Sources of Marriner S. Eccles's Economic Thought

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In 1951, when New Deal historian Basil Rauch reviewed Marriner S. Eccles's memoir for the *New Republic*, he expressed wonderment that a Mormon banker could have arrived independently at economic ideas supporting an anti-recessionary policy of deficit spending. Rauch was disappointed that the book "does little to help us understand how Saul became Paul. We are asked to believe that a forty-year-old Mormon banker was converted to compensatory economic theory by naked-eye observation and experience without benefit of Keynes."[1] The comment points to a fundamental and important lacuna in the memoir. Eccles and his collaborator, Sydney Hyman, neatly avoided any indication of the possible sources of Eccles's insights into the economics of depression.

It is likely that Eccles had read works by popular economists William Trufant Foster and Waddill Catchings before he gave full articulation to his own philosophy of deficit spending in speeches he made in 1932. He was also no doubt influenced by his meetings in the early 1930s with Paul H. Douglas, one of the earliest American economists to begin developing a rationale for deficit spending and with Stuart Chase, a popular columnist who espoused such views. Eccles had become aware of John Maynard Keynes by October 1933 and enthusiastically welcomed Keynes's support of increased government spending during the British economist's visit to the United States in 1934. The following year Eccles chose to take with him from the Treasury to the Federal Reserve, Lauchlin Currie, who had attended lectures by Keynes at the London School of Economics in the early 1920s.[2]

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[1]Basil Rauch, "Memoirs of an Agile Banker," *The New Republic*, 30 July 1951, p. 19

[2]Eccles's first public reference to Foster and Catchings was in his testimony reported in U.S.,

Eccles drew from all of these sources for support and defense of his views on fiscal policy after he began to speak to national audiences in 1933. Over the years, however, he departed little from the philosophy he had already enunciated in 1932, and there is no evidence that he relied heavily, either early or late in his public career, on any single economic theorist. He could probably have said of any of the above figures as he later said of Keynes, "We came out at about the same place in economic thought and policy by very different roads."[3] Arthur Schlesinger, Jr., was close to the mark when he concluded that "the main influence on Eccles was undoubtedly his own sharp and probing intelligence working on a varied business experience."[4] But Schlesinger apparently did not notice that Eccles's business experience had taken place within a unique environment which very possibly led him to insights he might otherwise have missed and freed him from inhibitions which worked powerfully to prevent the vast majority of other American businessmen from coming to similar conclusions.

Eccles himself maintained that the career of his father, pioneer industrialist David Eccles, had "governed my own conduct from the time of his death in 1912 to a memorable day in 1930." At that time, distressed by the Depression, the younger Eccles "became disenchanted of . . . [his father's] simple faith," beginning, as he put it, "my search for a body of ideas and practices more suited to an economy that had outgrown the frontier."[5] The double meaning in this phrase is obvious. It seems likely that Eccles's estrangement from the Mormon church had caused him to underestimate the influence upon his own thought of his provincial Mormon background. One suspects that the ideas of the elder Eccles continued to be influential far longer than the son remembered and, indeed, that Eccles's most distinctive insights derived in part from his family's Mormon pioneer heritage.

The effects of church policies on the economic environment which nurtured David Eccles's spectacular success were not mentioned in the reminiscences of his son. But it is well known that the economic and social ideology of Mormon leadership in the nineteenth century attenuated the ruggedness of individualism characteristic of other frontier settlements. In the territory of Utah a centralized planning authority, the Mormon church hierarchy, imposed a degree of order upon the settlement process which contrasted sharply with the anarchic character of other frontier communities.

Congress, Senate, Finance Committee, *Investigation of Economic Problems*, 72nd Cong., 2nd sess., 1933, pp. 705-33. References to meetings with Douglas and Chase are in Eccles, *Beckoning Frontiers: Public and Personal Recollections*, ed. Sidney Hyman (New York: Alfred A. Knopf, 1951), p. 85. For Eccles's comments on Keynes see a folder titled "John Maynard Keynes," in the M.S. Eccles File, M.S. Eccles Papers, First Security Corporation, Salt Lake City; also the 27 October 1933 address before the Utah Education Association, in "Correspondence" folder, M.S. Eccles File (Federal Reserve), Eccles Papers.

[3]Eccles to H.F. Byrd, 11 June 1942, "Correspondence," M.S. Eccles File (Federal Reserve), Eccles Papers.

[4]Arthur M. Schlesinger, Jr., *The Politics of Upheaval* (Boston: Houghton Mifflin, 1960), p. 237. Arch O. Egbert, like Schlesinger, did not see a relationship between Eccles's Mormon pioneer heritage and his economic thought. See Egbert, "Marriner S. Eccles and the Banking Act of 1935" (Ph.D diss., Brigham Young University, 1967).

[5]Eccles, *Beckoning Frontiers*, p. ix.

For nearly half a century thousands of Mormons responded obediently to calls from Brigham Young and his successors to cooperate in founding new, remote settlements and launching enterprises needed for economic self-sufficiency such as the culture and processing of cotton, sugar beets, and silk. Many new converts, coming as immigrants, arrived destitute in Utah. Under Young's leadership the church assumed the responsibility of caring for the annual tide of immigrants, most arriving in the fall, too late to commence planting on their own. Shunning direct relief, Young offered the able-bodied Saints jobs on public works projects—temples, churches, city walls, and canals.[6]

In assuming these responsibilities, church leaders helped develop two distinctive attitudes among the Mormons regarding the role of the central authority in the temporal affairs of the people. Many faithful Mormons came to believe that the church had a right and duty to plan and direct the economic development of the region even when this went against the immediate interests of individuals. They also came to expect the church to provide the needy with jobs and the basic necessities of life. These ideas continued to be of influence among Mormons long after the death of Brigham Young. The accomodation made by Mormon church leaders after the turn of the century to the laissez-faire values of American business was more apparent than real, the fundamentally communal ideals of Mormon group life continuing with little alteration.

Mormon businessmen in their secular economic pursuits and in their management of church-owned enterprises became models of Hoover capitalism. However, they did not change the fundamental propositions within the church community that the church was responsible for the temporal as well as spiritual welfare of its people and that it was appropriate for the church to give advice in secular matters, using the priesthood authority and organizational structure to plan and direct various programs of community betterment. In fact, the most successful and significant embodiment of these ideals is of relatively recent origin—the church welfare program, begun in 1936—a cooperative system of farming, ranching, and manufacturing enterprises, operating in all parts of the United States with central direction and coordination at Welfare Square in Salt Lake City. The fundamental aim of the welfare program is to provide the church with the means to assure that Latter-day Saints suffering from poverty or other calamity will not lack essential food, clothing, or shelter. Those capable of working are provided jobs in exchange for the provision of their basic necessities.

Marriner's father, David, grew up in this tradition. He was faithful to the Mormon church throughout his life, advancing to the office of seventy in the Mormons' lay priesthood. Following the counsel of church leaders, he took a second wife, Marriner's mother, in what the Mormons called plural marriage, at a time when federal officials were zealously imprisoning polygamous Mormons. Several of his children, Marriner among them, fulfilled two-year missions for the church with his help and encouragement. The elder Eccles did not attend church

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[6]Leonard J. Arrington argues this thesis in his *Great Basin Kingdom: An Economic History of the Latter-day Saints, 1830-1900* (Cambridge, Mass.: Harvard University Press, 1958). See also Hamilton Gardner, "Cooperation among the Mormons," *Quarterly Journal of Economics* 31 (May 1917): 461-99, and Gardner, "Communism among the Mormons," *Quarterly Journal of Economics* 37 (November 1922): 134-37.

regularly and did not accept offices in the church. He did accept civic responsibilities at the suggestion of church leaders, holding the office of alderman and then mayor of the city of Ogden as the church-supported Peoples Party's candidate.[7] His children were on familiar terms with the president of the church, staying in the home of President Joseph F. Smith's first wife, "Aunt Julina," when they visited Salt Lake City. Eccles himself had frequent association with top church officials. He tithed throughout his life and made substantial commitments of his wealth to sustain church enterprises even when they did not, in his judgment, appear promising.[8]

Two of Eccles's enterprises, beet sugar factories in Ogden and Logan, were founded by him as community projects in keeping with the church leaders' wish to encourage cooperation in founding local industries. Most of his fortune was built, however, through individual entrepreneurial ventures fully in the spirit of his contemporaries, the Rockefellers and the Carnegies. Once asked to fulfill a preaching mission for the church, he respectfully declined, arguing that he was of more worth as a provider of jobs than he would be as a missionary. Ecclesiastical leaders recognized the importance of that contribution. David O. McKay, who became the ninth president of the church, speaking at Eccles's funeral, acknowledged that "a man who can produce a million dollars and at the same time contribute a million dollars to the wealth of the community is a public benefactor. Such a man was David Eccles."[9]

Successful as a capitalist, Eccles nonetheless retained a sense of obligation to ideals and interests greater than his own. He could not help noting that room was found for his own freewheeling entrepreneurial endeavor to exist and grow amongst the various cooperative and communal experiments of the Mormons and even in an economic environment where church leaders were attempting to provide central planning for balanced economic growth. The boy Marriner grew up believing, like his father, that freedom of enterprise was a powerful agent of economic development. Yet he could hardly escape noticing as well that a degree of central planning and control did not cause the flower to wither and fade.

Another distinctive aspect of David Eccles's experience in early Utah is significant for its possible influence upon Marriner. The developing Utah economy provided an excellent opportunity for perceptive observers to gain a macroeconomic perspective on the dynamics of economic growth and development. In a manner close to the "desert island" example which economists are fond of using in illustrating their basic concepts, the isolated, burgeoning Utah economy simplified and clarified fundamental economic processes. It was clear that homes for a rapidly-growing population could not be built without a local lumber industry. But timber required roads and railways into the mountains, and the developing of power resources through coal mining or heavy construction in the building of dams and waterways. Machinery and equipment must be acquired, either from the East or through the founding of native basic industries. Capital was necessary for purchase of machinery abroad

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[7]Leonard J. Arrington, *David Eccles: Pioneer Western Industrialist* (Logan, Utah: Utah State University Press, 1975), pp. 69-70, 72-73.

[8]Ibid., pp. 135-37, 164; Eccles, *Beckoning Frontiers*, pp. 23-25.

[9]Arrington, *David Eccles*, p. 136; *Ogden Evening Standard*, 7 December 1912.

and for the development of manufacturing at home. Banking and financial enterprises were needed to minimize the grudging dependence upon eastern money markets. Problems raised by the constantly adverse regional balance of payments tuned the keen observer to notice the effects of monetary dependence and government subsidy on economic development.

The Eccles family enterprises included nearly all the industries essential to a new economy—lumber, transportation, mining, heavy construction, utilities, insurance, livestock, and sugar. An Eccles could not move in one of his enterprises without being made aware that such action affected the others. Young Marriner, bright and acute in observing things going on about him, would readily have gained a sense of the interrelatedness of economic events and decisions which other businessmen with fewer diversified interests in a more developed economy could easily miss. Marriner's family and religious background provided fertile soil for his later development of rationale recommending government action to stimulate the sluggish national economy of the 1930s.

How, then, does this background relate to the distinctive features of Eccles's economic thought? There is no reason to question the essential correctness of Eccles's contention that the main lines of his economic analysis were "based on naked-eye observations and experience in the intermountain region."[10] Asked by a *New York Times* reporter to explain how he arrived at his unorthodox views, he revealed his anti-intellectual bias, commenting that "when affairs are going well, only the theorists philosophize, but when they go badly, practical people must do some thinking."[11] A close examination of the development of Eccles's economic thought as revealed in his speeches between 1928 and 1933 supports his contention that his exposure to other writers on economic problems of the 1930s was minimal, serving primarily to confirm and clarify an analysis he had already made independently.

Eccles decided earlier than most observers that the Depression was not a cyclical downturn which, if allowed to run its course, automatically created the conditions for subsequent recovery. Attempting to account for the catastrophe of a depression that would not go away, he concluded that " 'underconsumption' was the fundamental problem, a condition which had been brought about by our world industrial machinery being thrown out of balance on account of the failure to stablize the price level."[12] It was particularly important, he maintained, for policy makers to realize that "the end of production is consumption and not money, and whenever our capital accumulations reach a point where our production is beyond the ability of our great mass to consume goods, not because of lack of desire, but because of lack of purchasing power, we have a depression." Prospects for profits were so small that even record low interest rates would not draw out investment. Abundant credit was being used only to refinance old debts, not to launch new enterprises. Industrialists would not begin activity "until you create employment giving buying power to the

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[10]Eccles, *Beckoning Frontiers*, p. 132.

[11]*New York Times*, 25 November 1934, Sec. VIII, p. 2.

[12]Bank management conference address, 26 March 1931, Salt Lake City, in "Addresses June 1925-5 8 36," M.S. Eccles File (Federal Reserve), Eccles Papers.

consumer." Only one agency could do this, Eccles concluded, "and that is the government." Five billion dollars used to create employment, he suggested, would raise price levels, start purchasing by people who will spend nearly all their income, and restore confidence throughout the nation. The cost could be more than repaid with taxes from the newly-generated income.

Eccles scoffed at the folly of attempting, in depression, to balance the budget. "Now [that the budget] is practically balanced," he wrote in 1932, taking Hoover at his word, "we should look for a period of prosperity, I suppose. Would it not be better to consider means of reviving business, and then we may find that the budget is already balanced, and that we have an excess. . . . The matter of economy is negative, the matter of spending is positive, and we have been doing the negative thing rather than the positive."[13] The crucial question, he maintained, was the level of national income, not the size of the deficit. Any hope for permanent adjustment must depend ultimately upon "fundamental economic plans" which will determine "the flow of money," and once established "will of necessity center in the distribution of purchasing power and in the allocation of income between investment and expenditure." To accomplish this Eccles recommended, in addition to greatly increased levels of government spending, an altered tax structure, with heavy taxes on upper income brackets and on undistributed corporate surpluses. He rejected the argument of many that everything possible to initiate useful, well-planned, and efficiently run public spending projects had been done. Recommending the "expansion of social services of all kinds," he continued:

> No matter how luxurious the services this kind of spending money may provide for the people, it cannot justly be called extravagant. The more surplus income is spent, the more market there will be for business, the more men will be actively employed, the more wealth will be created, the larger will be the national income.

Finally, he held out a rhapsodic vision of the utopian world he thought government spending would make possible.

> If and when society shall again obtain to a state of high productivity it will be found that the educational and cultural activities of life occupy the central place. Slum districts will be eliminated; parks and playgrounds will be increased; public health services will be extended; our entire population will enjoy the benefits of modern housing; and we will have learned to treat criminals and mentally defectives more scientifically. We will have more and better schools; education for children and adults will grow in quality and extent; there will be a growing demand for the cultural things of life; the art of living, the art of using leisure time, will be developed beyond our capacity now to forsee.[14]

This set of ideas, with its focus upon national income and its suggestion that deficit spending would raise the national income to a point where the budget would automatically come into balance, was not common in 1932 when Eccles had completed the formulation of his analysis. There were a few economists and publicists developing theories grounded in views very similar to Eccles's, including Keynes, Foster, Catchings, Paul Douglas, Jacob Viner, Lauchlin

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[13]Quotes from Eccles's speech before Utah State Bankers Association convention, 17 June 1932, in "Addresses June 1925-5 8 36," M.S. Eccles File (Federal Reserve), Eccles Papers.

[14]Address before Utah Education Association, 27 October 1933, in ibid.

Currie, and Stuart Chase. Eccles was not an economist, however. Indeed, he had no academic training beyond a rudimentary high school level. His work and life since the age of twenty-two had been devoted to the practical problems of making a success of his family's business enterprises. While there was a handful of economists following lines of thought similar to Eccles's, the number of banker-businessmen moving in that direction was few indeed.

Eccles's achievement, I would suggest, depended primarily upon his ability to break out of prevailing modes of analyzing the economic scene. He found it possible to ignore problems thought by others to be of great importance and focus upon problems hitherto considered relatively insignificant. He took apart the intricate web of economic events and put it back together in a way which was both novel and instructive for formulating policy. His synthesis permitted him to see the various segments of the economy as aggregate forces whose interrelatedness was all-important, each bearing a functional relationship to the whole. Eccles's provincial heritage and the Eccles family situation helped him in this task. It permitted him, as historians John Clive and Bernard Bailyn suggested in reference to provincials of another epoch, to "shake the mind from the roots of habit and tradition," and led him to "the interstices of common thought where were found new views and new approaches to the old."[15] A closer look at specific aspects of Eccles's analysis, with particular attention to how his background favored these views, will illustrate the accomplishment.

Eccles's starting point was his realization that the Depression, unlike earlier depressions, would not correct itself. He was making this point at the same time President Hoover's advisors were preparing budget estimates on the presumption that recovery would come in 1931. The advantage of hindsight suggests to subsequent observers that Hoover was being particularly obtuse, if not misleading (as Roosevelt charged) in projecting so early a recovery. But inference from past experience and widely-accepted economic doctrine supported Hoover's view fully. The most recent depression of 1920-21 had passed within a year. Business-cycle theory, at which American economists excelled, assured businessmen and policy makers that a descent invariably created the conditions for a subsequent ascent. There was no reason to believe that this would not happen in 1931. Eccles did not indicate why he came earlier than most to believe spontaneous recovery would not occur as usual, but two explanations seem plausible. First, the economy of Eccles's home state, based primarily upon livestock, agriculture, and mining, had not experienced the prosperity enjoyed by more industrialized areas after the depression of 1920-21.[16] This fact would tend to encourage a certain amount of skepticism concerning the prospects of an early recovery from the later depression. The inferences Eccles drew from the 1920-21 experience would not be the same as those most policy makers and economists, living in the more industrialized East, had drawn. Second, Eccles had not been exposed to the tide of opinion led by professional economists which

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[15]John Clive and Bernard Bailyn, "England's Cultural Provinces: Scotland and America," *William and Mary Quarterly* 11 (April 1954): 213.

[16]Leonard J. Arrington and Thomas G. Alexander, *A Dependent Commonwealth: Utah's Economy from Statehood to the Great Depression*, ed. Dean L. May (Provo, Utah: Brigham Young University Press, 1974).

emphasized the cyclical nature of economic fluctuations. Those who followed the latest doctrine of the experts did not question that economic movements were cyclical in nature and that recovery could be expected soon.[17] Eccles was not as fully in touch with the teachings of economic theories as were bankers in the East. He accordingly began to search on his own for an effective means of stimulating the economy.

By 1932 Eccles was arguing that positive government intervention provided the only possible hope of recovery. "The government, if it is worthy of the support, the loyalty, and the patriotism of its citizens," he said, "must so regulate . . . the economic structure as to give men who are able and worthy and willing to work the opportunity to work and to guarantee them sustenance for their families and protection against want and destitution."[18] This proposal seems commonplace today. It seemed much less so at the time, however, even in the desperate conditions of 1932. Virtually everyone accepted the idea that government intervention of limited scope and duration was desirable. But once needed correctives were achieved, through cooperative efforts of business and government, through restructuring of price and income mechanisms, or through monetary pump-priming, it was assumed that the government could withdraw and that America could go back to business as usual. Rare was the banker-industrialist who would have proposed government regulation of the economy and federal guarantees against want. But Eccles represented a people still close to their nineteenth-century traditions, a group not sharing the normal American aversion to such proposals. Eccles was only transferring to secular government responsibilities which church government in Utah had undertaken for decades as a matter of course.

Eccles rejected the idea that balancing of the budget would promote recovery, arguing that the fiscal accounts would balance only when the depression, the main cause for the imbalance, had been corrected. In the meantime, the drive to balance the budget could only prevent the government from taking action which *could* promote recovery. In taking this position, as in others, Eccles's ability to escape the entrapment of old ideas was as essential as his ability to come up with new ones. His escape on the budget balancing question was relatively easy, compared with the difficulties Hoover, Roosevelt, or Secretary of the Treasury Morgenthau experienced in that regard. Eccles had been distant and uninvolved in the 1920s when the reform movement which had attached crucial importance to a balanced budget was instituted. Old dogmas tended less to obstruct him because he had never learned the catechism of the old faith. He could look away from the budget figures to what seemed to him more important indicators of national well-being.

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[17]See, for example, the essays by Wesley C. Mitchell in the Committee of the President's Conference on Unemployment, *Business Cycles and Unemployment* (New York: McGraw-Hill, 1923), pp. 1-18. The classic study of business cycles is Wesley C. Mitchell, *Business Cycles* (Berkeley, Calif.: University of California Press, 1913). Other important books of the period are Alvin H. Hansen, *Cycles of Prosperity and Depression* (Madison, Wisc.: 1921) And G. H. Hull, *Industrial Depressions* (New York: Frederick A. Stokes Company, 1911).

[18]Utah State Bankers Convention speech, 17 June 1932, in "Addresses June 1925-5/8/36," M.S. Eccles File (Federal Reserve), Eccles Papers.

The critical problem, in Eccles's estimation, was the drastic drop in national income. Eccles's explanation of this calmity centered upon maldistribution of income, a circumstance which prevented consumption from keeping pace with production. His analysis of these problems was enhanced by a macroeconomic vision of the workings of the economy. While other bankers were concerned with keeping their institutions solvent, Eccles was noticing that such actions had the aggregate effect of assuring that most banks would ultimately fail. "By forcing the liquidation of loans and securities to meet the demands of depositers," Eccles proposed, "were we not helping to drive prices down and making it increasingly difficult for our debtors to pay back what they had borrowed from us?" As an owner of lumber mills, Eccles was painfully aware that production could be resumed only when demand increased. As an owner of banks, he noticed that the drastic decline in values impeded repayment of debts contracted before the decline.[19] Eccles's business interests were notably diverse and of commanding importance in a relatively undeveloped region. A sense of the need for an appropriate relationship between savings and investment comes readily to members of a growing, provincial community unhappily dependent upon capital from abroad. The effect of bank policies on the lumber industry and the effect of lumber on construction were all amplified as matters of personal concern, leading Eccles to the macroeconomic vision which permitted his insight into the workings of aggregate components of wage and credit structure. He saw interrelatedness where many businessmen saw only the problems of the particular sector with which they were concerned.

How then did deficit spending come to occupy so important a place among Eccles's recommendations for stimulating recovery? Eccles's macroeconomic view made it evident that in its effect on the economy, government spending was no different from private spending. It was essential to keep the spending stream flowing and if private spending dried up under depression conditions, only government spending could supplant it.

"The assumption of spontaneous revival through new investment has always rested on the fallacious belief that people and banks will not indefinitely hold money in idleness," Eccles wrote in 1933. "The only escape from depression must be by increased spending. In the absence of new fields for investment in a world already glutted with unsalable products, the only way to increase spending is for the Government to spend." The government, he maintained, could borrow idle funds and spend without concern for profits, a course that would spell disaster to a private firm.[20]

Eccles later saw his conversion to deficit spending as a rejection of his father's outmoded system of values, especially his father's devotion to thrift. "The difficulty," he said, "is that we were not sufficiently extravagant as a nation."[21] But if thrift can be properly seen as avoidance of waste, then Eccles did not depart even in this regard as far as he thought from the important values of

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[19]Eccles, *Beckoning Frontiers*, pp. 54-55.

[20]Utah Education Association address, 27 October 1933, in "Addresses June 1925-5/8/36," M.S. Eccles File (Federal Reserve), Eccles Papers.

[21]Utah State Bankers Convention speech, 17 June 1932, in ibid.

his father's life. The great crime of the Depression, from his point of view, was the waste caused by idle productive facilities. He would willingly encourage the vice of public extravagance if it would eliminate the enormously greater waste caused by idle resources. He was simply choosing the only apparent means of eliminating the greater waste. The thrift and industry commended to him by his father were still cardinal virtues.

Eccles nonetheless retained a profound respect for the enormous productive capabilities of the liberal capitalism which had been the source of his father's wealth, telling National Resources Committee Chairman Frederic A. Delano that it was "the system we want to preserve." Businessmen not possessed of the alternative visions available to Eccles felt there was no room for compromise, that government encroachment upon the prerogatives of private business might irreparably damage the productive capacity of that system. Eccles was acutely aware of "the difficulty of keeping the private economy going concurrently with the introduction of large elements of public control." But early in the '30s he became convinced that in compensatory fiscal policies he had found the best means of overcoming that difficulty.

It is, of course, obvious that many persons not sharing Eccles's background came to similar conclusions and that many who shared his background came to different conclusions. No one would contend that only a Mormon industrialist could have been permitted access to Eccles's vision or that all Mormon industrialists would have shared it. It must be remembered, however, that the great variety of enterprises Eccles controlled in the mountain West made him very nearly *sui generis* among westerners, among Mormons, and even among Mormon industrialists. Perhaps his singular position, plus his unusual sharing of the vantage points of these groups, favored so distinctive an accomplishment in the development of economic thought.

Basil Rauch's comment on Eccles's memoir raises another point worth noting. His implication that commitment to compensatory fiscal policy is unlikely without exposure to Keynes is not uncommon among historians and economists who have written on the development of fiscal policy. The historian John Morton Blum spoke with obvious relief of a moment when "at last the insights of Keynesian theory . . . [penetrated] both the academic world and some councils of government."[22] Recently, however, another point of view has gained currency. In commenting on a set of papers by prominent economists which implied that the evolution of fiscal policy in America had been primarily the work of Keynes's disciples, Leon H. Keyserling contended that "the inbred insularity of the academicians first divorced them from much influence upon what was done . . . and later led them to do the wrong things when their influence increased." He concluded, "With all due respect to Keynes, I have been unable to discover much evidence that the New Deal would have been greatly different if he had never lived, and if a so-called school of economics had not taken on his name."[23] Those familiar with Keynes and who, today, could not be,

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[22]John Morton Blum, *Roosevelt and Morgenthau: A Revision and Condensation of 'From the Diaries of Henry Morgenthau, Jr.,'* (Boston: Houghton-Mifflin, 1970), pp. xii-xiii.

[23]Leon H. Keyserling, "Discussion," *American Economic Review* 62 (May 1972): 135.

will notice that he, like Eccles, concluded that aggregate supply and demand need not find an equilibrium at a level of full employment. The "multiplier" concept which Keynes borrowed from R. F. Kahn, the "propensity to consume," and the "liquidity perference" all are part of Eccles's system, sufficiently well-formulated to lead to similar policy conclusions. Keynes was important to New Dealers, but not as an influence upon policy. Nor was he of decisive importance in forming the new economic ideology New Dealers were moving towards, a movement greatly accelerated by their experience with the recession of 1937. He *was* important, however, in providing an external theoretical justification for that ideology after it was well on its way to becoming accepted by a preponderance of New Dealers.

Our discussion thus far has centered upon the origins of Eccles's economic thought. Equally important in considering his influence upon public policy was his position among Roosevelt's many advisors on economic policy, and the circumstances which aided or hindered him in the crucial matter of access to the president. Eccles's background influenced his efficacy as economic advisor as it did his thinking on economic questions. Particularly important, as the sharp recession of 1937 began to cause a frantic reexamination of administration policies, was the struggle between Eccles as chairman of the board of governors of the Federal Reserve System and Henry Morgenthau, Jr., secretary of the treasury. Late in 1936 Eccles had prepared a memo for Roosevelt urging caution in the drive then being spearheaded by Morgenthau to balance the budget. Morgenthau responded by confiding to his staff his fear that if he did not "dynamite" Eccles's argument, he might "find that Eccles will become the President's fiscal advisor."[24]

Certainly in any such competition, Morgenthau held important strategic advantages. Getting the attention of the president was much easier for Morgenthau than it was for Eccles. The Morgenthaus' long friendship with the Roosevelts and the Hudson Valley gentleman tradition in which both families were steeped gave Morgenthau advantages which the westerner could not even approximate. Morgenthau had been brought into the Treasury with a jovial "We'll have fun doing it together."[25] He and FDR had a standing appointment for lunch each Monday. There were indeed times when, as Morgenthau had told his staff in October 1937, the president was consulting him "on everything"—when he was with the president "almost constantly."[26]

Eccles rarely was extended such privileges. There is a particularly striking anecdote in Eccles's memoirs which underscores the frustration of an advisor on important policy matters who did not enjoy the advantage of being included in the president's inner circle. In late 1939, Eccles arrived at the White House for a coveted luncheon appointment to discuss several matters of importance to the

[24]Quoted from the Morgenthau diaries in John Morton Blum, *From the Diaries of Henry Morgenthau, Jr.*, 3 vols. to date (Boston: Houghton-Mifflin, 1959-), vol. 1, *Years Crisis, 1928-38* (1959), pp. 280-81.

[25]Morgenthau's account of his call to the Treasury Department on 13 November 1933 is in Blum, *Years of Crisis*, p. 73.

[26]The Morgenthau Diaries, vol. 92, p. 152, Franklin D. Roosevelt Library, Hyde Park, New York.

Federal Reserve. Upon arriving, the Federal Reserve chairman was told that the president was behind in his appointment schedule. Eccles was asked to wait until a conference with Senator William G. McAdoo of California was ended. Twenty minutes later Eccles was ushered in, but the senator refused to take the president's hint that he was about to sit down for lunch. McAdoo finally left, but as the luncheon ended, the president summoned his Scotty, Fala, throwing the ball for her to retrieve for several minutes. Finally, the relaxation over, he turned to Eccles to talk business. But just as the conversation began they were interrupted again when the president noted that Fala had committed an egregious social error on the carpet in the president's office. Then and there the dog was taught the error of his ways, as Eccles put it, "under the general supervision of the President of the United States." Finally, one and one-half hours after Eccles's arrival, the two turned again to business, only to be interrupted momentarily by the announcement that the president's next visitor had arrived. Eccles was ushered out without getting a chance to discuss the matter bringing him to the White House.

"A few minutes with Roosevelt was a prize sought by all," Eccles recalled. "To gain it and exploit it took as much advance planning as if the objective was a D-day landing. And when at last an appointment was set, a host of distractions often cut across what was discussed and what was to be decided."[27] The Morgenthau diaries make it clear that Morgenthau seldom underwent the trials in gaining access to the president which were for others, by Eccles's account, a common experience. Certainly insofar as influence upon the president was a function of time spent with him, Eccles worked at a distinct disadvantage.

There were three reasons why Eccles was less successful than Morgenthau in gaining access to the president. His background, as we have seen, was markedly dissimilar, preventing him from achieving the relaxed familiarity which characterized the group closest to the president. His relationship to FDR's inner circle is suggested in the metaphor which dominates his memoir. A "Joseph in Egypt," he was never quite comfortable with those he had come to serve. His personality was brusque compared with the genteel style to which Roosevelt had been bred; at times it was even abrasive. Eccles had little patience with small talk. He was a man who, when there was business to be done, resented anything that might distract from expeditious consideration of the matter at hand. He would have found it difficult to understand a suggestion from the president with regard to public office that they would "have fun doing it together." He would have thought it flippant to approach a formidable responsibility in such an off-hand manner. It was simply not his style. He was infuriated by the Fala incident until his colleagues William Clayton and Elliot Thurston pointed out the humor in the situation.[28]

Eccles worked under another disadvantage as well, stemming from the particular governmental office which he held. Morgenthau, as secretary of the treasury, was a top-ranking administration official and thus could legitimately act as spokesman for government policy. Eccles, though appointed by the

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[27]Eccles, *Beckoning Frontiers*, pp. 327-30.

[28]Ibid.

president, was chairman of an independent regulatory commission in which decisions and policy were, in theory at least, to be determined by the seven-man board of governors. After appointment to the board chairmanship in 1934, Eccles felt the need to be circumspect in his public utterances. On the one hand, he had to avoid conveying the impression that his own opinions represented those of the entire board. On the other hand, he found it necessary to prevent any suggestion that he was spokesman for the administration—a role which might compromise the cherished independence of the Federal Reserve System. Though Eccles still managed to speak his mind when he felt circumstances warranted, his situation nonetheless imposed real constraints. In the spring of 1935, presidential secretary Steve Early complained of Eccles's reticence to speak out since his appointment to the Federal Reserve Board. "We are under attack with our best gun silence," he told Marvin McIntyre.[29] Eccles rejected Frederic A. Delano's 1936 suggestion that he publish his Wharton School address in the *Federal Reserve Bulletin* with the explanation "that it would be inadvisable to print talks of this character in the *Bulletin*, since it would almost certainly be misunderstood and we would be accused of using the Bulletin for partisan political purposes which would, of course, do more harm than good."[30]

Eccles managed, despite such handicaps, to develop a following of persons with similar views on administration fiscal policies. Paradoxically, the provincial background which diminished his effectiveness in approaching the president may have enhanced his influence upon other New Dealers, contributing to the dissemination as well as to the formulation of the ideas he promoted. Forward-looking ideas assume an uncommon quality when voiced by a provincial from whom such ideas are not expected. The fact that Eccles was from Utah and a Mormon always was included in accounts of his views on deficit spending. In drawing attention to the anomaly of such ideas coming from such a man, commentators unavoidably emphasized the uniqueness of the ideas themselves. Even Eccles's impatience with the usages that serve in polite society to smooth the edges of social and intellectual discourse may have given him some advantage in Washington. In speeches, he employed a directness which imparted an uncommon force to what he said. His speeches were particularly effective in attracting the attention of like-minded New Dealers and New Deal partisans. In November 1935 he addressed a hostile convention of the American Banking Association in New Orleans, speaking extemporaneously from notes he had prepared after arriving in New Orleans. The speech prompted Stuart Chase to write, "I thought it was the most admirable summary of the Administration's policy and the actual results achieved which I have yet seen." The secretary of Aubrey Williams, assistant to Harry Hopkins, wrote that Williams was "very anxious to obtain a copy of Mr. Eccles's speech." Frederick A. Delano, of the National Resources Committee, requested twenty-five to fifty copies to send to friends, suggesting the speech be made into a pamphlet. George T. Ross, then an

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[29]Steven Early to Marvin McIntyre, Memo of 13 December 1935, in File 90, Miscellaneous Memos, Roosevelt Library.

[30]Eccles to Delano, 25 May 1936, in "Addresses June 1925-5/8/36," Eccles File (Federal Reserve), Eccles Papers.

employee of the NRA, wrote that after rereading the speech several times, he had come to the conclusion that it

> represents a philosophy which alone can justify our governmental program. . . . Frankly, your speech contains the only definite, logical, and comprehensive answer I have seen to three-fourths of the attacks on the Govermnent's spending program—and a clear explanation as to why it was necessary.

Among the many congratulatory letters were notes from Secretary Wallace, Attorney General Homer Cummings, W. I. Myers of the Farm Credit Administration, Paul Appleby of the Department of Agriculture, and Representative T. Alan Goldsborough. Myers and Appleby requested extra copies to send to friends.[31] Thus, between 1933 and 1937 Eccles cultivated a small but significant group of friends and admirers both inside and outside of the administration—persons who were predisposed to support his contention when the recession of 1937 struck, that a stepped-up spending program was a vital necessity.

The recession was a critical event in Eccles's career. It raised anew the complex and difficult questions confronting policy makers throughout the decade. How can the government provide greater social benefits for its citizens, promote recovery, institute changes to minimize the extremes of future cyclical fluctuations, and yet not interfere with the fundamental workings of the system, nor frighten the business community? "The government," Eccles maintained,

> . . . can spend money, because the government has the power of taxation and power to create money and does not have to depend on the profit motive. The only escape from a depression must be by increased spending. We must depend upon the government to save what we have of a price, profit, and credit system.

Eccles had arrived in Washington in 1933 with arguments to justify New Deal deficit financing and to show "how the increased production and employment that the policy would create was the only way a depression could be ended and a budget balanced."[32] Though he had presented these arguments to New Deal officials since 1933 and to the public on every justifiable occasion, it took a Roosevelt recession to move them into the mainstream of New Deal thought. By that time his ideas, supported by other practical men of like mind and by a growing group of professional economists, provided the most convincing justification for a resumption of spending policies forced by circumstances upon a reluctant president.

Though Eccles, for reasons of his own, had little to say concerning the sources of his economic philosophy, it seems altogether likely that his provincial Mormon background helped shape and strengthen his attachment to the distinctive insights he gained in seeking to come to terms with the Depression. Unusual aspects of his particular regional and family background exerted a

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[31]Eccles to J. I. H. Herbert, 20 December 1935; Stuart Chase to Eccles, 22 May 1936; Dorothy Keller to Eccles, 18 December 1935; Frederic A. Delano to Eccles, 18 December 1935; George T. Ross to Eccles, 30 November 1935; Delano to Eccles, 22 May 1936; W. I. Myers to Eccles, 16 May 1936; Herbert Gaston to Eccles, 16 May 1936; Lippman to Eccles, 17 May 1936; and others; all in "Addresses June 1925-5 8/36," M.S. Eccles File (Federal Reserve), Eccles Papers.

[32]Utah Education Association address, 27 October 1933, in ibid.

discernible influence upon the development of ideas he promoted in Washington with a missionary zeal for over a decade. It is perhaps significant that David Eccles's portrait still dominates the Salt Lake City office of his son, Marriner, occupying a conspicuous place over the fireplace. The small bronze bust of FDR sits on the mantlepiece below.