Governor Eugene Meyer and the Great Contraction

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The Great Contraction of 1929-1933 is blamed in large part on the Federal Reserve System. In the classic analysis of *A Monetary History of the United States, 1867-1960*, Friedman and Schwartz (Milton Friedman and Anna J. Schwartz, 1963) list three reasons for this failure of monetary policy: a lack of leadership, a shift of power from the Federal Reserve Bank of New York to the newly created Open Market Policy Conference (OMPC), and an incorrect theory of policy, the real bills doctrine.

In the 1920s, Federal Reserve policy was dominated by New York Federal Reserve Bank Governor Benjamin Strong.\(^1\) Strong died in 1928. Friedman and Schwartz argue that had Strong lived, his leadership and expertise would have led to alternative policies preventing the worst of the contraction. In 1930, open market policy came under the direction of the newly created Open Market Policy Conference,\(^2\) comprised of the governors of the twelve Federal Reserve District Banks, when previously the governors of the Boston, New York, Philadelphia, Cleveland and Chicago Federal Reserve Banks formulated open market policy as the Open Market Investment Committee. This change to a larger committee further diluted the power of the Federal Reserve Bank of New York. Many of the Federal Reserve Bank governors adhered to the real bills doctrine, which stipulated that monetary policy should respond passively to changes in economic activity, rather than actively attempting to effect changes in the economy.

Meltzer (Allan H. Meltzer, 2003) disputes the lack of leadership argument. He blames the failure of policy on the failure to distinguish between nominal and real interest rates and a misinterpretation of excess reserves.\(^3\) Meltzer feels that Strong would have experienced difficulty with the diffusion of power that occurred after his death.
Wheelock (David C. Wheelock, 1989) estimates econometric models of the determinants of Federal Reserve open market policy, finding that Federal Reserve policy during the contraction was consistent with its 1920s policy. In contrast, Trescott (Paul B. Trescott, 1982) estimates a model of open market operations and finds that Federal Reserve policy changed after 1929, which he attributes to the OMPC.  

Wicker (Elmus R. Wicker, 1965) also argues that Federal Reserve policy was consistent before and after Strong’s death, with international considerations dominating policy decisions in both periods. Wicker (Elmus R. Wicker, 1966) further emphasizes the diffusion of power, confusion over excess reserves, and a lack of understanding of the role of a central bank. Eichengreen (Barry Eichengreen, 1992) argues that policy was constrained by the gold standard, a position supported by Temin (Peter Temin, 1989).

The importance of domestic versus international factors in the formulation of Federal Reserve policy remains at issue. The Friedman and Schwartz (1963) position is that the contraction began in the United States and was spread to the rest of the world by the gold standard. However, Friedman has recently stated (Milton Friedman, 2004; Randall E. Parker, 2002) that based on new evidence, he would assign more of the blame for the international contraction to both the U.S. and French failure to follow gold standard rules. Friedman further argues (Parker, 2002) that if the rules-of-the-game had been followed, the gold standard might have worked. Conversely, Eichengreen (1992), Temin (1989), and Wicker (1965) argue that international considerations dominated monetary policy. Temin (1989, pp. 7-8) states that the gold standard rules mandated deflation.

The numerous accounts of monetary policy during the Great Contraction (Lester V. Chandler, 1971; Eichengreen, 1992; Friedman and Schwartz, 1963; Meltzer, 2003;
and Wicker, 1966) have focused primarily on the role of New York Federal Reserve Bank Governor George L. Harrison and are based on the archival records of the Federal Reserve Board and the papers of George Harrison, supplemented by other sources, especially the diaries of Federal Reserve Board member Charles S. Hamlin. Friedman and Schwartz (1963) claim that Harrison and the Federal Reserve Bank of New York attempted to provide policy leadership. Far less attention has been paid to the role of Federal Reserve Board Governor Eugene Meyer. However, the Library of Congress holds an extensive collection of Eugene Meyer’s papers, which has largely been ignored by economic historians. These papers, along with other archival sources, provide a new, and different, insight into the events of this crucial period.

In September 1930, President Hoover appointed Eugene Meyer as Governor of the Federal Reserve Board. Meyer was a forceful personality. He quickly became the dominant member of the policy-making triumvirate that also included George L. Harrison and Treasury Under Secretary/Secretary Ogden Mills. Meyer’s primary objective as Governor was to defend the dollar and maintain the gold standard, and gold standard rules dictated the important policy choices that Meyer made. However, he opposed deflation and had resigned from a government position in 1920 in protest of the Federal Reserve’s deflationary policy at that time.

While at the Federal Reserve Board Meyer wanted to follow gold standard rules. This meant that interest rates should be raised to defend the dollar when necessary, but also that expansionary policies should be followed when gold reserves increased. He understood that increased demand for currency (hoarding) was draining reserves from the banking system, offsetting what should have been the expansionary effects of gold
inflows in 1930 and 1931. Meyer wanted the Federal Reserve to adopt an aggressively expansionary policy; to “strike a bold stroke.”

Meyer’s efforts were hampered by the structure of the Federal Reserve System. The system’s structure was very different from the current Federal Reserve System. At that time, all operational authority resided with the twelve Federal Reserve District Banks. The Federal Reserve Board merely approved recommendations from the banks. And within the System, a tradition had developed, due at least in part to Ben Strong, that the district bank governors resist attempts at leadership by the Board. Most district bank governors took their lead from their respective boards of directors. Thus, policy was determined in large part not even by the governors of the Federal Reserve District Banks, but by their boards of directors, whose interests in most cases were parochial rather than national.

When Meyer pressed for expansion in 1931, a number of the governors objected on the grounds that they did not have enough gold, the “free gold” argument. Although crucially delayed by Britain’s departure from gold in September, Meyer developed plans for a campaign of expansion, including the creation of the Reconstruction Finance Corporation (RFC) and the 1932 Glass-Steagall Act. To Meyer, the RFC was essential to the success of the expansionary open market policy made possible by the 1932 Glass-Steagall legislation.

In 1932 the Federal Reserve System began a program of open market purchases that was the largest in its history to that time. On Meyer’s part this program of purchases was a sincere desire to follow gold standard rules and expand, not a disingenuous response to Congressional pressure as argued by Friedman and Schwartz (1963, pp. 384).
When the purchases failed to produce the desired expansion of bank lending, Meyer, suffering from a serious health problem, was no longer able to overcome the opposition to expansion within the System. Also, the Governor of the Federal Reserve Board did not enjoy the independence that today’s Chairman of the Board of Governors enjoys. Political pressures also hampered policy. The failure of policy was not due to a lack of leadership; rather it was due primarily to the structure of the Federal Reserve System, and also the political forces that existed at that time.

This paper is organized as follows. Section I summarizes Meyer’s background. Meyer’s economic knowledge and beliefs are discussed in Section II. The Federal Reserve System as it existed is discussed in Section III. Section IV discusses the defense of the dollar, and how this objective affected policy decisions. Section V discusses Meyer’s role in the formulation of policies. Section VI reviews the free gold debate. Section VII discusses the cessation of open market purchases. Concluding observations are made in Section VIII.

I. Success in Business and Government

Gene Meyer was a force. He enjoyed considerable success in diverse careers as an investment banker/venture capitalist, public servant and publisher. A youthful wizard of Wall Street, he amassed a sizable fortune in fifteen years. This wealth enabled him to engage in public service for little, if any, compensation, and also generated income to cover the losses in his first years as a publisher. He had a strong sense of civic responsibility and numerous philanthropic interests.  

Spending his entire capital to purchase a seat on the New York Stock Exchange, he began a career in investment banking in 1901, and by 1915 had accumulated a fortune
of between $40 and $60 million. The later fruition of investments in Allied Chemical and Fisher Body Works would increase his fortune considerably. He was an innovative investor. Beginning in 1904, he was the first to use scientific and economic analysis to analyze investments. In 1909 Meyer’s firm produced a famous report on the economic prospects of U. S. Steel. Impressed by the report, J.P. Morgan warned a partner “watch out for that fellow Meyer, because if you don’t he’ll end up having all the money on Wall Street.” Meyer was also known for his system of estimating freight car loadings to predict economic trends (New York Times, September 17, 1930, p. 38; Merlo J. Pusey, 1974, p. 72).

Meyer’s public career began in 1917; he served in various positions in support of the war effort. In 1918 he became a director of the War Finance Corporation (WFC), subsequently being elected managing director. When Treasury Secretary David Houston decided to suspended WFC activities in May 1920, he offered Meyer the position of Assistant Treasury Secretary. Instead, Meyer resigned from government service, as he was opposed to what he correctly felt were the deflationary polices adopted at that time: the increased Federal Reserve discount rate and the suspension of WFC lending (Meyer, 1954, p.12-13). Following the election, Meyer urged Congress to pass a resolution reviving the WFC’s operations, and Meyer returned as managing director. In 1921, again at Meyer’s urging, Congress passed a bill known as the Agricultural Credits Act of 1921. The bill transformed the WFC into a support agency for agriculture. In addition to financing exports, the WFC’s activities expanded to include lending to rural banks and co-ops. It was this version of the WFC that was Meyer’s model for the RFC.
By 1925, feeling the WFC had accomplished its objectives; he began terminating its operations. He was confident that the Intermediate Credit Banking System he helped organize would fill the void left by the closing of the WFC (Eugene Meyer, 1954, p. 17). In 1927 Meyer accepted an appointment as commissioner of the Farm Loan Board, to reform a system plagued by corruption and poor management. Feeling that his mission was accomplished, Meyer resigned from the Farm Loan Board in 1929.

Meyer was appointed Governor of the Federal Reserve Board on September 16, 1930, and his resignation was accepted on May 10, 1933. Meyer returned to government service again during World War II, as a member of the National Defense Mediation Board. Following the war, when President Truman experienced difficulty filling a new position, Meyer agreed to serve as the organizer and first president of the International Bank for Reconstruction and Development (The World Bank), although he resigned after six months.


Through all of these accomplishments and duties, Meyer earned a considerable reputation for brilliance and ability. When Carter Glass was appointed Secretary of the Treasury in 1918, Agnes Meyer referred to him as Eugene’s boss. Glass replied that Meyer’s knowledge and experience “made him feel like a fool” (Pusey, p.164, quoting Agnes E. Meyer, Papers). When Meyer’s appointment as Governor was announced, the Wall Street Journal wrote that this would strengthen Washington’s leadership in the
system. It characterized Meyer as “a strong and aggressive man of outstanding organizational ability. … Even his enemies do not deny his ability” (Wall Street Journal, September 9, 1930, p. 6). The New York Times wrote that Meyer would be a “forceful leader, informed not only in the workings of the New York money markets but also in the credit needs of the agricultural districts” (New York Times, September 5, 1930, p. 13). Pennsylvania Congressman Louis T. McFadden, in opposing Meyer’s nomination as Governor, warned that Meyer would completely dominate the Federal Reserve Board, or any other board of which he was a member (U.S. Senate Committee on Banking and Currency, Nomination of Eugene Meyer to be a Member of the Federal Reserve Board, 1932, p. 316). A 1932 Fortune magazine article about President Hoover included pictures of the Federal Reserve Board. In part, one caption reads: “There is but one Federal Reserve Board and its name is Meyer” (Fortune, July 1932, pp. 36-37). When famed investor Bernard Baruch declined an appointment to the RFC Board of Directors, he recommended Texas banker Jesse Jones in response to the stipulation that his recommendation be a Democrat “… as smart as Eugene Meyer” (Bernard M. Baruch, 1960, p. 224).

Meyer did have enemies. Two were Congressman McFadden and Iowa Senator Smith Wildman Brookhart. Both had previously attempted to discredit Meyer, and together they opposed his nomination as Federal Reserve Board Governor, with McFadden charging that Governor Roy Young and Vice-Governor Edmund Platt had been forced from their positions to open a seat for Meyer. At Meyer’s confirmation hearings, Young testified that he left the Governor’s position to become Governor of the Boston Federal Reserve Bank for financial reasons. He endorsed Meyer’s appointment.
Due to an error by McFadden, Platt never testified.\textsuperscript{11} During the course of the confirmation hearings, Platt wrote to Meyer, offering his support and ridiculing McFadden (Eugene Meyer, Papers, box 73).

\textbf{II. Meyer’s Economic Knowledge}

Meyer studied political economy at Yale under William Graham Sumner, although he soon disavowed Sumner’s \textit{laissez faire} philosophy.\textsuperscript{12} Meyer also stated that Irving Fisher was his former professor. Meyer studied banking in Germany, where many of the ideas he heard contradicted what he had learned from Sumner. As discussed above, Meyer pioneered the use of scientific and statistical analysis relating company prospects to economic trends, so he was knowledgeable about the economy and economic data (Sidney Hyman, \textit{The Deluge}, p. 159,\textsuperscript{13} Eugene Meyer, Papers, box 181).

Meyer felt that the dual banking system posed serious problems for the United States, and advocated having all banks become members of the Federal Reserve System.\textsuperscript{14} Testifying before the House Committee on Rural Credits in 1923, he deplored the regulatory environment created by the dual banking system. “Nothing could be more disastrous than competition between the State and National banking groups, based upon competition in laxity.”\textsuperscript{15} Goldenweiser suggests that Meyer originated this expression characterizing the dual banking system (U. S. House of Representatives Committee on Banking and Currency, \textit{Rural Credits}, 1923, p. 56; Emmanuel A. Goldenweiser, 1951, p. 284).

Meltzer (2003, p. 194, n. 88; see also Frank G. Steindl, 1995, p. 104) states that Irving Fisher had contempt for Meyer. In a 1946 letter from Fisher to Clark Warburton, Fisher recalls that in 1931 Meyer did not know what demand deposits were, or that they were
falling. Whatever Fisher felt in 1946, he and Meyer were friendly in the 1930s, and Meyer clearly understood what a demand deposit was.\textsuperscript{16} On January 3, 1927, prior to his appointment as Governor, Meyer wrote to Herbert H. Rice of General Motors about a recent decrease in net demand deposits and an increase in time deposits. Meyer explained that time deposits were subject to a 3\% reserve requirement and that demand deposit reserve requirements were higher and varied by location. He further explained that the shift from demand to time deposits had freed enough gold to provide the reserves needed to cover the increase in time deposits (Eugene Meyer, Papers, box 73. The letter is attached to a February 9, 1931, letter to Rice).

On July 21, 1930, prior to his appointment, Meyer wrote to his brother-in-law, George Blumenthal, who was in Paris, saying that he believed that the United States’ economic fortunes dominated global economic conditions. In the same letter Meyer asked Blumenthal if he could learn anything about the intentions of the Bank of France and the French Government. Meyer said that while the French claimed that they were not interested in attracting gold, he did not believe them. As will be discussed below, French accumulation of gold was a significant concern for Federal Reserve policy (Eugene Meyer, Papers, box 4).

Regarding the depression, Meyer felt that real estate speculation had been a problem in the 1927-29 period and that this speculation spilled over into the stock market. Specifically, Meyer thought that there had been under-building during the period 1912-1922. During the next four years, the residential and commercial construction boom met the excess demand, as construction and autos sales fueled economic growth during the 1920s. But by 1927, he felt much construction had become speculative\textsuperscript{17} and contributed
to the depression’s banking problems, as banks were carrying bonds sold to finance real estate construction, and the losses on these bonds had not been fully realized.

Meyer read and agreed with Keynes’s *Economic Consequences of the Peace*. He felt the war debts-reparations situation was unworkable and inflicted harm on the global economy. He understood the circularity of the situation where the U.S. was lending to Germany to pay reparations to the allies who would in turn make payment on their war debts to the U.S. Shortly after his appointment to the Federal Reserve Board, Meyer proposed that Hoover organize a conference to reduce (but not eliminate) both war debts and reparations to a feasible level. He felt that if reparations were not cut, Germany would default and repudiate its debts, forcing defaults by England and France. Meyer told the reluctant President that the American people would accept the truth, since they had been lied to by elected leaders since Versailles, but Hoover did nothing at that time (Pusey, 1974, pp. 207-209; *The Deluge*, pp. 54 & 62).

Meyer had a very good working relationship with Senator Carter Glass. As a Congressman, Glass had been the House sponsor of the Federal Reserve Act. Now a Senator, no banking legislation would gain Senate approval without Glass’s support. But Meyer disagreed with Glass’s monetary theory. Meyer felt that Glass wanted to follow the theories of economist H. Parker Willis, Glass’s advisor for the Federal Reserve Act. Glass and Willis adhered to the real bills doctrine, while Meyer wanted a more liberal discount policy, allowing discretion for the Federal Reserve to loan based on any good asset, including mortgages.  

He said that the ideas of Glass and Willis belonged in a museum and that even during the contraction their program was committed to deflation in a country nearly dead from deflation (*The Deluge*, pp. 134-138).
Meyer’s interest in monetary affairs continued after he left the Board. In 1934, he wrote to his son, Eugene (a.k.a. Bill), who was studying at the London School of Economics. Meyer wrote that he was reading Lionel Robbins’ *The Great Depression*.\(^{20}\) Much of the letter discussed England’s decision not to raise the bank rate in September 1934, and the crises in England and Germany (Eugene Meyer, Papers, box 4).

Meyer’s understanding of the depression’s problems anticipates subsequent theories developed by Bernanke (Ben S. Bernanke, 1983), Eichengreen (1992), and Friedman and Schwartz (1963). Meyer’s commitment to the gold standard was unquestioning, and foreign claims on the dollar, and the threat of a run on the dollar brought on by any foreign fear of U.S. inflation influenced his policy decisions, as emphasized by Eichengreen (1992). Domestically, the problem was hoarding (increased currency demand emphasized by Friedman and Schwartz, 1963) in response to bank failures and panics. The hoarding caused a contraction of the money supply, or, to Meyer, bank credit. The threat of bank runs made bankers cautious (Bernanke’s increased cost of credit intermediation). And to Meyer, a financier, credit was the lifeblood of the economy.\(^{21}\) While committed to the gold standard, Meyer knew that expansion of credit was necessary and worked to get the Fed to adopt a more expansionary policy.\(^{22}\) Finally, Meyer believed that the dual banking was structurally weak, and that this weakness was a significant cause of bank failures, along with continuing losses in real estate.

### III. The Federal Reserve System in 1930\(^{23}\)

Upon joining the Board, Meyer knew of the recent conflicts between the New York and Chicago District Banks, between these banks and the Board, and within the Board itself. Meyer attempted to create a harmonious atmosphere within the Board, and
between the Board and the Federal Reserve District Banks (Meyer, 1954). Relations with the New York bank improved. Meyer told Board member Charles Hamlin that Governor Harrison wanted to work with the Board, while Strong had wanted to dominate it. On another occasion, Meyer said that he was tired of the “yapping” about New York (Charles S. Hamlin, Papers, reel 19).

Chandler recounts that Ben Strong had sought to minimize the influence of the Federal Reserve Board, and felt that the position of (District Bank) governor should be the top position in the System. Strong alternately created opposition to the Board and capitalized on public and Congressional opposition to centralization of power with the Board. After Strong’s death, the district banks remained reluctant to follow the Board. Walter Stewart, head of the Board’s Division of Research and Statistics from 1922 through 1926, felt that the friction between the New York bank and the Board was deliberately created by Strong. (Chandler, 1971, pp. 40-42, 67, 465; William P. Yohe, 1982, p. 601).

Another problem was the reputation of Federal Reserve Board itself. Discussing Meyer, Hyman writes:

…the board he had inherited was weak, divided and gave the appearance of serving more as a place of dignified retirement for its aging members than of being a command post for the management of an infinitely complex financial crisis. Its members had no standing in the eyes of the governors of the Federal Reserve Banks… (Sydney Hyman, 1976, p. 113)

Meyer had little respect for his fellow Board members. In 1931 he brought trusted allies Floyd Harrison and Chester Morrill to the Board: Harrison as Assistant to the Governor and Morrill as Secretary of the Board. To the annoyance of the ever-peeved Charles Hamlin, Harrison’s salary of $15,000 and Morrill’s of $12,000, compared to his
own of $12,000, and their authority within the Board were yet additional insults (Hamlin, Papers, reels 19 and 20).

Meyer wanted Hoover to replace the appointed members with five men of his own choosing. However, Hoover dropped the idea once the banking panics began (Committee on the History of the Federal Reserve, 1954-55). Following the submission of his resignation in 1933, Meyer’s wife wrote:

> His Board is composed of four sleepy old men, and although they usually back him, they are of no positive help. To illustrate how pathetic they are – poor old Hamlin actually has hopes of succeeding Eugene. Thus ends the idea that the Federal Reserve Board could be kept out of politics. (Agnes Meyer, Papers, box 2).

It was in this environment that Meyer attempted to exert leadership. Ben Strong had organized the Federal Reserve District Bank governors as a force and was naturally their leader. As a Board member, Meyer had the disadvantage of being outside the governors’ group. When his efforts to lead were resisted, Meyer pursued his objectives by other means, including both legislative changes and organizing private pools of funds to aid selected sectors of the economy. Not surprisingly, some district bank governors resented his efforts. Philadelphia Federal Reserve Bank Governor George Norris wrote critically of Meyer’s Board that it substantially increased its staff and budget, successfully sought legislation increasing its powers, evolved into an operational rather than a supervisory authority, and generally made life difficult for the district banks. Norris lamented that the erosion of district bank autonomy culminated with the passage of the Banking Act of 1935 (George W. Norris, 1937, p.199).

Roberts (2000) states that the Banking Act of 1935 was the direct result of the Fed’s inability to deal with the 1930-1933 crisis. Eugene Meyer would have agreed. He noted
that the twelve district banks jealously guarded their independence and had to be coerced and cajoled to cooperate (*The Deluge*, pp. 198-199; Priscilla Roberts, 2000, p. 62).

According to Chandler, the shift of operational authority for open market operations from the five-member Open Market Investment Committee to the twelve-member Open Market Policy Conference (OMPC) in 1930 was intended to increase the power of the Federal Reserve Board, but the result was not as planned. The change originally proposed would have had representatives from the twelve district banks meet with the Board to determine an open market policy, and the Conference Executive Committee (originally the five governors from the Open Market Investment Committee) would execute the determined amount of purchases or sales (Chandler, p. 133).

The reaction of at least some of the district banks is perhaps typified by the Federal Reserve Bank of Philadelphia. A committee designated to study the proposed new policy reported several objections to the Philadelphia Federal Reserve Bank Board of Directors. They argued that the Federal Reserve Board should not both formulate and approve open market policy. In their view, the Boards of Directors of the twelve district banks should initiate all policy, subject only to the approval of the Federal Reserve Board. Also objectionable was the stipulation that the Conference would meet at times arranged by the Board or with Board approval, as this would give the Board veto power over any meeting. Finally, the stipulation that the Conference Executive Committee merely execute transactions would reduce its role to that of a broker. A much greater role for the Executive Committee was recommended (Federal Reserve Bank of Philadelphia Board of Directors, February 5 and 19, 1930).
The proposed procedures were modified in a way that met Philadelphia’s objections. The Conference and its Executive Committee were given considerable autonomy. They first met privately, followed by a meeting with the Federal Reserve Board to submit their recommended policy for approval. When Meyer later joined the Board, he found these procedures objectionable and eventually convinced the Conference to first meet with the Board to receive their input. Even when the Conference adopted a policy, the Executive Committee did not always execute the authorized amount of purchases or sales. Individual banks could choose not to participate, or would participate reluctantly. The Philadelphia Board “strongly disapproved” of the June 3, 1930 decision to make purchases of $50 million during a two-week period, but agreed to participate in the spirit of cooperation. When open market purchases began in March 1932, the Philadelphia bank agreed to take its proportionate share, but refused to help absorb shares of any of the district banks that refused to participate (Federal Reserve Bank of Philadelphia Board of Directors, June 3, 1930 & March 2, 1932).

The structural deficiencies of the Federal Reserve System were well described in Marriner Eccles’ testimony on the Banking Act of 1935. Regarding open market policy, Eccles said that the body (OMPC) that initiates policy cannot approve it, the body (Federal Reserve Board) that approves policy cannot initiate policy or insist that the policy be carried out, and the third group (OMPC Executive Committee) holds veto power over the decisions of the other two, if it chooses not to implement the policy. The existing procedure required participation of 108 district bank board members, twenty-two governors, and the eight Federal Reserve Board members (U.S. House of Representatives Committee on Banking and Currency, 1935, pp. 180-191).
The other problem cited by Eccles was the concentration of power in the hands of a few members of several district banks’ boards of directors. While district bank directors were appointed for three-year terms, many had been reappointed and served continuously since the Fed began. While the original intent had been for the chair of each district bank board of directors to be the executive officer, the position of governor was created as district bank executive officer. The governor was chosen by the district bank directors. The Federal Reserve Board approved each governor’s salary but had no other approval authority. Thus, many governors felt greater responsibility to their board than to the Federal Reserve Board. Due to these conditions, Eccles argued that while open market operations were the most important instrument of monetary control, existing open market policy was governed by local interests, not national interests. The Banking Act of 1935 created the Federal Open Market Committee to conduct open market policy, thus correcting these structural deficiencies.

IV. With One Eye Always on France

Meyer felt that his term on the Federal Reserve Board was dominated by foreign debts and domestic bank failures. Meyer was very worried about foreign short-term liabilities, particularly liabilities to France. He understood that the United States was a net creditor, but more of its international assets were long-term, while its liabilities were more short-term. A failure of the United States to meet any demands made on it would create world chaos in an interdependent global economy. An international panic could spark a domestic panic, increasing the already large number of bank failures. Upon learning of the potential problem when he joined the Board, he apprised Hoover of the danger of the situation, urging him to tackle the war debts-reparations conundrum, as
Meyer felt this would provide some relief to the global credit strain. But, as noted above, Hoover did nothing at that time (The Deluge, pp. 54-60).

Depicted in Figure 1 is the ratio of short-term foreign claims to Federal Reserve gold. Meyer’s goal was to reduce the foreign liabilities to a manageable level. The data indicated that he did succeed. He accomplished this by suggestion, urging the Federal Reserve Banks to lower their discount rates. Meyer discussed his efforts to lower Federal Reserve Banks’ discount rates in the 1934 letter to his son: “One of the reasons I urged the bank rate reductions here in the spring of 1931 was to increase the differential to reduce the balances over here, which were dangerously large.” (Eugene Meyer, Papers, box 4, The Deluge, pp. 57-59, 97)

Following England’s departure from gold on September 21, 1931, Meyer was again recommending changes in the discount rate; this time urging increases to defend the dollar. Asking Governor Harrison why the New York Federal Reserve’s rate had not been increased Harrison replied: “You didn’t make any suggestion.” So Meyer made the obvious suggestion. When the New York discount rate had not been increased, Meyer called on October 1, after the weekly meeting of the New York directors. Learning that no rate increase had been proposed, Meyer recommended that they increase the discount rate each of the next two weeks. This time, Meyer’s recommendation was followed.

On September 24, 1931, Meyer was sitting in Governor Harrison’s office when the officer in charge of buying acceptances rushed in, upset that Chase National Bank wanted to sell $60 or $80 million, asking if the bill buying rate should be increased. Meyer immediately shouted “No!” He recommended raising the rate only after the close of
business, which they did. To do otherwise would suggest the Federal Reserve panicked. (*The Deluge*, pp. 96-99, 136-137).

By raising the discount rate, Meyer hoped to signal confidence in the Federal Reserve’s ability to maintain the gold standard. A short time later Charles Rist, French economist and assistant to Bank of France Governor Moreau, confirmed Meyer’s instinct that raising the discount rate was normal and signaled confidence to the French. Meyer also enlisted Rist’s help to stop publication of further articles in a major French newspaper by H. Parker Willis. Meyer’s concern was that Willis’ criticism of Federal Reserve monetary policy would heighten French fears, putting pressure on the dollar (*The Deluge*, pp. 100-101, 136-137).³²

Governor Harrison also struggled with Willis’s attempts to fan French fears. On January 14, 1932, Robert Lacour-Gayet, Bank of France Director of Research, called Harrison, primarily about a cable by H. Parker Willis appearing in a French publication stating that “inflation is now the order of the day in the United States.”³³ Lacour-Gayet reported that this article was creating concern among the public and even the Bank of France.³⁴ Lacour-Gayet questioned recent open market purchases, which Harrison assured him were seasonal, and that the Federal Reserve’s goal was to stop the deflation (George L. Harrison, Papers, 3125.3).

Harrison’s conversations with Lacour-Gayet reveal American sensitivity to French concerns. A popular, but erroneous belief in France was that Bank of France deposits in the U.S. were conditional on the U.S. adhering to a specific monetary policy, which was not being followed.³⁵ The French expressed concern about the U.S. budget deficit, as well as any other indication of expansionary policy. Defending the open market
purchases in April 1932, Harrison attempted to assure Lacour-Gayet that the European conception of inflation was an increase in currency, while the Federal Reserve’s goal was to stop the deflation of credit. Lacour-Gayet doubted that the excess reserves would be used to expand credit (Harrison, Papers, 3125.3).

In January 1932, Harrison asked Lacour-Gayet’s opinion about cutting the New York discount rate. Lacour-Gayet recommended against a cut. Again in April, Harrison went to great length to explain that the open market policy had reduced market rates below the discount rate, and an adjustment was necessary. Lacour-Gayet protested when Harrison said that some in America felt the French policy was deflationary. When asked if the French planned to cut their discount rate, Lacour-Gayet replied that no cuts were contemplated and that French bankers were pressing for increases. (Harrison, Papers, 3125.3)

Years after he left the Federal Reserve, Harrison’s life and careers were featured in the Saturday Evening Post. There it was reported “One of the most dramatic episodes of his career was the silent “battle of the dollar” in 1931 and 1932; Harrison stoutly defended the gold standard when all the world seemed to be drawing gold on the Federal Reserve here.” To both Harrison and Meyer, defending the dollar was an unquestioned duty. (Saturday Evening Post. February 26, 1949, p.60. In Eugene Meyer, Papers, box 26).

Nothing illustrates this better, and the relative roles of Meyer and Harrison, than the events of Sunday, July 12, 1931, at the height of the German crisis. Meyer unexpectedly visited Thomas Lamont, who asked Meyer if he was going to the meeting at the New York Federal Reserve Bank. Meyer was stunned, as he knew of no meeting,
even though he had spoken with Harrison that morning. Hurrying to the New York bank, Meyer entered a meeting of Parker Gilbert and Russell Leffingwell of J.P. Morgan, Albert Wiggin of Chase, and New York Federal Reserve Bank officials Owen Young, Harrison, and Randolph Burgess. Treasury Under Secretary Mills was also there, speaking by phone to Hoover at Rapidan.37

Young told Meyer that the German Danat bank would not open the next morning, handing Meyer a draft statement that Hoover intended to issue. Reading the statement, Meyer saw that his earlier fears had been justified. When Meyer previously was unable to convince Hoover to address the war-debts, reparations issue, he asked the Board to support him in refusing to use the Federal Reserve’s powers should Hoover request that they be used in a crisis. Meyer protested that the proposed statement was worse than a contract; it was a commitment and German morning newspapers would report that the American government and banks were backing Germany and German banks. Meyer saw Parker Gilbert agreeing. Before Meyer’s arrival, Gilbert had lodged similar protests, to no avail.

But Meyer was immovable. He heard Mills say to Hoover: “I agree with you, Mr. President. We ought to issue this statement. But Gene is here and he says we shouldn’t.” Hoover tried to persuade Meyer, who refused to budge. Finally Hoover said “Oh Hell!” hanging up with a slam. The statement that was issued did not commit the Fed to any action (The Deluge, pp. 76-79). 38

This episode also illustrates Meyer’s commitment to the gold standard. Hoover’s attempt to support Germany, in Meyer’s view, threatened American solvency, “like Franklin Roosevelt’s debasement of the gold dollar three years later.” Of his departure
from the Board, Meyer recalled that Roosevelt’s gold embargo “confirmed my worst apprehension. I was glad to be out.” (The Deluge, p. 83 and p. 235)

VI. Meyer’s Monetary Policy

As discussed above, defending the gold standard was Meyer’s primary objective. But Meyer wanted to end deflation, having Federal Reserve System pursue expansionary policies within the limits imposed by gold standard rules. However, the Federal Reserve Board only ratified open market operations and could not initiate them. So Meyer had to convince the Open Market Policy Conference to adopt an expansionary policy. Chandler writes that Meyer was the most consistent advocate of a vigorous policy of expansion, often advocating greater purchases than Federal Reserve Bank of New York officials. However, Chandler notes that only the New York and Atlanta banks consistently advocated expansion. Seven Federal Reserve District Banks opposed expansion, with Cleveland, Richmond and St. Louis changing positions depending upon circumstances (Chandler, 1971, pp. 144-145).

Meyer’s first meeting with the Open Market Policy Conference was on September 25, 1930, shortly after he had joined the Board. The conference voted to maintain the status quo. Meeting with the Board, Board member Adolph Miller asked whether a program of aggressive purchases had been considered. Governor Harrison replied that purchases would be “fraught with dangers …attendant to a policy of inflation.” Meyer replied that any easing from purchases would be offset by gold exports. When the Board finally approved the recommendation, it stipulated that any action taken must be made in consultation with its Governor. This stipulation gave Meyer the right to approve any purchase or sale (Federal Open Market Committee, 1956, pp. 513-516).
The next meeting was on January 21, 1931. The compromise recommendation was to sell securities to offset seasonal purchases made at year’s end. Meyer objected. He argued that due to the recent bank failures, banks were especially reluctant to borrow from the Federal Reserve and that a further large number of failures would necessitate open market purchases. Harrison argued for further sales, and Meyer continued to object. Goldenweiser wrote that while the governors did not alter their position, they “were impressed by Meyer’s sincerity and force. It appears to have been his first bout with the entrenched hard money crowd of the Federal Reserve System” (Emmanuel A. Goldenweiser, Papers, box 1; Federal Reserve Board, January 21, 1931, pp. 83-84; Federal Open Market Committee, 1956, pp. 542-545).

Following this meeting, Meyer requested a change of procedure. Meyer wanted the governors to meet first with the Board, then convene to decide and prepare their report, and then meet again with the Board to discuss the recommended policy. Clearly, Meyer wanted a chance to present his case before policy was determined. This was exactly the procedure the Philadelphia directors had objected to one year earlier. The procedure was not changed at this time (Federal Open Market Committee, 1956, p. 545).

As discuss above, Meyer stated that he urged cuts in discount rates during the Spring of 1931 to reduce foreign short-term claims on the dollar. Between December 1930 and May 1931, every Federal Reserve Bank except Minnesota reduced its discount rate at least once (Federal Reserve Board, 1943, p. 441).

Philadelphia Governor George Norris told Hamlin in April 1931 that Meyer worked with Harrison to endorsing a policy of purchases. Meltzer notes that Meyer and Miller advocated purchases at the April New York Federal Reserve Bank Directors’
meeting, and that Meyer urged reducing rates regardless of how low they seemed. At the April 29-30, 1931, meeting of the OMPC, there was a lengthy discussion of the fact that gold inflows had been sterilized. Harrison advocated reducing rates and making purchases. Norris spoke next and, with reservations, endorsed the policy. Meyer was invited to join the conference in progress and attempted to meet objections to the proposed purchases. At this meeting, purchases of up to $100 million were authorized, but by the June meeting, no purchases had been made (Hamlin, Papers, reel 19; Meltzer, 2003, p. 330; Open Market Policy Conference, April 29, 1931 and June 19, 1931).

At the June 22 meeting of the OMPC Executive Committee Harrison again argued that gold flows had been sterilized, and Meyer added that increases in currency holdings were sterilizing gold inflows, and that if nothing were done, critics would charge the Federal Reserve System with sterilizing gold inflows. Meyer had strongly advocated purchases. Purchases of $50 million were authorized, but Meyer had wanted more. From June 22 through August 3, purchases totaled $80 million (Open Market Policy Conference, June 19 and 22, and August 4, 1931).

On June 16, Hamlin reported that Meyer felt that currency hoarding was sterilizing gold inflows and that he wanted to purchase securities. Meyer discussed his concern with the Federal Reserve Board staff economists Emmanuel A. Goldenweiser and Winfield Riefler. Both disagreed with Meyer’s plan, but Meyer was not deterred (Goldenweiser, Papers, box 1). On July 1, Meyer met with the Philadelphia directors:

Governor Meyer spoke at some length regarding the reason for the purchase of $50,000,000 of Government securities at this time, placing particular emphasis on the fact that $350,000,000 of currency is being hoarded, and that we have received from abroad about $300,000,000 of gold since the first of the year which has been practically sterilized. He also stated that the purchases of these securities will not have any material
effect on the money market (Federal Reserve Bank of Philadelphia Board of Directors, July 1, 1931, p. 396).

Next came the pivotal August 11, 1931 meeting, which was initiated by the Board to consider a program of purchases (Federal Reserve System, Papers, box 1437). The minutes reveal little of what actually transpired. In testimony four years later, Hamlin recalled:

Governor Meyer … went before the committee for 2 hours explaining that … nothing but a major stroke would help the situation… that the System should make a bold stroke and buy, say 300 millions or 400 millions of Government securities, hoping that that might turn the tide. (U.S. Senate Committee on Banking and Currency, 1935, pp. 945-946)

Governor Calkins of San Francisco, who consistently opposed purchases, asked each of the governors to state the position of his Board of Directors. Only Governor Black of Atlanta advocated purchases on the scale Meyer advocated. Governor Fancher of Cleveland recommended purchases of $100 million. Nine governors opposed with four explicitly citing a lack of free gold and two others saying their banks had gone as far as possible, suggesting a free gold problem. Harrison said his directors did not favor purchases but motioned that the Executive Committee be authorized to purchase up to $300 million at its discretion. Calkins, with Fancher seconding, motioned for authority to purchase or to sell $100 million, plus the remaining $20 million of authority from the April meeting, which was approved (Open Market Policy Conference, August 11, 1931, pp. 6-10).

When the OMPC members met with the Board, Board members expressed their disappointment with the small quantity of purchases recommended. Meyer asked Goldenweiser about free gold, and Goldenweiser replied that while some banks were
close to their minimum, free gold in the system was more than sufficient, and more could be created by reducing the amount of unissued notes with the Federal Reserve Agents.\textsuperscript{45} Meyer again complained about the procedure, requesting that the OMPC first meet with the Board. He asked the governors to come prepared to have a free discussion with the Board about open market policy, not with predetermined instructions from their directors, and that they not leave before meeting with the Board. The Board voted to give Meyer the authority to approve any purchases, but any sales were subject to review by the Board. Meyer and his Board were pushing hard, but with little success (Federal Reserve Board, August 11, 12 and 18, 1931, pp. 128-129, 143, and 156; Open Market Policy Conference, August 11, 1931).\textsuperscript{46}

Meyer continued to press the district banks to adopt an expansionary policy.\textsuperscript{47} Miller went to San Francisco to make the Board’s case. In a September 3, 1931 telegram to Meyer, Miller reported that in a discussion of open market policy, he did his best to argue the Board’s position but that “there is still much banking opposition to overcome.” (Eugene Meyer, Papers, box 74).

When England left the gold standard on September 21, 1931, fear that the dollar was next resulted in speculation against the dollar. As discussed above, Meyer’s attention turned to defending the dollar. In October he suggested increasing discount rates to demonstrate the Federal Reserve’s confidence that they possessed enough gold to continue on the gold standard.

At the OMPC Executive Committee meeting on October 26, 1931, Harrison argued that the system possessed adequate free gold. The full conference met on November 30, having as yet made no purchases. At this meeting it was agreed to alter procedures to
meet first with the Board. Meyer urged the conference not to place further pressure on the banking or credit situations. Meyer did not advocate purchases, as he was again defending the dollar. But he said that they should be prepared to buy in an emergency. The resolution was to purchase or sell up to $200 million to meet seasonal pressures (Hamlin, Papers, reel 19; Open Market Policy Conference, November 30, 1931, p. 1).

In spite of Goldenweiser’s and Harrison’s assertions that free gold would not constrain a program of purchases, it was clear that this issue had to be addressed before purchases would be approved. A new wave of bank failures followed England’s departure from gold in September and the increased discount rate in October. Faced with renewed failures and the free gold issue, Meyer sought legislative solutions.

Meyer felt that an agency similar to the WFC was necessary even before Britain left gold. However, Hoover had plans for a National Credit Corporation (NCC) organized privately to make loans to troubled banks. A secret meeting was arranged with a group of prominent bankers on October 4, 1931. Hoover, Treasury Secretary Andrew Mellon and Mills all made their pitches to the bankers, without much success. Meyer felt that the bankers had agreed prior to the meeting to do nothing. Left alone with the bankers, Meyer pleaded with them to form the NCC, promising that should it prove inadequate, he would do everything in his power to create the RFC. In testimony for the RFC legislation, Meyer said legislation for the RFC was promised when the NCC was formed, and that the NCC was intended to be temporary (The Deluge, p. 113; Fortune May 1940; Gerald D. Nash, 1959; Pusey, 1974, 217-218; U.S. House of Representatives Committee on Banking and Currency, 1931-32, pp. 29-30).
The RFC was an essential component of the expansionary credit policy, as explained in a January 8, 1932, memo from Goldenweiser to Meyer. Meyer hoped that RFC loans to banks would improve public psychology. If RFC loans stabilized the banking situation, improved confidence in the banks would result in a return flow of currency. No longer worried about runs, bankers who had attempted to hold only the most liquid assets could resume lending on a normal basis, using the funds provided through open market purchases. A reduction in public currency holdings would also increase free gold. (Eugene Meyer, Papers, box 181)

The RFC, as passed on January 22, 1932, was less than Meyer wanted. In the original legislation there was a provision for the RFC to have a subsidiary to purchase commodities to support prices, as the Commodity Credit Corporation later did under the New Deal. Carter Glass struck this provision from the bill. After RFC operations began, Meyer decided that the RFC should buy banks’ preferred stock and asked RFC Board member Jesse Jones to inquire whether Democratic House Speaker John Nance Garner would support this change. Jones reported back that Garner would not. The Emergency Banking Act of 1933 authorized RFC purchases of bank preferred stock (The Deluge, p. 232; Pusey, pp. 218-221).

The RFC began operations on February 2, 1932. Although Meyer had not intended to be involved with RFC operations, the RFC legislation made the Federal Reserve Board Governor an ex-officio member of the RFC Board of Directors. Meyer ultimately convinced Hoover that Meyer should chair the RFC board. To begin RFC operations as quickly as possible, Meyer located RFC loan offices in Federal Reserve facilities, and
many Federal Reserve officials did double duty working with the RFC (*The Deluge*, p. 117; Reconstruction Finance Corporation, 1932).

Undaunted by the RFC’s limitations, Meyer continued his efforts to support commodity prices to aid farmers, going outside of the government. In August 1932, he organized the Commodities Finance Corporation, a $100 million bankers’ pool to lend for basic commodities. He organized another bankers’ pool to support bond prices. Meyer’s many efforts to promote recovery were publicly recognized at the time, as illustrated in Figure 2 (*The Deluge*, pp. 129-133; *New York Evening Journal*, August 8, 1932).

While working on the RFC, Meyer and others began to address the free gold issue. Meyer asked Harrison to organize a meeting of New York bankers on January 3, 1932. At this meeting, Leffingwell began a discussion of free gold, suggesting the use of government securities as collateral for notes. Harrison objected to Leffingwell’s plan, suggesting as alternatives having notes secured by all of the Reserve Banks’ assets, or having notes be a government obligation with a lien on all Reserve Bank assets. They next considered the difficult problem of getting Carter Glass to approve any of these alternatives, so Burgess, Harrison, Leffingwell and Meyer worked to persuade Glass (*The Deluge*, p. 140; Harrison, Papers, 2690.2).

The 1932 Glass-Steagall Act contained three important provisions. Section 10(a), authorizing loans to groups of banks on assets not previously eligible, was due to Glass. Section 10(b), expanding eligibility requirements for discounts, was Hoover’s contribution. Section 3, allowing Treasury securities to serve as collateral for Federal Reserve notes, likely based on Leffingwell’s suggestion, was Meyer’s contribution.
Meyer realized that the gold drain and increased hoarding had resulted in a “terrible tightness” in the money market that could only be relieved by open market operations (*The Deluge*, pp. 138-139; Pusey, p. 229).

With the RFC and Glass-Steagall legislation in place, Meyer had overcome earlier objections to a program of open market purchases. At the February 25, 1932 OMPC meeting, weekly purchases of $25 million were approved in anticipation of the passage of the Glass-Steagall Act two days later. At this meeting, Meyer said that purchases combined with RFC loans would ease credit. Agnes Meyer recorded on March 10 that Eugene was more poised and sure of the future. But Meyer was impatient. Hamlin records him saying “that if damned hoarders would cease hoarding and the damned banks begin loaning, all would be well.” By the April 12 meeting Hamlin felt that Meyer had lost his former optimism, and said that Meyer favored a bold policy of purchases. At this meeting, purchases of $500 million, at a rate of $100 million per week were approved (Agnes Meyer, Papers, box 2; Federal Reserve Board, Papers, box 1438; Hamlin, Papers, reel 20; Open Market Policy Conference, February 25 and April 12, 1932).

On May 1, Meyer’s wife wrote that he was “as much worried now about the general situation as he ever has been.” Public perception was that the purchases were not having the desired effect. The May 30 issue of *Time* magazine reported that while $725 million of government securities had been purchased, and further purchases had been approved at the May OMPC meeting, the program was not working, as excess reserves were accumulating in banks (Agnes Meyer, Papers, box 2; *Time*, May 30, 1932, p. 11).

At the May meeting, the resolution authorized purchases of $500 million, as deemed appropriate, but some objections to continued expansion were raised. The Executive
Committee decided to purchase $80 million during the next week. At this meeting it was also decided to organize committees in each district to encourage banks to put their funds to work. The idea was suggested by Miller and endorsed by Hamlin. Meyer said that he wasn’t sure if these committees did any good, but at least an attempt was made (The Deluge, pp. 199-200; Open Market Policy Conference, May 17, 1932; Hamlin, Papers, reel 20).

In July, Meyer reported that while the purchase program had not resulted in an extension of credit to business, he did not feel the program could be judged a failure. Harrison spoke in support of Meyer. The other governors expressed varied opinions. At this meeting a number of Federal Reserve Bank governors stated that their gold reserve percentages had dropped to close to 50%, and that their directors were reluctant to continue, “…unless the operation were a united system undertaking” (Federal Reserve Board, July 14, 1932, pp. 45-47; Open Market Policy Conference, July 14, 1932, p. 3).51

Unity of participation was important to Meyer. At the April 1932 meeting he stressed the value of a unanimous program. At the May meeting, Calkins of San Francisco said that his bank could not take its share of bonds purchased. At the June Executive Committee meeting it was noted that a number of banks were limited from taking their quota due to low reserve percentages, and that New York had absorbed the difference. At the July meeting, Meyer again urged that efforts be made to have a united system policy. Also at this meeting, Governor Young of Boston and Governor McDougal of Chicago noted that their banks had both assisted New York by taking more securities than their allocated share, but that both were opposed to the program and McDougal emphasized his directors’ desire to stop. In the preliminary memorandum for
the July meeting, the effectiveness of the purchases was questioned: “It, therefore, seems desirable at this time to review the general business and industrial situation as a basis for determining the extent to which further purchases of government securities would likely prove effective.” The policy agreed upon was an excess reserve target of $200 million. Over the next few weeks, $30 million of purchases were made. By August, purchases ended (Open Market Policy Conference, November 10, 1932, p. 1).

By the next meeting in November, all members of the conference agreed that there was no occasion to purchase securities. In a conversation on January 19, 1933, Harrison and Mills agreed that the recent purchase program had gone as far as possible to secure cooperative agreement in the system (Harrison, Papers, 2012.2; Open Market Policy Conference, November 15, 1932). 52

Meyer argued for further purchases at the December 1932 New York Federal Reserve Bank Directors’ meeting. However, during the final crisis, in February 1933, Meyer opposed purchases. He wanted higher rates to defend the dollar, as the gold standard was again the priority (Meltzer, 2003, pp. 376-379; Federal Reserve Board, February 27, 1933).

The purchase program had resulted in an increase in holdings of government securities of over $1.1 billion. While in retrospect the purchases should have continued, purchases on that scale had never before been attempted. 53 James Dolley (James C. Dolley, 1933), writing in the Journal of Political Economy, characterized the purchases as extraordinary. A leading quantity theorist, James Harvey Rogers (James H. Rogers, 1933), presented a paper at the American Economic Association meetings in December 1932 expressing disappointment that relief had been slower than expected following the
“constructive change in policy” in 1932. Rogers concluded that the economy’s equilibrating forces were not working, that any threat of inflation would result in financial chaos, and that a solution to the war debts problem was essential to recovery.\textsuperscript{54} Seymour Harris (Seymour E. Harris, 1933) wrote that the open market operations were on a scale never before attempted and had finally ended the liquidation.\textsuperscript{55}

As others have emphasized (Karl Brunner and Allan Meltzer, 1964; Meltzer, 2003; and Wicker, 1966), a focus on nominal interest rates and excess reserves were interpreted as signals of monetary ease. Also, many of the governors were not willing participants in the purchases program. Meyer himself felt that he had pushed the governors as far as possible. Discussing the end of the purchase program, Meyer states that Federal Reserve Bank of Chicago Governor James McDougal was dominated by director George M. Reynolds of the Continental Illinois group, and that Reynolds wanted higher interest rates to increase bank earnings.\textsuperscript{56} Meyer further notes that there was considerable dissatisfaction with the purchases elsewhere in the System.\textsuperscript{57} The district banks could choose not to participate in the purchase program, and there was not a sense of a need for unified action, which Meyer believed was essential (\textit{The Deluge}, pp. 197-199).\textsuperscript{58}

\textbf{VII. Free Gold Revisited}

Friedman and Schwartz (1963) argue that the free gold issue was an excuse for inaction by those opposed to expansion. In this sense they are certainly correct. Meyer was a staunch defender of the gold standard, yet at the pivotal August 11, 1931 meeting of the Open Market Policy Conference, he was ready to “strike a bold stroke.” When the reluctant governors raised the free gold excuse, Goldenweiser stated that while some
Reserve Banks would have problems, the system as a whole possessed ample free gold for expansion. Meyer also understood that if expansionary policy succeeded, hoarding of currency would likely decline, reducing currency outstanding and freeing additional gold.59

However, Meyer and other advocates of expansion realized that the free gold issue was an obstacle that had to be overcome. The result was the Federal Reserve’s request for the Glass-Steagall legislation, facilitating the 1932 open market purchases. Even when the purchases began, government securities were not used as collateral. From March 15 through May 4, Meyer received confidential daily reports of the free gold positions of the twelve reserve banks and the system. Between these dates free gold fell from $349 million to $169 million. On May 5, government securities were pledged as collateral for Federal Reserve notes, ending the free gold issue (Federal Reserve Board, 1932; Eugene Meyer, Papers, box 120).

Bordo, Choudhri and Schwartz (Bordo, Michael D., Choudhri, Ehsan U. and Schwartz, Anna J., 2002) have conducted simulations suggesting that if open market purchases had begun in October 1930 or September 1931 the economic tide would have turned at these crucial junctures. In this sense, the free gold issue contributed significantly to the severity of the depression, because it affected the timing of open market purchases. As discussed above, Meyer quickly grew impatient with the gradual purchases in March 1932, so the amount of purchases was increased significantly in April. The amount of purchases Meyer advocated in August 1931 was considerably larger that the initial purchases of 1932. Had his “bold stroke” been slow to produce results in 1931, he likely would have pressed for even greater purchases.
Between August 1931 and February 1932 the Federal Reserve’s adjusted index of industrial production fell 11.5% and wholesale prices declined 8% (Federal Reserve Board, 1932). Also, the nation had suffered another round of bank failures and increased currency hoarding following England’s departure from gold. In August 1931, a less moribund economy may have responded more rapidly to open market purchases. The reduction of nominal rates that would have occurred would likely have reversed gold inflows, easing pressure on England. Perhaps the September 1931 crisis could have been avoided if the governors had allowed Meyer to strike his “bold stroke.” In delaying the timing of open market purchases, the free gold issue likely contributed significantly to the depression.60

VII. The End of Open Market Operations

Meyer never wanted to head the RFC but agreed when Senator Joe Robinson of Arkansas made it a condition of Democratic support for the legislation. The strain of working to obtain legislative changes and running the Federal Reserve Board and the RFC took its toll; Meyer was working from 8 a.m. to 2 a.m., six days a week, with constant phone calls and reading on Sundays. Agnes Meyer first recorded his health problems in February 1932. Both Meyers asked Hoover and Mills to relieve him from the RFC, but got nowhere until Agnes asked Carter Glass to help. The Emergency Relief and Construction Act, passed on July 21, 1932, removed the Federal Reserve Board Governor and the Farm Loan Commission from the RFC Board of Directors, effective July 31, 1932 (The Deluge; Federal Reserve Board, 1932; Agnes Meyer, Papers, box 2).

Meyer experienced a serious, but not life-threatening, health problem. A problem with a sciatic nerve made it very painful and difficult for him to walk. In early August
1932, Meyer retreated to his home in Mount Kisco, New York, returning to his duties intermittently during the next three months. From January through July 1932, the period when Hamlin accused Meyer of neglecting the Federal Reserve Board for the RFC, Meyer missed only two of eighty meetings of the Federal Reserve Board or its Executive Committee. From August through October, Meyer missed 14 of 21 Board meetings, and then missed only one more through the year’s end. Hamlin also records Meyer’s frequent absences during these months (The Deluge, pp. 125-126; Federal Reserve Board, Minutes, 1932; Hamlin, Papers, reel 20).

Politics affected Meyer’s activities in several ways. Carter Glass, a Democratic friend, eliminated from the RFC bill a provision that would allow the RFC to lend to support commodity prices, which the RFC’s Commodity Credit Corporation did during the New Deal and to the present. John Nance Garner also blocked Meyer’s expansionary efforts. As discussed above, Garner refused to support Meyer’s proposal that the RFC purchase bank preferred stock, another RFC activity authorized under the New Deal. Garner also forced publication of the names of banks receiving RFC loans, a practice ended once Roosevelt entered office. Meyer felt that Garner, a presidential candidate and Roosevelt’s eventual running mate, obstructed Meyer’s efforts to improve his own chances of election. The RFC was criticized as taking banks’ best assets as collateral for its loans. Meyer’s reluctance to loan on a more liberal basis was due to fear of Congressional reaction (The Deluge p.201; Agnes Meyer, Papers, box 2: Pusey, 1974, p. 218).

A President could remove the Federal Reserve Board Governor at will; the Governor enjoyed no political independence. Meyer appears to have foreseen the tide of events
moving against Hoover. In the late night and early morning hours of July 28 and 29, 1932, the U.S. Army drove the remnants of the “Bonus Army” from their Anacostia camp. Meyer told his wife: “Hoover was convinced he would be re-elected only if he showed a strong hand. Instead it’ll kill him.” A week before the November election, Meyer wrote to his daughter Florence: “I shall be happy when the elections are over and when we can get down to doing something else” (Agnes Meyer, Papers, box 2; Eugene Meyer, Papers, box 3).

Rumors that Meyer would leave the Board circulated within the Board offices even before the election. In the months following the election, Hamlin’s diary entries exhibit increasing hostility toward Meyer by both Hamlin and Miller. Meyer said that from February 1 through March 4, 1933, he was just going along day to day, as his relationship with Hoover had significantly deteriorated. He felt that there was a general inability to function. Agnes Meyer recorded in February that her husband, an admitted workaholic, hated going to the office. Between his poor health and the uncertainty of the interregnum, Meyer’s energy and efforts were severely diminished beginning in August 1932 (The Deluge, p. 229; Hamlin, Papers, reels 20 & 21; Agnes Meyer, Papers, box 2).

Friedman and Schwartz (1963, p. 384-385) argue that the 1932 purchases were carried out only in response to Congressional pressure. There is evidence to the contrary. Meyer sought both the RFC and Glass-Steagall legislation to deal with the bank failures and remove the free gold argument against expansion. The Governor who wanted to “strike a bold stroke” in August 1931 wanted to do the same in 1932.

The legislation that allegedly prompted Federal Reserve action was Maryland Congressman T. Alan Goldsborough’s bill directing the Federal Reserve to restore a
commodity price index to its 1926 level. While the bill passed the House, Meyer was likely confident that his ally Carter Glass would never let the bill pass the Senate. Meyer felt that Glass cleverly killed Goldsborough’s bill with substitute legislation enlarging the list of government bonds that could serve as security for national bank notes. Harrison also wrote in early May that he felt the Goldsborough bill would not pass (The Deluge, pp. 163-165; Eugene Meyer, Papers, box 117).

In the House hearings for the Banking Act of 1935, Goldsborough told Goldenweiser that he felt the Fed’s purchases were an attempt to stave off his bill. Goldenweiser denied the allegation, saying “…there was nothing tactical in these purchases.” He went on to testify that during the fall of 1931 and the first two months of 1932 the question of purchases was under constant discussion, but the issue of free gold had to be addressed. Hamlin and Miller, testifying in the Senate hearings for the same act, both asserted that the Board’s policy was an attempt to expand (U.S. House of Representatives Committee on Banking and Currency, 1935, p.442; U.S. Senate Committee on Banking and Currency, 1935, pp. 686 & 946).

In the April 1932 OMPC meetings, Meyer did make statements suggesting that he was motivated by Congressional pressure. But he also said that the declines in business and credit had not stopped, and that the Board felt the system could do more to aid recovery, and that it needed to use its powers more fully (Federal Reserve System, Records, box 1438).

Meyer was a tactician, but to what end? As noted above, he felt that he always had to exhort the governors to obtain any unified action. Many of his statements prodded the governors. In the June 1931 meeting Meyer reported that currency drains had offset
gold inflows, and that doing nothing would allow critics to say that the Federal Reserve was sterilizing gold inflows. In April 1932, he cited a restive Congress. In July he told the OMPC that Congress was considering centralization of Federal Reserve powers with the Board, and that unified action would demonstrate that the current system worked. In January 1933, he again urged the governors to adopt a policy that would create public confidence, and that what was needed was assurance of continued pressure of excess reserves. He warned again of Congressional pressure at this meeting (Federal Reserve System, Records, box 1438; Open Market Policy Conference, January 4, 1933, pp. 1-4, The Deluge, p. 199).

Meyer could also act strategically. On September 7, 1932, he reported to the Board that Governor McDougal of the Federal Reserve Bank of Chicago had sold $20 million of government securities, in effect changing policy. With the Board’s approval, he called Harrison and reported back that he and Harrison were calling a meeting of the OMPC in two days. The next day he reported to the Board that the Chicago Federal Reserve Bank had placed a purchase order for $20 million of government securities and that the OMPC meeting was cancelled (Federal Reserve Board, September 7 and 8, 1932, pp. 221 & 225-226).

When the 1932 Glass-Steagall Act was passed, the governors asked if government securities would be used as collateral immediately. Meyer delayed using government securities as collateral for as long as possible, daily monitoring the System’s free gold. In the hearings for the Banking Act of 1935, Carter Glass revealed why:

The so-called “Glass-Steagall bill” that practically returned us for the time to a bond-secured currency. And I want to say again for the record that from my individual records I never would have agreed to have reported that bill but for the fact that we were assured over and over again
by men in authority that they did not expect to use it; that they wanted it for psychological purposes. (U.S. Senate Committee on Banking and Currency, 1935, p. 686)

Hoover wanted a private effort to aid banks, but Meyer felt this would prove inadequate. However, the only way to get Hoover to support the RFC was by coercing the bankers to first attempt to provide relief through the NCC, although neither Meyer nor the bankers expected that the NCC would provide much relief.

Soon after leaving the Fed, Meyer decided to bid for *The Washington Post* at a bankruptcy auction. However, Meyer had offered $5 million for the paper in 1929, and if it were known that he was bidding the price would be inflated. So he retained a young lawyer to bid on his behalf; the lawyer placed the successful bid of $825,000. Wishing to keep the purchase secret, Meyer had the lawyer return to his darkened Washington apartment, first passing in one and out another door of a neighboring hotel. Learning that he was successful, Meyer flew back to his Mount Kisco home, where an inquiring reporter was told that Meyer was in bed recovering from an injury (Pusey, pp. 242-246).

Taken at face value, Meyer’s statement about the Goldsborough bill suggests that Congressional pressure motivated the open market purchases. But Meyer’s desire to expand was sincere; he used the Goldsborough bill to prompt the reluctant governors to act. As Hamlin observed shortly after Meyer joined the Board: “Governor Meyer is certainly shrewd” (Hamlin, Papers, reel 19).

**VIII. Conclusions**

Eugene Meyer was a strong, forceful individual. He was self-confident and determined. Meyer believed in the gold standard, and followed the gold standard rules as best he could. He did everything he possibly could to exert his leadership, including
engaging in a campaign of persuasion with Federal Reserve District Bank boards of
directors to support his policy positions and obtaining important legislative changes to
facilitate adoption of expansionary policies as dictated by gold standard rules. As
demonstrated by his actions with both the War Finance Corporation and the RFC, Meyer
advocated government intervention to address economic problems.

War debts and foreign claims on the dollar were among his chief concerns at the
Federal Reserve. However, the only times that he advocated monetary tightness to
defend the dollar were following Britain’s departure from gold and during the gold run
before the bank holiday in February and March 1933. In 1930, after joining the Board,
he opposed purchases but urged lower discount rates. In 1931 until September and in all
of 1932 he advocated expansionary open market policies. When the free gold issue was
raised as an obstacle to expansion, he met the challenge by obtaining the 1932 Glass-
Steagall legislation. However, the delay may have been fatal. In 1932 his “bold stroke,”
which was sincere, did not yield convincing results rapidly enough to overcome
resistance to purchases within the System. In 1931, the results may have been different.

Meyer rejected the real bills doctrine, but neither was he a quantity theorist. His
policy indicator was the quantity of bank credit, especially loans. In July 1932, with
loans failing to expand, gold reserves shrinking, and his health deteriorating, he no longer
attempted to push the reluctant governors in a direction they resisted. In August his
activity was greatly reduced as he attempted to regain his health. Then Roosevelt
defeated Hoover, and Meyer knew he would soon be gone.

International considerations did dominate monetary policy (Wicker, 1965), but these
concerns did not mandate deflation (Temin, 1989) or limit expansion (Eichengreen,
1992) as United States gold reserves were strong during much of the contraction. Within the System, the accumulation of free reserves (Meltzer, 2002) was used as an argument against further expansion in 1932, although Meyer’s view about the accumulation of free reserves is ambiguous.  

Friedman and Schwartz (1963, p. 447) argue that the Federal Reserve blamed the contraction on a lack of powers, rather than its failure to use the powers it already possessed. However, Meyer’s inability to “strike a bold stroke” in the summer of 1931 was due to a lack of operational authority, necessitating a campaign of persuasion to gain support for a program of open market purchases. He had to convince the Reserve Bank governors and their boards of directors to forsake their real bills instincts and desire for higher interest rates, which proved an exceedingly difficult task. The majority of Reserve Bank governors were reluctant to acquiesce to Meyer’s wishes, although in 1932 they did approve, despite their reservations, the largest program of open market purchases up to that time. The diffusion of operational power following Strong’s death, emphasized by Friedman and Schwartz (1963) and Wicker (1966), and the resistance of the District Bank governors to Federal Reserve Board leadership, were the reasons policy failed. The Federal Reserve was a broken system, repaired only by the Banking Act of 1935.  

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Figure 1

Ratio of Foreign Claims to Federal Reserve Gold Reserves

Percentage

1930 Jan Mar May Jul Sep Nov
1931 Jan Mar May Jul Sep Nov
1932 Jan Mar May Jul Sep Nov
1933 Jan Mar

0.1
0.2
0.3
0.4
0.5
0.6
0.7
0.8
0.9
1.0
Meyer was publicly recognized as the originator of numerous recovery programs.

Figure 2
Originally the executive officers of the twelve Federal Reserve District Banks held the title of governor. The executive head of the Federal Reserve Board in Washington was appointed by the President and had the title of Governor of the Federal Reserve Board. A second appointed member was the Vice-Governor. The other four appointed members had no distinguishing title. The Secretary of the Treasury and the Comptroller of the Currency were *ex officio* members of the Board, with the Treasury Secretary also serving as Chairman of the Federal Reserve Board.

The Banking Act of 1935 removed the *ex officio* Board members and added a seventh appointed member. The name of the Federal Reserve Board was changed to the Board of Governors of the Federal Reserve System. Each Board member became a governor, with one member being designated the Chairman, and a second designated the Vice Chairmen. The heads of the twelve district banks became presidents. This 1935 reorganization has remained unchanged to the present.

Open market policy is the purchase and sale of government securities designed to respectively expand or contract money and credit.

Banks that were members of the Federal Reserve System (all nationally chartered banks and state-chartered banks that chose to join) were required to hold reserves on deposit with Federal Reserve Banks. Reserves in excess of the minimum requirement are excess reserves. It was assumed within the Federal Reserve System that an increase in excess reserves would cause banks to expand their loans and deposits.

The difference between Trescott and Wheelock is a difference in interpretation, as both of their models forecast much larger open market purchases than were made during the contraction period. Trescott assumes that open market operations would be made to offset gold and currency flows, while Wheelock assumes that open market purchases would end once member bank borrowing from the Federal Reserve approached zero.

Mills was appointed Under Secretary of the Treasury in 1927, and became the Secretary of the Treasury on February 13, 1932.

The increase in the Federal Reserve discount rate to which Meyer objected in 1920 was not motivated by a defense of the dollar, while the increases Meyer advocated were to defend the dollar.

The Board or its Governor could and did recommend changes in discount rates and open market operations. However, they had no authority to require adoption of their recommendations.

Federal Reserve Banks had both reserve requirements and a collateral requirement. Federal Reserve Banks were required to hold 40% gold reserves against notes (currency) in circulation, 5% gold reserves against unissued notes, and 35% gold or lawful money against deposits (member bank reserves). Collateral was required against notes in circulation: 40% gold reserves and 60% eligible paper (discounted loans and bankers’ acceptances) or gold. Due to insufficient eligible paper, excess gold reserves were used to meet the collateral requirement, and could not serve as reserves against new deposit liabilities. The low level of eligible paper at this time absorbed excess gold reserves. Only free gold, gold not used as reserves or collateral, was available to support expansion. Also, an expansion would reduce eligible paper through the scissors effect. When the Federal Reserve made open market purchases, banks would reduce their discounts. This was the scissors effect. Federal Reserve officials were well aware of this effect.

The 1932 Glass-Steagall Act authorized for one year the use of government securities as part of the 60% collateral requirement against notes. This change was later made permanent.


Young’s departure opened the Governor position. Then, as now, each member of the Federal Reserve Board must represent a different Federal Reserve district, and Platt and Meyer were both from New York. Charles Hamlin, who believed the conspiracy theory, also wrote that Platt had told him that Treasury Secretary Andrew Mellon told Platt that he had a legal opinion that Meyer could be appointed as a representative of the fifth (Richmond) Federal Reserve District (Hamlin, Papers reel 19). While the Meyers’ permanent resident was Mount Kisco, New York, they had maintained a residence in the District of Columbia since 1917.

Subcommittee Chair Senator Robert Carey stated for the record that McFadden failed to include Platt in his list of witnesses (U.S. Senate Committee on Banking and Currency, *Nomination of Eugene Meyer*, p. 266).

Unless otherwise noted, this section is based on Pusey (1974).
Boxes 179-181 of the Eugene Meyer Papers, Library of Congress, contain a draft of the autobiography that Sidney Hyman was writing for Eugene Meyer. There are eight sections or volumes (Pusey, 1974, calls this as an eight-volume work). Each section has numerous subsections or chapters. Each page has two numbers, a chapter number and a volume number. References in this paper are to the volume number, which is continuous. Volume VII, The Deluge, in box 181, covers the 1930-1933 period, and will be referred to by its title. Hyman’s draft is based on both Eugene Meyer (1961) and his own extensive interviews of Meyer, and was checked for factual accuracy by Bray Hammond of the Federal Reserve Board. The final Volume in box 181, “Rebirth,” dealing with the Washington Post years, is incorrectly numbered VII also. Its correct number should be VIII.

Meyer was rumored to be among those considered for the Governor’s position in 1922 and 1923, during the period between the end of W. P. G. Harding’s term with the board and the appointment of Daniel R. Crissinger as Governor. Meyer was also rumored to be, or aspired to be, the Secretary of the Treasury.

The dual banking system refers to the dual chartering authority for banks. Banks can obtain either a state charter of incorporation or a national charter from the Office of the Comptroller of the Currency (OCC).

Competition in laxity is the belief that competition between the state governments and the OCC to issue bank charters results in a lowering of regulatory standards.

Meyer’s papers include letters from Fisher (box 74) including one dated July 15, 1931, congratulating Meyer on bringing about international cooperation of bankers at the height of the German crisis.

As was a common belief, Meyer felt the Federal Reserve’s (Strong’s) easing in 1927 fueled the speculation. Federal Reserve Board member Adolph Miller testified in 1935 that the last (previous) great blunder of the Federal Reserve was the 1927 policy of open market purchases (United States Senate Committee on Banking and Currency, Banking Act of 1935. p. 689).

Under the real bills doctrine, loans secured by real estate and securities were considered speculative, and thus ineligible as security for Federal Reserve discount loans to banks.

When he ran the WFC Meyer complained that the technical definition of eligible paper was flawed. He felt loans for agricultural production, based on the length of the crop and breeding seasons, both too long to be “eligible,” should be eligible for discounting with the Federal Reserve (The Deluge, p. 142).

Meyer erroneously refers to Robbins as “your friend Professor Robinson.” Bill was studying at the London School of Economics were Robbins served as a faculty member from 1925 through 1969. The letter was written in 1934, the year Robbins’ book was published.

Friedman and Schwartz note that until the 1950s, almost all Federal Reserve discussions focused on credit or credit conditions (1963, pp.370-371). Even Carl Snyder of the New York Fed, whom Friedman and Schwartz cite as the most consistent advocate of expansion, conducted his analysis in terms of total bank credit, stating the same result obtained using total deposits. (Eugene Meyer, Papers, box 117).

Meltzer (2003, p. 410) states that Meyer and the directors of the New York Federal Reserve Bank took the lead in urging George Harrison to pursue expansionary policies. Harrison served as the chair of the Open Market Policy Conference, the body that controlled open market operations.

The events discussed in this and subsequent sections have been discussed in the accounts of Chandler (1971), Friedman and Schwartz (1963), Meltzer (2003) and Wicker (1966). The unique feature of this account is the focus on Eugene Meyer’s role.

The interview summary has no date for this incident, so both the fall of 1930 and the fall of 1931 are possibilities.

Each district bank has a nine-member board of directors.

The original Federal Reserve Board consisted of five appointed members and the two ex officio members listed in footnote 1 above. In 1922 a sixth appointed member was added. This structure remained intact until the changes made by the Banking Act of 1935 as listed in footnote 1 above.

Meyer was appointed following the resignations of Platt and Young. Board member Edward Cunningham died on November 28, 1930, and was replaced by Wayland Magee on May 5, 1931. The other vacant seat was never filled during Meyer’s tenure. In fact, there were continuous vacancies until 1947.

James (F. Cyril James, 1938, p. 876) writes that when it was decided that a governor of the Federal Reserve Bank of Chicago was to be selected, the leading Chicago bankers determined that the governor position had less standing than the presidency of a leading Chicago bank.
The numerator is foreign claims reported by banks in New York, including the New York Federal Reserve Bank (Federal Reserve Board, 1943, pp. 574-575). The figure for September 1930, $2,640 million, corresponds to Meyer’s recollection of $2,650 million (Eugene Meyer, Papers, box 122). The denominator data are from the annual reports of the Federal Reserve Board (1930, 1931, 1932, and 1933).

Following the German crisis in July, 1931, Meyer organized a group of New York bankers who were willing to lend $800 million up to $1 billion to the British government. He felt the credit would help the British stay on the gold standard. Meyer believed that Bank of England Governor Montague Norman killed the plan and that it was never proposed to the Chancellor of the Exchequer (Eugene Meyer, Papers, box 181).

Each Federal Reserve Bank initiated changes in its own discount rate, subject to Board approval.

Meyer was uncertain as to the correct amount.

Friedman and Schwartz (1963, p. 407, n.162) also discuss the Willis episode.

To Willis, any deviation from his strict version of the real bills doctrine was inflationary.

Reading the Willis article to the Board, Meyer called it untrue and traitorous (Hamlin, Papers, reel 20).

Hamlin inquired as to whether this story was true (Hamlin, Papers, reel 19).

Meyer recalled that at this time “I was daily concerned by our own existing obligations to the rest of the world” (The Deluge, p. 95).

Rapidan was President Hoover’s weekend retreat in Virginia, similar to Camp David today.

The next day the New York Times reported that a meeting had taken place at the New York Federal Reserve Bank, but was unable to obtain any details (July 13, 1932, p.1). At the Federal Reserve Board meeting the next day, Meyer reported that the possibility of the Federal Reserve issuing a reassuring statement had been discussed in New York, but it was decided not to do so (Hamlin, Papers, reel 19).

Hamlin testified that the Board had a legal opinion that it could order open market operations, but that this authority was never exercised. Rather, the Board sought cooperation (United States Senate Committee on Banking and Currency, 1935, p. 945).

Friedman and Schwartz (1963) write that Meyer wanted to expand, but did not have sufficient time to develop his leadership. Meltzer (2003) feels that Meyer was a more consistent advocate of expansion than Harrison.

Meyer’s statement reflects his fear of losing gold (Hamlin, Papers, reel 19).

Gold inflows normally resulted in an expansion of money and credit. Sterilization of gold flows meant that the expected expansion (or contraction for outflows) did not occur. Sterilization could be the deliberate result of policy, or as was the case in this instance, the unintended result of a currency drain from the banking system.

Wicker (Elmus R. Wicker, 2002) cites these memos, noting that Meyer understood the effect of a currency drain on bank reserves, but did not understand the effect of an increased currency ratio on the money supply, as this latter effect was not yet understood.

Yohe (William P. Yohe, 1990) argues that the Board economists espoused the real bills doctrine.

The Board had previously discussed this method of increasing free gold at their January 3, 1930 meeting (Goldenweiser, Papers, box 1).

Meyer told Hamlin that Harrison had been unable to sell the program, but he felt the Board would have been successful, which Hamlin doubted (Hamlin, Papers, reel 19).

Meeting with Reserve Bank boards was something Meyer appears to have done regularly. At the January 4, 1933 meeting he reported that he had recently visited with seven Reserve Bank boards to discuss open market policy (Open Market Policy Conference, January 4, 1933, p. 2).

Meyer said that the Federal Reserve paid little attention to nonmembers although these banks were two-thirds of all banks (Committee on the History of the Federal Reserve System, 1954-55, p. 6).

Jones was also a Democrat. Jesse Jones and Meyer remained friends until their fight in 1942. At that time The Washington Post carried an editorial criticizing Jones’ mismanagement of the synthetic rubber program. Jones confronted Meyer in a private club that evening, and fists were thrown, although both men were past their sixty-fifth birthday. Meyer felt that Jones’ Fifty Billion Dollars (Jesse H. Jones, 1951), published nine years later, inaccurately minimized Meyer’s role in creating and organizing the RFC, even calling Hoover the Father of the RFC (picture following page 24). The account of the RFC published in Fortune precedes their fight. Both Jones and Meyer were consulted for this story (Fortune, May 1940, pp. 44-51).
The corporation was dissolved in July 1933 (The Deluge, p. 133).

System excess reserves were also at a yearly low of $915 million in July (Federal Reserve Board, 1943, p. 348).

Discussing the end of the purchases, Meyer does not mention gold constraints, only the opposition within the System (The Deluge, p. 197-199).

Wicker (1966, p. 188) notes that Harrison, Meyer and Mills all agreed that they would proceed only if purchases were unified.

Meyer observed that the 1932 open market program was the first time purchases had been conducted on a scale that had since become common (The Deluge, p. 199).

In comparison, open market purchases in 1923-24 were $515 million, and purchases in 1927 were $340 million, two occasions cited by Friedman and Schwartz as examples of open market operations that reversed recessions (Friedman and Schwartz, 1963, pp. 288 and 296).

A desire for higher nominal interest rates, emphasized by Epstein and Ferguson (1984), was not a new concern. On October 6, 1930, Dallas Governor Talley complained that government security purchases had resulted in reducing the bill rate to too low a level. On February 5, 1931, the Richmond Federal Reserve Bank refused to participate in further purchases as its directors felt the bill rate was too low (Federal Reserve System, Papers, box 1437).

The first time that gold might have been a possible constraint was at the July 14, 1932 meeting, where opposition to continued purchases was raised based on a decline of reserve ratios toward 50%, yet still more than 25% above the minimum.

Meltzer (2003, p. 357) also feels that the delay due to the free gold issue was important.

Meyer’s health problem continued until he left the Board in May 1933 (Agnes E. Meyer, 1953, pp. 189-190).

Meyer speculates that Jones and Garner, both Democrats, might have agreed not to support purchases of bank capital stock at this time (Eugene Meyer, Papers, box 94).

Butkiewicz (James L. Butkiewicz, 1995) details Garner’s efforts to undermine RFC lending by publicizing the names of the loan recipients.

See the testimony of Marriner Eccles (U.S. House of Representatives Committee on Banking and Currency, 1935, p. 191) and the Federal Reserve Board (1916, p. 30).

The “Bonus Army” was comprised of WW I veterans and family members who had marched on Washington, D.C. to petition for early payment of a bonus they were due in 1945. They established a campground south of the Capitol across the Anacostia River.

Two of Millers comments are anti-Semitic; one directed toward Meyer and the other toward Meyer, Goldenweiser, and Leo Paulger, Chief of the Examinations Division of the Federal Reserve Board.

Meyer disagreed with many statements in Hoover’s Memoirs (Herbert T. Hoover, 1951). Regarding the final crisis in 1933, Hoover said that the Federal Reserve Board was a “weak reed.” Meyer said that Hoover would agree to action only on terms favorable to himself, and that given his personality and President-elect Roosevelt’s, there was nothing to do but sit tight until Roosevelt took office (The Deluge, pp. 204-206).

Wicker (1966, pp. 189-195) also feels the interregnum inhibited policy.
See note 57 above.
71 In a 1936 speech, Federal Reserve Board economist Emmanuel A. Goldenweiser compared the 1913 Federal Reserve Act to the nation’s Articles of Confederation, and compared the Banking Act of 1935 to the United States Constitution (Federal Reserve System, Papers, box 7).