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CHAPTER 1

Gold and the Professors

March 1–August 1, 1932

From today's perspective, it is difficult to imagine the depth of the Great Depression, and the desperation and deprivation it created among people from all walks of life and social conditions. Complete industries disappeared, the ranks of the unemployed swelled to unthinkable levels, families lost their life savings and had no one to turn to. Homes and farms were repossessed by the thousands. Soup kitchens could not serve enough meals to those going hungry, banks collapsed in rapid succession, farmers lynched judges performing foreclosure auctions, and children stopped going to school. Complete families thought about emigrating, only to find out that the Depression was a worldwide phenomenon and that relatives who had stayed behind in the old world were suffering as much as they were. Not only that: uncles and cousins who had gone to faraway places, such as Argentina or Australia, were in even worse conditions. There were no jobs, no relief, and nowhere to go.

Between 1929 and 1932, gross domestic product (GDP) measured in current dollars—that is, unadjusted by inflation—dropped by almost 60 percent, production of durable goods, including automobiles, declined by 81 percent, and the value of agricultural production was down by 63 percent. During the same period, employment declined by almost 50 percent—one out of every two people who in July 1929 had a job had lost it by March 1932—and the number of unemployed surpassed 15 million people. Those who still had jobs were earning much less than during 1929: according to the Federal Reserve, average wages had declined by

67 percent, and cash income in the rural sector had gone down by more than 70 percent.[1]

The United States had had recessions and financial panics before, but nothing resembled what the nation was going through in the early 1930s. The most recent slump had happened in 1921–1923, but in every single category that downturn had been milder, and the recovery had been much faster.[2] The panics of 1907 and 1873 had been serious and had wrecked many businesses and banks, but they were rather small disturbances in comparison to what President Herbert Hoover called the Great Depression.[3] The 1929–1933 collapse was several times deeper and more devastating than anything America had seen in the past. It was also much more profound than any downturn the country would experience in the years to come, including the 2008–2009 Great Recession.

The generalized collapse in prices was one of the most destructive aspects of the crisis. Between mid-1929 and mid-1932, the index of wholesale prices went down by approximately 70 percent; during the same period the cost of living for the typical household dropped by 40 percent. But behind these figures there were individual stories. In some industries, prices fell by significantly more than the average, driving small and medium companies into bankruptcy.[4] Things were particularly bad in the agricultural sector, where the prices of some crops were so low that it was not worth it to harvest them. In 1932, New York governor Franklin D. Roosevelt decided that his campaign for the presidency would be run around the issue of raising commodity prices and providing relief to the unemployed. In speech after speech, in interviews and radio broadcasts, he promised that when he was elected president his most important goal would be to end the deflation and help little people to find work once again.

One of the most devastating effects of this drop in prices was that debt burdens, when measured relative to the price of goods produced, increased very significantly. Consider the case of cotton, the commodity that Roosevelt would monitor throughout his first presidency. Its price declined from 12 cents per pound in 1926, to 6.52 cents in 1932—a reduction of 48 percent. This meant that in 1926 a mortgage of $10,000 was equivalent to 83 thousand pounds of cotton; by 1932 a debt of the exact same monetary value was equivalent to 154 thousand pounds of cotton, an increase of almost 84 percent. With collapsed prices, farmers could not pay their debts and were rapidly losing their land to banks and mortgage companies.

THE PROFESSORS

By March 1932, Roosevelt's campaign had gathered considerable force, and it looked as if he would get the two-thirds of the votes required to win the Democratic nomination. Voters liked the governor and appeared to trust him. The press, however, had a different view. Most reporters thought that he was a good speaker, but they questioned his substance and the seriousness of his thinking. During the earlier months of the primary campaign, Roosevelt had assailed the Republican administration for letting the economic situation deteriorate markedly and for allowing unemployment to grow to 15 million people. What he hadn't done, however, was make many specific policy proposals on how to get the country out of the Depression; most of his statements were considered to be general and without much forward-looking content. Now that he had the largest number of delegates the press was scrutinizing every one of his statements. Reporters were looking for inconsistencies, platitudes, and knowledge gaps.

Ernest Lindley, an influential journalist who followed the campaign closely, and who had written an early biography of Roosevelt, thought that the candidate "ought to say more than he had been saying about what has to be done."[5] Walter Lippmann wrote that FDR was "a pleasant man who, without any important qualifications for the office, would very much like to be President."[6] And a *New York Times* editorial compared President Hoover's specific plans for getting out of the crisis with what the editorialist considered to be the governor's collection of generalities: "The contrast between the two leaps to the eye of every reader. Mr. Hoover is precise, concrete, positive. Governor Roosevelt is indefinite, abstract, irresolute."[7]

In view of these criticisms, Governor Roosevelt asked Sam Rosenman and Basil "Doc" O'Connor, two of his long-time associates, to put together a small group of advisers to assist him gather information for speeches and press conferences, and to draft policy proposals. He suggested that they look among university people, among academics interested in public policy, among individuals who had thought about policies that could take the country out of the crisis.

The first member recruited for the advisory group—which would soon be known as the "Brains Trust"—was Raymond Moley, a forty-six-year-old law professor at Columbia University. Trained as a political scientist, Moley was an expert in the administration of criminal justice. He had advised Roosevelt on New York state judicial issues and had been director of the New York State Commission on the Administration of Justice. His interests, however, went well beyond criminal law, and although he was not an economist he knew enough about the subject to carry out an informed conversation with experts in the field. He had an elongated face, penetrating dark eyes, thinning grey hair, large ears, and very thick eyebrows. He wore crumpled dark suits, and more often than not had a pipe in his hand, which he seldom lit. He was born in Berea, Ohio, in an Irish-Catholic middle class family, and was proud of the fact that before turning twenty-five he had been elected mayor of Olmsted Falls, Ohio.

Raymond Moley was a gifted writer and had a remarkable capacity for synthesizing complex issues into a few memorable phrases. One of his first assignments was to draft the "Forgotten Man" speech, in which Roosevelt argued that in 1932 the situation in the United States was as grave as in 1917, when the nation entered World War I. The most famous passage said:[8]

> These unhappy times call for the building of plans that rest upon the forgotten, the unorganized but indispensable units of economic power, for plans like those of 1917 that build from the bottom up and not from the top down, that put their faith once more in the forgotten man at the bottom of the economic pyramid.

Another of Moley's many contributions to the campaign was coming up with the term "New Deal." At first FDR did not pay much attention to the expression, but with time he started using it in informal discussions with advisers and close friends. On July 2, in his acceptance speech at the Democratic National Convention in Chicago—a speech drafted by Moley—the governor said, "I pledge you, I pledge myself, to a new deal for the American people." The term struck a chord with the public, and in no time FDR's approach towards solving the nation's economic problems was universally known as the New Deal. To some it meant hope and salvation, the opportunity of getting a job and having a future, the possibility of not losing the family farm to foreclosure; to others it meant government intrusion and grab, the end of the American way, and a dangerous step towards socialism and perdition. Ray Moley was also the principal writer of FDR's famous inaugural speech, the speech with one of the most memorable lines in American politics: "The only thing we have to fear is fear itself."[9]

But Moley's role went well beyond that of a speechwriter. During the campaign he would constantly be at the governor's side; he would carry bags and briefcases, write memoranda and letters, look for answers to the most difficult questions, and talk incessantly with Roosevelt about ways of ending the Depression. In many of those conversations, they pondered whether some of the policies promoted by Roosevelt as governor of New York would be appropriate for the nation. During the interregnum, as the long transition between the general election and the inauguration was then known, Moley accompanied the president-elect to two meetings with President Herbert Hoover. He also helped the president-elect assemble the cabinet. He interviewed prospective candidates, conveyed messages from FDR, and unabashedly gave his opinion. In his view, the cabinet should be formed by individuals who favored solving domestic problems over international ones. As Moley would later declare, those conversations stayed away from issues related to gold or the exchange rate. This was not because these where forbidden topics, but rather because they were not at the center of the governor's concerns, nor were there central to the political discussions of the campaign.[10]

As a speechwriter and presidential adviser, Moley witnessed some of the most dramatic and significant political events of 1932 and 1933. He eventually wrote two memoirs that have provided historians and analysts with invaluable insights on FDR's personality and on the inner workings of the administration's famous Hundred Days. Moley's archives, held at the Hoover Institution, contain an incredibly valuable trove of information and details about the developments in 1932–1933.

The second member of the Brains Trust was Rexford Guy Tugwell, a forty-one-year-old economics professor at Columbia, and Moley's neighbor in Morningside Heights, in New York City. Tall and very handsome, with wavy auburn hair and a quick smile, he had the looks of a matinee idol. Rex Tugwell got his Ph.D. from the University of Pennsylvania, and was convinced that modern management techniques could bring generalized prosperity. He believed that if left on its own, modern industry would fall into the traps of "overproduction." This danger could only be

FIGURE 1.1. Raymond Moley, the head of the Brains Trust, and President Franklin Delano Roosevelt in February 1933. (With permission from Getty Images)

avoided by careful planning through a national economic council run by the private sector and coordinated by the government. After visiting the Soviet Union in the late 1920s, he became an even stronger believer in the merits of economic planning. Although he was a tenured professor at Columbia, he was not a member of the Graduate School, and his teaching was confined to undergraduates. Years later he would write that talking about economics with Roosevelt was like teaching the rudiments of the discipline to college freshmen.[11]

Tugwell was born in upstate New York, and while his father was in commerce, his ancestors had been farmers in Chautauqua County. This gave him endless topics of conversation with Roosevelt, who considered himself a gentleman farmer and was proud of his various farming undertakings in Dutchess County, New York, and in Pine Mountain, Georgia. Tugwell's interests in farming also helped him to be on good terms with FDR's wife, Eleanor, not a minor accomplishment during the campaign. Rex Tugwell was responsible for introducing the "concert of interests" notion into FDR's speeches, the idea that the policies of the new administration should favor every group in America, and not only large banks and corporations, as he claimed Hoover had done during his presidency.

Tugwell was a prolific and forceful author. He developed Columbia's famous year-long course on Contemporary Civilization, and in 1925 he published, with two colleagues, a 633-page textbook to be used in that course.[12] In 1934, after ten years of work, Tugwell published a new version of the textbook, this time aimed at high school students. The new edition included a long chapter on how to improve farm production, and an extensive discussion on the possibilities for "economic planning in the United States," an issue that he had already tackled in some of his scholarly writings, and that would become the intellectual bases for both the Agricultural Adjustment Act (AAA) and the National Recovery Act (NRA) of 1933, two key and controversial components of the New Deal structural reform policies.[13]

In spite of his vast interests and versatility, Tugwell knew little about monetary theory, the gold standard, and currency values. The following entry in his diary is telling: "I told [FDR] what I knew and thought [about the gold standard] which was little enough, except that I was prepared with a satisfactory precis, having written an elementary economic text whose relevant passages I could display."[14] In later writings, Tugwell came back to the fact that neither he nor the other members of the Brains Trust knew much about gold or exchanges. Given their very limited knowledge, he thought that it was surprising that FDR would not ask for true experts' advice on monetary issues and questions related to gold and the devaluation of the dollar. Tugwell wrote in his diary: "We were not monetary theorists, and we said so repeatedly . . . I had told him [FDR] frankly that my own knowledge of monetary theories came only from dealing with them as a part of the courses I taught, and since the others were not more expert, I wondered why he discussed . . . [monetary policy] with us."[15]

Rex Tugwell was a keen observer of people. He quickly captured their personalities, temperament, depth, and modus operandi. He wrote this about the first time he met FDR in Albany: "It occurred to me that, during the now eleven years struggle to get back the use of his legs, the rest of his body had really become overdeveloped. I wondered what his jacket

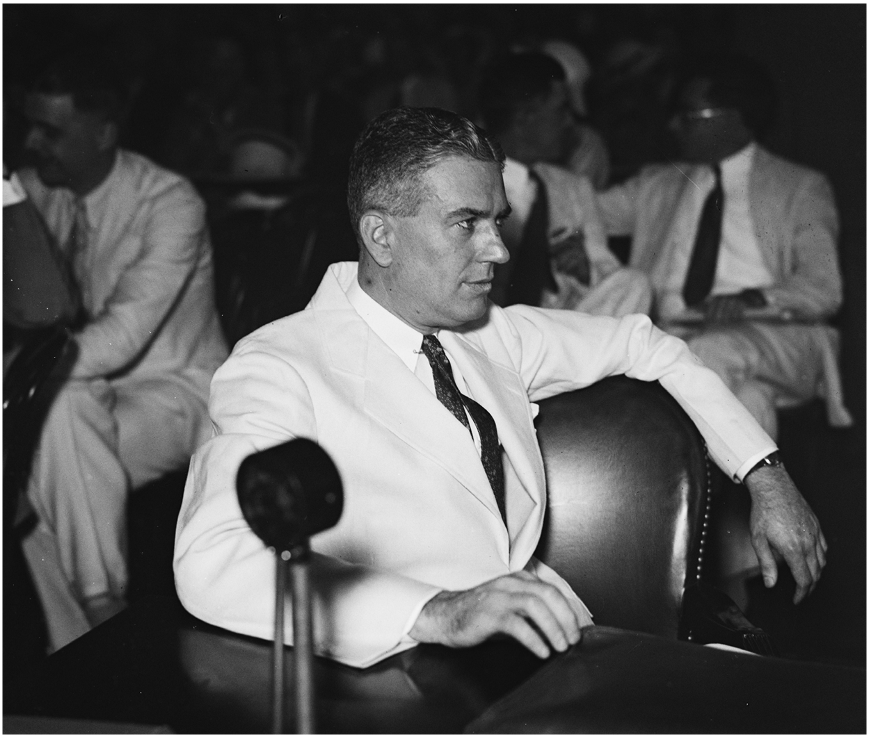

FIGURE 1.2. Rexford G. Tugwell, the only economist in the Brains Trust. (*Source*: Farm Security Administration—Office of War Information Photograph Collection, Library of Congress Prints and Photographs Division)

size must be."[16] In his memoirs, he commented on Roosevelt's custom of greeting his advisers early in the morning, while still in bed. During those meetings FDR would smoke the first cigarette of the day. Tugwell was always impressed with the vigor with which Roosevelt put the match out, and thought that it had to do with Roosevelt's handicap: "[B]eing trapped [in case of a fire] is something no one likes to contemplate. For a man without legs it becomes something to guard against as a special risk. The rest of us can make some easy and quick adjustment to circumstances, but a cripple that is otherwise vigorous has not only to see that his escape way is open but also to do so furtively."[17]

The third member of the Brains Trust was Adolf Berle, also a professor of law at Columbia. His father was a Congregationalist minister whose sermons focused on social issues and on the obligation of fortunate people towards the poor and the disadvantaged. This Social Gospel perspective had a deep effect on Adolf's approach to life, politics, and academic work. A Harvard College graduate, Berle was considered to be somewhat of a boy wonder. In his final year as an undergraduate, he completed the requirements for his master's degree. His thesis dealt with Alexander Hamilton's Assumption Act, or assumption by the federal government of the state debts.[18] Since that time Berle was convinced that the government's creditworthiness was sacred, and that the public sector debt should provide an unshakable basis for the pyramid of credit in the nation. He graduated from Harvard Law School at age twenty-one, and briefly worked at Louis D. Brandeis's law firm in Boston. It was from Brandeis that Berle got his dislike for large banks and financiers. In 1919, at age twenty-four, he was appointed acting chief of the Russian Section of the American Delegation in Versailles.

Until 1928, Berle had been a registered Republican. But this did not deter Raymond Moley from recruiting him for the Brains Trust. What he and Governor Roosevelt were after was Berle's technical capacity, his deep understanding of corporate structures and of credit. The important question that Berle was asked to tackle was why banks were not lending and companies were not borrowing any longer. In 1932 he co-authored a book on the modern corporation that showed, for the first time, how rapidly economic power had become concentrated in America. The book—which is still in print at the time of this writing—pioneered the idea that in the modern corporation there was a major conflict between the interest of the thousands of dispersed owners, on the one hand, and the interests of managers, on the other. With time the problem came to be known as the "principal-agent problem" and has been at the center of major modern controversies, including the benefits of granting valuable options to senior executives. The book also put on the table the idea that the separation of ownership and control had created new management problems and challenges, and that the United States needed to implement a major reform in corporate governance.[19]

As the presidential campaign unfolded during 1932, new members joined the advisory group as somewhat informal Brains Trust "associates": Robert K. Straus, a graduate of Harvard's Business School; General Hugh Johnson, a lawyer who for many years had worked for the financier and

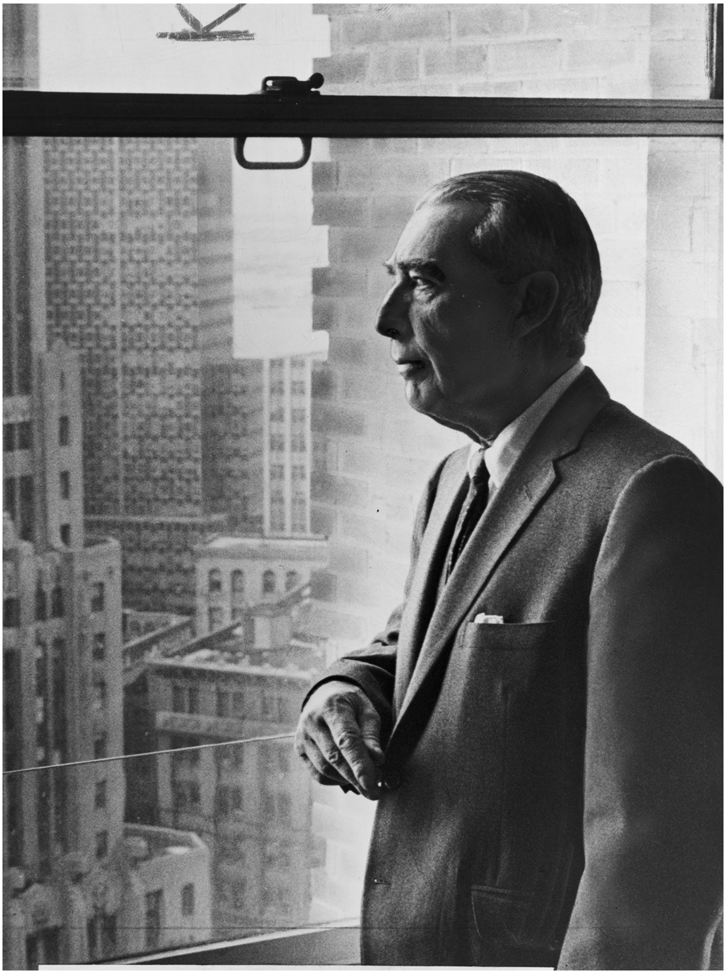

FIGURE 1.3. Adolf Berle, Jr., lawyer and member of the Brains Trust. Photographed in 1965. (*Source*: *New York World-Telegram & Sun Newspaper* Photograph Collection, Library of Congress Prints and Photographs Division)

FDR supporter Bernard M. Baruch; and Charles W. Taussig, a successful businessman who in 1932 was president of the American Molasses Company and the Sucrest Corporation (he was a nephew of the respected Harvard professor and trade expert Frank Taussig). With time other professionals wrote memoranda and gathered information for the Brains Trust. Although they were not full members of the mythical group, they made important contributions to the campaign. The list included Joseph McGoldrick, James W. Angell, Schuyler Wallace, and Howard Lee McBain. Of these, only Angell was a professional economist. Not one of these advisers was paid for his services.

HIGH-GRADE RESEARCH ASSISTANTS?

What made the Brains Trust unique was that until that time no presidential candidate had conveyed a group of academics to provide technical advice on campaign and policy issues. The closest to the Brains Trust was Woodrow Wilson's study group *The Inquiry*, set up in 1917 to advise him on how to handle the forthcoming peace process. *The Inquiry*, however, was much larger, and it mostly worked in secret. Many of its members were, as in the case of the Brains Trust, associated to Columbia University.

As soon as the Brains Trust was put together, Raymond Moley and his associates attracted attention (and criticism) from the press. They were followed, and "reporters besieged [them] . . . for a word"; at times they were treated with respect, while at others they were ridiculed.[20] FDR referred to them as "my privy council," and on more than one occasion the press called them, rather derisively, "the professors."[21]

When recruiting the Brains Trust, FDR was not interested in theoreticians or great thinkers. He wanted smart people able to analyze and summarize vast amounts of data and put them in historical perspective. He also wanted individuals with a literary bent who would help him find the right turn of phrase and coin catchy terms for his speeches and public addresses. At some level, then, it may be argued that the members of the Brains Trust came on board as "high-grade research assistants."[22] It didn't take too much time, however, for the trio to prove its value and to gain significant influence over the candidate. Even before the Democratic Convention in June 1932, they had helped FDR define key aspects of his program, including the agricultural allotment system that was to become the core of the AAA. As Arthur M. Schlesinger Jr. points out, it was soon clear to FDR that Berle and Tugwell were "continuously fertile in ideas, and neither was constrained by the past or intimidated by the future." H.G. Wells made the following remarks after meeting Berle: "He began to unfold a view of the world to me that seemed to contain all I had ever learned and thought, but better arranged and closer to reality."[23]

From early on, the meetings between the Brains Trust and FDR were productive and helped him clarify concepts and draft policies. Schlesinger described the gatherings in Albany as follows: "Moley urbanely steering the discussion, Tugwell and Berle flashing ahead with their ideas . . . and always Roosevelt, listening, interrupting, joking, needling, and cross-examining, absorbing the ideas and turning them over in his mind."[24] According to Ernest Lindley when the Brains Trust met with the governor "the conversation roamed over the whole field of economics: the causes of the depression, the methods [and policies] of relieving it, the main points of attack."[25] After a few weeks in the job, it was clear to anyone that saw them in action—including the members of the press that followed the candidate anywhere he went—that the members of the Brains Trust were not mere assistants; they were real—and very influential—advisers to the governor of New York and Democratic frontrunner.

The Brains Trust sphere of influence, however, was strictly confined to ideas and policy advice; they played no role in the purely political aspects of the campaign. Lindley recounts that one day after the convention FDR made things clear to his inner circle: Jim Farley was appointed national chairman and was in charge of getting him elected; Ray Moley was put in charge of policies, issues, and speeches. Responsibilities were kept separate. Farley put things succinctly to Moley: "Issues aren't my business. They are yours and his [FDR's]. You keep out of mine, and I keep out of yours."[26]

What neither Moley or his fellow Brains Trusters imagined when they embarked on this adventure was that they would be called to give their opinions about very specific questions related to monetary theory and the gold standard, the stabilization of the exchanges, the gold points, the Federal Reserve's cover ratio, the possible devaluation of the dollar, and the gold clause in private and public debt contracts. Those were issues well beyond their expertise, and yet their opinions would become crucial in the events that unfolded during 1933 and that helped change America forever.

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