Gold, the Brains Trust, and Roosevelt

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The abandonment of the gold standard in April 1933 is generally considered to be the turning point in the Great Depression. After the devaluation of the dollar, the country experienced large capital inflows that were monetized by the Federal Reserve. This resulted in higher credit and helped generate an expansion in aggregate demand and, more important, a reduction in unemployment.[1] According to Romer (1992, 781, emphasis added): "Monetary developments were a crucial source of the recovery of the U.S. economy from the Great Depression. . . . The money supply grew rapidly in the mid- and late 1930s because of a huge unsterilized gold inflow to the United States. . . . The largest inflow occurred *immediately following*

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1. Scholars that have emphasized the role of the devaluation include Friedman and Schwartz (1963), Eichengreen and Sachs (1985), Eichengreen (1992), Bernanke (2000), Bernanke and James (1991), Mundell (2000), Temin (1991), and Irwin (2012). It is not possible to do justice to the copious literature on the Great Depression; see, however, Bordo, Choudhri, and Schwartz (2002), Bordo and Kydland (1995), Meltzer (2003), and Calomiris and Wheelock (1998). Tavlas (1997) analyzes monetary thinking in the early 1930s.

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the revaluation of gold mandated by the Roosevelt administration in 1934." A number of historians and economists have argued that the devaluation was a deliberate policy conceived during the 1932 primary campaign by Franklin D. Roosevelt's (FDR's) close advisers—a group known as the Brains Trust.[2] Others, however, have maintained that FDR had no specific plan and that rapidly changing circumstances—including the third banking crisis that exploded days before the presidential inauguration—forced him to declare a gold embargo and eventually to abandon the gold standard in April 1933.[3]

Former president Herbert Hoover was among those convinced of the existence of a preconceived plan. In his memoirs, he (1952, 279) wrote: "Both Secretary [of the Treasury Ogden] Mills and I were confidentially informed early in the campaign that some of Mr. Roosevelt's advisers proposed an abandonment of the gold standard or devaluation, and the substitution of a 'managed currency' as an overall method of raising prices and wages." More recently, historian Eric Rauchway has maintained that FDR decided to abandon gold and devalue the dollar very early on—indeed, during the presidential campaign. According to Rauchway (2015, xxii) FDR got his views on monetary policy and currency values from his advisers.

However, after combing every conceivable archive, scholars have failed to find documents that unequivocally confirm the idea of a preconceived strategy. No memoranda or calculations of the degree of dollar "overvaluation" or of the "required" or "appropriate" magnitude of devaluation have been found. Of course, the fact that no document has been unearthed does not mean that the plan did not exist. It is perfectly possible, for instance, that the idea was developed orally, to assure confidentiality. In the absence of documents, the question of whether, during 1932, Governor Roosevelt and his advisers developed a proposal to get off gold has to be answered indirectly, through an analysis of their views, expressed publicly through speeches and writings, and privately through correspondence, memoranda, and entries in diaries.

In this article, I revisit the period leading to the abandonment of convertibility, and I make an effort to set the record straight on what FDR and

2. H. Parker Willis, the monetary theorist at Columbia, was among those that believed that the members of the Brains Trust were "encouraging Roosevelt in fantasies about easy money [and devaluation]" (Tugwell 1977, 12). See also Kemmerer 1944, 123.

3. See, for example, Moley (1939, 1966), Moore (1974), Rosen (1972, 1977), and Friedman and Schwartz (1963).

the members of the Brains Trust thought about the gold standard; I attempt to elicit from these views whether the aforementioned plan existed in 1932 or early 1933. My conclusion is that during the primary and the presidential campaigns, neither Roosevelt nor the members of his inner circle had strong views on gold or the dollar. They did believe in the need to experiment with different policies; tinkering with the currency was a possible area for experimentation, but it was an option with a rather low priority, lower than implementing a massive public works program and passing an agricultural bill that would implement a crops allotment system.[4] FDR's close advisers believed that the gold standard generated cycles of deflation and inflation, but there was no formal plan to implement a devaluation, neither were there any studies that examined in detail the possible consequences.[5] In sum, my analysis of different archives, documents, diaries, memoranda, correspondence, and memoirs contradicts Rauchway (2015), Hoover (1952), Kemmerer (1944), and those who believe that FDR had a grand devolutionist plan.

The Brains Trust

In March 1932, Samuel I. Rosenman and Basil O'Connor, two of Roosevelt's longtime associates, decided to put together a small group of advisers to assist the governor by gathering information for speeches and press conferences. The first member recruited for the advisory group—soon to be known as the Brains Trust—was Raymond Moley, a forty-six-year-old law professor at Columbia University.[6] Trained as a political scientist, Moley was an expert in the administration of criminal justice. He had advised Roosevelt on New York State judicial issues and had been director of the state's Commission on the Administration of Justice. Moley was a gifted writer and had a remarkable capacity for synthesizing complex issues into a few memorable phrases. Two of his many contributions to the campaign were drafting the "Forgotten Man" speech and coming up with the term "New Deal." His knowledge of economics was limited, and he accepted

4. Lindley (1933) analyzes the first year of the Roosevelt administration, and Barber (1996) probes the relationship between FDR and economists during Roosevelt's four administrations. Professional economists joined the administration in large numbers after the dollar had been devalued. See Steil 2013.

5. As discussed blow, Fisher believed in adopting a "compensated dollar," but he was not close to Roosevelt. George F. Warren advocated for a devaluation of the dollar, but until mid-1933, he had little influence over FDR. See, for example, Sumner 2001.

6. On how the group got its name, see the memoirs by Moley (1939) and Tugwell (1968).

that fact openly. On April 25, 1932, during a casual conversation, FDR appointed Moley chairman of the new advisory group (Moley 1939, 21).

The second member of the Brains Trust was forty-one-year-old Rexford G. Tugwell, the only economist in the team. Tugwell earned a PhD in economics from the University of Pennsylvania and was convinced that modern management techniques could bring prosperity. After visiting the Soviet Union in the late 1920s he became a 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 (Tugwell 1968, 73–82; see also Fusfield 1956).

The third recruit was Adolf A. Berle Jr., also a professor of law at Columbia. 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, trusts, and financiers. In contrast to Brandeis, however, Berle thought that large corporations should be regulated and not broken up into smaller units. In 1919, at twenty-four, he was appointed acting chief of the Russian section of the American delegation at Versailles. In 1932, he coauthored an influential book on the modern corporation that showed systematically how economic power had become concentrated in the United States and how difficult it was to govern companies when ownership and control were not in the same hands. This book provided one of the early treatments of what we know today as the "principal agent problem" (Berle and Means 1932).

As the presidential campaign unfolded, three new members joined as Brains Trust associates: Robert K. Straus, a graduate of Harvard Business School; General Hugh Johnson, a lawyer who for many years had worked for financier and 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 respected Harvard professor and trade expert Frank Taussig). As the campaign moved forward, other professionals wrote memoranda for the Brains Trust. Although they were not full members, they made important contributions. These 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.

Until that time no presidential candidate had convened a group of academics to provide technical advice on campaign and policy issues.

As a result, Moley and his associates attracted immediate attention (and criticism) from the press. They were followed, and "reporters besieged [them] . . . for a word"; at times they were treated with respect, while at others they were ridiculed.[7] FDR referred to them as "my privy council," and in more than one occasion the press called them, rather derisively, "the professors" (Moley 1939, 21–22).

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."[8] It did not take long, however, for the trio to prove its value and to gain significant influence over the candidate. Even before the Democratic National Convention in early July 1932, they had helped FDR define key aspects of his program, including the agricultural allotment system that was to become the core of the Agricultural Adjustment Act. As Schlesinger (1957, 400) 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" (quoted in Schlesinger 1957, 400).

From early on, the meetings between the Brains Trust and FDR were productive and helped the candidate clarify concepts and draft policies. Schlesinger (1957, 401) describes 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." According to Lindley (1933, 25), 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." After a few weeks on the job, it was clear to anyone who saw them in action—including reporters who followed the candidate—that the members of the Brains Trust were not mere

7. *Time*, July 3, 1933, quoted by Tugwell (1952) in the introduction to his New Deal diaries, in Namorato 1992, 376.

8. The term "high-grade research assistant" is from Lindley 1933, 23.

assistants; they were very influential advisers to the governor of New York and Democratic frontrunner.

The Brains Trust's sphere of influence, however, was strictly confined to ideas and policy advice; they played no role in the political aspects of the campaign. Lindley contends 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" (Lindley 1933, 413).

Although all three senior members of the Brains Trust wrote memoirs and published excerpts of their diaries, there has been no systematic study on their economic thinking or on their opinions on gold and the dollar. In that sense, the analysis that follows represents an effort to fill this gap in our understanding of how one of the most decisive economic decisions in US history—abandoning the gold standard—became a reality.[9]

Gold, the Brains Trust, and the 1932 Primary and Presidential Campaign

Rex Tugwell, the only professional economist in the Brains Trust, was not a monetary theorist, nor was he what we call today a macroeconomist. His fields were industrial organization, planning, and agricultural economics. Tugwell's views on the Great Depression were strongly influenced by John A. Hobson's theory of corporate savings and underconsumption. In 1932, Tugwell tried to explain it to Roosevelt and to convince him that the ultimate goal of policy was "making potential demand real demand."[10] Tugwell's knowledge on the subjects of money, gold, and exchanges came from the fact that in 1925 he had published (jointly with Thomas Munro and Roy E. Stryker) a college textbook based on his lectures at Columbia's famous year-long course on "contemporary civilization." In a 1952 introduction to his New Deal diaries, Tugwell (quoted in Namorato 1992, 299)

9. Rauchway (2015) claims that the Brains Trust opposed getting off gold. This was not the case. For example, and as shown below, Tugwell repeatedly wrote that he favored Fisher's "compensated dollar." See Sternsher (1964) for a discussion of Tugwell's role during the New Deal.

10. When he asked FDR if he had been introduced to "over savings" during his days at Harvard, the governor replied that "if he had, . . . he'd forgotten it" (Tugwell 1968, 43). See also Tugwell 1931.

wrote, regarding his lack of expertise on monetary policy: “I told [the Governor] what I knew and thought which was little enough, except that I was prepared with a satisfactory precis, having written an elementary economic text whose relevant passages I could display.” He then stated that although the textbook was coauthored, he had been in charge of the chapters on money, gold, and exchanges. He (Tugwell 1952, 299n8, reproduced in Namorato 1992, 299) candidly added: “I wrote the financial and monetary passages, having them checked by my friend and senior colleague at Columbia, E. E. Agger, whose field it was.”

In addition to *American Economic Life*, by 1933 Tugwell had written or edited eight books. In none of them is there any mention of money, gold, or exchanges. Nor is there any reference to these subjects in the five articles that he published prior to 1933 in some of the world’s top academic journals in economics—the *American Economic Review* and the *Journal of Political Economy*.[11] In later writings, Tugwell (1968, 98) returned to the fact that neither he nor the other members of the Brains Trust knew much about gold or exchanges: “We were not monetary theorists, and we said so repeatedly.” He added, “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” (165).

Rex Tugwell and Irving Fisher’s “Compensated Dollar”

In *American Economic Life* (Tugwell, Munro, and Stryker 1925) the issue of money and the gold standard is addressed for the first time in section 6 of chapter 16. It is then tackled again in chapter 17. Chapter 16 is titled “Industrial Coordination and Control,” and the section on monetary conditions is titled “Money, Shifting Levels of Prices, and their Stabilization.” Chapter 17 is “The Relation of the Financial Organization to Industry” and is divided into six sections: “The Place of the Financial Organization,” “Media of Exchange,” “Bank Credit,” “Money and Prices,” “The Collection and Allocation of Prices,” and “The Old Banking System and the New.”

The most basic material is in chapter 17, where a simple exposition of the quantity theory is provided (335–37), the difference between money

11. Tugwell was a prolific writer, and many of his pieces were published in the popular press. For his complete bibliography until 1959, see Sternsher 1964.

and credit is explained (334–35), and the institutional organization of the Federal Reserve System is presented (339–42). The discussion on gold is limited, and no detailed explanation of the mechanics of the gold standard is provided. The chapter does mention that money is backed partially by bullion, but it does not delve into the relation between gold flows and external accounts.

The discussion in chapter 16 is more sophisticated and concentrates on price variability and uncertainty under the gold standard. Tugwell, Munro, and Stryker write:

> Our dollars, being constituted as they are, shift in value. That is to say that although they are nominally based on a fixed standard, they actually will buy more goods at one time than at another. . . . It is a constant source of uncertainty that the dollar shrinks and expands in purchasing power. . . . This may seem a strange phenomenon at first. But it is directly consequent upon the fact that we have adopted gold as the standard of money and that the dollar has been made equal in value to 23.22 grains of it. (319)

Uncertainty, the authors say, "makes it almost impossible to plan exactly any distance ahead." As a solution Tugwell and associates present Irving Fisher's "compensated dollar" proposal that would peg the value of the dollar to a basket of goods (commodities) instead of pegging it to gold. They write: "This dollar . . . would at least not forever shift in its power to purchase other commodities and would therefore bring about a necessary stabilization of the general price level" (320). They end the section with a guarded endorsement of Fisher's compensated dollar plan (320): "We think that no one can say whether such a plan for stabilization would operate successfully. The arguments for it seem to outweigh those against it; and on the whole it seems to promise more than could possibly be lost by trying it."

Fisher first sketched the idea of a commodity dollar in his 1912 book, *The Purchasing Power of Money*.[12] Two years later in a long article in the *Quarterly Journal of Economics*, he provided the first detailed presentation of the proposal. In the introductory paragraph, Fisher (1913, 213) writes that the goal of his plan "is rendering the gold standard more 'stable' by virtually increasing the weight of the gold dollar so as to compensate for

12. The term "compensated dollar" does not appear in this book. For previous discussions on Fisher's scheme, see, for example, Patinkin 1993.

losses of purchasing power." Under the proposal, dollar coins would cease to circulate and would be replaced by a "virtual gold dollar" with a variable gold content. The article has two lengthy appendixes. The first is aimed at dispelling the notion that this system would encourage speculation, and the second contains an example of how the gold content of the dollar would have evolved between 1896 and 1911 under this program.

In the years that followed Fisher worked strenuously on refining the plan, and in 1920 he published a 305-page book titled *Stabilizing the Dollar*. The subtitle illustrates clearly Fisher's policy objectives: "A plan to stabilize the general price level without fixing individual prices." Most of the technical details are confined to an 88-page appendix (appendix 1). As time passed Fisher was able to convince some members of Congress to support his plan, and in late December 1922 the House of Representatives Committee on Banking and Currency held hearings on a bill sponsored by Congressman T. Alan Goldsborough from Maryland (H.R. 11788, 67th Congress, Second Session). Although the bill never got out of committee, Fisher was not discouraged; he continued to work on the issue, and in his books, *The Money Illusion* (1928) and *Booms and Depressions* (1932), he devoted long passages to the plan.[13]

Fisher's criticism of the gold standard was based on the idea that since gold was both a medium of exchange and a commodity its value would permanently fluctuate. This was not an original idea; it had been made earlier by a number of economists, including William Stanley Jevons and Alfred Marshall. However, Fisher's solution was quite original and controversial. Let P^G be the relative price of gold in terms of a basket of goods. This price will vary according to supply and demand conditions. Supply is mostly determined by available stock of minerals, new discoveries, and mining costs in different parts of the world. Total demand, on the other hand, depends on both the demand for monetary uses and the demand for other purposes. Let E be the price of gold in dollars, or the exchange rate. If P is the price level—expressed as dollars per basket of goods—then, it follows that:[14]

$$(1)\ P_t = E_t P_t^G$$

13. Goldsborough presented a second bill in 1924.

14. This is a specific version of the purchasing power parity proposition and assumes a unitary pass-through. This equation does not appear in *Stabilizing the Dollar*.

If the dollar price of gold (E) is fixed at, say, \$20.67 per ounce (as had been the case in the United States since 1834), the price level would move in strict proportion with the relative price of gold P_t^G. Fisher's proposal was that instead of being pegged to gold, the currency value should be linked to a basket of goods, as a way of stabilizing the price level.[15] At the conceptual level, the idea was that $dlog\,E_t = -dlog\,P_t^G$, in which case, and according to equation (1), $dlog\,P_t = 0$: the price level would, in theory, be fully stabilized.

Since P_t^G is not observable, as a practical matter Fisher suggested adjusting according to the discrepancy between the observed price index (with some lag) and the index in the base year: $\Delta log\,E_t = \theta(log\,P^* - log\,P_{t-j})$. In most of his examples, the factor of proportionality θ, which he calls "adjustment," is set equal to 1. Fisher suggested that the change in E would be capped at 1 percent per quarter. If, for instance, $\theta(log\,P^* - log\,P_{t-j})$ was 3 percent, it would then take three quarters for the exchange rate to adjust. An important feature of Fisher's proposal is that there would be a 1 percent spread between the selling and buying (or mint) price of gold. He called this spread a *brassage*, and its purpose was to discourage speculation.

Given Tugwell's endorsement of the "compensated dollar" in his textbook, it would have been logical for him to seek Fisher's advice or comments on the monetary situation; moreover, it would have been natural for him to arrange meetings between the Yale professor and the candidate and, later, the president-elect. This, however, was not the case. On January 14, 1933—after the election and before the inauguration—Tugwell (quoted in Namorato 1992, 60) wrote in his diary: "Irving Fisher has tried to see me a number of times this Summer and Fall. Except for one occasion . . . I have managed to avoid him. However, last night he caught me fairly at dinner at the Cosmos Club and proceeded to try to pump me as to my views and impress me with his. I do not believe in outright inflation. Our policy has been shaped toward a pragmatic handling of prices." In his memoirs Tugwell pointed out that he became very concerned when he found out that Fisher had "made his way uninvited to Albany and spent some time with Roosevelt." Tugwell thought that Fisher was overbearing. Tugwell (1968, 98) wrote that the Yale professor had "become something of a fanatic, and Roosevelt always enjoyed talking to fanatics. The impression this visit made [on FDR] was one we knew would have consequences."

15. Fisher realized that an alternative was to stabilize the price of gold relative to goods. A proposal along these lines had been made by a South African academic, R. A. Lehfeldt.

Exchange Rate "Corrections" and "Safeguards"

In *Booms and Depression* Fisher makes a distinction that would become (implicitly) important in policy discussions in 1932 and 1933. A large adjustment in the price of gold (a large change in E) was called a "correction," whereas the repeated manipulation of E required to maintain price stability around a desired level was a "safeguard." This is an important distinction: price stability may be "safeguarded" through small and frequent changes in the price of gold in terms of dollars, E, in a manner that is not different from the "crawling peg" exchange rate regime adopted in the 1960s by a number of developing countries, including Brazil, Chile, and Colombia. The key in all these cases is that changes in E are small—as noted, Fisher himself thought that an upper bound for adjusting E would be 1 percent per quarter—and frequent. A "correction," in contrast, could require a large change in E; if the situation is one of deflation, this means a very substantial devaluation in order to move the price level back to its desired point.

The members of the Brains Trust, in particular, Tugwell and Berle, were leery of large devaluations but not of small adjustments in E. They thought that exchange rate "corrections" could unleash a sequence of repeated and increasingly large devaluations, resulting in a rapid inflationary process. In addition, a large change in E could generate—as indeed it did after January 1934—serious legal problems stemming from the fact that the majority of private and public long-term debts were indexed to the price of gold through the so-called gold clause. In a December 16, 1932, letter to Ray Moley, Fisher wrote: "Personally, I would like to cut loose from the gold standard, but it is not an easy matter both because of the absolute necessity of gradually changing the price of gold and of *the complications of the gold clause contracts*."[16]

In August 1932, Adolf Berle wrote a memorandum to the governor emphasizing his concerns about inflation. He wrote, "As a matter of ideal economics a 'managed currency' might be a good thing. But we have not got as yet the political machinery for that purpose in sight. Witness the bonus agitation; and the several drives on the currency when there is not a treasury surplus. . . . The conclusion is that . . . it is not the time to support inflation."[17]

16. Raymond Moley Papers, Hoover Institution, box 107; emphasis added. For a recent analysis of the abrogation of the gold clause in June 1933, see Edwards, Longstaff, and García-Marín 2015.

17. The "bonus agitation" refers to the demand by veterans to be paid a promised bonus (Berle 1973, 55–56).

In the introduction to his revised New Deal diaries, Tugwell (quoted in Namorato 1992, 301) wrote, "I was an ardent believer in a stable currency and was therefore violently opposed to inflation as a continuing policy." In his memoirs, he (1968, 158) recalled a conversation with FDR on monetary policy: "I knew it was fashionable to speak [about] . . . 'reflation'; that might not sound so dangerous to some people, but we ought not to fool ourselves: it meant cheap money, no better than greenbacks or freely coined silver."

In 1933, as the team worked on the transition Tugwell still believed that a compensated dollar could help generate a more predictable environment that would allow firms to plan ahead. That is, he accepted a system where E went through small and frequent adjustments, but he was unconvinced of the merits of a large initial jump in E. In January 1933 as he worked with the president-elect on how to deal with intergovernmental debts, the stabilization of the exchanges, and the upcoming London Monetary Conference, Tugwell (quoted in Namorato 1992, 60) wrote in his diary: "My view is that we ought to go off gold in international exchange so that we can manage [the currency] internally." In his memoirs he (1968, 98) stated that he "had long been converted to Fisher's commodity dollar—that is one having the general backing of many commodities besides gold."

Experimentation as a Policy Principle

FDR was not as fearful about inflation as his advisers. If a moderate amount was required to achieve his two fundamental goals—increasing agricultural prices to approximately their 1926 level and reducing unemployment—he was willing to live with it. But he was not an "inflationist" in the sense of William Jennings Bryan. In a 379-page biography of Roosevelt published in 1931, Lindley does not mention inflation or gold as policy issues or concerns—in fact, neither of these terms, nor *currency* or *dollar*, appears in the index. This is particularly telling, since the purpose of that book was to explain to the American public the views and policy inclinations of the governor of New York, a politician in the ascendant who was likely to play a prominent role in the national scene.

More than anything, Roosevelt was an "experimenter." He liked to consider—and sometimes try—different methods and tools to see if they would produce the desired outcome. "He liked to elaborate possibilities, play with alternatives, and suggest operating improvements" (Tugwell 1968, 58). This desire to experiment emerged clearly in the Oglethorpe speech on May 22, 1932: "The country needs and, unless I mistake its temper, the country demands bold, persistent *experimentation*. It is common sense to take a method and try it: If it fails, admit it frankly and try another. But above all, try something. The millions who are in want will not stand by silently forever while the things to satisfy their needs are within easy reach" (Roosevelt 1938, 639–47, emphasis added).

In the matter of what type of "experiments" to undertake once FDR was in power, Tugwell and Berle called for planning and massive public works, even if it meant an unbalanced budget in the short run.[18] Tugwell (1968, 97) wrote: "I argued . . . [that] there was no escaping the conclusion that if anything really remedial was to be done, it must start with a massive enlargement of buying power furnished by federal funds. . . . Such a program might have the same eventual result as the devaluation of the dollar being advocated by Irving Fisher." Tugwell was also insistent on the need for the economy to regain "price balance" and relative prices to be realigned. Deflation had moved many prices out of line with one other, and planning of some sort—probably along the lines of the future National Recovery Administration—could bring prices in different sectors back into equilibrium. Only then, he thought, it made sense to talk about "reflation." Just before the presidential election, Tugwell (1968, 158) told the governor that the "real trouble was lack of correspondence, of fair relationship among prices, and a general lifting would not cure that." In a memorandum written with R. S. Strauss in August 1932, Tugwell came back to relative price misalignment: "It is not the collapse of prices but the collapse of some prices and the rigidity of others which has resulted in the present untenable predicament."[19]

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

> The issue which seemed most important was the question of the maintenance of the gold standard. . . . This is a question, of course, that is deeply troubling to the country as a whole. . . . I have taken the position

18. Tugwell himself was a believer in the power of "experimentation." See, for example, his chapter on the subject in Tugwell 1924.

19. Raymond Moley Papers, Hoover Institution, box 107.

> that the President [elect] ought not to commit himself too deeply on either side of it until the necessities of the case have a chance to dictate their own policies. . . . This matter ought to remain for the moment in a flexible state. . . . We ought to be prepared to consider all kinds of improvised ways of meeting the exigent situations which I feel we are apt to find ourselves in during the next few months.[20]

In February 1933, Moley was acting as an intermediary in negotiations between the president-elect and Senator Carter Glass, to whom Roosevelt had offered the post of secretary of the treasury. Moley (1939, 121, emphasis added) wrote: "I didn't know the exact nature of the President-elect's monetary plans. But I knew his *experimental*, tentative, and unorthodox temperament."

The Democratic Party platform, drafted by A. Mitchell Palmer, who had been attorney general during the Wilson administration, also left open the possibility of currency experimentation. This was done by the right choice of words: instead of pledging support for the gold standard or an unchanged value of the dollar, it talked about the need to maintain a policy of "sound money." Walter Lippmann (1932, 309) referred to the platform as having Wilsonian values and noted that it "starts with a declaration for drastic economy and a sound currency. It does not contemplate a currency inflation in the spirit of Bryanism or an expansion of governmental activity to create a new social order." On July 30, Roosevelt (1938, item 132) reaffirmed the party's policy stance on money in a radio address, when he said, "A sound currency [is] to be preserved at all hazards, and an international monetary conference called, on the invitation of our government, to consider the rehabilitation of silver and related questions."

Beatrice Bishop Berle, Adolf's wife, kept a diary, where she wrote her views on the campaign and tracked her husband's thoughts and activities. Mrs. Berle's diary is an invaluable source for unearthing the granularity of this intense period. Three weeks before the election, on October 16, 1932, she (see Berle 1973, 72) wrote, "F.D.R. it seems . . . does not consider the gold standard as the basis for all sound economic life. He is flirting with the idea of a managed currency." A day later, however, on October 17, Adolf Berle (1973, 73) wrote a memorandum for the files, where he stated: "I gathered that the governor would rather stay on the gold standard than not. But he is not undertaking to say now what the policy will be."

20. The entry is from February 7, 1933. In the same entry Tugwell writes that Walter Stewart, an adviser on intergovernmental debts, believed that FDR "ought to say what his intention is with respect to this question very publicly." See Namorato 1992, 77.

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

The Covenant Speech

Hoover barely campaigned during the first nine months of 1932. He believed that voters would understand that the Depression was the result of external forces and that he had done everything possible to ameliorate its effects. In October there was a new wave of bank failures and prices fell. Reelection didn't look so clear after all, and the president decided to campaign aggressively. In his memoirs Hoover (1952, 279) wrote, "Secretary Mills and I determined to smoke out in the campaign the whole devaluation-managed currency and fiat money issue."

On October 4, in Des Moines the president gave a speech in which he explained the importance of the gold standard and remarked with vehemence that if Roosevelt was elected, the country would move toward a chaotic future: "Going off the gold standard is no academic matter [presumably a reference to 'the professors' of the Brains Trust]." He then referred to the gold clause on contracts—a clause that Congress would repeal on June 5, 1933—and said, "Our people have long insisted upon writing a large part of their long-run debtor documents as payable in gold." Hoover (1952, 281–83) then stated that in February 1932 the nation had been two weeks away from being unable to "hold to the gold standard . . . [and] to meet the demand of foreigners and our own citizens for gold." He then said that his "administration kept a cool head and rejected every counsel of weakness and cowardice. . . . We determined that we would stand up like men, and render the credit of the United States government impregnable."

A few days later the president was back on the offensive, and in Indianapolis he said that "the Democratic candidate has yet to disavow the [idea] . . . to issue greenback currency." On October 31, he said in New York, "Fiat money is proposed by the Democratic party as a potent measure for relief from the depression." But this path, he warned, would produce "one of the most tragic disasters to . . . the independence of man" (Hoover 1952, 284).

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

Glass's (1932) speech opened with references to Hans Christian Andersen, Karl Grimm, and Aesop. The elderly senator then moved to the history of monetary policy in the United States and to what he called Hoover's "ingratitude" toward him and other Democratic members of Congress who had stood by the president during the crisis. He argued that the Democratic Party had always supported stability, gold, and low inflation. He then criticized Secretary of the Treasury Ogden Mills for allowing thousands of banks to fail. He closed with a reference to his party's platform and he assured his listeners that the Roosevelt administration would pursue the policies of sound money.

Immediately after Hoover's first attack FDR's advisers began to think of how the candidate could best respond to the accusations that he was going to lead the country to inflation, devaluation, and perdition. Berle (1973, 73, emphasis added) wrote in his diary:

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

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

To some, this speech is the ultimate example of a cunning politician's doublespeak; he pledged support to sound money and not to the gold standard. Further, when referring to the covenant implicit in the gold clause, he said it in a way that could be interpreted as being a statement by Senator Glass and not by him. This, indeed, was Hoover's interpretation. But there is another reading. The Covenant speech was sincere, and the decision to avoid a pledge to maintain the gold standard was not because of the governor's maliciousness, but it reflected, as Berle pointed out in his diary, FDR's genuine doubts and hesitations. He plainly did not know what to do. Be that as it may, it is interesting to note that in 1938 when the first volumes of FDR speeches and public papers were published, the Covenant speech was not included. Indeed, today it is difficult to find a complete version of what the candidate said on the verge of the elections.

A Long Interregnum

On November 8, 1932, Franklin Delano Roosevelt was elected president by a landslide. He had promised to focus on domestic problems and to relegate international issues to a secondary plane; he had also committed himself to follow "sound money" policies. During the transition Ray Moley's role and influence grew significantly. According to Schlesinger (1957, 450), "Moley was now functioning more than ever as his [FDR's] alter ego—a whole cabinet rolled into one, trying to herd all major issues of both domestic and foreign policy." Some members of Congress, such as Huey Long, thought highly of him, but others were concerned about his increasing power. Sam Rayburn of Texas quipped, "I hope we don't have any god-damned Rasputin in this Administration" (Schlesinger 1957, 451). In November 1932, Moley's transition from a "high-grade research assistant" to one of the most influential presidential advisers in the history of the United States was complete.

The Debate Intensifies

During the transition, supporters and detractors of the gold standard continued to put pressure on the president-elect. In a November 1932 memorandum, Tugwell wrote: "Whatever stance Governor Roosevelt takes, he can be sure that half of the economists will be on his side, and half will be against it. There can be no bitterer academic dispute than the dispute that has been raging over what can and should be done about the fallen price level. The plain truth of the matter seems to be that very little is really known about monetary problems, and opinion seems to be as much matter of temperament and moral upbringing as of rational thought process."[21]

Fisher was not the only critic of the gold standard. For example, in 1922 a number of economists and practitioners submitted statements to the House of Representatives in support of the Goldsborough bill on the compensated dollar. One of the most prominent was James Harvey Rogers, a Yale professor who in the second half of 1933 would become an assiduous visitor to the White House and would play a central role in drafting the Gold Reserve Act of 1934. In 1931, Rogers published *America Weighs her Gold*, where he (1931, 209) argued, "Among the most illuminating anomalies of our so-called advanced civilization is the gold standard." Rogers met once with FDR before the inauguration, on February 17, 1933. The conversation, nevertheless, did not go very far and touched on general issues related to war debt and the upcoming world economics conference.[22]

But neither Fisher nor Rogers were the staunchest academic detractors of the traditional monetary system.[23] The chief critic was George F. Warren, a Cornell professor of agricultural economics who was very close to Henry Morgenthau Jr. Starting in July 1933 (but not before that time) the United States' policies toward gold and the currency were highly influenced by Warren's theory that linked, in a rather mechanical way, the price of gold to the price of agricultural products. According to his analysis—undertaken with Frank A. Pearson, and based on the examination of centuries of data—if the price of gold increased, there would be an almost instantaneous and proportional increase in agricultural prices. In presenting their theory, Warren and Pearson did not provide a detailed explanation on how a higher price of gold would be transmitted into a higher price level. In fact,

21. The memo was coauthored with Robert Strauss. Raymond Moley Papers, The Hoover Institution, box 107.

22. Rogers (1932) sent a memorandum to FDR summarizing their meeting.

23. Henry Wallace, editor *Wallace's Farmer*, a popular publication on agricultural issues, was a severe critic of the gold standard and a key supporter of the Fisher plan. Henry Morgenthau Jr., a friend and neighbor of FDR in Dutchess County, who in March was appointed governor of the Farm Relief Administration and who eventually replaced an ailing Will Woodin as secretary of the treasury, was also a critic. Morgenthau's efforts to convince FDR to devalue the dollar are clearly captured in his Farm Credit Diary.

they explicitly reject any mechanism that would operate through the quantity equation of money (Warren and Pearson 1935, 94n2).[24]

Roosevelt, the experimentalist, the man who loved to épater le bourgeoise, the president who had promised to take care of the forgotten man from the rural states, decided to try out Warren's theory in late October 1933, when he announced that the government would pay a high price for newly minted gold.[25] The move was controversial and created great uncertainty. Its questionable results led Keynes (1933b) to write: "the recent gyrations of the dollar have looked to me more like a gold standard on the booze than the ideal managed currency of my dreams."

As the debate on gold dragged on in seminar rooms and in the pages of newspapers and magazines, the members of the Brains Trust continued to labor away. Among other things, they had to deal with a deluge of letters to the president-elect with all types of proposals on how to bring the crisis to an end. Many suggestions had to do with the agricultural sector, some focused on banking, and others dealt with the currency and ways to end deflation. Among the most interesting suggestions in Ray Moley's archives is a letter from financier and FDR friend René Leon, who recommended looking into the 1917 Trading with the Enemy Act to determine whether the president had the legal power to limit gold outflows.[26] Among the more intriguing suggestions was Fisher's proposal for issuing indexed money.[27]

During these transitional months the members of the Brains Trust continued to be skeptical about the merits of devaluation. In a comprehensive memorandum written to the president-elect on January 26, 1933, Berle wrote: "The theory is that inflation of the currency [i.e., devaluation] will raise prices. Historically it does not do that for a long while." He then added that since a stepwise devaluation—a "correction" in Fisher's terminology—usually did not work, governments tried a second and a third correction. "Generally, a third shot creates a panic; there is flight from the currency, everybody wanting to turn their dollars into property. . . . You [FDR] put it accurately when you said that the activity resulting from inflation was the activity of fear."[28]

24. For a criticism of the Warren-Pearson theory see, for example, Pasvolsky 1933. For a recent defense see Sumner 2001.

25. According to the *New York Times*, FDR requested Warren advice during the first week of August 1933 ("Roosevelt Calls Monetary Aides" 1933).

26. This act was invoked on March 6 to declare a banking holiday and a gold embargo.

27. Both Leon's and Fisher's letters are in Raymond Moley Papers, the Hoover Institution, box 107.

28. Raymond Moley Papers, the Hoover Institution, box 102.

A few days after the election, on November 17, 1932, FDR met with Professor H. Parker Willis, the monetary theorist from Columbia who, as noted, was a strong supporter of the gold standard. The conversation dealt with the international monetary system and the upcoming London Economic Conference. Two days later, Willis wrote to Senator Carter Glass, summarizing the meeting. His account captures, once again, the fact that the president-elect did not have a clear idea on what he wanted to do about gold or exchanges. Willis wrote: "The President-elect . . . discussed at some length various problems concerning international relations [term then used for global economics issues] . . . but he expressed very little definite opinion" (Namorato 1992, 368).

The London Economic Conference

On November 13, barely five days after the election, FDR was informed by President Hoover that the United States was about to face a major international crisis. The intergovernmental debt moratorium in place since mid-1931 had expired in June. On November 10, the United Kingdom and France informed the US government that they were unable to make the payment scheduled for December 15 and requested an extension of the moratorium. In the weeks that followed the president and the president-elect met two times, and their representatives began around-the-clock discussions on what to do. Hoover wanted to grant further debt relief. FDR, on the other hand, believed that debtors had to make the payments as scheduled. Behind these positions were deep disagreements on what US foreign policy ought to be. Hoover was an "internationalist," whereas FDR believed that his government had to give priority to domestic policies and get recovery going before any substantial initiative regarding debt was launched.

The intergovernmental debts problem was complicated by two additional issues moving in parallel: the United States and the European nations were working on disarmament, and the London Economic Conference had been convened to discuss policy coordination and the recovery. Hoover and the Europeans wanted all three issues—debts, disarmament, and economics—to be discussed jointly, and they argued that the conference should begin at the latest in April 1933. The president-elect and his team (in particular, the Brains Trust), on the other hand, believed that the three problems had to be approached separately and that the conference should take place much later.[29] They didn't want to be distracted

29. Not everyone in FDR's circle agreed with these views. Norman Davis, for example, pushed for an early conference that would address a broad set of issues.

with foreign affairs questions during the first few months of the administration, and they wanted time to understand the issues to be discussed at the conference, including the possible return of the United Kingdom to the gold standard and how to deal with the fact that France had been accumulating gold reserves rapidly.[30] After long negotiations and much wrangling, FDR's views prevailed and the London Economic Conference was scheduled for June 1933.

Stabilizing the Exchanges

As soon as a date for the London Economic Conference was set, FDR asked the members of the Brains Trust to work on it. Moley was in charge of coordinating a team that included US Treasury experts, banking advisers, some members of Congress, and officials from the Federal Reserve.[31] The request to work on the conference, which among other things meant meeting with foreign delegations, came in addition to other assignments, such as thinking about policies to provide immediate relief to debtors, especially in the agricultural sector, and helping the president-elect assemble his cabinet.

On January 13, 1933, Tugwell (quoted in Namorato 1992, 59) wrote in his diary that he had met Herbert Feis, a senior adviser to the Secretary of State, about the preparatory negotiations for the London conference: "He [Feis] said that things are going well. . . . This is contrary to press reports. . . . The press has it that the British reluctance about currency stabilization is hampering everything. It may be; but we, also, might meet them by going off gold, I suppose. It's worth considering at any rate." The keywords in this entry—"might," "I suppose," "worth considering"—capture, once again, the doubts Tugwell and his colleagues continued to have regarding the whole gold question.

Feis (1966, 13) was not particularly impressed by FDR's advisers: "My first talks with the assorted members of the Brain Trust [*sic*] . . . left me puzzled. Their knowledge of foreign affairs seemed to be slighter than their assurance." This view was quite generalized among those who worked on the preparations for the London Economic Conference.

30. The United Kingdom and a number of countries linked to sterling went off gold on September 21, 1931. Denmark, Norway, and Sweden followed on September 29; Finland on October 12; Canada on October 19; and Japan on December 13, 1931. Four Latin American countries went off gold before the United Kingdom: Argentina (December 1929), Brazil (October 1930), Mexico (January 1931), and El Salvador (October 1931).

31. Moley was the only person to accompany FDR to his first meeting with Hoover.

Frederick Leith-Ross (1968, 165), a senior economic adviser to the British government and an expert on gold and finance who in early 1933 participated in the first phase of the negotiations, had this to say about the Brains Trust:

> The President seemed to rely more on a coterie of personal advisers . . . than on his ministers. . . . These personal advisers were mostly professors and were locally known as the "Brains Trust." . . . The principal of the Brains Trust with whom I had to deal was Professor Moley, who had been a professor of Criminology at a girls' college. . . . [Moley] was free of prejudices and ready to appreciate arguments put to him but almost completely lacking in detailed knowledge of many of the questions that we discussed. . . . With him were Dr. Feis (who had attended the Preparatory Committee at Geneva), Mr. Tugwell and Mr. Taussig, all competent economists but with little experience in finance.[32]

Leith-Ross (1968, 166) went on to consign that more often than not his American counterparts didn't quite know what to think or what position to take regarding the gold standard: "I remarked at the time [April-May 1933] that they sometimes gave me a restful interlude by embarking on an economic controversy between themselves which made me wonder whether we were engaged on inter-governmental negotiations or attending a debating society."

One of the key issues to be addressed at the London Economic Conference was the "stabilization of the exchanges." The idea was to stabilize currency values for at least the duration of the conference, as a prelude for a possible return to the international gold standard. Because of the importance of Great Britain in the world economy, this discussion implied mostly—but not exclusively—at what rate to stabilize the pound sterling. Keynes's (1933a) proposal for the conference—contained in chapters 4 and 5 of *The Means to Prosperity*—was based on the idea that every country would adopt a "qualified gold standard" with fixed exchange rates, greater monetary flexibility, and the ability by central banks to facilitate massive "loan-expenditures."[33]

Almost everyone thought that stabilizing the pound was a step in the right direction, but at what rate? Between May 1925, when Britain returned to the gold standard, and September 1931, when it went off gold,

32. The "girl's college" quip refers to the fact that Moley's appointment was at Barnard College.

33. Keynes's plan for the conference evolved into his Bretton Woods plan. See Steil 2013.

sterling had been fixed at its historic level of 4.86 dollars per pound. In early February 1933, when negotiations on the London conference intensified, the market rate was $3.40 per pound, implying a depreciation of sterling of 30 percent from par. This, according to the US negotiators, gave the sterling area countries an unfair competitive advantage in world markets. If stabilization were to occur, they argued, it had to be at a significantly stronger value for the British currency.

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

The British did not quite know at what rate to stabilize sterling. Leith-Ross (1968, 168) writes in his memoirs: "While we did not question the desirability of the eventual return to a stabilized exchange rate, we felt that more experience was needed before we could decide what precise rate we would be able to maintain." During the months to come, at what level to stabilize the exchanges continued to be a dominant issue. At some point in early April, Professor Oliver Sprague, a treasury adviser who had been FDR's economics teacher at Harvard and a former consultant at the Bank of England, suggested stabilizing it at $3.65; a few days later Moley talked of $3.85.[34] And in early June, Leith-Ross (1968, 168) pointed out that recent fluctuations in the currency market made the decision very difficult: "Sterling which not long ago had been worth less than $3.20 was now fetching over $5.20."

There are no discussions in the Brains Trust diaries, correspondence, or memoirs on whether, in late 1932, the dollar was technically overvalued and, if so, by how much. This is surprising for at least two reasons: First, addressing that question was key to decide whether devaluation was required. Second, by the late 1920s overvaluation analyses based on purchasing power parity calculations had become quite common. For instance, the method had been used by Cassel (1922) and Keynes (1924) when looking at the interwar situation in Europe. The absence of these calculations—or, for that matter, of any discussion on the subject of overvaluation—further suggests

34. See Raymond Moley's diary as transcribed by his secretary Celeste Jedel. Raymond Moley Papers, the Hoover Institution, box 1.

that there was no premeditated plan to take the United States off gold during the first few weeks of the new administration.

In the mid-1930s and after the devaluation of the dollar, a number of economists embarked on detailed analyses of whether different currencies were close to their long-run "equilibrium" or if they were misaligned (over- or undervalued). In early 1935, Harry Dexter White wrote a memorandum at the Treasury, where he argued that the dollar was 3 percent undervalued; according to his calculations the pound sterling was undervalued by 19 percent, whereas the German mark was overvalued by 27 percent.[35] In 1936, and after a long and detailed study, S. E. Harris (1936, 20) concluded: "It is clear from the large inflow of gold into the United States in the years 1934–1935 that the dollar is undervalued."

No One Knew where FDR Stood

During the 1932 campaign, the general sentiment among the population had been that, in spite of its shortcomings, the gold standard was the best system the United States could have. However, as the inauguration approached and the Depression deepened, sentiments began to change. Moley (1966, 134) characterized the situation in the weeks before the inauguration as follows: "[A] source of trouble in [early] 1933 was the growing talk in Congress, in the press and in semi-private talk that the gold value of the dollar would be reduced. For the first time in history, talk of a cheaper dollar was not the monopoly of populistic farmers. . . . This time it came from urban politicians, college professors and even some of the more prominent businessmen."

Instability was also fueled by some of the incoming members of the cabinet. For instance, on January 31, Henry Wallace, just appointed as the next secretary of agriculture, said: "The smart thing to do would be to go off the gold standard a little further than England has" (Hoover 1952, 200). In an effort to straighten things up, George L. Harrison, the president of the New York Federal Reserve Bank, contributed to the unease. On January 31, he issued a statement stating that devaluation would not solve the deflation and would create serious dislocations (cited in Hoover 1952, 200). This uncertainty, plus the perilous state of banks of all sizes and from all over the nation, resulted in increasing withdrawals of gold. It was not only big financiers and speculators but also run-of-the-mill

35. "Recovery Program: The International Monetary Aspect," Harry Dexter White Papers, Princeton University Library Archives, box 13, folder 13, MS 104.

middle-class families who were concerned about the future and their savings. In addition, foreign central banks and investors withdrew large amounts of bullion during the early weeks of 1933 (Wigmore 1987).

In the middle of this upheaval FDR did not appear to have a strong view on what to do or how to handle the situation. If anyone would know this, it was Moley, who saw Roosevelt for several hours every day. According to him (1966, 135), "in the midst of all the talk of 'reflation' by dollar manipulation, no one knew where the President-elect stood."

During the first week of January 1933, FDR met with an emissary from William Randolph Hearst, a strong supporter of abandoning the gold standard and devaluing the dollar. According to Schlesinger, the president-elect made no commitment regarding devaluation; for him it continued to be one among many options. FDR said: "If the fall in the price of commodities cannot be checked, we may be forced to an inflation of our currency. This may take the form of using silver as a base, or decreasing the amount of gold in the dollar. I have not decided how inflation can be best and most safely accomplished" (Schlesinger 1957, 453).

Who Advised Roosevelt?

If the members of the Brains Trust did not participate actively in the decision to abandon the gold standard, did any other economist—or economists—advise Roosevelt to this effect? As already noted, Roosevelt did not see much of Fisher during 1932 or the early months of 1933. This leaves open the question of the possible role of George F. Warren during the presidential campaign and the transition.[36] Once again Moley (1966, 304; see also Moley 1939, 161), the only person who met with FDR almost daily during the interregnum and the first six months of his presidency, provides an informed perspective:

> A great deal has been written and said about Roosevelt's belief at that time [March-April 1933] in the idea of Professor George F. Warren of Cornell, that prices could be regulated from time to time by changes in the value of gold. I heard nothing from Roosevelt about the Warren theory in those days in the spring, but later, in August, he began to toy with the idea of using it to raise prices, which had lagged in midsummer after the early rise.

36. As noted, Rauchway (2015) argues that FDR was influenced by Warren from the early days of his governorship. However, this is not consistent with the White House visitors' log. See Edwards 2015 for a different view.

This assertion is confirmed from an analysis of the White House visitors' log. Warren did not meet with President Roosevelt one-on-one until July 24, 1933, when they had a brief meeting. They met again (twice) on August 8. Warren and FDR met twenty-one times between July 1933 and January 1934, a period when, as noted, the Cornell professor exercised a tremendous influence on the president's thinking about gold and the dollar and was able to convince him to put in place the "gold buying program."[37] The same source shows that during the first half of the year the president did not meet with Professor James Harvey Rogers, who, with Warren, was very influential on monetary issues during the second half of 1933. Their first conference was on July 12. FDR's uncle, the banker Frederic Delano, also attended that meeting.

Concluding Remarks

On Inauguration Day, the Brains Trust was effectively disbanded. Moley became assistant secretary of state, and for a few months he continued to be FDR's confidant. He would meet with the president almost every morning, while FDR was still in bed. Tugwell became assistant secretary in the Department of Agriculture and immediately immersed himself in efforts to pass the Agricultural Adjustment Act with its controversial crops allotment provision. Berle decided to stay in New York and practice law. He would occasionally write to FDR, and they would sometimes meet for a chat, but during the First New Deal, Berle had no government obligations.

The main conclusion of this article is that President Roosevelt did not take the United States off the gold standard because he was convinced that this was the best course of action or because he had a comprehensive and detailed plan on what to do in the international arena. FDR took the United States off gold because he ran out of options; he had almost no alternative. What is interesting is that he did run out of options so quickly: the final banking crisis exploded only days before he took over, and the Senate's decision to go for inflationary policies, including the possible monetization of silver and issuing $3 billion in treasury greenbacks, gathered tremendous force in early April with the so-called Thomas Amend-

37. According to Warren's diary, he saw FDR briefly on March 4, when Roosevelt read the proclamation. During that meeting a number of people—including FDR's son James and Moley—were present. Interestingly, in the diary Moley does not acknowledge Warren's presence. Roosevelt saw Warren again on April 12, when he visited the White House with a delegation from the Committee for the Nation. Warren's diary entries for this period are in George F. Warren Papers, Division of Rare and Manuscript Collections, Carl A. Kroch Library, Cornell University, box 28, folders 17 and 18.

ment. The banking crisis forced FDR to put in place the gold embargo on March 6, and the Senate actions forced him to consider devaluation as a key option. Given the circumstances, one may argue that he never had a fighting chance for maintaining the country on the gold standard.[38]

What is remarkable from today's perspective is that the program to abandon the gold standard and devalue the dollar was undertaken with, basically, no input from professional economists. As noted, during the campaign he met once with Fisher; after the election he had a conversation with Rogers and Willis, but none of these meetings was a profound strategy session. Occasionally FDR would talk to the top echelon of the Federal Reserve System—Eugene Meyer, Eugene Black, Adolph Miller, and George Harrison—but once again there was no detailed plan discussed in these meetings. The fact of the matter is that there was no team of economists assigned to analyzing the "gold problem" and coming up with concrete and detailed policy suggestions. The absence of able and qualified advisers was noted by Lippmann after FDR stunned the London Economic Conference with his "bombshell" letter, where he stated that the United States was not interested in stabilizing exchanges at the global level. In a dispatch from London dated July 4, 1933, Lippmann (1933, emphasis added) wrote: "Mr. Roosevelt cannot have understood how completely unequipped are his representatives . . . to deal with the kind of project he has in mind. For one thing, they do not know what is in his mind. For another, *there is not among them a single man who understands monetary questions sufficiently to debate them*."

FDR's personality had a lot to do with the absence of qualified advisers. He did not like to be told what was right or wrong; he liked even less to be told what to do. And although his formal training in economics was quite basic, he thought that he knew better. As Tugwell (1968, 160) put it, FDR "had learned not to take intellectuals too seriously."

But there is another side to the story. In order to work as advisers, economists have to be interested in applied work and in policy issues. At the time, however, very few academics thought that they should be engaged in practical matters. They lived in an ivory tower, and they liked it. In 1966, more than thirty years after the United States had abandoned the gold standard, Berle (1973, 79) wrote to Moley and commented on their work for Roosevelt during that magical year when, jointly with Tugwell, they were known as the Brains Trust: "At that time academic economists did not soil their hands with practical questions. Application of their science is almost entirely a post-New Deal phenomenon."

38. For details, see Gregory 1934.

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