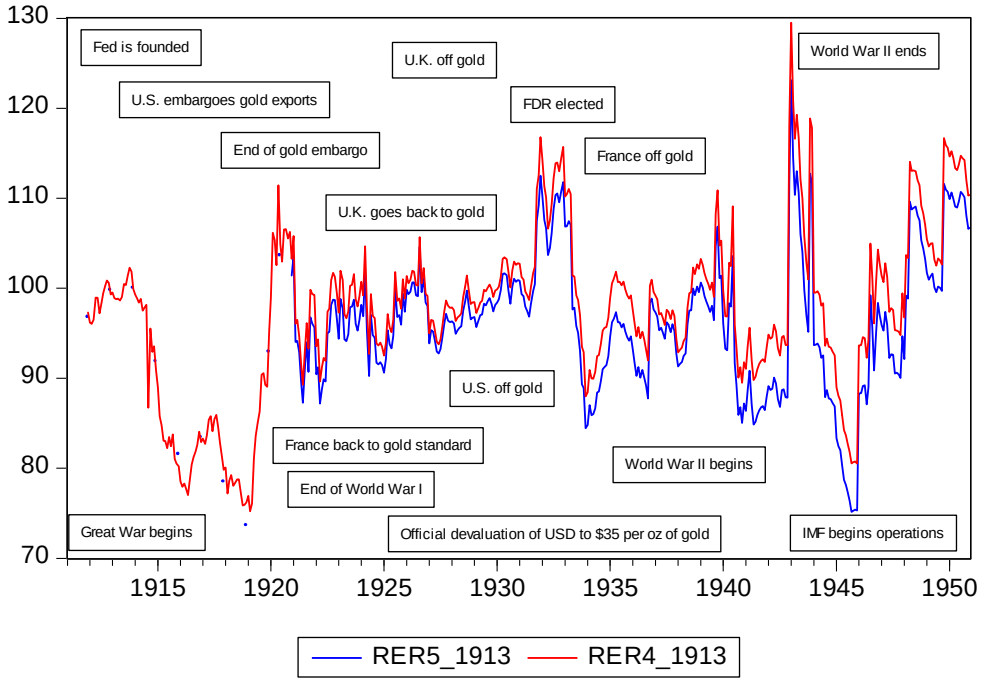

Figure 6: Trade Weighted Real Exchange Rate for the Dollar, 1910-1950: 1913=100

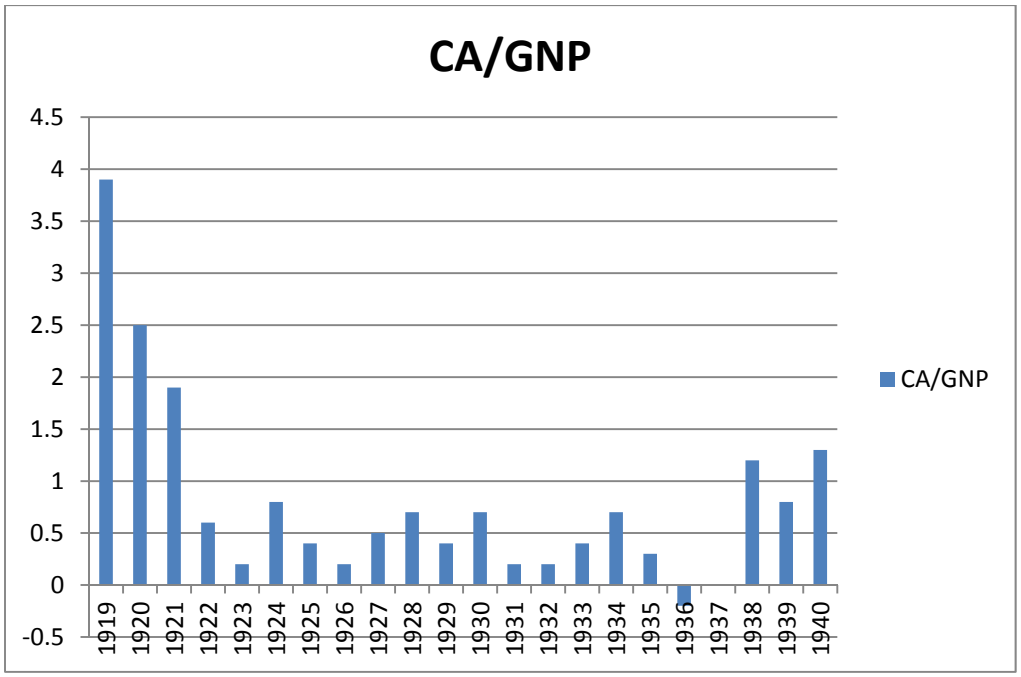

Figure 7: Current Account Balance as Percentage of GDP, 1919-1940

"All the News That's Fit to Print."

The New York Times.

LATE CITY EDITION
WEATHER—Fair today; tomorrow cloudy, warmer, rain following
Temperatures Yesterday—Max., 60; min., 36.

VOL. LXXXII....No. 27,435. Entered as Second-Class Matter, Postoffice, New York, N. Y. NEW YORK, MONDAY, MARCH 6, 1933. P TWO CENTS in New York City. | THREE CENTS Within 350 Miles | FOUR CENTS Elsewhere Except in 7th and 8th Postal Zones

ROOSEVELT ORDERS 4-DAY BANK HOLIDAY, PUTS EMBARGO ON GOLD, CALLS CONGRESS

HITLER BLOC WINS A REICH MAJORITY; RULES IN PRUSSIA

Stay-at-Homes Turn Out and Give Government 52% of 39,000,000 Record Vote.

NAZIS ROLL UP 17,300,000

Get 44% of Total Poll and Even Wrest the Control of Bavaria From Catholics.

ELECTION IS PEACEFUL

Berlin Is Closely Guarded—The Stahlhelm Holds Parade Under Sunny Skies.

By FREDERICK T. BIRCHALL.
Special Cable to THE NEW YORK TIMES.

BERLIN, Monday, March 6.—With almost mathematical precision the results in yesterday's German elections for the Reichstag and the Prussian Diet bear out the predictions based on the pre-election campaign. Just as two and two make four, so suppression and intimidation have produced a Nazi-Nationalist triumph. The rest of the world may now accept the fact of ultra-Nationalist domination of the Reich and Prussia for a prolonged period with whatever results this may entail.

At 2 o'clock this morning, when 39,000,000 out of the Reich's eligible vote of 44,000,000 counted and with every indication of a probable total vote of 90 per cent, ex-

Mob Attacked Stalin's Home In Wide Revolt, Tokyo Hears

Wireless to THE NEW YORK TIMES.

TOKYO, Monday, March 6.—Private information reaching Tokyo states that discontent due to famine conditions is so acute in Soviet Russia that a mob attacked Joseph Stalin's house in Moscow on Jan. 20 and was driven off by troops after 400 persons had been killed. Other reports from Siberia, partly corroborated by information reaching military circles here, indicate the farmers are in widespread revolt. Serious disturbances occurred at Irkutsk, and 50,000 men are said to have joined the revolt, including Communists and Red soldiers.

The Japanese discount a good part of these rumors, but they come from too many sources to be entirely ignored. It is believed these disturbances are much more serious than the Soviet Government has admitted.

CERMAK NEAR END; LAPSES INTO COMA

Death Is Imminent From Shot Aimed by Zangara at Roosevelt.

FAMILY AT HIS BEDSIDE

Third Transfusion Futile in 19-Day Fight to Save Chicago Mayor in Miami Hospital.

By The Associated Press.

MIAMI, Fla., Monday, March 6.—Physicians of Mayor Anton Cermak early this morning relinquished hope for his life.

JAPANESE PUSH ON IN FIERCE FIGHTING; CHINA CLOSES WALL

Jehol Forces Offer Stoutest Resistance of Campaign as They Are Cornered.

BUT LOSE ANOTHER PASS

Chang's Troops at Kupei Bar Retreat Southward to the Peiping Area.

NANKING ADMITS DEFEAT

Asserts 'What Will Happen Next Depends on Military'—Tientsin Fears Clashes.

By The Associated Press.

TOKYO, March 5.—Rengo (Japanese) news agency dispatches from Chengteh (Jehol City) today said the final phase of the Japanese campaign in Jehol Province, a move to seize passes in the Great Wall north and northeast of Peiping, was producing some of the most bitter fighting of the whole drive. Covered Chinese units were resisting desperately.

The Sixteenth Infantry Brigade of Major Gen. Tadashi Kawahara, en route to Koupei Pass through the wall, fought fiercely with remnants of the troops of Tang Yu-lin, Governor of Jehol Province, ten miles west of the provincial capital, Chengteh. Thereafter the detachment advanced to Changshanku, which is sixteen miles northeast of the pass.

Marshal Chang Hsiao-liang, mili-

Relief Wages Will Be Paid Despite Holiday, Gibson Says

Harvey D. Gibson, chairman of the Emergency Unemployment Relief Committee, declared yesterday that the bank holiday would not interfere with the payment of wages to unemployed men and women holding emergency jobs through the committee's work and relief bureau.

"Emergency wages must be paid and some way must be found to pay them," Mr. Gibson said. "I have no doubt that we will find a way to do it. We are not worried about it at all. Arrangements can certainly be made to meet the emergency relief payroll."

The weekly payroll of the committee exceeds $1,000,000.

BEWILDERED CITY STILL PAYS IN CASH

Faces Use of Scrip Calmly and Continues to Patronize the Theatres and Stores.

HOPEFUL MOOD PREVAILS

Merchants and Travel Lines Uncertain on Use of Tender—Many Extending Credit.

Bewildered but still cheerful, the city followed its usual routine yesterday, talked of the possibility of using scrip instead of cash, but still patronized the movie theatres, restaurants and concert halls.

Railroads reported, generally, that there had been no appreciable decrease in week-end travel, that there had been "no embarrassment" and that they were carrying

BANKS HERE ACT AT ONCE

City Scrip to Be Ready Today or Tomorrow to Replace Currency.

EMERGENCY STEP PRAISED

Financiers Look for Little Interruption in Business Under Federal Program.

'TRUST DEPOSITS' TO AID

Cash Now Can Be Placed in New Accounts and Drawn Upon Without Limitation.

Clearing House certificates will be issued in New York, if needed, just as soon as they are printed, possibly today and probably not later than tomorrow, as a result of President Roosevelt's proclamation of last night.

The President's emergency decree not only made the banking holiday national and extended it through Thursday when Congress meets in special session, but it also gave the banks permission to issue scrip in the form of Clearing House certificates to take the place of regular currency.

Thus there will be little or no interruption in the ordinary routine of New York's business affairs, which can be carried on with scrip as a substitute medium of exchange just as well as with other currency. Paychecks, for instance, would be converted into scrip by the banks, which would be open for that purpose and for receiving new deposits.

The President's Bank Proclamation

Special to THE NEW YORK TIMES.

WASHINGTON, March 5.—The text of President Roosevelt's proclamation on the banking situation, issued at the White House at 11 o'clock tonight, was as follows:

BY THE PRESIDENT OF THE UNITED STATES OF AMERICA.

A Proclamation

WHEREAS there have been heavy and unwarranted withdrawals of gold and currency from our banking institutions for the purpose of hoarding; and

WHEREAS continuous and increasingly extensive speculative activity abroad in foreign exchange has resulted in severe drains on the nation's stocks of gold; and

WHEREAS these conditions have created a national emergency; and

WHEREAS it is in the best interests of all bank depositors that a period of respite be provided with a view to preventing further hoarding of coin, bullion or currency or speculation in foreign exchange and permitting the application of appropriate measures to protect the interests of our people; and

WHEREAS it is provided in Section 5 (b) of the act of October 6, 1917 (40 stat. L. 411) as amended, "that the President may investigate, regulate or prohibit, under such rules and regulations as he may prescribe, by means of licenses or otherwise, any transactions in foreign exchange and the export, hoarding, melting or earmarkings of gold or silver coin or bullion or currency * * *";

WHEREAS it is provided in Section 16 of the said act "that whoever shall wilfully violate any of the provisions of this act or of any license, rule or regulation issued thereunder, and whoever shall wilfully violate, neglect or refuse to comply with any order of the President issued in compliance with the provisions of this act, shall, upon conviction, be fined not more than $10,000 or, if a natural person, imprisoned for not more than ten years or both * * *";

NOW, THEREFORE, I, FRANKLIN D. ROOSEVELT, PRESIDENT OF THE UNITED STATES OF AMERICA, IN VIEW OF SUCH NATIONAL EMERGENCY AND BY VIRTUE of the authority vested in me by said act and in order to prevent the export, hoarding or earmarking of gold or silver coin or bullion or currency, do hereby proclaim, order, direct and declare that from Monday, the sixth day of March, to Thursday, the ninth day of March, nineteen hundred and thirty-three, both dates inclusive, there shall be maintained and observed by all banking institutions and all branches thereof located in the United States of America, including the Territories and Insular Possessions, a bank holiday, and that during said period all banking transactions shall be suspended.

During such holiday, excepting as hereinafter provided, no such banking institution or branch shall pay out, export, earmark or permit the withdrawal or transfer in any manner or by any device whatsoever of any gold or silver coin or bullion or currency or take any other action which might facilitate the hoarding thereof;

USE OF SCRIP AUTHORIZED

President Takes Steps Under Sweeping Law of War Time.

PRISON FOR GOLD HOARDER

The Proclamation Provides for Withdrawals From Banks Against New Deposits.

CONGRESS SITS THURSDAY

Day of Conference With the Cabinet and Financial Men Precedes the Decree.

Special to THE NEW YORK TIMES.

WASHINGTON, March 5.—To prevent the export, hoarding or earmarking of gold or silver, coin or bullion or currency, President Roosevelt issued a proclamation at 11 o'clock tonight, in which he ordered a bank holiday from tomorrow through Thursday, March 9. Earlier in the day he had summoned a special session of Congress to meet on Thursday.

This sweeping action was taken after a day of conferences, among officials and bankers, the President taking recourse to war powers granted under the trading-with-the-enemy act.

As a result of the proclamation all banking activities will be suspended during the holiday, except as permitted by regulations of the Secretary of the Treasury, thus taking this country technically off the gold standard until the four-day period expires.

In order that there may not be a

Figure 8: Front Page, New York Times, March 6, 1933

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